




Get Quote

Search

- Subscribe to Fortune
- Make CNNMoney my Homepage
- Add to Favorites

SPECIAL REPORT Crisis on Wall Street

Column Archive

# New bailout planned

**Paulson, Bernanke brief lawmakers on broad program to stem credit crunch.**

By Jeanne Sahadi, CNNMoney.com senior writer  
Last Updated: September 19, 2008: 5:41 AM EDT

EMAIL | PRINT | SHARE | RSS

NEW YORK (CNNMoney.com) -- The federal government, in what will be its most far-reaching attempt yet to contain the financial crisis, is poised to establish a program to let banks get rid of mortgage-related assets that have been hard to value and harder to trade.

Leaders from the House and the Senate were briefed on Thursday evening by Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke.

"The root cause of distress in capital markets is the real estate correction and what's going on in terms of the price declines in real estate," Paulson said at a press briefing after the meeting. "So we're coming together to work for an expeditious solution aimed right at the heart of this problem, which is illiquid assets on financial institutions' balance sheets."

Many details of the plan remained unclear, but it is likely the government would take on tens of billions of dollars in mortgage assets - if not more.

House Speaker Nancy Pelosi, D-Calif., said late Thursday night that lawmakers expected to get the proposal from Treasury in a matter of hours.

"We hope to move very quickly - time is of the essence," Pelosi said.

Paulson, Bernanke and other officials expect to work through the weekend with congressional leaders to finalize a plan, said Brookly McLaughlin, a Treasury spokeswoman.

Rep. Barney Frank, D-Mass., chairman of the House Financial Services Committee, said he believes legislation could be acted on next week.

The announcement is the latest stunning turn in an extraordinary six days that have rocked Wall Street. A widening banking crisis has toppled two major firms - Lehman Brothers and Merrill Lynch - and prompted an \$85 billion government loan to stem the sudden collapse of insurance giant American International Group.

Meanwhile, mainstay financial institutions are scrambling to raise cash or find merger partners - because of a freeze-up

## Explaining a mammoth bailout



[More Videos](#)

## U.S. plans stunning bailout



[More Videos](#)

## ISSUE #1: AMERICA'S MONEY

- McCain: I'd fire SEC Chair Chris Cox
- Bank stock rally runs out of steam
- Yet another bailout - Taxpayer tally
- Wall Street cheers banks' move
- How we got here: It's housing, stupid

**Issue #1: America's Money - Everyday on CNN**

- New bailout planned
- Oil back above \$102
- Gas prices sink 5 cents in 2 days
- When your company's stock goes bad
- World markets soar on new U.S. rescue plan

Markets	Last	Change
Dow Jones	11,268.68	▲ 248.99 / 2.26%
Nasdaq	2,310.42	▲ 111.32 / 5.06%
S&P 500	1,245.46	▲ 38.95 / 3.23%
10-year Bond	101 24/32	Yield: 3.78%
U.S. Dollar	1 euro = \$1.439	▲ 0.007

September 19, 2008 9:34 AM ET

## More Galleries



### 911 for laptops

Repair firm PC911 dispatches technicians in scrubs and vegetable-oil-fueled ambulances to rescue dying computers.

[More](#)



### What's next: 4 prophets on the credit crunch

We asked a few of the financial clairvoyants who predicted the market's

in lending and sinking investor confidence stemming from a collapse of the home mortgage market.

## Talk of plan energizes markets

Speculation that the Bush administration was developing a comprehensive plan jolted Wall Street on Thursday and sent stocks higher. The Dow ended 410 points higher.

The Treasury has been talking about the concept of an agency to take on bad debts of financial institutions "for several months," a source with knowledge of discussions on the issue told CNN.

There's precedent for the federal government taking on troubled assets from the private sector. In the 1930s, the Home Owners Loan Corp. was set up to issue bonds to refinance borrowers. Then during the S&L crisis Congress set up the Resolution Trust Corp. to sell assets of failed banks.

One way the agency under discussion could work is by setting up bulk auctions to buy mortgage assets from financial institutions. The auctions would be for set dollar amount purchases. Companies that want to offload the hard-to-sell assets from their balance sheets bid to sell to the government at a huge discount. The company willing to sell at the lowest price wins.

The government would then be able to sell the assets back into the market when it wanted.

According to policy research firm the Stanford Group, such a setup would allow the government to refinance borrowers in the loans owned by the government, thereby lowering the risk of their defaulting and eventually boosting the price of the mortgage security in which those loans are packaged.

The agency and auction facility is one that House Financial Services Chairman Barney Frank, D-Mass., and Senate Banking Committee Chairman Christopher Dodd have supported.

Jaret Seiberg, a financial services analyst at the Stanford Group, said he believes there is bipartisan support for allowing the Bush administration to take short-term action to "get us through the immediate crisis."

The expectation is that whatever program is decided on would only last through the presidential inauguration. "You don't want a program that will last for several years because that would limit what the next administration could do," Seiberg said.

## Candidates to weigh in

On Friday, both presidential nominees are expected to detail their own plans to address the crisis.

Not everyone supports the idea that the government should buy up assets that the market currently can't value and isn't trading.

Sen. Charles Schumer, D-N.Y., on Thursday proposed his own plan that would involve the government providing a cash infusion to financial institutions in exchange for stock in the companies and let the institutions offload their mortgage investments.

Banking consultant Bert Ely is skeptical about the government getting involved at all. If the government chooses to "prop up the institutions or allows the institutions to offload asset onto a government entity, who's going to take the losses? It's financial insanity. The markets have to clear. Our fundamental problem: an oversupply of housing."



PHOTO: LAUREN VICTORIA BURKE/AP

Sen. Majority Leader Harry Reid, House Speaker Nancy Pelosi and other lawmakers spoke after their meeting with Treasury Secretary Paulson.

## Quick Vote

Which candidate would be the best leader in a bad economy?

- John McCain  
 Barack Obama

[Vote](#) or [View results](#)

## CRISIS ON WALL STREET

- [Lawmakers promise fast action](#)
- [Money markets get a lifeline](#)
- [SEC bans short-selling](#)
- [Wall Street ready for big open](#)
- [Dollar pops on rescue plan](#)

## Sponsored Links

### Mortgage Rates at 5.35%

\$200,000 loan for \$771/month. See New Payment - No SSN Rqd. Save Now! [Refinance.LeadSteps.com](#)

### University of Phoenix

Advance you career with a degree from the University of Phoenix. Choose from dozens of degree... [www.UnivPhoenixDegrees.com](#)

[Buy a link here](#)

mortgage tribulations to tell us what happens next. [More](#)



## Drive this airplane

Icon Aircraft is readying a light-sport aircraft owners can fly with only a driver's license and 20 hours of flight training. Take a peek at the A5, coming in 2010. [More](#)

GET A FREE TRIAL ISSUE!



# Money

Name

Address

City

State/Pr

Zip/Postal

E-mail

[Continue](#) [Privacy Policy](#)