

U.S. News & World Report

How Treasury's Plan Will Affect Consumers

Tuesday October 14, 1:09 pm ET

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It looks like the Treasury Department won't just be buying bad mortgage debt with that \$700 billion--it's going to be pumping big bucks directly in the banking system. Like \$250 billion. And Uncle Sam is also going to insure ginormous bank deposits. Hey, that's great for Wall Street, but what about Main Street? What about consumers? Here are four ways the government's action will affect you:

-- Banks may offer loans more easily. Over the past several weeks, anyone in the market for a car loan or mortgage [found it difficult](#) to find a bank willing to lend to them. Credit card companies cut credit limits and banks tightened lending standards--meaning anyone with less-than-stellar credit had trouble borrowing money. But the Treasury Department says that with more access to capital, banks will once again begin lending, both to each other and to consumers.

-- But the credit crunch may not be totally over for consumers. Banking consultant Bert Ely says banks aren't lending to consumers because they worry that worsening economic conditions will lead to higher default rates, not because they lack capital. While Treasury can hand over money, it can't fix the entire economy overnight, so Ely expects banks to continue to hesitate when lending to consumers.

-- Megabank accounts are now insured. The FDIC had already recently raised the amount of money it [insured](#) in bank accounts from \$100,000 to \$250,000 as a result of the \$700 billion rescue package. Tuesday, the FDIC announced a new program that insures full-coverage--with no upper limit--on noninterest-bearing deposit accounts. While most consumers don't have more than \$250,000 in their accounts, many small businesses do, and the FDIC hopes this eases their concerns about the safety of their money, including cash that's used for payroll transactions. The unlimited insurance expires at the end of 2009.

-- Consumers with strong credit scores will continue to borrow without problems. Over the last few weeks, as credit markets seized up, consumers with high credit scores of 720 or above--about 1 in 4 consumers--were able to continue to borrow, even as banks restricted lending to those with a history of payment problems. Banks, which are, after all, in the business of lending money, were eager to work with consumers they deemed trustworthy. Because many consumers are plagued by errors on their credit reports that drag their scores down, requesting a free credit report at [AnnualCreditReport.com](#) and correcting any mistakes can make it easier to take out loans at reasonable interest rates.