

## **U.S. Financial Rescue Plan Appears Headed for Approval**

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WASHINGTON: U.S. lawmakers from both parties appeared to line up Sunday behind the government plan to bail out financial institutions in the United States by granting unfettered authority for the Treasury Department to spend as much as \$700 billion to buy up distressed mortgage-related assets.

Treasury Secretary Henry Paulson Jr., outlining a dire situation if the plan were not approved, said that it "has to work."

The proposal, stunning for its stark simplicity, would raise the national debt ceiling to \$11.3 trillion, allowing the government to borrow from investors at home and abroad to pay for the financial rescue package. And it would place no restrictions on the administration other than requiring semiannual reports to Congress, granting the Treasury secretary unprecedented power to buy and resell mortgage debt.

"I hate the fact that we have to do it, but it's better than the alternative," Paulson said during an interview on the Fox News television channel. "This is a humbling, humbling time for the United States of America."

Democratic lawmakers said Sunday that they shared the sense of urgency, though they called for "reciprocity" to ensure that not only Wall Street investors but also Main Street taxpayers would get relief. And they said they wanted to press ahead, probably in a parallel initiative, with a new economic stimulus package that would follow closely behind the rescue package.

Senator Charles Schumer, Democrat of New York, who as a member of the Banking Committee attended emergency meetings last week with Paulson and the U.S. Federal Reserve chairman, Ben Bernanke, said that legislators would not imperil the proposal by adding too many extras.

"We will not Christmas-tree this bill," he said Sunday on Fox. "The times are too urgent." A stimulus package, he added, "doesn't necessarily have to be part of the bailout."

Paulson, appearing on four Sunday news programs as the Bush administration seeks to calm markets and reassure ordinary Americans, said that the \$700 billion should be used to help not just American financial institutions but also, in a shift from the original proposal, financial institutions not based in the United States as long as they had American banking operations, too. He made clear that he did not expect to use the program to purchase assets from hedge funds.

"The American people don't care who owns the financial institution," he told ABC. "If the financial institution in this country has problems, it'll have the same impact whether it's U.S.- or foreign-owned." The United States is also working with foreign governments to take actions of their own.

Republican lawmakers had warned against slowing the bailout by tacking on additional provisions, while Democratic leaders urged the administration to use its new role as owner of large amounts of mortgage debt to help hundreds of thousands of troubled borrowers at risk of losing their homes.

"We don't have any choice but to act," Senator Christopher Dodd, Democrat of Connecticut and the Senate Banking Committee chairman, said on ABC. "But you've got to deal with that problem of foreclosures or this problem persists."

Paulson called for legislation to be clean and spare, but seemed to indicate that some sort of help for homeowners - possibly built on steps taken in July - might be included. "I think there should be a mortgage relief component to this," he said.

After a week of stomach-flipping turmoil, and with officials still on edge about how global markets will respond, the delivery of the administration plan set the stage for a brief but intense brawl in Congress.

Congressional leaders hope to recess at the end of the week, or shortly thereafter, for the autumn elections. They will need to act on the bailout and a budget measure to keep the government running, which Democrats hope to use as a vehicle for additional economic stimulus to help counter the current downturn and loss of jobs.

A \$700 billion expenditure on distressed mortgage-related assets would roughly be what the United States has spent so far in direct costs for the Iraq war and would amount to more than \$2,000 for every American citizen.

Some estimates, though, say the program could involve the purchase of as much as \$1 trillion in assets from private companies. Paulson emphasized that the true cost would be "determined by how quickly the economy recovers and how quickly housing prices stabilize."

Whatever is spent will add to a U.S. budget deficit already projected at more than \$500 billion next year. And it comes on top of the \$85 billion government rescue of the insurance giant American International Group and a plan to spend up to \$200 billion to shore up the mortgage finance giants Fannie Mae and Freddie Mac.

A program to help troubled borrowers refinance mortgages - along with an \$800 billion increase in the national debt limit - was approved in July. But its financing depended largely on fees paid by Fannie Mae and Freddie Mac, now in a government conservatorship.

The legislators who had been briefed Thursday about the crisis were reluctant Sunday to describe in detail what many said was the breathtakingly grim picture sketched for them.

But Representative Barney Frank, Democrat of Massachusetts and chairman of the House Financial Services Committee, said Sunday that legislators were told that "we were reaching the point where people wouldn't be able to get auto loans or home loans." He foresaw "a very substantial reduction in economic activity."

Still, the prospect that Congress would quickly approve the proposal has already helped mute talk of the most dire possibilities: a severe shortage of credit that would crimp the availability of finance for many years, effectively halting economic growth.

"The risk of ending up like Japan, with 10 years of stagnation, is now much lessened," said Nouriel Roubini, an economist at the Stern School of Business at New York University. "The recession train has left the station, but it's going to be 18 months instead of five years."

Despite the emerging consensus, it was clear that political differences remained. Frank said that Democrats were particularly intent on limiting the huge pay packages for corporate executives whose companies seek aid under the new plan, raising the prospect of a contentious battle with the White House.

"They should accept some compensation guidelines," he said, "particularly to get rid of the perverse incentives where it's 'heads I win, tails I break even.'"

But Paulson said he hoped to defer such an effort. "Pay should be for performance, not for failure," he said. "But we need the system to work, so the reforms need to come afterward."

Representative Nancy Pelosi, speaker of the House of Representatives, made clear late last week that she would push for a stimulus initiative, likely as part of the budget resolution Congress must adopt before adjourning. Such a plan could include an increase in unemployment benefits and spending on infrastructure projects to create jobs.

If adopted, the bailout plan would sharply raise the stakes for the next administration on the appointment of a new Treasury secretary.

The current administration's plan would allow the Treasury to hire staff members and engage outside companies to help manage its purchases.

Officials said that one idea was for the Treasury to hold reverse auctions, in which the government would offer to buy certain classes of distressed assets at a particular price and companies would then decide if they were willing to sell at that price, or could bid the price lower.

But while most lawmakers appeared to be going along with the broad proposal - given the enormous stakes - others, particularly conservative Republicans, were more critical.

"The free market for all intents and purposes is dead in America," Senator Jim Bunning, Republican of Kentucky, declared at the end of last week.

**Source: The Associated Press**