

A combined Paulson-KM Insurance Plan
September 26, 2008

Perhaps the best way to see what the combination would look like is to think about simply adding KM to Paulson. So we get the following balance sheet:

	Assets	Liabilities
Paulson Plan	Toxic Assets	Treasury Debt
KM Insurance	Insurance Premiums Cash payments Preferred Stock	Credit Insurance Policies

We can use Paulson to acquire outright the cheapest (worst) assets, and use insurance to back the most expensive (cheapest to insure).

By setting insurance prices, we implicitly set asset prices. Thus we can easily make sure that the toxic assets have low prices while also supporting the price of the good assets.

We can use the insurance mechanism for banks that need to be recapitalized, and let them pay with preferred stock.

We can net the cash premium payments with the Treasury Debt, and so reduce overall balance sheet exposure.