

Will private-equity funds avoid big losses?

Will private-equity and hedge funds — and Pennsylvania's state pension fund and the big Ivy League endowments that are invested in them — avoid the big losses from battered U.S. stocks, or will they unwind and collapse?

PE funds are facing a cash crunch, says **Thomas**

Bonney of business consultants **CFM Associates**, of Philadelphia.

"They can't collect their usual 20 percent [of profit] carry fees," because they aren't profitable. They can't collect transaction fees, since deals have all but stopped. There's still the 1 percent to 2 percent annual management fee

from investors — but client investors "want a haircut" on the management fees they're paying.

Bonney says he thinks some funds will fail: "The dominoes are teed up, ready to go."

Meanwhile, hedge fund investors who have lost the stomach for the action are looking for buyers to "take out" their positions, says **Benjamin Alimansky**, director of "manager alliances" for \$17 billion-asset **Glenmede Trust Co.**, of Philadelphia.

Such "secondary buyers" and would-be sellers have started to call their bankers looking for discount deals. Among them: a "fund of hedge funds" manager at a bank Alimansky won't name.

Regional investment banks are matching buyers with sellers, Alimansky says.

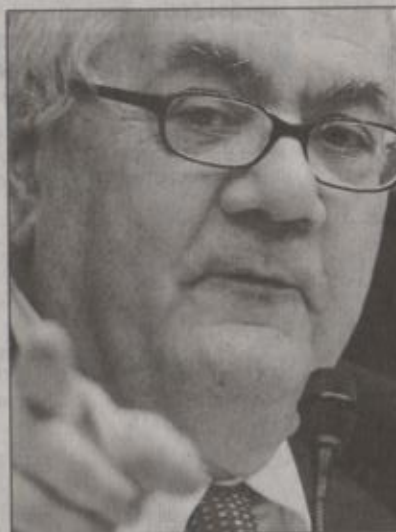
He's also exploring www.hedgebay.com, a hedge fund investment marketplace for bargain-hunters and people who have to bail. "The buyers see this environment as an

opportunity," Alimansky told me. They expect the market will recover, enough for a profit. So they want in, as others are looking to bail.

Foreclosure moratorium

Congressional banking committee chairman **Barney Frank** (D., Mass.), who must share blame for the credit meltdown because of his history of urging aggressive home lending, used yesterday's beat-the-bankers hearing to browbeat chief executive officers into backing a home-foreclosure moratorium, at least until **Treasury Secretary Timothy Geithner** gets his anti-foreclosure program together.

The federal **Office of Thrift Supervision** put out a statement urging the mostly small banks it



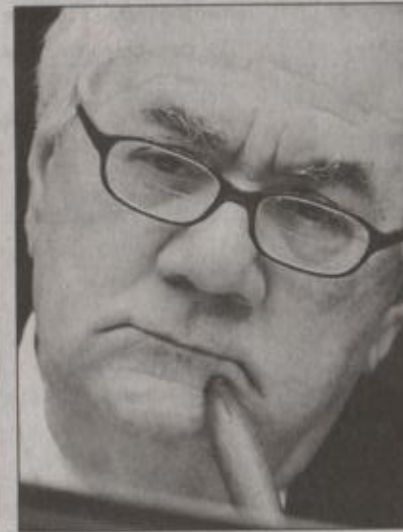
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regulates "to suspend foreclosures on owner-occupied homes until the Financial Stability Plan's 'home-loan modification program' is finalized in the next few weeks."

Stress test

Bank stocks are worth pennies to dollars on last year's prices because "nobody believes the numbers. They don't believe the financials are transparent. They don't believe reserves are adequate to cover future losses," says **Joseph Harenza**, head of **Griffin Financial Group L.L.C.** investment bank in King of Prussia and Reading.

But Harenza sees one hopeful sign in Geithner's new bank-rescue plan. "Stress-testing the banks makes a lot of sense," Harenza said. "If they can get private-equity investors to believe in the banks' numbers, if [the government] subsidizes private equity in buying those loans, we have the beginning" of a solution to pricing discounted debt and bonds and getting private investors in.



Public slapping

The heads of the big, government-subsidized U.S. banks lined up for their public slapping yesterday before the House banking committee, whose leaders were tough because they're scared of their angry constituents.

Are the banks making more loans with government money? "We cannot tell you whether the next loan we make will be funded by that \$45 billion of TARP," said **Bank of America Corp. chief executive Kenneth Lewis**. "We are lending significantly more with that ... than we would be without it."

Wells Fargo & Co. chief executive John Stumpf said the company's



commercial property and "middle-market" corporate loans were up more than 10 percent since last quarter, even without counting **Wachovia Bank**, which Wells bought with TARP support.

What about home loans? "There is much more to be done," Stumpf said.

Jamie Dimon of **JPMorgan Chase** said his bank's loans to consumers rose 2 percent in the fourth quarter, which he said was impressive, since overall consumer spending fell.

They all promised to pay back the taxpayers, with billions in interest.



LAWRENCE JACKSON / Associated Press
Kenneth Lewis (center), CEO of Bank of America, and Bank of New York Mellon CEO **Robert Kelly** (left) testified on Capitol Hill.

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