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US bites the bullet with an 'aggressive' $250bn bank bail-out

● Nine top Wall Street banks forced to sell shares ● Beleaguered US treasury follows British lead

Andrew Clark in New York, Elana Schor in Washington and Daniel Nasaw in Raleigh

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The Bush administration has reluctantly followed Britain's lead by pumping $250bn £143bn) into shares in leading banks after a stockmarket meltdown scotched efforts to shore up confidence in the financial system.

Under a programme described by President Bush as "unprecedented and aggressive", the US treasury will buy minority stakes in nine leading banks including Goldman Sachs, JP Morgan, Bank of America and Citigroup. Thousands of community banks will be eligible to follow.

Many of Wall Street's top banks were unwilling to take the money, fearing it would be seen as an admission of weakness, but they were given little choice by the US treasury secretary, Henry Paulson. In a televised address from the White House, Bush stressed that the measures were temporary and that banks would buy back the government's shares once the economy recovers: "These measures are not intended to take over the free market, but to preserve it."

He said the new capital would help healthy banks continue to provide loans to businesses, and struggling banks to resume loans to support job creation: "This is an essential short-term measure to ensure the viability of America's banking system." The US treasury will guarantee loans issued by banks, the Federal Reserve will become a buyer of last resort for unwanted commercial debt and the Federal Deposit Insurance Corporation will provide a broader guarantee for small businesses' bank accounts.

Although the treasury disclosed no figures, an industry source said the biggest investments of $25bn each will be in JP Morgan, Citigroup and Bank of America. Some $20bn will go into Wells Fargo, $10bn each into Morgan Stanley and Goldman Sachs, and $3bn apiece will go to State Street and Bank of New York.

All the banks involved will be required to curb executive pay. "Golden parachutes" for departing bosses will be banned, as will bonus programmes that encourage excessive risk-taking. There will also be an end to tax relief for banks on payouts of more than $500,000.

Banking chiefs were given little option. An insider said Paulson dictated the terms after summoning chief executives on Monday. "It wasn't a debate."

The plan was initially greeted warmly on Wall Street, where shares traded higher. Building on Monday's record surge of 936 points, the Dow Jones Industrial Average rose by 115 points to

9,503 during the morning session in New York, however it had slipped back as the day progressed.

Buying bank shares amounts to a U-turn for Paulson, who wanted to spend a $700bn emergency fund by simply picking out distressed assets from banks' balance sheets. He told Congress last month that "the right way to do this is not going around and using guarantees or injecting capital", arguing that Japan had had limited success with that in the 1990s.

Last week's stock market meltdown forced a more radical approach, but Paulson made it clear that he was doing so with distaste. "Government owning a stake in any private US company is objectionable to most Americans - me included," he said. "Yet the alternative of leaving businesses and consumers without access to financing is totally unacceptable."

The programme means the US government will be the biggest owner of banking shares in the country. The treasury will be granted preferred shares without voting rights and will not be involved in day-to-day management decisions. The shares will carry a 5% dividend for taxpayers, rising to 9% after five years, and banks will be banned from raising dividends for ordinary investors for three years.

The US government's actions are similar to those adopted in Europe which were discussed at a weekend meeting of G7 finance ministers. Britain won praise for its swift lead from economists including the Nobel Prize winner Paul Krugman.

At the New York stock exchange, market strategist Peter Cardillo of Avalon Partners said the plan had begun to "penetrate the core of the problem", but the market still faced the prospect of lengthy recession.

The Democratic presidential candidate Barack Obama said the plan was right - but he called for additional help for homeowners battling foreclosure. "We must make sure this plan is implemented in a way that does not enrich Wall Street CEOs at the taxpayers' expense," said Obama.

Voters in a tightly fought electoral battleground reacted with resignation, scepticism and anger to the $250bn proposal. "We're going to have to pay either way," said Arthur Hailey, a student at North Carolina State University. "I'd rather pay for a long-term solution than complete failure and struggle - another depression."

Gary, a catering worker in the capital, Raleigh, said he had no choice but to trust Bush's economic policy team. "I'm uneasy with our government in debt, but if the experts say we have to go deeper into debt in order to keep from dissolving entirely, who am I to call the experts wrong?"

Angeline, a government worker struggling to sell her house, said she was frustrated that the government had to pump money into banks that contributed to the economic crisis by issuing bad loans.

"When we went and got a loan for our house, we knew what we could afford," she said. "It really pisses me off that our money is being spent because the taxpayer that took that loan was irresponsible ."

Three elderly men drinking coffee in downtown Raleigh said Bush should have taken steps to avert the crisis instead of spending so much at the end of his term.

"Why did Bush wait until his time to start doing anything?" asked Jimmy Lennon. "He had eight years to do all of this." But Lennon, 65, Fred Magnun, 71 and Claude McNeile, 82, agreed that they favoured the move.
"Hey Fred, do you think we're going to be alive to see any of that benefit," Lennon asked Magnun.

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