# Bail-Out is Law - Financial Rescue Plan

The federal government's far-reaching and historic plan to bail out the nation's financial system was signed into law by President Bush on Friday October 3, 2008. "By coming together on this legislation, we have acted boldly to prevent the crisis on Wall Street from becoming a crisis in communities across our country," Bush said less than an hour after the House voted 263 to 171 to pass the bill.

The law, which allows the Treasury Secretary to purchase as much as $700 billion in troubled assets in a bid to kick-start lending, ushers in one of the most far-reaching interventions in the economy since the Great Depression. Treasury Secretary Henry Paulson said he would act swiftly but "methodically" to carry out the plan. "The broad authorities in this legislation, when combined with existing regulatory authorities and resources, gives us the ability to protect and recapitalize our financial system as we work through the stresses in our credit markets," Paulson said.

Federal Reserve Chairman Ben Bernanke said he welcomed the news. "The legislation is a critical step toward stabilizing our financial markets and ensuring an uninterrupted flow of credit to households and businesses," he said.

The changes the Senate made include the addition of a host of tax break extensions and some new provisions intended to help individuals and businesses.

Here's a breakdown of some of the economic rescue plan's main provisions:

**Attacking credit crisis:** The Treasury's proposal to let financial institutions sell to the government their troubled assets, mostly mortgage-related. It would only allow the Treasury access to the $700 billion in stages, with $250 billion being made available immediately.

**Protecting taxpayers:** The bill is also similar to the original House bill in that it includes a number of provisions that supporters say would protect taxpayers. One would direct the president to propose a bill requiring the financial industry to reimburse taxpayers for any net losses from the program after five years. And the Treasury would be allowed to take ownership stakes in participating companies.

The bill includes a stipulation that the Treasury set up an insurance program - to be funded with risk-based premiums paid by the industry - to guarantee companies' troubled assets, including mortgage-backed securities, purchased before March 14, 2008.

**Curbing executive pay:** The bill would place curbs on executive pay for companies selling assets or buying insurance from Uncle Sam. For example, any bonus or incentive paid to a senior executive officer for targets met would have to be repaid if it's later proven that earnings or profit statements were inaccurate.

**Oversight Committees:** The bill would set up two oversight committees.

A Financial Stability Board would include the Federal Reserve chairman, the Securities and Exchange Commission chairman, the Federal Home Finance Agency director, the Housing and Urban Development secretary and the Treasury secretary. A congressional oversight panel, to which the Financial Stability Board would report, would have five members appointed by House and Senate leadership from both parties.

**Tax breaks:** The Senate-version of the bill that the House is considering on Friday includes three key tax elements designed to attract House Republican votes.

It would extend a number of renewable energy tax breaks for individuals and businesses, including a deduction for the purchase of solar panels.

The legislation would also continue a host of other expiring tax breaks. Among them: the research and development credit for businesses and the credit that allows individuals to deduct state and local sales taxes on their federal returns.

In addition, the bill includes relief for another year from the Alternative Minimum Tax, without which millions of Americans would have to pay the so-called "income tax for the wealthy."

**New accounting rules:** The bill 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.

Some observers argue that tight accounting rules are a major reason for the credit crisis in the first place. Others contend that changing the so-called mark-to-market rules will just bury problems lurking beneath the surface and could further shake investor confidence in the already battered financial sector.

**Shielding bank deposits:** The bill temporarily raises the FDIC insurance cap to $250,000 from $100,000. The bill allows the FDIC to borrow from the Treasury to cover any losses that might occur as a result of the higher insurance limit.

Federal bank regulators, who first floated the idea to Congress late Tuesday, said that bumping up the insurance limits would help improve liquidity at banks across the country. It may also provide a much-needed dose of confidence for consumers who may be worried about the health of their bank.

The bill will also temporarily increase the level of federal insurance for credit union savings to $250,000.

**Mitigating foreclosures:** The bill calls on federal agencies to encourage loan servicers to modify mortgages by a number of means - including reducing the principal or interest rate. It also extends a temporary provision that exempts from federal income tax any debt forgiven by a bank to a borrower in a foreclosure.

**Cost:** The tax provisions of the bill - the bulk of which come from the addition of tax breaks from other legislation - may reduce federal tax revenue by $110 billion over 10 years, according to estimates from the Joint Committee on Taxation. More than half of that is due to the 1-year extension of AMT relief.