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U.S. Forecasts Smaller Loss From Bailout of Banks

By JACKIE CALMES

WASHINGTON — The Treasury Department expects to recover all but $42 billion of the $370 billion it has lent to ailing companies since the financial crisis began last year, with the portion lent to banks actually showing a slight profit, according to a new Treasury report.

The new assessment of the $700 billion bailout program, provided by two Treasury officials on Sunday ahead of a report to Congress on Monday, is vastly improved from the Obama administration’s estimates last summer of $341 billion in potential losses from the Troubled Asset Relief Program. That figure anticipated more financial troubles requiring intervention.

The officials said the government could ultimately lose $100 billion more from the bailout program in new loans to banks, aid to troubled homeowners and credit to small businesses.

Still, the new estimates would lower the administration’s deficit forecast for this fiscal year, which began in October, to about $1.3 trillion, from $1.5 trillion.

The report could tamp down some of the public anger directed against both parties over the bailouts. Congressional leaders are already planning to use some of the program’s money for economic stimulus and job creation.

Of course, the government’s potential losses extend beyond the Treasury program. The Federal Reserve, for example, still holds a trillion-dollar portfolio of mortgage-backed securities whose market value is unknown.

The improved picture of the Treasury program is the result of higher-than-expected returns on the loans and the fact that, as the financial sector has recovered from its free fall last year, the government has not had to use much more of its $700 billion in lending authority this year, according to the Treasury officials, who declined to be identified as discussing the report before it was presented to Congress.

Last week, Bank of America became the latest big bank to say that it was raising private capital and would soon repay its $45 billion bailout loan. Once that payment is made, Citigroup will be the last big bank tethered to the state.

The estimated $42 billion in losses is a net figure that accounts for some profits to offset the losses. The Treasury officials said the government had lost about $60 billion, roughly half to Chrysler and General Motors and the other half to the insurance giant American International Group.

But the government is projecting a $19 billion profit and perhaps more on the $245 billion lent to banks, through interest, dividends and the sale of warrants the government received as collateral.

Aside from the rare good news for the federal deficit, the latest bailout accounting could have political and legislative ramifications.

Politically, the Treasury program has been unpopular ever since it was created in October 2008 by former President George W. Bush and a Congress controlled by Democrats. It has grown only more reviled over time as a symbol for many Americans of the government's perceived favoritism toward Wall Street, which is making money, over Main Street, which continues to struggle and shed jobs.

An anti-Washington anger is disturbing both parties as they approach a midterm election year, and some Republican lawmakers have drawn primary opponents largely because of their votes last year in favor of the bailout program.

It was unclear how that climate might be altered as taxpayers realize they did not actually lose $700 billion to help big banks. At most, the Treasury officials said, the ultimate losses will be one-fifth of that amount and probably less.

Democrats in Congress have already decided to divert about $70 billion from what is left in the bailout fund to the cost of additional road-building and other construction projects, credit to small businesses and further aid to state and local governments.

The administration had wanted to dedicate unspent bailout money to the deficit but signaled to Congressional leaders late last week that it would not oppose their plans. President Obama is expected to touch on those ideas and others in an economic speech on Tuesday.

The bailout program is due to expire at the end of the year, but the Treasury has indicated it will use the authority it was granted by Congress to extend it into 2010.

The Treasury secretary, Timothy F. Geithner, testified last week to a Senate committee that “nothing would make me happier than to end this as quickly as possible,” but he added, “we’re not quite there yet.”

Mr. Geithner, who has become the administration’s lightning rod for anger among both liberal Democrats and conservative Republicans, said “there are parts of the system that are still very damaged” — in banking, housing, commercial real estate and credit-starved small businesses.

He said the administration would propose within weeks when and how to end the program safely.

At that hearing, he hinted at the Treasury’s improved forecast for the program, saying “we’re going to be able to return very, very substantial amounts of money to address the critical economic needs, long-term fiscal needs, of this country.”

That prediction contrasts with the administration’s planning soon after Mr. Obama took office in January. Fearing that additional bank failures could exhaust the entire $700 billion fund, they proposed up to $500 billion more in federal lending authority in the administration’s first budget in February.

Instead, just $7 billion more in bailout money has gone out to banks since Mr. Obama became president, making a second loan authorization unnecessary. Meanwhile, banks have raised 16 times as much, $114 billion, in private capital, according to the Treasury.

Since the Treasury subjected big banks to “stress tests” last winter to determine how much private capital they must raise to withstand future financial shocks, the financial institutions have been eager to do so, in order to repay the government and thereby exit the Treasury's rescue program — not least to escape the restrictions on executive compensation that come with it.

Mr. Geithner now says that banks will repay $175 billion by the end of next year. To date, counting Bank of America's promised payment, banks have repaid $116 billion, according to the Treasury. Also, in coming weeks the Treasury will sell more of the government's bank warrants to investors.

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