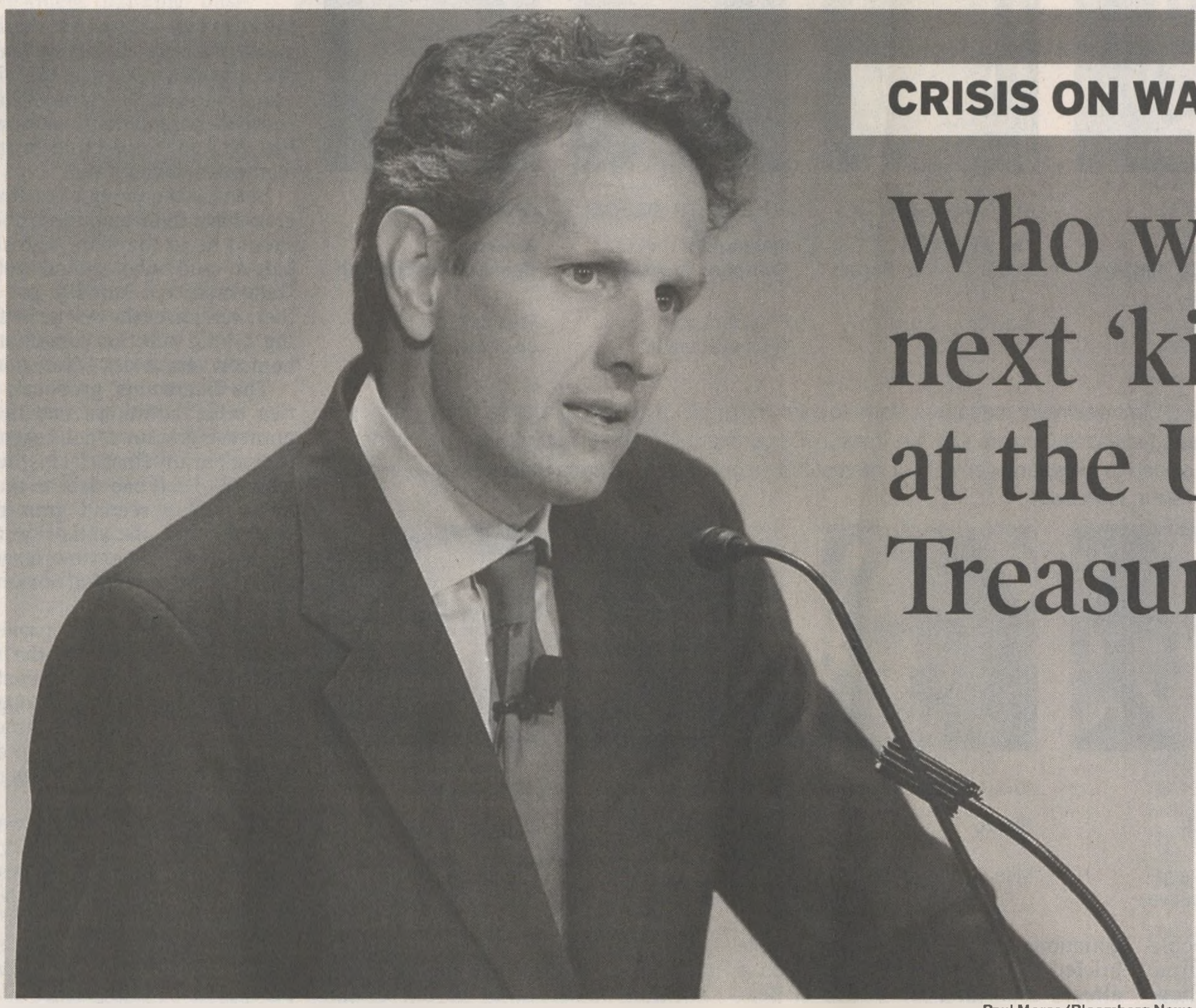
CRISIS ON WALL STREET

Who will be next 'king' at the U.S. Treasury?



Paul Morse/Bloomberg News

Timothy Geithner, above, head of the Federal Reserve Bank of New York, is mentioned as a possible Treasury secretary in a Democratic administration. Robert Zoellick, below, president of the World Bank, is considered the leading Republican choice.

By Jackie Calmes

WASHINGTON: Just over two years ago, Henry Paulson Jr. took the job of U.S. Treasury secretary, though the post had become so devalued that others had turned it down. He is likely to leave as one of the most powerful of the 74 secretaries in history, and to pass those powers on to his successor.

Suddenly, the next president's selection has become even more consequential for a cabinet job that, until President George W. Bush's early years, ranked as high as the secretaries of defense and state.

The financial emergency has expanded the Treasury secretary's authority beyond anything that Alexander Hamilton could have foreseen when George Washington tapped him to be the first U.S. Treasury secretary 219 years ago this month. And that was before Paulson sent Congress a sparse three-page proposal for broad new powers. Newsweek magazine put Paulson on its cover as "King Henry."

Congressional leaders indicate that they will impose some limits on this authority, and an adviser to Senator John McCain, the Republican presidential nominee, said Sunday that the senator might express concerns this week that the proposal would give too much power to one person.

Even so, the job description is likely to be rewritten so that the Treasury secretary is not only the overseer of the government's tax revenue and fiscal policies, domestically and abroad, as before, but also is in effect the chief executive for the financial system of the nation.

Under the plan, the secretary would have a credit line of $700 billion from taxpayers to go into any financial institution and buy, hold and ultimately sell mortgage-related assets. In a sense, that would make Washington and not New York the financial capital of the nation. The powers would be for two years, but that could be extended: Paulson has said the troubles with mortgage loans will most likely last years.

All of this has ignited speculation about whom Senator Barack Obama or McCain might name as Treasury secretary if elected president. The consensus in both parties is now that the next secretary must — like Paulson, formerly a chief executive of Goldman Sachs — be well versed in financial markets.

The emergency has also spawned talk of Paulson staying on for a time, as secretary or something else. As the Great Depression of the 1930s in the United States deepened, the Treasury secretaries to President Herbert Hoover, a Republican, and his Democratic successor, Franklin D. Roosevelt, initially cooperated to try to sort out the mess of failed banks.

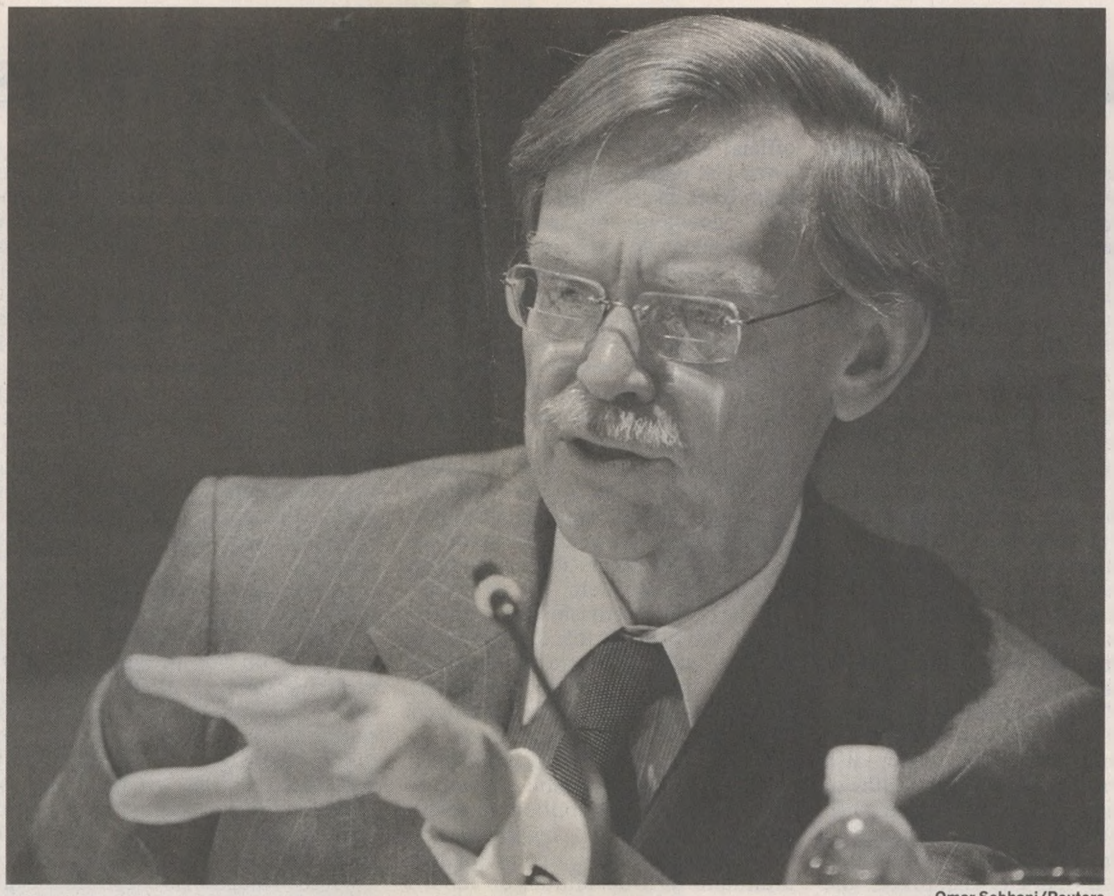
Obama, the Democratic nominee, does not rule out retaining Paulson, a Republican. The two have spoken almost daily since the Treasury put the mortgage giants Fannie Mae and Freddie Mac into government conservatorships two weeks ago, and Obama speaks highly of Paulson.

"Getting a new person to start juggling those balls is going to be tricky," Obama said in an interview aboard his campaign plane Saturday. "Regardless of who wins the election, the issue of transition to the next administration is going to be very important. And it's going to have to be executed with a spirit of bipartisanship and cooperation."

But Obama advisers say it is more likely that he would pick someone new. The names bandied about before the financial crisis remain among the main prospects now, they say, though the turmoil has altered the calculations about each person.

TREASURY, Continued on Page 16

As Paulson looms large as architect of the Wall Street bailout plan, speculation swirls about who could succeed him



Omar Sobhani/Reuters

Wall Street sees profit in U.S. plan

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broadened to give the Treasury discretion to buy "any other financial instrument."

The lobbying became particularly intense because Congress plans to approve a package within just two weeks, without the traditional hearings and committee process.

"Of course there will be fierce lobbying," said Bert Ely, a financial services industry consultant in Alexandria, Virginia. "The real question is, who wouldn't want to be included in the package?"

Ely said that the open-ended nature of the Treasury's plan could be interpreted to mean that the government was open to acquiring "any asset, anywhere in the world."

"The question that I am raising — is there any limit?" Ely said.

Each part of the financial industry is pursuing its own interests.

Small banks, for example, are pushing the U.S. government to buy loans they made to home builders and commercial developers. Wall Street banks are lobbying to temporarily suspend certain accounting rules to avoid taking big losses on the assets they sell to the Treasury, which would weaken them further.

Over the weekend, the Securities Industry and Financial Markets Association, Wall Street's main trade and lobbying group, held conference calls to discuss "your firms' views and priorities related to Treasury's proposal," according to an e-mail message sent to members.

One of the calls addressed the fact that municipal securities were not included in the raft of proposals released at the end of last week. Some bankers are pushing for government support of those securities as part of a broader effort to restore investor confidence in money market funds.

The group also discussed which securities would be eligible to be sold to the Treasury. Under the latest proposal, the government would buy securities issued on or before Sept. 17.

But some bankers debated whether the cutoff date should be December 2007, when the market was clearly seizing up, to avoid bailing out speculators who bought securities issued recently.

Other companies hope to be hired to manage the assets that the Treasury acquires, a job that could earn them $1 billion a year, even if they charged fees that were modest by industry standards.

Among them are the asset management companies Pacific Investment Management Co. and BlackRock. Morgan Stanley, the investment bank, is also vying for the work.

Some private equity firms, including Blackstone Group, may be interested in pursuing an asset-management assignment from the government, people briefed on the matter said. Such firms have already expressed interest in buying up distressed debts, after having bet against them early last year.

This raises complications because those firms hold assets similar to the ones the Treasury plans to buy. Democrats suggested Sunday that a provision be added to avoid any conflicts of interest, with a firm making money from handling assets like its own.

William Gross, chief investment officer of Pimco, which manages about $830 billion in assets, would like to be an asset manager for the government but said he had not been in touch with Henry Paulson Jr., the Treasury secretary, over the weekend.

Gross is among the financial executives that Paulson, who previously headed Goldman Sachs, has regularly consulted since the crisis began.

Another contender is Morgan Stanley, which advised the Treasury on an unpaid, public service basis on its takeover of Fannie Mae and Freddie Mac and on American International Group, the insurer. The U.S. Federal Reserve, in consultation with the Treasury, agreed last week to lend AIG $85 billion.

Similarly, Bank of New York Mellon and JPMorgan Chase, which bought Bear Stearns in a deal brokered by the Federal Reserve and the Treasury, were also campaigning for a spot.

BlackRock was also involved in negotiations with the government, people briefed on the matter said. The firm is already managing $30 billion of Bear Stearns mortgage assets for the Fed, and it has done work for Fannie Mae, Freddie Mac and AIG. A BlackRock spokeswoman declined to comment.

There were signs of the industry's fingerprints on drafts of the legislation released over the weekend.

While an earlier draft said that only companies with U.S. headquarters in could sell assets to the government under the program, a later version said sellers could include any financial institution. Securities firms were initially excluded but were included in a version released Sunday afternoon.

Members of the American Bankers Association held internal meetings to plan their strategy, and the group planned to send teams of lobbyists to Capitol Hill on Monday and Tuesday to talk to legislators, said Edward Yingling, president and chief executive of the group, which represents deposit-taking banks.

Perhaps the biggest question about the Treasury's acquisition plan is how the government will decide how much it is willing to pay for the loans and securities it acquires.

Will the government drive a hard bargain and acquire assets for the lowest possible price to protect taxpayers against losses? Or will the Treasury, in the interest of quickly reviving the credit market, try to bolster large financial institutions like Citigroup and Washington Mutual by paying a slight premium to the markets' valuation of these troubled assets?

Over the weekend, the Treasury said it might use "reverse" auctions in which financial institutions rather than the Treasury — as buyer — would submit bids.

"The trick for the Treasury and American people," Gross said, "is to make sure that the price exacts enough of a toll on the originators and holders of these securities, but not enough to destroy lending."

Gross has argued in recent weeks that the government must buy distressed debt to deal with a "financial tsunami."

Analysts and investors say they expect financial companies to hold onto their troubled securities until the government begins acquiring assets through reverse auctions and negotiations. Eventually, the Treasury will return to the market to sell the assets back to private investors, but that could be a few years away.

"There will be that period where the Treasury takes the place of the private market," Gross said. "Hopefully they will get out of that market, but we will have to see how quickly that takes place."

Eric Dash, David M. Herszenhorn, Michael J. de la Merced and Andrew Ross Sorkin contributed reporting.

Vying for influence

Trying to shape the bailout

Every corner of the financial industry has a stake in the outcome of the U.S. Treasury Department's $700 billion rescue package. Over the weekend, the parameters of both who and what might be covered were broadened to include all manner of financial institutions that own "troubled" assets. Several trade groups have started lobbying campaigns to press their agendas.

STEVE BARTLETT

Financial Services Roundtable

President and chief executive

CAMDEN FINE

Independent Community Bankers of America

President and chief executive

GEORGE MILLER

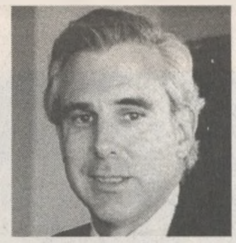
The American Securitization Forum

Executive director

PAUL SCHOTT STEVENS

Investment Company Institute

President and chief executive



EDWARD YINGLING

American Bankers Association

President and chief executive

Hoping to oversee the assets

Wall Street banks and big investment managers stand to earn hundreds of millions of dollars in fees if they are chosen to oversee the assets acquired by the Treasury Department. Democrats suggested on Sunday that a provision be added to avoid any conflicts of interest that might arise from firms making money from handling assets similar to their own.

JAMIE DIMON

JPMorgan Chase

Chairman and chief executive

LAURENCE FINK

BlackRock

Chairman and chief executive

WILLIAM GROSS

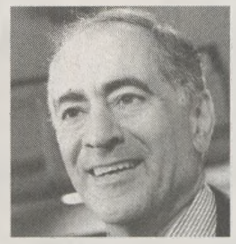
Pimco

Managing director

ROBERT KELLY

Bank of New York Mellon

Chairman and chief executive



JOHN MACK

Morgan Stanley

Chairman and chief executive