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Business & Economy

Administration seeks to free frozen credit markets

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Associated Press

WASHINGTON — The Obama administration launched a new effort Monday to end a paralysis in lending, saying it will team with investors to initially buy up to a trillion dollars of bad assets from banks that have been reluctant to make loans to consumers and companies.

In announcing the program, Treasury Secretary Timothy Geithner pleaded for patience, saying that work to rehabilitate an industry with such systemic problems must go forward despite "deep anger and outrage" over executive bonus payments.

Obama called it "one more critical element" in a multi-pronged effort to revive the economy and said the depressed housing market is beginning to show glimmers of hope.

Geithner said the new program will initially seek to harness government and private resources to purchase a half-trillion dollars of bad assets off the balance sheets of banks and said he expects that purchases eventually could grow to $1 trillion.

The administration's newest toxic-asset repellant was another in a string of banking initiatives that have included efforts to deal directly with mortgage foreclosures, boost lending to small businesses and thaw out the credit markets for many types of consumer loans.

Administration officials said the plan put forth Monday will deploy $75 billion to $100 billion from the government's existing $700 billion bailout program for the purchase of bad assets — resources that will be supported by loans from the Federal Deposit Insurance Corp. and a loan facility being operated by the Federal Reserve.

Under a typical transaction, for every $100 in soured mortgages being purchased from banks, the private sector would put up $7 and that would be matched by $7 from the government. The remaining $86 would be covered by a government loan provided in many cases by the Federal Deposit Insurance Corp.

Whereas Geithner suggested there was no alternative to the plan, Republicans said otherwise. House GOP Whip Eric Cantor said he hoped the administration would consider instead an earlier GOP proposal to set up a government-sponsored insurance program for mortgage-related securities.

Cantor, R-Va., called Obama's plan a "shell game" that hid the true cost.

"As described, the plan seems to offer little incentive for private investors to participate unless the subsidy is made so rich that it comes at the expense of the taxpayer," Cantor said in a statement.

Geithner was scheduled to testify on Tuesday before the House Financial Services Committee.

The secretary defended the decision to have the government carry so much of the risk. He said the alternative would have been to do nothing and risk a more prolonged recession or have the government carry all of the risk.

Geithner also said there would be significant advantages from having private market participants bidding against each other to set prices for which the bad assets will be purchased. "There is no doubt the government is taking risks," he told reporters. "You can't solve a financial crisis without the government taking risks."

Officials said they expect participation by a broad array of investors ranging from pension funds and insurance companies to hedge funds. To achieve that goal, the program would be set up to entice private investors with low-cost loans provided by the Federal Deposit Insurance Corporation and the Federal Reserve. The government itself would shoulder the bulk of the risk.

Geithner has said that the country cannot afford to simply wait for banks to work off these bad assets over time.

Administration officials insist that they believe they have found the right mix to attract private investors and make a dent in what, by some estimates, could be more than $2 trillion in troubled assets on banks' books.

They said the program has the capacity to purchase $500 billion and possibly as much as $1 trillion in troubled loans, which go back to the collapse of the housing boom and the subsequent tidal wave of foreclosures. But private analysts believe that with the $700 billion bailout fund nearly tapped out by capital disbursements to banks and lifelines provided the auto companies and AIG, there are only enough resources left to get the asset purchase program launched.



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