



Update - Emergency Economic Stabilization Act

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At a news briefing today, Treasury Secretary Henry Paulson discussed the government's current progress on the financial system bailout plan, including a surprising statement that the government currently does not plan to use its authorized funds under the Emergency Economic Stabilization Act to purchase troubled assets from financial institutions. However, the government does plan to continue purchasing stock in banks.

- Paulson said the department has no plans at this point to purchase troubled mortgage assets from financial institutions, the announced intent of the \$700 billion financial rescue package when Congress passed it in October. He said that by the time the bill was signed, "market conditions had worsened considerably," and the department decided purchasing mortgages would take too much time and would not be effective in unfreezing credit markets. A better approach, he said, was to strengthen bank balance sheets immediately by making equity investments in them. He said the money is better spent to bolster the market for credit card receivables, auto loans and student loans
- He said the Treasury Department is considering programs to attract private capital for financial institutions, including the possibility of providing matching funds from the government. He said Treasury will work with the Federal Reserve Board on ways to encourage investors to return to the consumer finance securitization market.
- Paulson said regulatory reforms are clearly necessary, but should wait until the economic stabilization is behind us.
- Finally, he said in the question and answer portion of his press conference that any support for the auto industry needs to be provided in a form and manner that ensures its long term viability.

In a separate development today, House Financial Services Committee Chairman Barney Frank said he is drafting legislation to provide the ailing auto industry with \$25 billion from the Treasury Department's financial industry rescue program. Frank, D-Mass, plans to hold a hearing on the move on November 19.

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