

# Credit Crunch Means More 'Facilitated Marriages'

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Government and financial regulators are likely to encourage further capital-raising and work to isolate the most vulnerable institutions as the U.S. financial system continues to face major stresses, said Mohamed A. El-Erian, co-chief executive and co-chief investment officer of bond mutual-fund giant Pimco.

"For some institutions, especially the systemically important ones, this is likely to involve 'facilitated marriages' similar to what occurred earlier this year in the cases of Bear Stearns and Countrywide. Others face the risk of explicit failure," such as the collapse of California bank IndyMac Bancorp Inc. on July 11<sup>th</sup>, 2008, El-Erian said in a "Viewpoints" article on Pimco's Web site that was published on July 15<sup>th</sup>, 2008, in the Financial Times.

The author of the recent book "When Markets Collide: Investment Strategies for the Age of Global Economic Change" refers to the takeover of Wall Street investment bank Bear Stearns Co. by JPMorgan Chase & Co. (JPM) with the backing of the New York Federal Reserve Bank in March as well as the recent acquisition of mortgage-lending giant Countrywide Financial Corp. by Bank of America Corp.

"In all these cases, equity holders would experience additional pain while mechanisms would be triggered to protect certain deposits," El-Erian added.

In the article, he predicts the Federal Reserve will face additional pressure to strengthen the emergency liquidity windows for important financial institutions, and he expects Congress to be asked to appropriate funds to support mortgage-finance giants Freddie Mac and Fannie Mae.

"Look for innovative mechanisms to raise additional capital for the financial sector through public-private partnerships," he said.

El-Erian, who rejoined Pimco in December after serving for two years as CEO of Harvard Management Co., also forecast more fiscal-stimulus measures, in addition to tax-rebate checks sent out by the government this spring, "to counter the increasingly vicious spiral in housing and, soon, consumer demand."

El-Erian says the financial system remains under-capitalized despite some \$350 billion in capital-raising during the past 12 months, and he expects a growing number of institutions, such as Freddie and Fannie, to be unable to raise capital without government help.