Without a government rescue of U.S. financial markets, experts 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.

NIGHTMARE ON MAIN STREET WITHOUT QUICK APPROVAL OF A $700 BILLION BANKING BAILOUT, OFFICIALS WARN THAT THE CREDIT CRISIS COULD LEAD TO AN AMERICAN MELTDOWN.
- 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 businesses both small and large, and the stability of the global economy. Henry Paulson testified Tuesday before the Senate. And Federal Reserve Chairman Ben Bernanke added bluntly that without a rescue plan, the country faces the prospect of "a financial panic." On Wednesday, the two men continued to press for the proposed $700 billion financial bailout before a skeptical Congress. And President Bush went on TV to persuade Americans that the rescue plan was essential.

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 subprime mortgage lending and liquidity will dry up. The fear is that healthy lenders will sit on their cash to ride the crisis out, while vulnerable institutions either go under or are forced to sell off assets at a fraction of their value.

That's what happened to investment banks Bear Stearns in March and Lehman Brothers and Merrill Lynch last week; Bear and Merrill were sold off to other banks to prevent them from failing. Home mortgages were sliced into a variety of complex packages that have made it difficult for investors to value now that the real estate market has turned.

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 line of credit. 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 necessary funds to keep the economy going. That's why the government needs to step in and buy the toxic mortgage assets that are weighing down banks.

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 one another, said Krishnan Dandapani, a Florida International University finance professor. The failure of one institution could lead to a chain reaction. It would be almost like the Great Depression happening all over again.

Copyright © 2008 Saint Paul Pioneer Press