

Treasury shifts focus of rescue plan

By Kevin Smith, Staff Writer

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The Bush administration has revamped the core of its \$700bailout package and expanded it to help not only banks but credit-card, auto-loan and other huge nonbank businesses.

Democrats hope to include a multibillion-dollar rescue plan for struggling automakers as well, but the administration has so far been resistant to that idea.

On Wednesday, Treasury Secretary Henry Paulson said the administration had decided that the original focus of the bailout - the purchase of distressed mortgage-backed securities and other troubled assets on the books of banks - would not be employed.

But the government will continue to

use \$250 billion of the program to purchase stock in banks as a way to bolster their **balance sheets** and encourage them to resume more normal lending, he said.

The revamped plan has drawn generally favorable reviews from local economists.

"I think this makes a lot of sense," said Jack Kyser, senior vice president and chief economist for the Los Angeles County Economic Development Corp. "Our small and mid-sized business community has been slammed by the shortage of available **credit**. Hopefully, this will send a message to banks to start lending again."

Christopher Thornberg, a principal with Beacon Economics, also called the new strategy an improvement.

"The original plan was to buy up some of these (bundled) assets that were insolvent and make them solvent," he said. "But that was a dysfunctional plan. The reverse

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auctions they planned would have been complicated ... and they would have taken a long time to set up."

Kyser said it makes sense to direct help to the credit-card and auto-loan industries.

"People have been spending with abandon," Kyser said. "Many have been putting money down by using a home equity loan to go out and buy a fancy car or something else."

The Bush administration is wise to try and head that off before it gets worse, he said.

The administration has also been reluctant to provide guarantees for **home loans** , an idea that supporters contend offers the greatest hope for helping legions of Americans who are facing foreclosure.

House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid are pressing for quick passage of a major package for carmakers during a post-election session that begins next

Tuesday, and one key House Democrat was putting together legislation that would send \$25 billion in emergency loans to the beleaguered industry in exchange for a government ownership stake in the Big Three car companies.

There is at least some cause for hope.

Paulson said the rescue program approved by Congress a month ago has already helped lessen the severity of a credit squeeze that is threatening to push the country into a deep and prolonged recession.

"Our system is stronger and more stable than just a few weeks ago," he said.

Paulson cautioned, however, that much more needs to be done before the economy can turn the corner.

Wall Street wasn't exactly thrilled with the reworked bailout plan, as it digested news that the government won't buy banks' soured mortgage

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