

GET 2 WEEKS FREE
 THE ONLINE JOURNAL SUBSCRIBE NOW | THE PRINT JOURNAL SUBSCRIBE NOW

TOP STORIES IN U.S.

- Options Narrow for Next President (1 of 10)
- Candidates Jockey for Position on Eco... (2 of 10)
- McCain Hits Obama on Taxes (3 of 10)
- McCai

SEPTEMBER 19, 2008, 9:40 A.M. ET

U.S. Drafts Sweeping Plan to Fight Crisis

Treasury Shores Up Money Markets in First Salvo; Paulson Set to Hold Press Conference

By DEBORAH SOLOMON and DAMIAN PALETTA

Article

Comments

MORE IN POLITICS & CAMPAIGN »

Email | Printer Friendly | Share: Yahoo Buzz | Text Size

WASHINGTON -- The federal government is working on a sweeping series of programs that would represent perhaps the biggest intervention in financial markets since the 1930s, embracing the need for a comprehensive approach to the financial crisis after a series of ad hoc rescues.

At the center of the potential plan is a mechanism that would take bad assets off the balance sheets of financial companies, said people familiar with the matter, a device that echoes similar moves taken in past financial crises. The size of the entity could reach hundreds of billions of dollars, one person said. U.S. Treasury Secretary Henry Paulson will hold a 10 a.m. EDT press conference Friday to discuss a "comprehensive approach to market developments." President George W. Bush will make a statement at 10:45 a.m. to discuss "decisive actions" the federal government is taking to address "the severe disruptions in our financial markets," Press Secretary Dana Perino said.



Getty Images

Bernanke, Paulson, Cox and Senate Banking Committee chair Dodd join other leaders from the House and Senate for a meeting at the U.S. Capitol.

includes purchasing certain short-term debt obligations issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The Fed said it will also extend so-called non-recourse loans at the primary credit rate to U.S. banks to finance their purchases of high-quality asset-backed commercial paper from money-market mutual funds.

Meanwhile, the Securities and Exchange Commission proposed a temporary ban on short-selling on 799 financial stocks. The ban, which is effective immediately, is set to last for 10 days, but could be extended for up to 30 days. (See related article.)

Under the Treasury program, the government will insure the holdings of any eligible publicly offered money-market fund. The funds must pay a fee to participate in the program.

"The program provides support to investors in funds that participate in the program and those funds will not 'break the buck,'" Treasury said in a statement, referring to the concern that arises

Meanwhile, the Treasury announced a massive program Friday to shore up the nation's money-market mutual-fund sector, responding to concerns that the global financial crisis is starting to affect those historically safe assets. The move is designed to stem an outflow of funds as consumers start to worry about even the safest of investments, a sign of how the crisis is spreading to Main Street. There is \$3.4 trillion in money-market funds outstanding.

In addition, the Federal Reserve is expanding its liquidity programs, which should help money funds meet redemption demand. The initiative

Member FDIC

3.75%
ANNUAL PERCENTAGE YIELD
America's Highest Rate

Learn More

DOLLAR SAVINGS DIRECT

Email Newsletters and Alerts

The latest news and analysis delivered to your in-box. Check the boxes below to sign up.

- This Week's Most Popular
- On the Editorial Page
- Also send me information about more WSJ Features

Enter Your Email Address SIGN UP

Terms and Conditions | Go to Email Center

Video >



A Change in the Government's Agenda
2:38

Media Web Minute: The Couric-Palin Interview
0:49

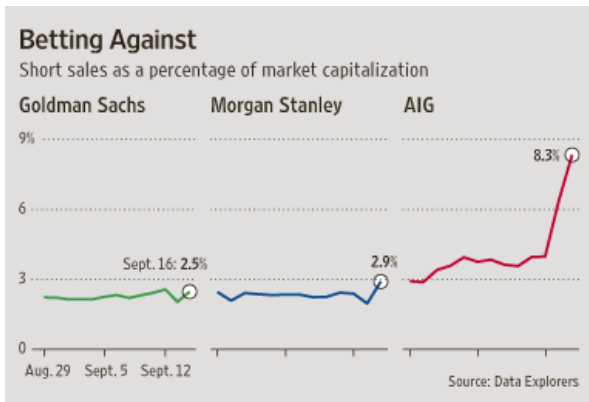
McCain, Obama Address Wall Street Crisis
2:27

More in Politics & Campaign

Options Narrow for Next President

Candidates Jockey for Position on Economy

McCain Hits Obama on Taxes



when the net asset value of money-market funds falls below \$1 per share.

The insurance program will be financed with up to \$50 billion from the Treasury's Exchange Stabilization Fund, which was created in 1934. President Bush had to sign off on Treasury's use of the fund.

"Concerns about the net asset value of money-

market funds falling below \$1 have exacerbated global financial market turmoil and caused severe liquidity strains in world markets," Treasury said in a statement.

The administration had been taking a patchwork approach to the financial crisis, putting out fires as they ignited. The new moves represent an effort to take a more systematic approach, after a spiral of bad debts, credit downgrades and tumbling stocks brought down venerable names from investment bank Lehman Brothers Holdings Inc. to insurance giant American International Group Inc. Banks have grown unwilling to lend to one another, a sign of extreme stress, because financial markets work only when institutions have faith in each other's ability to meet their obligations.

Word of a coordinated government plan came first Thursday, a day when the Federal Reserve and other major central banks offered hundreds of billions of dollars in loans to commercial banks to alleviate a deepening freeze in the world's credit markets. That step appeared to have moderate impact on lending among banks. Meanwhile, a wave of redemptions continued hitting money-market funds, causing a second large fund to shut to investors.

In Russia, officials suspended stock-market trading for the second-straight day as the Russian government promised to inject \$20 billion to halt a collapse in share prices. In China, government officials directed purchases of bank shares and encouraged companies to buy their own shares in efforts to prop up a falling market.

Stocks Rallied Thursday, Early Friday

Still, word of a possible U.S. plan to address the crisis sent the stock market soaring on Thursday, in one of its sharpest reversals in recent memory. The Dow Jones Industrial Average ended up 3.9%, the index's biggest percentage gain in nearly six years, on record New York Stock Exchange volume. The blue-chip index finished more than 560 points above its intraday low and reclaimed about 90% of its Wednesday losses. Nasdaq composite trading also saw trading volume set a new single-day high at 3.89 billion shares. All 30 Dow component stocks closed higher, but financial companies were the biggest winners, racking up double-digit percentage gains after weeks of selling off.

Early Friday, stock futures roared higher as investors welcomed government efforts to shore up markets and clamp down on short selling. Dow futures climbed more than 300 points before the opening bell.

The flurry of moves under discussion may bring the markets some breathing room, but it isn't clear whether they will amount to a long-term solution to the complex financial problems sweeping the market.

"The market wants to see a more systemic solution that doesn't leave us wondering day after day about the next institution that's the weakest link in the chain," said former Fed Board member Laurence Meyer, vice chairman of Macroeconomic Advisers, an economic research firm.

Treasury Department officials have studied a structure to buy up distressed assets for weeks, but have been reluctant to ask Congress for such authority unless they were certain it could get approved. The intensified market turmoil may have changed that political calculus, even with less than two months left until the November elections.

A big question still to be answered is how the government will value the assets it takes onto its books. One possible avenue could be some sort of auction facility, so that the government would not have to be involved in negotiating asset values with companies. Financial companies would likely take big losses.

McCain Questions Fed Actions

Lawmakers Assail Interior

Most Popular >

Read Emailed Video Commented

1. [No End Yet In Sight For Crisis](#)
2. [Will McCain Waste Palin?](#)
3. [Stocks Soar; Banks Lead The Way](#)
4. [U.S. Plans Sweeping Financial Cleanup](#)
5. [Morgan Stanley Goes On Offensive](#)

Most Read Articles Feed

Latest Headlines

[Crisis Seeps Into Everyday Lives](#)

[Bush Defends U.S. Moves](#)

[FDA Plans Modified Food Guidelines](#)

[Lawmakers Assail Interior](#)

[McCain Hits Obama on Taxes](#)

[California Reaches Deal on Budget](#)

[Feds to Release New Crane Rules](#)

[Yale Endowment Returns 4.5%](#)

[Pakistan: U.S. Didn't Warn of Attack](#)

[Train Engineer Texted Before Crash](#)

[More Headlines](#)

Bailout Brigade

Governments have spearheaded unprecedented efforts to prop up financial markets this month.

Infusions and amounts, in billions

Sept. 7: U.S. says it will shore up Fannie Mae and Freddie Mac (not trading day)

\$200

U.S. bails out AIG

\$85

Central banks offer credit

\$180



President Bush met with Treasury Secretary Paulson, Securities and Exchange Commission Chairman Christopher Cox and Federal Reserve Chairman Ben Bernanke for 45 minutes Thursday to discuss "the serious conditions in our financial markets," said White House spokesman Tony Fratto.

Messrs. Paulson, Cox and Bernanke later addressed congressional leaders Thursday evening on their proposals. At the meeting, Mr. Bernanke began by laying out the severity of the crisis. Mr. Paulson "made the sale," said a top

congressional aide.

House Financial Services Committee Chairman Barney Frank, the Massachusetts Democrat, said his panel could hold a vote on the package as soon as Wednesday.

"They said they would like legislation to do it, and there was virtually unanimous agreement that there would be legislation to do it," said Mr. Frank.

In a news conference after the meeting, Mr. Paulson described his effort as "an approach to deal with the systemic risk and the stresses in our capital markets." The "comprehensive" solution would deal with the souring real-estate and other illiquid assets at the heart of the financial crisis, he said.

Exactly how such an entity might be structured isn't yet clear. The possible plan isn't expected to mirror the Resolution Trust Corp., which was used from 1989 to 1995 during the savings and loan crisis to hold and sell off the assets of failed banks. Rather, a new entity might purchase assets at a steep discount from solvent financial institutions and eventually sell them back into the market.



European Pressphoto Agency

President George W. Bush arrives to make a statement regarding the economy in the Oval Office Colonnade at the White House Thursday.

The program may look more like the Reconstruction Finance Corporation, a Depression-era relief program formed in 1932 by President Hoover that tried to inject liquidity into the market by giving loans to banks and other businesses.

According to a top congressional aide, the Treasury department wants authority to either control the program or have it be a separate division of the government.

A series of veteran policy makers, including former Treasury Secretary Lawrence Summers and former Fed Chief Paul Volcker, has pushed in recent weeks for such a government agency that would attempt a comprehensive solution to the markets crisis.

The idea would be to steady the market so that investors regain confidence in financial institutions and resume conducting business normally with them.

"By stepping in here and getting the markets to function again, the government could deliver the Sunday punch to this financial turmoil," said former Comptroller of the Currency Eugene Ludwig, who is now chief executive of Promontory Financial Group, and a big proponent for the idea. "By taking the first step and making a market the new government entity could take fear out of marketplace," he added.

Thursday, Republican nominee Sen. John McCain sought a broad expansion of government regulation over financial institutions, including the formation of a body to both assume distressed

mortgages and help failing investment banks.

Saying the government cannot "wait until the system fails," Sen. McCain called for the creation of an entity that would essentially help companies sell off bad loans and other impaired assets. It is unclear how the body, dubbed the Mortgage and Financial Institutions trust, would operate, including whether or not institutions would seek help or whether the government would intervene on its own behalf.

His rival, Democratic Sen. Barack Obama of Illinois was less specific about what steps he would take, offering broader outlines of policy proposals that included a "Homeowner and Financial Support Act." The measure, which would inject capital and liquidity in the financial system, is designed to provide a more coordinated response than "the daily improvisations that have characterized policy-making over the last year."

—Brian Blackstone, Maya Jackson Randall, Joellen Perry, Laura Meckler, Nick Timiraos, Elizabeth Holmes, Michael M. Phillips and Craig Karmin contributed to this article.

Write to Deborah Solomon at deborah.solomon@wsj.com and Damian Paletta at damian.paletta@wsj.com

MORE IN [POLITICS & CAMPAIGN](#) »

 Email  Printer Friendly  Order Reprints

Share:   

Sponsored Links

Solar, Wind, Cogen - AESO

Develops and Finances Energy Efficiency Projects. Invest Now.
www.AtlanticEnergy.net

Federal Reserve

Join the RNC to Help Republicans Stabilize the Troubled Economy.
GOP.com/Economy

TradeKing - \$4.95 a Trade

#1 Discount Broker 2006 & 2007, by SmartMoney - Switch Today
tradeking.com

Add a Comment

[Go to Comments tab](#)

CLEAR

POST

THE WALL STREET JOURNAL

[BACK TO TOP](#) ▲

Search News, Quotes, Companies

SEARCH

GET 2 WEEKS FREE

THE ONLINE JOURNAL SUBSCRIBE NOW

THE PRINT JOURNAL SUBSCRIBE NOW

Log In or Subscribe to access your WSJ.com Account

Help & Information Center:

- Help
- Customer Service
- Contact Us
- New on WSJ.com
- Tour the new Journal

About:

- News Licensing
- Advertising
- Conferences
- About Dow Jones
- Privacy Policy - Updated
- Subscriber Agreement & Terms of Use - Updated
- Copyright Policy
- Jobs at WSJ.com

WSJ.com:

- Site Map
- Home
- U.S.
- World
- Business
- Markets
- Market Data
- Tech
- Personal Finance
- Life & Style
- Opinion
- Autos
- Careers
- Real Estate
- Small Business

Tools & Formats:

- Today's Paper
- Video Center
- Graphics
- Columns
- Blogs
- Alerts
- Newsletters
- Mobile
- Podcasts
- RSS Feeds
- Journal Community
- Forums

Digital Network

- WSJ.com
- Marketwatch.com
- Barrons.com
- AllThingsD.com
- FiLife.com
- BigCharts.com
- Virtual Stock Exchange
- WSJ Asia
- WSJ Europe

Foreign Language Editions:

- WSJ Chinese
- WSJ Portuguese
- WSJ Spanish

Copyright ©2008 Dow Jones & Company, Inc. All Rights Reserved