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Bank stocks feeling 'stressed' again

Citigroup, Bank of America and other big banks fell Wednesday following a two-day rally as investors await details of the government's stress-test plan.

By David Ellis, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- The two-day rally in bank stocks ran out of steam Wednesday morning as Wall Street awaited further details on how the government planned to assess the health of the nation's leading lenders.

Shares of struggling financial giants Bank of America (BAC, Fortune 500) and Citigroup (C, Fortune 500) fell 2% and 5% respectively. Other large banks were also lower, including JPMorgan Chase (JPM, Fortune 500) and Wells Fargo (WFC, Fortune 500), which lost 1% and 4% each.

Driving the selloff were persistent fears about what steps the government might take to fix the ailing banking sector.

Even as Federal Reserve Chairman Ben Bernanke downplayed fears that the government may have to step in and take control of the country's largest financial institutions, the threat of nationalization continues to trouble many investors.

Hoping to address the underlying health of many of these struggling financial institutions, federal regulators and the Treasury Department are expected to outline plans aimed at stress testing the biggest banks later Wednesday.

Those tests, which will focus on banks with at least $100 billion in assets, could take several weeks given the sheer size of many of these institutions. The hope is that the tests would help regulators identify which banks may require additional government support.

"All of it is really designed to determine what is the threshold of pain before an institution, in essence, becomes troubled or runs out of capital," said Donald Musso, president and founder at the New Jersey-based financial services consulting firm FinPro.

\ccording to reports published Wednesday by both the *Washington Post* and the *New York Times*, experts believe egulators will test a bank's ability to withstand a more severe economic downturn, such as higher unemployment and ınother double-digit percentage decline in home prices.

Should regulators deem a bank unfit, the government is expected to carve out an even greater stake in that institution in he form of convertible preferred shares, which could be exchanged for common stock later on to help boost a bank's :apital strength.

n some sense, regulators may be hoping that the new tests will also help the government more carefully target the emaining funds from the second half of the $700 billion bailout program that was passed in October.

Vhen Treasury made its first round of capital injections, the nine leading financial institutions at the time were eportedly given no choice about accepting billions of dollars in government funds.

Dozens of regional banks soon followed, putting the total amount of aid extended in the neighborhood of $200 billion.

Iowever, those efforts have faced heavy criticism from lawmakers and taxpayers as credit remained tight at many banks :ven as some institutions showed no hesitation about maintaining their lavish spending habits.

'It was ready, aim, fire on the first one," said Musso. "Now there is a little more precision in the decision making." ■

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