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U.S. makes big shift in ɔailout to ıid lending

ɾreasury secretary ledges intensified ɛlp for homeowners

David Stout

ASHINGTON: Treasury Secretary ɛnry Paulson Jr. on Wednesday anunced a major shift in the thrust of ɛ $700 billion financial rescue proım, at the same time joining several encies in prodding banks to speed up ɛ thaw in the country's credit system.

Paulson said the $700 billion would t be used to buy up troubled mortge-related securities, as the rescue ef:t was originally conceived, but ould, instead, be used in a broader ımpaign to help financial markets ıd, in turn, make loans, including car d student loans, more accessible for reditworthy borrowers.

"During times like these, with a lowing economy and some deterioraon in credit conditions, even the ɛalthiest banks tend to become more sk-averse and restrain lending, and egulators' actions have reinforced this ɛnding restraint in the past," Paulson ıid at a news conference.

But, he added pointedly, with their nancial foundations already shored p by recent government support, "our banks will be more confident and better positioned to play their necessary role to support economic responsibility."

Paulson also pledged intensified government efforts to help struggling homeowners and said he and his aides "are examining strategies to mitigate" foreclosures.

Although Paulson did not mention possible penalties for banks that were reluctant to open their money spigots, their was no mistaking the tone of his message, coupled as it was with a statement from several regulatory agencies that they "expect all banking organizations to fulfill their fundamental role in the economy as intermediaries of credit to businesses, consumers and other credit-worthy borrowers."

Paulson also said the Treasury's capital infusions through the Troubled Asset Relief Program, known as TARP, might also be aimed at other kinds of financial institutions.

As for the struggling automobile industry, Paulson said, "My focus is on the financial sector." Thus, while declaring that "we care about our auto industry," he ruled out any role in the TARP effort for bailing out Detroit, an issue that is now occupying Congress, the president-elect, Barack Obama, and President George W. Bush.

Weeks ago, in lobbying Congress to enact the TARP legislation, the administration described the program as one to buy up the opaque and toxic mortgage-related assets that were at the heart of the housing crisis, which set

BAILOUT, Continued on Page 7

■ **Helping struggling homeowners not a simple task, lawmakers told.** ***Page 11***

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Big shift in bailout to focus on credit

BAILOUT, From Page 1

off the worst financial ordeal since the Great Depression.

"Over these past weeks, we have continued to examine the relative benefits of purchasing illiquid mortgage-related assets," Paulson said. Explaining the shift in emphasis, he said, "Our assessment at this time is that this is not the most effective way to use TARP funds." But he stressed that he and others working on the bailout have not ruled out "targeted forms of asset purchase."

The interagency statement that lent more force to Paulson's remarks was issued by the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

The agencies said they "expect banking organizations to work with existing borrowers to avoid preventable foreclosures."

The agencies also addressed an issue that has angered the U.S. public: the enormous salaries paid to many high-ranking executives of the financial world, and the "golden parachutes" bestowed upon some of them even as they were ousted for failing at their jobs.

"Poorly designed management compensation policies can create perverse incentives that can ultimately jeopardize the health of the banking organization," the agencies said, adding that they expected banking institutions "to regularly review their management compensation policies."