It's the Credit Market

Much attention is being given to the stock market – Dow Jones, S&P, NASDAQ – but the real pain of our financial crisis is in credit. When the cost of borrowing is too great, even those with perfect credit will either pay much higher interest rates or simply receive no loans at all. Just today the credit markets reported all-time highs in key interest rates that banks charge each other. If banks can't borrow, they can't lend.

Letting the current crisis play out could severely impact all sectors of our economy - big business and small.

One example of how the credit crisis has bled outside of Wall Street came yesterday from AT&T, whose Chairman and CEO said the telecom giant couldn't find any credit longer than overnight. AT&T is not alone. Sonic, the drive-in fast food chain, had credit lines from GE Capital severed to all franchisees this week. The examples are everywhere - businesses of all sizes are facing the reality of a broken credit market.

A large corporation having trouble with cash flow can be managed over the medium term by drawing down capital held in reserve. But most small businesses don't have this luxury. In fact, as the above story notes, many have used home equity loans to finance their businesses. This version of reserve capital is drying up as their home values drop.

The following pages show a series of key credit market interest rates that, I hope, tell a story of how fast things got so bad.

Jim Cooper

US Treasury Rates Plummet

1 Month Treasury rates are **near zero** as investors show they are willing to accept virtually no return for giving their money to the government. This "flight to quality" happens when investors shy from all risky assets and put money into the safest bet around.

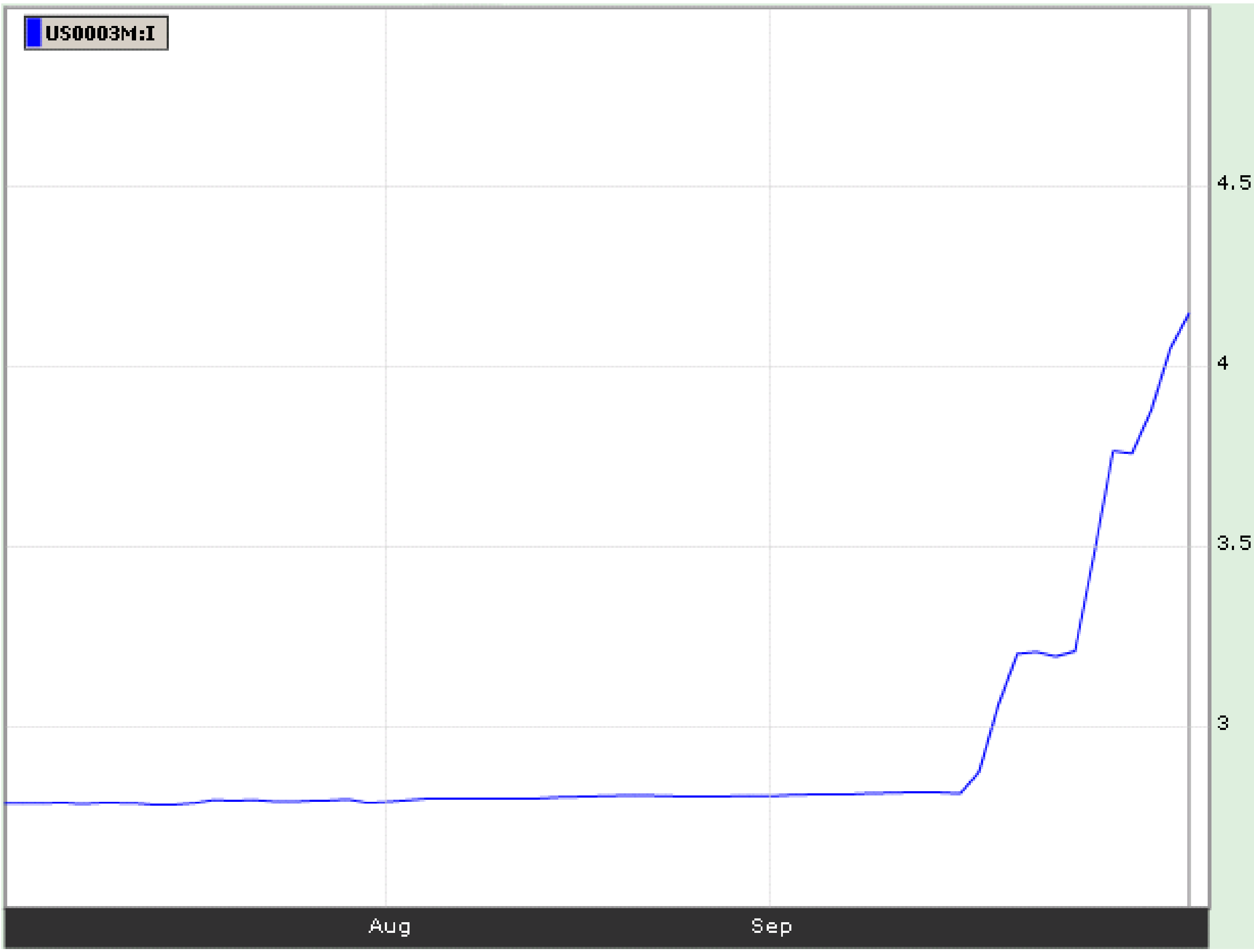
1 Month Treasury Bill Interest Rate

Prepared by Office of Rep. Jim Cooper (D-TN) – staff contact James Leuschen 5-4311 – source Bloomberg

Banks Borrowing at Record High Rates

The overnight London Interbank Offer Rate (LIBOR) reached an **all-time high** this week. LIBOR is the rate that banks charge one another, and is the baseline rate from which most other interest rates are derived. Longer term bank lending rates have also soared to historic highs.

3 Month LIBOR

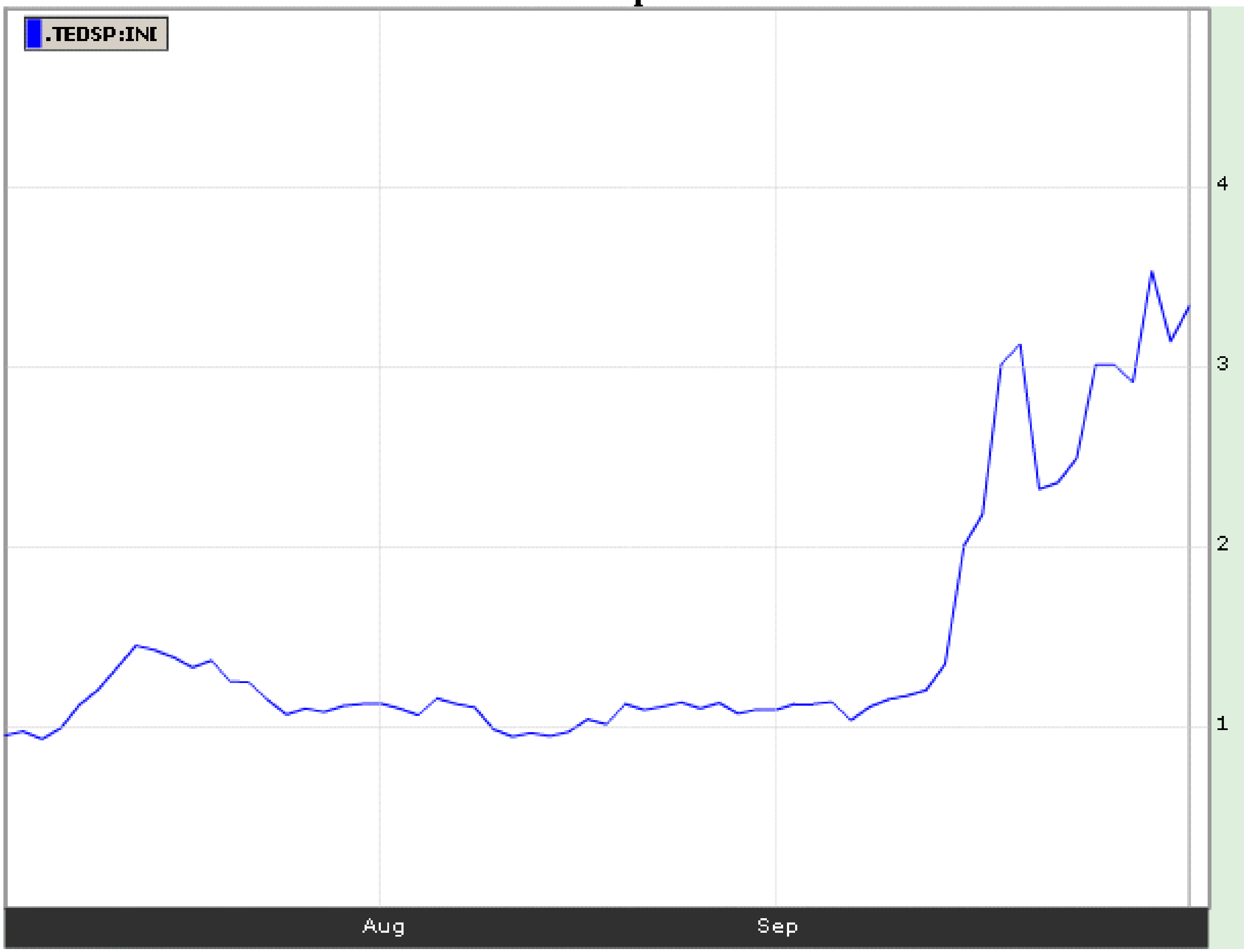


Prepared by Office of Rep. Jim Cooper (D-TN) – staff contact James Leuschen 5-4311 – source Bloomberg

Premium on Bank Borrowing Highest Ever

The TED Spread is the premium that banks charge each other above the "riskless" Treasury rate. The higher the rate, the less willing banks are to lend to one another. It, too, hit a **record high** today of over 3.6%. If banks can't borrow, they can't lend.

TED Spread



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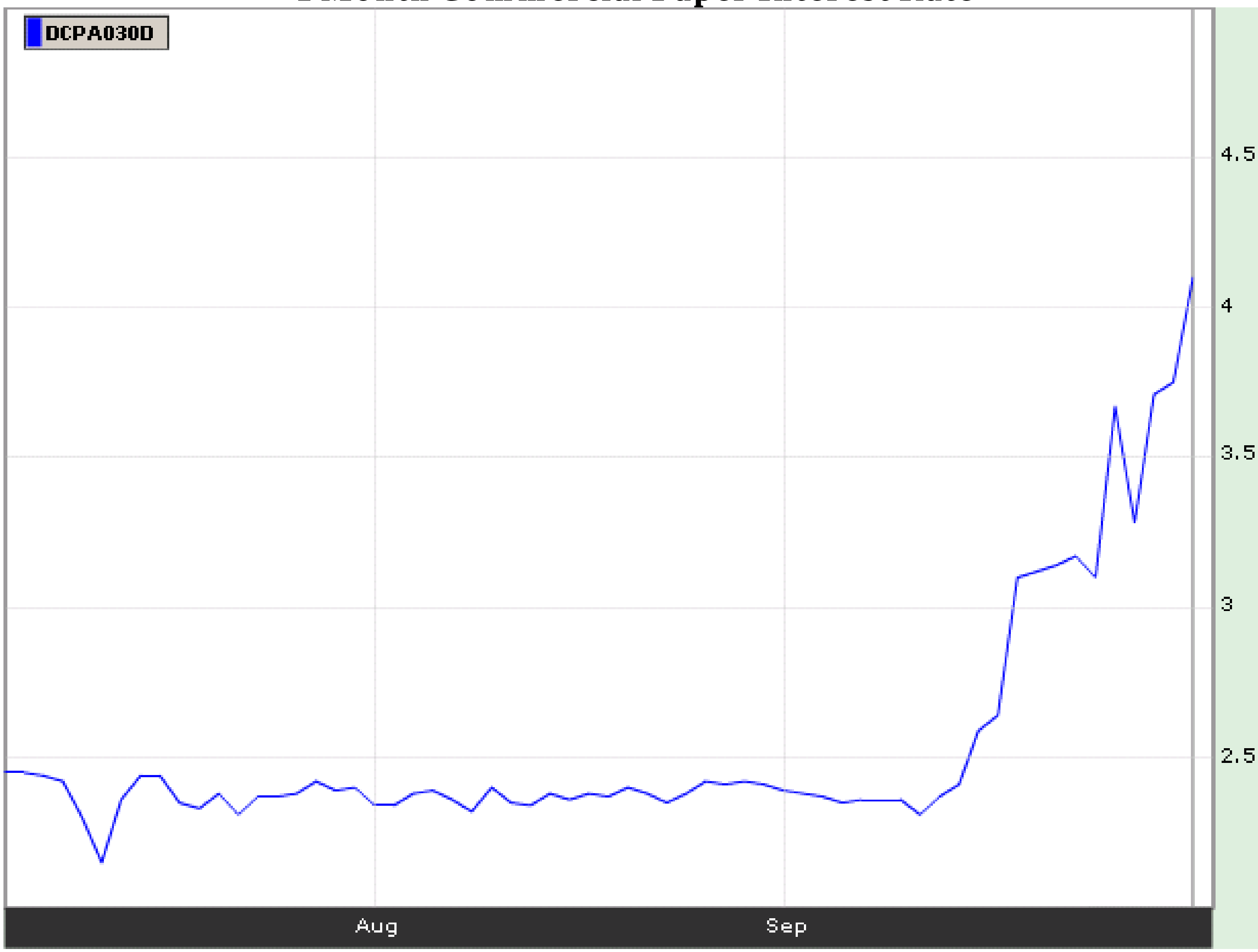
Businesses' Cost of Borrowing Skyrockets

The lack of lending between banks has pushed up the cost of borrowing for businesses, as well. Interest rates for businesses have shot up in recent days.

1 Month Commercial Paper Interest Rate



Prepared by Office of Rep. Jim Cooper (D-TN) – staff contact James Leuschen 5-4311 – source Bloomberg

As a Result Loans are Drying Up

Because bank lending is frozen, all available funds have rushed to safe Treasury bills, and commercial paper rates are at historic heights, the availability of business loans is cratering. Outstanding commercial paper dropped nearly $100 billion this week alone.

Value of outstanding Commercial Paper ($ billions)

Prepared by Office of Rep. Jim Cooper (D-TN) – staff contact James Leuschen 5-4311 – source Bloomberg