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U.S. Widens Scope of Bad-Debt Plan Beyond Home Loans (Update1)
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(Adds Treasuries in seventh paragraph.)

By Dawn Kopecki

Sept. 22 (Bloomberg) -- The Bush administration widened the scope of its \$700 billion plan to avert a financial meltdown by including assets other than mortgage-related securities.

The U.S. Treasury submitted revised guidance to Congress on its plan late yesterday as lawmakers and lobbyists push their own agendas. The department also adjusted its plan to insure money-market funds to limit protection to balances as of Sept. 19, after complaints from bank lobbyists.

Officials made the changes two days after unveiling plans for an unprecedented intervention in financial markets. The change to potentially allow purchases of instruments such as car loans, credit-card debt and other devalued assets may force an increase in the size of the package as the legislation proceeds through Congress.

"The Treasury's thinking is to make it as big and wide as possible so they have the flexibility to act if need be," said Shane Oliver, Sydney-based head of investment strategy at AMP Capital Investors, which manages about \$108 billion. "There have been losses on a whole range of U.S. debts and as the economy deteriorates in response to the housing slump those losses could escalate."

Treasury officials now propose buying what they term troubled assets, without specifying the type, according to a document obtained by Bloomberg News and confirmed by a congressional aide.

'Significantly Higher'

"The costs of the bailout will be significantly higher than originally considered or acknowledged," said Josh Rosner, an analyst with independent research firm Graham Fisher & Co.

in New York. "How, given these changes, can the administration and Federal Reserve believe they are being forthright in their unrevised expectation of future losses?"

Treasuries rose on speculation the Fed will cut interest rates to support the rescue plan. Two-year note yields declined

8 basis points to 2.11 percent as of 3:20 p.m. in Tokyo.

Separately, the Treasury said in a statement late yesterday it would limit its \$50 billion plan for insuring money-market funds to those held by investors as of Sept. 19, excluding any subsequent contributions.

The American Bankers' Association, which had expressed concern about the plan last week, praised the move, saying it would eliminate an incentive for savers to shift out of bank accounts into money-market funds. The Treasury put no limit on the money-market fund insurance, while the Federal Deposit Insurance Corp. protects bank deposits up to \$100,000.

Money Market Funds

"If all money market mutual funds had been included with the government guarantee moving forward, this proposal would have threatened to take money out of local FDIC-insured banks," Edward Yingling, president of the ABA in Washington, said in a statement.

In its latest guidance on the bad-debt fund, the Treasury said firms that are headquartered outside the U.S. will now be eligible for assistance.

The changes come after two days of weekend talks between administration officials and congressional staff in Washington. Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben S. Bernanke told lawmakers Sept. 18 that a comprehensive attack on the worst financial crisis since the Great Depression was critical after a series of government interventions failed to normalize markets.

Rapid Passage

Paulson announced his intention to seek legislation from Congress on Sept. 19. Appearing on television talk shows yesterday he called for rapid passage of a bill. Congressional panels have scheduled two hearings this week on the crisis; Bernanke appears at a third hearing on the economic outlook.

Lawmakers are also seeking changes to Paulson's plan.

Democrats are pressing for oversight through the Government Accountability Office, and for the inclusion of efforts to refinance mortgages for struggling homeowners. House Financial Services Committee Chairman Barney Frank wants limits on compensation of corporate executives who benefit from the program.

Republicans are urging limits on how any profits from the program could be spent.

'Needs to Be Simple'

"Just about everyone in the markets agrees the Paulson plan needs to be simple -- unencumbered by complications and penalties," Christopher Low, chief economist at FTN Financial in New York, wrote in a note to clients. "Of course, Washington doesn't know how to do that."

It was the third straight weekend of crisis work for Paulson and his Treasury colleagues. The previous week, he and New York Fed President Timothy Geithner led talks with banks in an unsuccessful effort to avert the bankruptcy of Lehman Brothers Holdings Inc.

On Sept. 7, Paulson seized Fannie Mae and Freddie Mac, the largest sources of U.S. mortgage financing, after the government-chartered, shareholder-owned companies failed to raise sufficient capital from private sources to satisfy regulators.

Late yesterday, the Fed approved requests from Goldman Sachs Group Inc. and Morgan Stanley, Wall Street's last two independent investment banks, to become bank holding companies.

"It's hard to say there are any illusions left" about the seriousness of the financial crisis, said Jason Trennert, chief investment strategist at Strategas Research Partners in New York.

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