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The Wall Street Bailout Plan, Explained

By DAVID STOUT

WASHINGTON — News reports about the upheaval in the world of finance have been full of esoteric terms like "mortgage-backed securities" and "credit-default swaps," but the crisis has resonated for people who know little about Wall Street and who did not think they would ever have to know. Here are several questions and answers of concern to Main Street Americans:

Q. The bailout program being negotiated by the Bush administration and Congressional leaders calls for the government to spend up to $700 billion to buy distressed mortgages. How did the politicians come up with that number, and could it go higher?

A. The recovery package cannot go higher than $700 billion without additional legislation. As for that figure, it lies between the optimistic estimate of $500 billion and the pessimistic guess of $1 trillion about the cost of fixing the financial mess. But the $700 billion is in addition to an $85 billion agreement on a bailout of the insurance giant American International Group, plus $29 billion in support that the government pledged in the marriage of Bear Stearns and JPMorgan Chase. On top of all that, the Congressional Budget Office says the federal bailout of the mortgage finance companies Fannie Mae and Freddie Mac could cost $25 billion.

Q. Who, really, is going to come up with the $700 billion?

A. American taxpayers will come up with the money, although if you are bullish on America in the long run, there is reason to hope that the tab will be less than $700 billion. After the Treasury buys up those troubled mortgages, it will try to resell them to investors. The Treasury's involvement in the crisis and the speed with which Congress is responding could generate long-range optimism and raise the value of those mortgages, although it is impossible to say by how much.

So it would not be correct to think of the federal government as simply writing a check for $700 billion. It is just committing itself to spend that much, if necessary. But the bottom line is, yes, this bailout could cost American taxpayers a lot of money.

Q. So is it fair to say that Americans who are neither rich nor reckless are being asked to rescue people who are? What is in this package for responsible homeowners of modest means who might be forced out of their homes, perhaps for reasons beyond their control?

A. Yes, you could argue that people who cannot tell soybean futures from puts, calls and options are being asked to clean up the costly mess left by Wall Street. To make the bailout palatable to the public, it is being described as far better than inaction, which administration officials and members of Congress say could imperil the retirement savings and other investments of Americans who are anything but rich.

But it is a good bet that the negotiations between the administration and Capitol Hill will include ideas about ways to help middle-class homeowners avoid foreclosure and perhaps some limits on pay for executives. And it should be noted that neither party is solely responsible for whatever neglect led the country to the brink of disaster.

Q. How is it that the administration and Congress, which have not tried to find huge amounts of money to, say, improve the nation's health insurance system or repair bridges and tunnels, can now be ready to come up with $700 billion to rescue the financial system? And is it realistic to think that the parties can reach agreement and get legislation passed in a hurry?

A. The first question will surely come up again, involving as it does not just issues of spending policy but also more profound questions about national aspirations. As for rescuing the financial system, elected officials in both parties became convinced that, while a couple of venerable investment banks could fade into oblivion or be absorbed by mergers, the entire financial system could not be allowed to collapse.

And, yes, the parties are likely to reach an accord. Many members of Congress are eager to leave Washington to go home and campaign for the November elections, and no one wants to face the voters without having done something to protect modest savings portfolios as well as giant investors.

Stephen Labaton and David M. Herszenhorn contributed reporting.