WASHINGTON/NEW YORK, May 7 (Reuters) - The U.S. Treasury is aiming to launch toxic asset purchases during June -- sooner than many expected -- to help ailing banks raise capital, and top money managers say they can raise private funds in time.

Selling distressed loans and mortgage securities to the planned public-private investment funds would help banks meet their new, tougher Tier 1 and common equity capital ratios, as mandated in stress tests carried out by the government.

"I think I can raise funds in that time frame, and perform on those funds, likely to an extent well beyond other competitors," said Jeffrey Gundlach, chief investment officer for Trust Company of the West and an influential investor in mortgage-backed securities.

Gundlach is among more than 100 applicants vying for five asset manager spots in the Treasury's public-private program for so-called "legacy" mortgage-backed securities created during the housing boom.

He said he could raise more than $1 billion quickly but will cap his fund in the "$2.5 billion zone."

The government is due to release on Thursday the results of its "stress tests" of the 19 largest U.S. banks, marking for the first time a line between strong banks and weak ones.

Treasury Secretary Timothy Geithner said the stress tests will increase the need to sell these toxic assets.

"They're going to have a strong incentive to do that," Geithner said in an interview aired Wednesday on PBS-TV's Charlie Rose show, as "they're going to want to raise private capital so they don't have to depend on the government."

The root concern among money managers, hedge funds and taxpayers will be how to price the assets purchased for the joint public- and private-investment fund.

If the troubled debt and loans are priced too low, it could result in a vicious spiral where banks could be required to post devastating losses that deplete their capital and make it even more difficult for them to increase lending.

"Private investors are going to be more willing to put capital into a bank if they think it's a cleaner institution," Geithner said.
The Treasury will announce its choice of the five initial asset managers on May 15 and give them 12 weeks to raise the minimum private funding of $500 million, but some managers joined Gundlach in saying they will need far less time.

"I think we could easily raise $1 billion," BlackRock Inc's co-head of fixed income, Curtis Arledge, told Reuters in late April. "We've had substantial reverse inquiry -- investors calling us saying, 'If you guys are picked as one of the managers, we definitely want to talk to you about the opportunity.'"

BlackRock's chief executive, Laurence Fink, has said the company intends to raise between $5 billion and $7 billion.

The public-private programs could reach $1 trillion, depending on interest from private investors. "We expect (these programs) to be up and running in the next four to six weeks," Geithner told Rose.

The Federal Deposit Insurance Corp. also aims to hold a pilot auction for whole mortgage loans next month, kicking off the other part of the public-private investment effort.

FDIC Chairman Sheila Bair said in April that there was "a tremendous amount of investor interest" in a $1 billion sale and banks willing to sell their assets were being lined up.

CLEANUP EFFORTS

U.S. government officials want banks to sell toxic mortgage assets into securities and whole loan programs to clear a cloud of uncertainty over potential losses. The stress tests will require several top banks to raise billions of dollars in new capital as a buffer against a deeper recession. Analysts doubt that banks can fill their capital holes through this method alone, but it will make them more attractive to private investors.

Harvard Law School professor Lucien Bebchuk said simply restarting frozen markets for troubled assets could lift their valuations above current fire-sale levels, but banks will still need capital injections.

"The troubled assets plan will nicely complement the program for recapitalizing banks by providing a clearer picture of which banks are insolvent or undercapitalized, thus making it easier to target capital injections to banks most in need of capital," he said.

(Editing by Kenneth Barry)

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