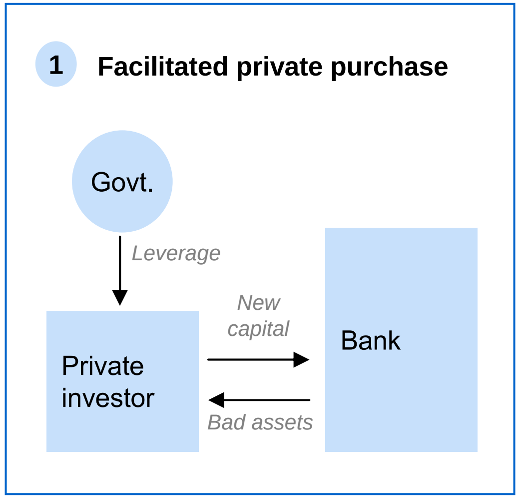
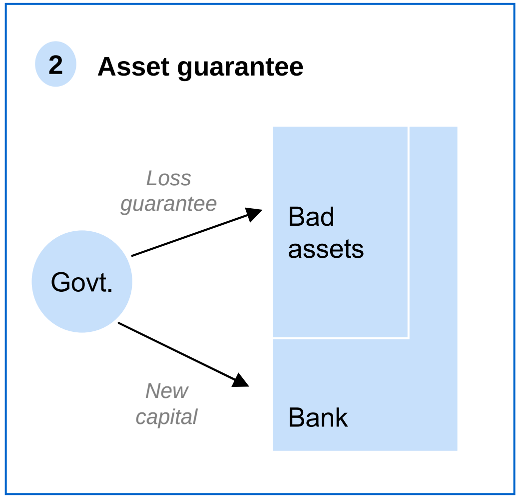
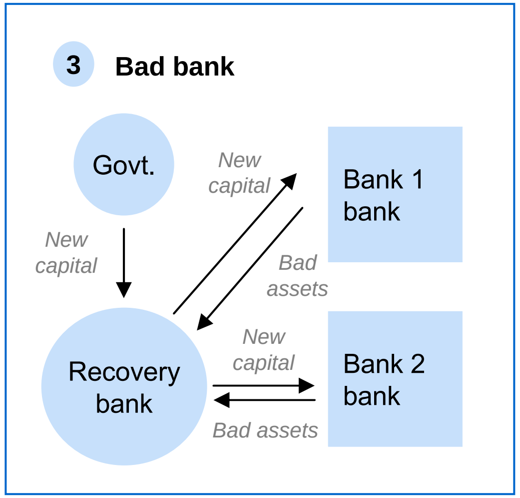
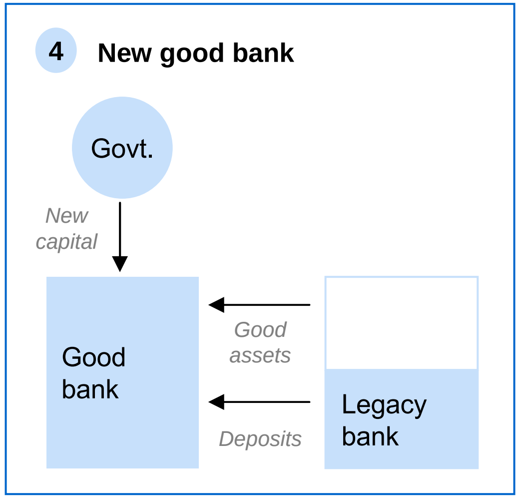
Solutions to restore solvency

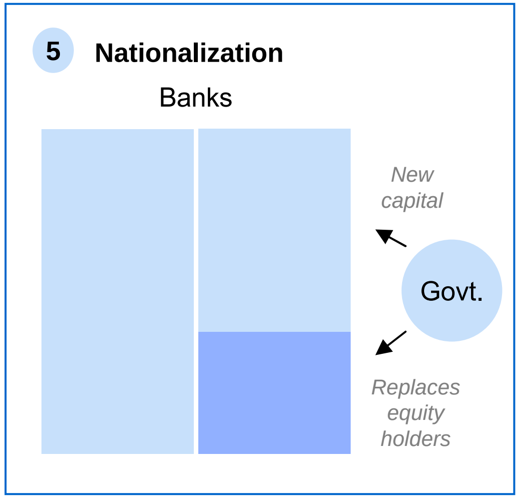






Main challenges	Investors can exploit informational advantage to lowball prices and ask for more gov. leverage	Potential for “zombie banks” that avoid restructuring	Determining appropriate valuation of assets to restore solvency but avoid windfall profits is difficult





Main challenges	Forces banks into binary solution (i.e., does not help partially affected banks)	Nationalized banks may over time destroy competitive dynamics

Bad bank key issue: Impaired asset valuation options

	Accounting value	Mark-to-model	Contingency pricing	Market driven
Description	▪ Based on audited financial statements ▪ Can be paired with a pre-defined ”haircut” in percentage terms	▪ Output of mathematically derived model (e.g., discounted cash flow, derived investment value) ▪ Can be paired with a pre-defined ”haircut” in percentage terms	▪ Valuation is determined by future event (i.e., actual asset recoveries) ▪ Examples: ”contingency warrants” with variable strike price and ”capital certificates” with variable cash redemption	▪ Price discovery through competitive bidding process (e.g., auction) among multiple buyers
Advantage	▪ Easily verifiable ▪ Based on consistent application of accounting principles ▪ Breaks the log jam for action	▪ Estimate “intrinsic” value of asset (i.e., independent of extreme market conditions)	▪ Defers actual valuation to later date when uncertainty is removed	▪ Properly structured competitive process can help ensure that tax payer receives “best deal available”