

Fed lowers key interest rate

BY MARTIN CRUTSINGER
ASSOCIATED PRESS

WASHINGTON — The Federal Reserve dropped a key interest rate to its lowest level in 40 years as it battled to prevent the "heightened uncertainty" following the terrorist attacks from sending the country into a deep recession.

The Fed on Tuesday slashed its federal funds rate, the key benchmark for overnight loans, by a half-point to 2 percent and signaled that it was prepared to continue cutting if conditions deteriorate further.

"The Fed is telling us they are really worried and they will likely move again at their December meeting," said David Seiders, chief economist at the National Association of Home Builders.

Wall Street rallied on the news, given that investors had been split over whether the Fed would move by a half-point or a quarter-point. The Dow Jones industrial average ended the day up 150.09 points at 9,591.12, its best close since the attacks and within 14 points of its Sept. 10 level. Other indexes posted gains as well, with the technology-heavy Nasdaq up 41.43 to 1,835.08.

The latest rate cut, the 10th this

year, was taken against a backdrop of increasingly gloomy statistics indicating that the nation's longest economic expansion - more than a decade of uninterrupted growth - has ended.

The government reported last week that the gross domestic product declined at an annual rate of 0.4 percent in the July-September quarter. Many analysts believe the pace of the downturn will accelerate to a drop of 2 percent or more in the current quarter. A recession is traditionally defined as two consecutive quarters of falling GDP.

Job cuts in October alone totaled 415,000, the biggest one-month total in 21 years.

The concern is that the hundreds of thousands of job layoffs that have occurred since the Sept. 11 attacks will trigger a sharp reduction in consumer spending as more people become fearful of losing their own jobs, deepening and prolonging the recession.

The Fed's action, which pushed the funds rate down to its lowest point since September 1961, was quickly matched by commercial banks that reduced their prime lending rate by a half-point. The benchmark for millions of consumer and business loans was cut

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SUNG WON SOHN
CHIEF ECONOMIST AT WELLS FARGO

to 5 percent, its lowest level since June 1972.

"Heightened uncertainty and concerns about a deterioration in business conditions both here and abroad are dampening economic activity," the Fed said in a four-paragraph statement.

The Fed repeated the phrase it employs when it wants to hold out the possibility of further rate cuts, saying that in the near future "the risks are weighted mainly toward conditions that may generate economic weakness."

Many economists said the Fed could very well cut rates by another half-point at its last meeting of the year on Dec. 11. That would push the funds rate down to 1.5 percent, a level last seen in July 1961, when John F. Kennedy was president.

Some analysts are worried that plunging consumer confidence and the fears generated by the terrorist attacks and anthrax shipments in the mail will overwhelm

the Fed's rate cuts.

"The Fed is trying to arrest the slide in the economy and in consumer confidence, but it may be running out of ammunition," said Sung Won Sohn, chief economist at Wells Fargo in Minneapolis.

Jerry Jasinowski, president of the National Association of Manufacturers, said that on top of all the other problems, his member companies are beginning to report increased trouble getting bank loans. He said that, in the four weeks following the attacks, loans to businesses declined at an annual rate of 20 percent.

"Under normal circumstances, the decision of banks to tighten credit in response to unprecedented losses would be understandable. But we are at war, and a strong economy is essential to victory," Jasinowski said, calling on government regulators to convince banks to restore "sensible lending standards."

USC BRIEFS

Committee to talk about budget cuts

The Executive Committee of the USC board of trustees will meet at 10:30 a.m. on Thursday, Nov. 8 to discuss mid-year budget cuts. The meeting is in the Carolina Plaza Board Room and is open to the public.

Interfaith event now set for Nov. 9

The USC Interfaith Celebration, originally scheduled for Sept. 11, will now take place on Thursday, Nov. 9 at 4:30 p.m. on the Russell House Patio.

Faculty, staff and students will share their faith traditions through dance, song, story telling and prayer.

The event is sponsored by the Office of the President, Carolina Chaplains Association, Division of Student and Alumni Services and the Department of Religious Studies.

Club wants fans to wear black to game

The USC Gamecock Club and Student Government are co-sponsoring a "Blackout" for the Florida-USC football game on Saturday, Nov. 10. They ask that all students, fans and alumni wear black to show unity.

Education Dept. collects defaulted loans

BY GREG TOPPO
ASSOCIATED PRESS

WASHINGTON — Using a government database of people who have just found jobs, the Education Department has collected \$153 million against defaulted loans since last spring, Education Secretary Rod Paige said.

The collections are part of a wider reform Paige detailed. Congress has criticized the department as wasteful, saying it does a poor job managing its multi-billion-dollar budget.

"President Bush is asking schools to be accountable to their communities, and it is only fair that the Department of Education should be accountable to Congress and the public," Paige said Tuesday.

The plan also includes filling two top management jobs that went vacant for years and working with the nonprofit Council for Excellence in Government.

In the final three years of the Clinton administration, the Education Department lost track of \$450 million, the department's chief inspector said last spring, prompting one Republican lawmaker to liken the agency's financial practices to those of "a Third World republic."

The department, which has a \$44.5 billion budget and manages about \$200 billion in student loans, said poor oversight resulted in several instances in which money was stolen or improperly spent, and others in which checks for

grants were duplicated or money was never distributed.

Most of the \$450 million was eventually accounted for, officials said.

Last April, auditors told Congress that 21 Education Department employees could write checks of up to \$10,000 without supervision.

The audit also found that, as of October 2000, about 230 employees had government credit cards in their names, with most allowed to charge up to \$10,000 per month. Some employees had higher limits, including 36 workers who could charge up to \$25,000 per month and two who could charge up to \$300,000 per month.

The department has since tightened restrictions on check-writ-

ing privileges and credit cards.

Collectors now use the Department of Health and Human Services' National Directory of New Hires database to find loan recipients who have jobs, Paige said. They also collect income tax rebate checks and deduct from paychecks, he said.

Even with the new collections, the costs associated with defaults on student loans have more than doubled over the last eight years — the total amount outstanding has grown from \$12 billion to \$25 billion. But, while the average student loan is growing, the default rate is dropping. The 1999 default rate of 5.6 percent is the lowest ever, Paige said.

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