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United States Senate

WASHINGTON, DC 20510-3204

October 7, 2008

The Honorable George W. Bush
The White House
Washington, D.C. 20500

Dear Mr. President:

Congress has passed a rescue plan for the credit markets – however, the most recent market turmoil indicates that we must act – and fast – to rescue those who depend on those markets and cannot wait for credit to unfreeze slowly as the federal government injects liquidity into the marketplace in the coming weeks and months.

The ongoing credit crisis has severely restricted bank lending. The dramatic decline in the Dow Jones Industrial Average Index underscores the lack of liquidity in virtually all markets except U.S. Treasuries. At the same time, global market turmoil is creating more uncertainty and anxiety here at home, when what is needed at this time is confidence to bolster the credit markets.

Our economy runs on credit and credit is in too short supply. As a result, many small businesses cannot receive the loans and lines of credit they need to make payroll, stock inventory, or expand. This is having a dramatic impact on jobs with 159,000 lost this past month alone, the ninth straight month of job losses and the greatest single month loss in five years. Banks' restrictive lending terms will make securing college loans more difficult, while also increasing the pressure on colleges and universities who lost access to funds maintained by distressed financial institutions to raise tuition.

The municipal bond market has taken a huge hit as investors flee and financing costs skyrocket. Several states and municipalities are at risk of failing to maintain important government functions.

Treasury's Troubled Asset Relief Program (TARP) will not immediately address these problems. Therefore, additional steps should be taken to keep small businesses, schools and universities, and indeed our cities and states afloat during this period of transition while the program is fully implemented.

The Treasury has already become a lender of last resort for large financial firms and banks. We must extend that same help to small businesses, students, colleges, local governments and all those who are bearing the brunt of the same widespread credit crisis. It is a matter of necessity and a matter of fairness: we are helping to keep large Wall Street firms stay afloat with lines of credit. We should do the same for small Main Street businesses as well.

I propose that we set aside $150 billion of the $700 billion rescue plan for an "Emergency Stabilization Fund" to make emergency loans and establish temporary lines of credit for small businesses; to allow colleges and universities to have short-term access to funding to reduce the pressure on tuition; and to increase direct loans to students as private lending has dried up. The Small Business Administration and the Department of Education could be temporarily empowered to implement these loan programs until the market has stabilized.

Funds used for this emergency effort would be replenished if the TARP plan needs more resources to remove toxic securities from the markets. However, in the short term, much of these funds to buy trouble assets would be better served to loan to troubled businesses, schools, and students to keep our economy moving forward through the crisis.

A portion of this funding could also be used to help stabilize municipal bonds, to either reduce the costs of financing new bonds or to encourage investors back into the market. At the very least, I believe that taking advantage of the current low yields on Treasury bills and dedicating $100 billion in Treasury security issuances to this effort could have the stabilizing effect on Main Street. Finally we should encourage the Federal Reserve and the Central Banks of our trading partners in Asia and Europe to make appropriate monetary policy adjustments to help alleviate this crisis.

This short-term infusion of liquidity would have both the real and all-important psychological effect of providing reassurance to the public and private sectors that there will be safety measures in place until the liquidity crisis dissipates. Indeed, this would be an extraordinary undertaking, but we must take every step to ensure that this market crisis, which is now global, does not threaten to seize our entire economy. By failing to tackle a mortgage crisis, we ended up with a credit crisis. If we fail to take on this credit crisis, we risk deepening a looming economic crisis.

Time is of the essence and I urge your swift action. Indeed, the purposes of the *Emergency Stabilization Act* specifically outlined the need to restore liquidity and stability to the financial system of the United States; therefore I believe that Treasury and the Administration have the flexibility to implement most if not all of these recommendations. But if necessary, Congress should be called to return to consider additional authority to implement this plan.

Thank you for your consideration of these issues.

Sincerely,

Hillary Rodham Clinton

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cc: The Honorable Henry M. Paulson, Jr.
Secretary, United States Department of the Treasury