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Many Line Up for Cash, but Bailout Plan Falters

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As the government's financial rescue enters a new phase, Wall Street and many ordinary Americans are wondering the same thing: Is any of this working?

The short answer is not nearly as much, or as fast, as many had hoped.

More than a month and nearly $300 billion into the initial effort, many of the nation's financial arteries seem nearly as sclerotic as they were before. Some of them, in fact, appear to be hardening more.

Loans are scarce, and for many people, getting scarcer. Home mortgage rates have barely eased. While solid corporations can borrow money again in the market for commercial paper — those crucial short-term i.o.u.'s that companies rely on to pay day-to-day bills — trickier forms of financing remain elusive. Hard-pressed companies are still virtually shut out of the capital markets.

The financial blockages, real and feared, were on display Thursday during another spasmodic day on Wall Street. After three days of losses, each worse than the one before, stocks tumbled to their lowest level since 2003 — and then bolted higher in the final hours. The Dow Jones industrials closed up 552 points, or 6.7 percent.

But with a recession, perhaps a long one, now at hand, and uncertainty swirling around the course of further government bailouts, wild swings have become the new normal.

The Treasury's about-face on Wednesday, when it officially abandoned its original strategy of buying troubled assets from banks, did little to ease investors' anxiety.

The Bush administration now says it will try to jump-start the stalled credit markets with new lending programs, rather than by buying troubled assets from banks. But the line for help at the Treasury keeps getting longer. A big commercial lender, the CIT Group, applied to become a bank on Thursday in hopes of qualifying for rescue money. American Express took the same step earlier this week. And then, of course, there is the beleaguered auto industry.

"What hasn't improved is the psychology," said Max Bublitz, chief strategist at SCM Advisors, an investment firm based in San Francisco. "This thing has morphed from a credit market issue into a banking crisis into an economic crisis."

Some parts of the credit markets have gotten better. Commercial paper rates have fallen markedly in the last few weeks, as have key rates like the London interbank offered rate, or Libor, the benchmark for trillions of dollars of corporate loans and home mortgages. The three-month Libor has fallen to 2.15 percent, from 4.82 percent in early October, when many banks were reluctant to lend to each other.

But other parts of the markets remain frozen. Borrowing costs are still elevated for creditworthy companies, as well as for state and local governments. Even banks that are getting money from the government are reluctant to lend, much to the government's consternation. The vast market for bonds backed by credit card debt, auto loans and student loans has effectively shut down. No new credit card securities have been issued since the crisis reached a fever pitch in September.

The Treasury has thrown a lot of money at the problem. During the last month, the government pumped nearly $300 billion into more than 40 banks and financial companies, including the American International Group, the tottering insurance giant. Banks have until Friday to apply for money under the original program.

So far, the Treasury has identified only a handful of the recipients. The government says it does not want to stigmatize companies for accepting — or being refused — government money.

The takers include nine big banks that are likely to dominate the new landscape of American banking, among them Bank of America, Citigroup, JPMorgan Chase and Wells Fargo, as well as the humbled Wall Street giants Goldman Sachs and Morgan Stanley. The rest of the money is going to more than 30 banks, big and small, spread across the country.

But now that the Treasury has abandoned its plan to buy the toxic assets of banks, other companies, including insurers and student loan companies, are lining up too. Many on Wall Street say they believe that the cost of the rescue is certain to exceed the $700 billion that was originally designated for it.

"Let's be realistic, $700 billion is not enough," H. Rodgin Cohen, the chairman of Sullivan & Cromwell and one of the pre-eminent lawyers for Wall Street firms, said at a conference hosted by The Deal magazine on Wednesday. "I think it's the 'T-word,' " he said, referring to $1 trillion.

While many of the banks have yet to receive their money from the Treasury, few are rushing to make the loans that companies and consumers need to cushion the economic slump.

Take Cascade Financial, a community bank based in Everett, Wash. Hurt by investments in the mortgage giants Fannie Mae and Freddie Mac, Cascade intends to use the $39 million it hopes to get from the government to bolster its own balance sheet. Only then will it consider lending.

"As a bank, we'd like to make prudent loans," said Lars H. Johnson, Cascade's chief financial officer. "If we have the capital wherewithal, we'd do that. But we have to weigh that against what's going on in the economy."

Beginning with $125 billion given to the nine large banks, the government has worked its way down to small community lenders. But not all of those banks are in dire shape.

Consider Saigon National, a one-branch, three-year-old bank in Orange County, Calif., that bills itself as the hometown lender of the local Vietnamese community. Saigon National is set to receive $1.5 million, even though a key measure of the bank's financial strength was four times as high as the minimum required by regulators.

For John J. Kennedy, Saigon National's chief executive, applying for a piece of the bailout was an easy decision. His bank was well capitalized, he said. But getting an additional $1.5 million for the tiny firm — the smallest preliminary award announced by any bank so far — would accelerate its growth plans tremendously.

"I said, 'Let's move it up, let's take the money while it's available,' " he said.

Unlike many other banks, Mr. Kennedy said, Saigon National will use the government money as Congress apparently intended: to make loans to its community. Other banks hope to use the money to acquire weaker rivals and bring about a rapid industry consolidation, which the Treasury seems to be encouraging.

But for some banks, going cap in hand to the government was not easy.

"It's the hardest decision I've made," said Curtis L. Hage, the chairman and chief executive of HF Financial in Sioux Falls, S.D. His company, which runs Home Federal Bank, has won preliminary approval for $25 million. Now, Mr. Hage must take the proposal to his board next week.

Vikas Bajaj contributed reporting.