

Emergency Economic Stabilization Act of 2008



The Emergency Economic Stabilization Act of 2008 was passed by the Congress and signed by the President on October 3 to help steady the financial markets and calm fears of investors and depositors. The 451-page law gives the Secretary of the Treasury authority to buy up to \$700 billion in troubled assets, most arising from the housing crisis, in an effort to prevent more bankruptcies and foreclosures and to provide more cash for new loans. It represents the largest government intervention in the financial system since the Great Depression.

The original proposal was shot down in late September, but Congress added new provisions that helped attract more votes. The law now includes increased oversight provisions, limits on executive “golden parachute” deals and some tax credits for middle class taxpayers, disaster victims, hybrid car owners and teachers who spend their own money on school supplies. Overall, Democrats in the House favored the bill 172-63; Republicans voted 108-91 against it.

Here are a few of the provisions of the Act:

Credit Crunch

The bailout law allows the Treasury Department to purchase the distressed assets of financial institutions through the Troubled Assets Relief Program (TARP), thereby freeing up more capital which can be loaned to other borrowers. This is expected to accelerate the amount of money available for short-term lending instruments used by businesses to purchase goods and pay wages. The Treasury will have access to \$700 billion, with the first installment of \$250 billion available immediately. To oversee expenditure of the funds, the law establishes a Financial Stability Board to include the Federal Reserve chairman, the secretaries of the Treasury and Housing and Urban Development (HUD), chairman of the Securities and Exchange Commission (SEC) and the Federal Home Finance Agency director. (The FHFA is the agency that now oversees Fannie Mae and Freddie Mac.) The Board will report to a congressional oversight panel, which will have five members appointed by House and Senate leadership from both parties.

Curbing Executive Pay

The law seeks to limit executive pay at companies that sell assets or purchase insurance from the government by limiting the tax deduction on executive salaries of more than \$500,000. It also provides that executive bonuses will have to be repaid if inaccuracies are later found in financial records and bans exit-pay packages or “golden parachutes.”

Tax Provisions

Congress has included some new tax credits and extended others that were set to expire. The law adds another year of relief from the Alternative Minimum Tax. It continues the research and development tax credit for businesses and also extends a law that allows individuals to deduct state and local sales taxes on their federal tax returns. In addition, Congress has extended several energy tax breaks, such as a deduction for the purchase of solar panels.

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New Accounting Rules

The bailout plan underlines the Securities and Exchange Commission's power to change accounting rules on how banks and Wall Street firms value securities and directs the agency to study the issue, especially the controversial mark-to-market rule. Mark-to-market means that the SEC requires companies to report the fair market value of their investments if they sold them at the current time. However, for mortgage-backed securities, the market disappeared as the value of the securities started to fall, so companies were caught with portfolios of highly-valued securities that could not be sold.

Foreclosure Help

The new law calls for further measures from federal agencies to encourage loan servicers to modify mortgages by a number of means, including reducing the principal or interest rate. The stabilization act extends the provision that exempts forgiven foreclosure debt from federal taxation.

FDIC Limit

The law temporarily (until December 31, 2009) raises Federal Deposit Insurance Corporation (FDIC) insurance from \$100,000 to \$250,000 and prohibits the FDIC from charging banks higher rates to cover the increase. However, it allows the FDIC to borrow from the Treasury to cover losses that might result from the higher insurance limit. The measure aims to soothe depositors and prevent Depression-type bank runs which might deplete bank deposits. While it is in effect, the measure will also protect credit union depositors.

Other Provisions

There are several measures not directly related to economic stability. One portion of the bill proclaims equal insurance coverage for mental and physical illnesses. The new law applies to group insurance plans and companies enrolling more than 50 employees. Federal officials claim it will improve coverage for 113 million Americans.

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