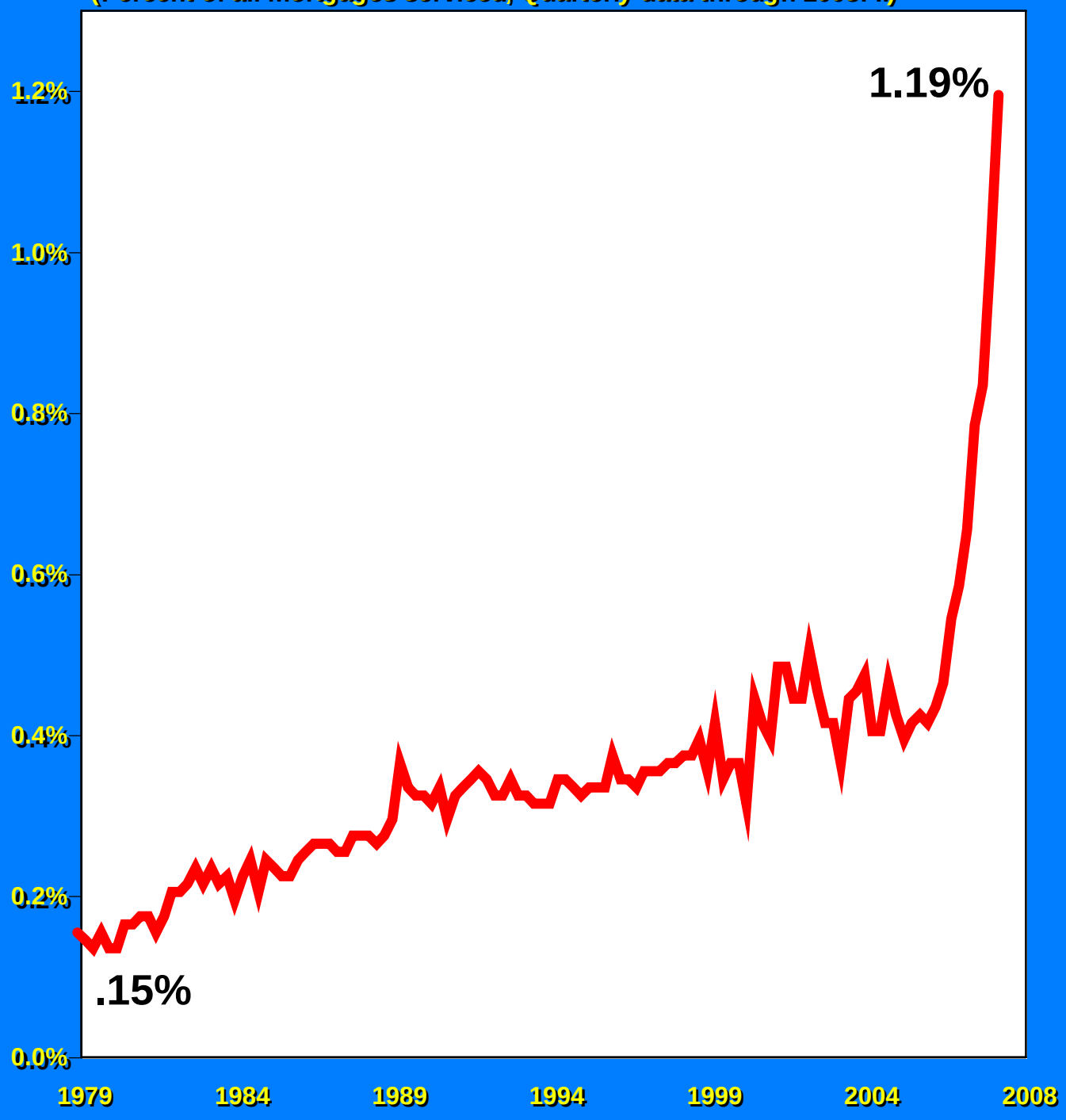
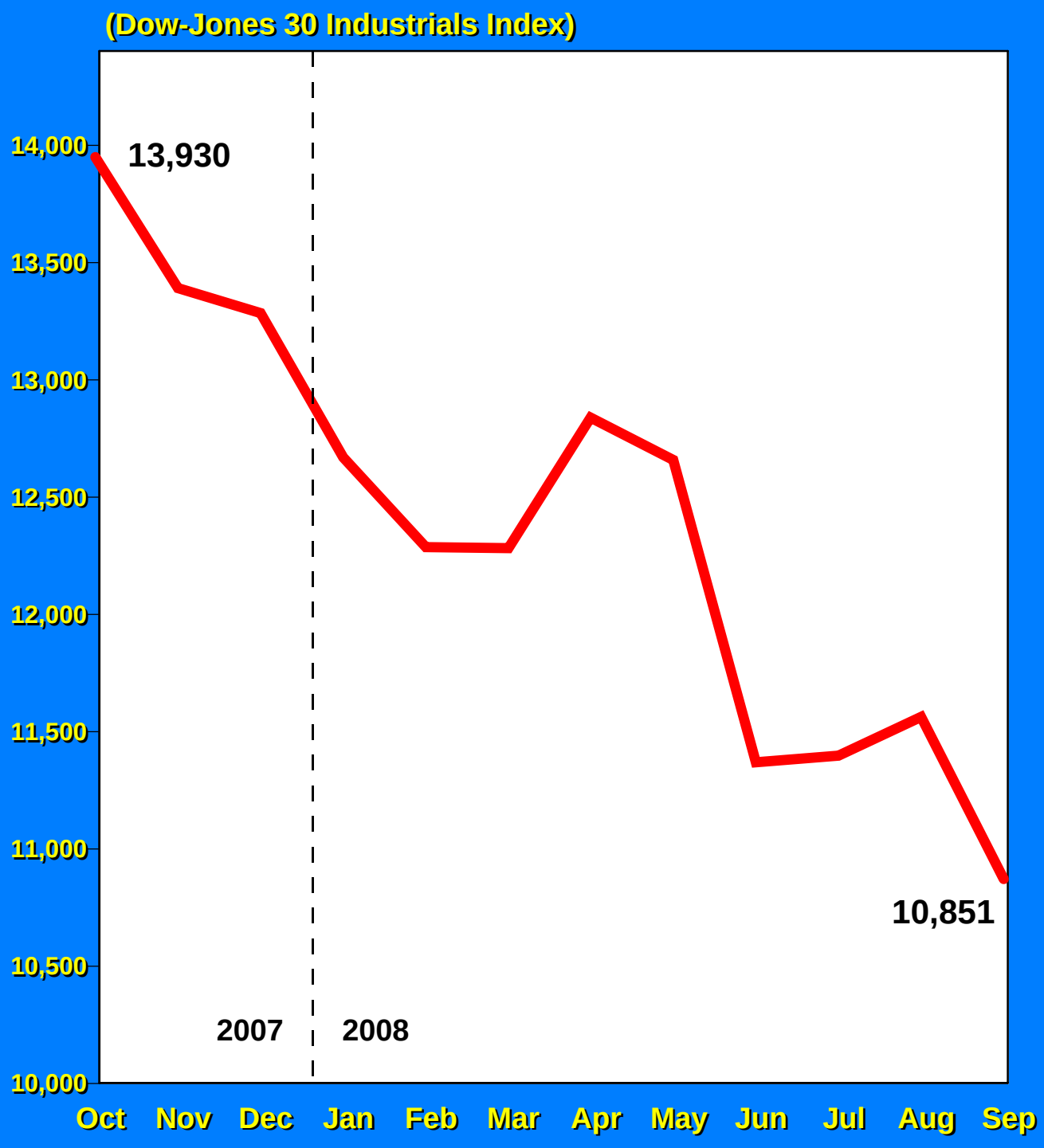
# Home Foreclosure Rate at Highest Level Ever

(Percent of all mortgages serviced, Quarterly data through 2008: II)




Source: Mortgage Bankers Association
Note: Number of mortgages entering foreclosure in a given quarter.

# Stock Market Already Down 22% Since October 2007




Source: *Wall Street Journal*
Note: End-of-month closing average

The New York Times

FRIDAY, SEPTEMBER 26, 2008

# Credit Enters a Lockdown, and Wheels of Commerce Freeze Up

By PETER S. GOODMAN

The words coming out of Washington this week about the American financial system have been frightening. But many have raised the possibility that the Bush administration is fear-mongering to gin up support for its $700 billion bailout proposal.

In many corporate offices, in company cafeterias and around dining room tables, however, the reality of tight credit already is limiting daily economic activity.

"Loans are basically frozen due to the credit crisis," said Vicki Sanger, who is now leaning on personal credit cards bearing double-digit interest rates to finance the building of roads and sidewalks for her residential real estate development in Fruita, Colo. "The banks just are not lending."

With the economy already suffering the strains of plunging housing prices, growing joblessness and the new-found austerity of debt-saturated consumers, many experts fear the fraying of the financial system could pin the nation in distress for years.

Without a mechanism to shed the bad loans on their books, financial institutions may continue to hoard their dollars and starve the economy of capital. Americans would be deprived of financing to buy houses, send children to college and start businesses. That would slow economic activity further, souring more loans, and making banks tighter still. In short, a downward spiral.

Fear of this outcome has become self-fulfilling, prompting a stampede toward safer investments. Investors continued to pile into Treasury bills on Thursday despite rates of interest near zero, making less capital available for businesses and consumers. Stock markets rallied exuberantly for much of Thursday as a bailout deal appeared in hand. Then the deal stalled, leaving the markets vulnerable to a pullback.

"Without trust and confidence, business can't go on, and we can easily fall into a deeper recession and eventually a depression," said Andrew Lo, a finance professor at M.I.T.'s Sloan School of Management. "It would be disastrous to have no plan."

The Bush administration has hit this message relentlessly. On Capitol Hill, Treasury Secretary Henry M. Paulson Jr. warned of a potential financial seizure without a swift bailout. Federal Reserve Chairman Ben S. Bernanke — an academic authority on the Great Depression — used words generally eschewed by people whose utterances move markets, speaking of a "grave threat."

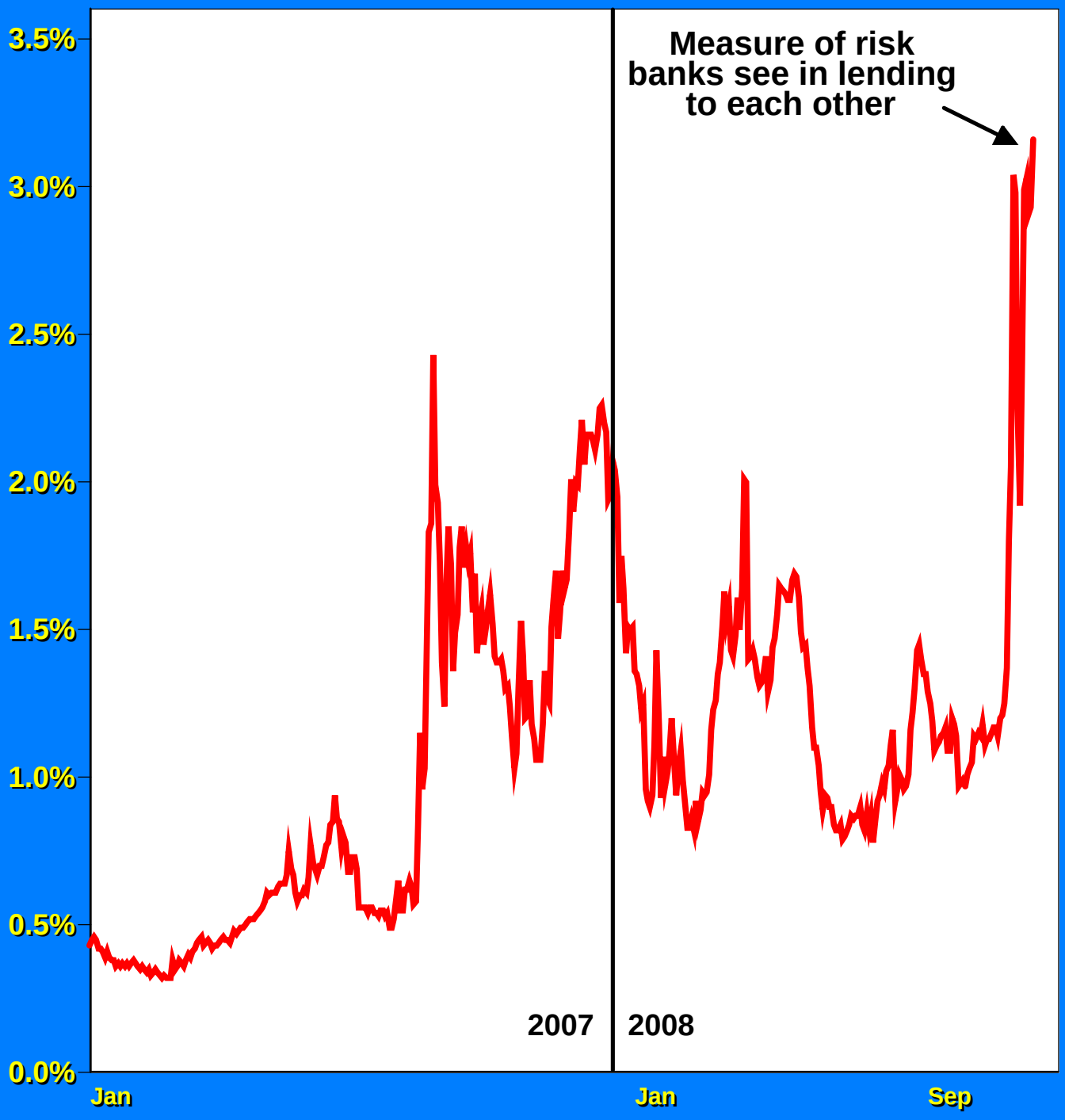
In a prime-time television address Wednesday night, President Bush, who has described the strains on the economy as "adjustments," put it this way: "Our entire economy is in danger."

The considerable pushback to the bailout reflects discomfort with the people sounding the alarm. Mr. Paulson, a creature of

# Credit Markets Frozen:

## Banks Unwilling to Lend to Each Other

("TED" spread: percentage point difference between 3-month LIBOR and Treasury bill rates)




Sources: London Interbank Offered Rate (LIBOR) from the British Bankers' Association and Treasury bill rate from the Federal Reserve Board.
Note: Daily data through September 30, 2008

# Credit Crisis Fallout

BEAR STEARNS
April 1, 2008

LEHMAN BROTHERS
September 15, 2008

WaMu
September 25, 2008

AIG
September 16, 2008

Freddie Mac
We make home possible®
September 7, 2008

imb IndymacBank
July 11, 2008

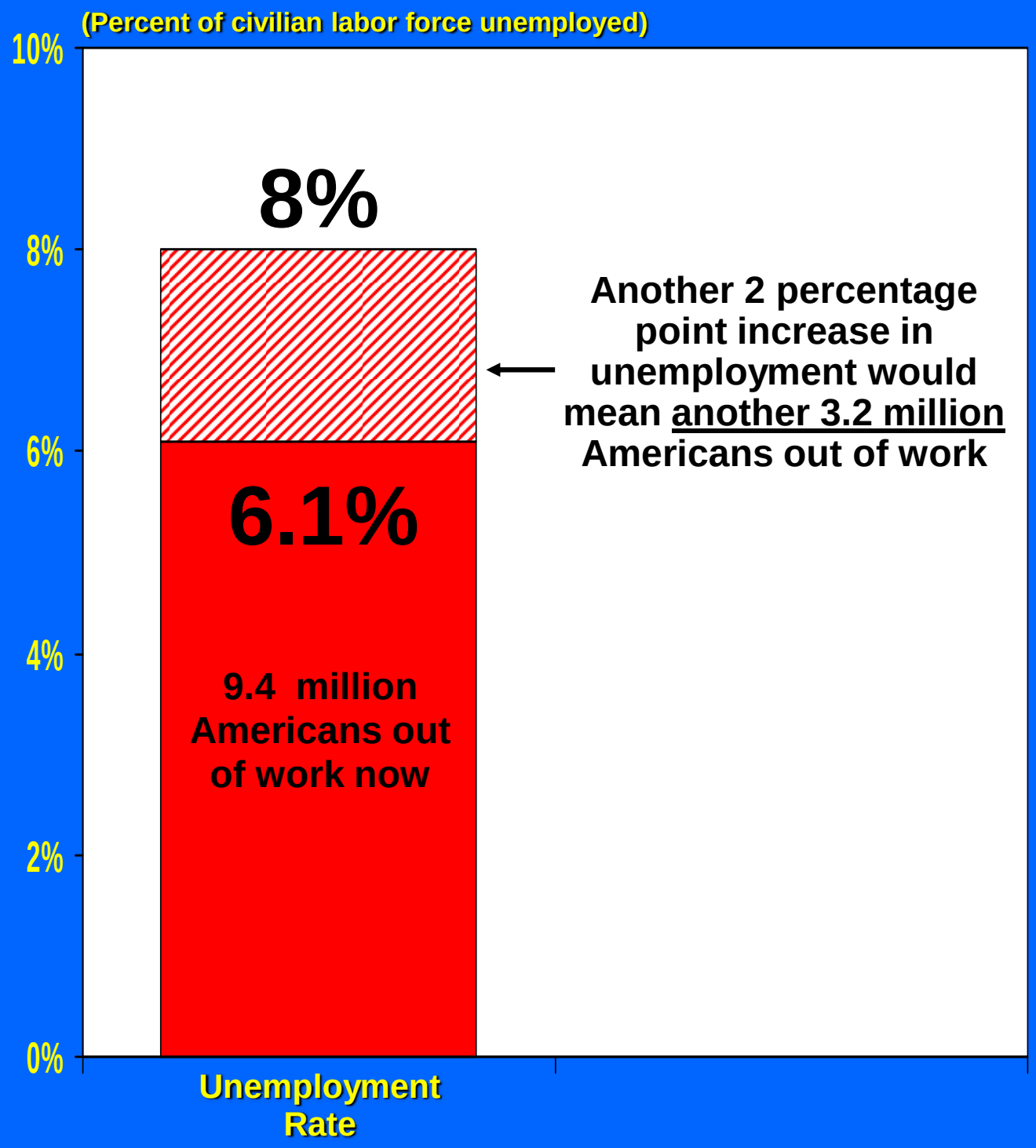
FannieMae
September 7, 2008

WACHOVIA
September 29, 2008

FORTIS
September 29, 2008

Merrill Lynch
September 15, 2008

# Impact of Another Two Percentage Point Increase in Unemployment




Source: Labor Department, SBC
Note: Staff calculations based on BLS data

# Problems With Original Bush Financial Rescue Plan

- No equity stake for taxpayers – no upside
- $700 billion provided in lump-sum
- Too much power in hands of one man – Treasury Secretary
- No limits on executive compensation / ‘golden parachutes’

# Key Improvements to Bush Financial Rescue Plan

- Taxpayers receive equity stake – potential profit when markets rebound
- Funding released in three installments
- Oversight board will ensure Treasury actions protect taxpayers
- No ‘golden parachutes’ – executive compensation capped
- FDIC insurance cap raised to $250,000