

## What Might Happen in an Economic Meltdown

---

**News Date:** 09/25/2008  
**Outlet:** Catholic Online  
**Contact:** Martha Brannigan, The Miami Herald

'The failure of one institution could lead to a chain reaction. It would be almost like the Great Depression happening all over again.' MIAMI (MCT) - Without say some worst-case scenarios could ensue

\_Your employer won't be able to make payroll because the company's bank account has been frozen in a bank failure.

\_Your credit card will be rejected when you try to pay for groceries or fill your gas tank.

\_Your bank may close. 'Continuing failures of financial institutions and frozen credit 'threaten American families' financial well-being, the viability of business economy,' Treasury Secretary Henry Paulson testified Tuesday before the Senate.

And Federal Reserve Chairman Ben Bernanke added bluntly that without a rescue plan, the country faces a certain recession and rising unemployment.

For months, the credit markets that provide the lifeblood of the U.S. economic system have been bogged down, initially over fears and uncertainty about s

Home mortgages are sliced into a variety of complex packages that have made it difficult for investors to value then now that the real estate market has to trading these securities.

In turn, bankers, stung by bad loans, have tightened lending standards so that it's now hard for the average consumer to get a mortgage, a car loan, or a lii Similarly, businesses that need to borrow cash to expand operations, buy new equipment or carry on normal operations face tougher hurdles.

With mounting bank failures, banks have gotten increasingly fearful of even lending money to one another overnight \_ an essential element to providing the business. 'Based on what Bernanke and Paulson say, there would be more bank failures and an exacerbation of the recent reluctance of banks to lend to Flannery, a finance professor at the University of Florida.

The hope of the Bush administration \_ and at this point it is only a hope \_ is that the government stepping in as the buyer of last resort for the toxic mortga

Once the banks sell off the bad mortgage securities and find ways to rebuild their capital base, they could go forward on steady footing and resume more going to bail out other people, but we have no choice,' said Ken Thomas, a Miami banking consultant. 'With Bear Stearns and Freddie Mac and Fannie M piecemeal approach was not working.' As lawmakers hash out the details of the plan, most experts say something has to be done \_ and quickly. 'The final confidence,' said Krishnan Dandapani, a Florida International University finance professor. 'The failure of one institution could lead to a chain reaction. It w over again.' \_\_\_\_

2008, The Miami Herald.