CALIFORNIA ASSOCIATION OF REALTORS®

Issues
Briefing Paper

www.car.org

October 15, 2008

Executive Office:
525 South Virgil Ave.
Los Angeles, CA 90020
213.739.8200

Legislative Office:
980 Ninth St., Ste. 1430
Sacramento, CA 95814
916.492.5200

Housing Opportunity
Real Estate Finance
Federal Issues
Legislative

Emergency Economic Stabilization Act

Issue:
In response to the near collapse of the U.S. financial and credit markets, the U.S. Treasury Department proposed and Congress has passed a $700 billion recovery plan for the U.S. economy.

Action:
No action required at this time. This paper is for informational purposes only.

Status/Summary:
U.S. financial institutions have been unable to raise any capital because of illiquidity of suspect or poorly performing mortgage backed assets on their books. With no way to remove these assets, which may put the institutions at risk, investors have refused to invest or extend new capital to financial institutions. The result has been a near collapse of the U.S. financial market and a spike in the cost of credit that makes it nearly impossible for even qualified people and businesses to obtain or expand a line of credit.

In response to this crisis, Congress passed and the President signed the Emergency Economic Stabilization Act (EESA) on October 3, 2008. The legislation will:

- Help American families keep their homes by requiring the Treasury Dept. and any federal agency that owns or controls troubled mortgages to modify those mortgages wherever possible; this may include reducing the principal or interest rate; and extends till the end of 2012 the exclusion from federal income tax of mortgage debt forgiveness.
- Address the credit crisis by allowing financial institutions to immediately sell $250 billion in troubled assets to the U.S. Treasury Dept. under the newly created Troubled Assets Relief Program (TARP). Another $100 billion would be made available upon the President's request. Should the President deem it necessary, and with Congressional review, the Treasury Dept. may utilize the remaining $350 billion.
- Protect taxpayers by allowing the Treasury Dept. to take an ownership stake in participating companies. In addition, if after five years TARP has incurred a net loss, the President must propose legislation that would force participating companies to reimburse the government to make up the difference.
- Set up an insurance program, funded by the financial industry, to guarantee companies' troubled

assets, including mortgage-backed securities purchased prior to March 14 this year;

- Curb executive pay for companies utilizing TARP.
- Set up two oversight committees, a Financial Stability Board and a congressional oversight panel, to which the Financial Stability Board would report.
- Create renewable energy tax breaks for individuals and businesses, including a deduction for the purchase of solar panels; as well as continuing other tax breaks that were set to expire; and extends relief from the Alternative Minimum Tax (AMT) by another year.
- Allows the SEC to suspend the required mark-to-market accounting standards and orders a study to be done on the rule's impact on financial institutions.
- Shields bank deposits by temporarily raising the FDIC insurance cap to $250,000 from $1000,000; and temporarily increases the federal insurance level for credit union savings to $250,000, both till the end of 2009.

Background:
The past year has been a tumultuous one for financial institutions. Wall Street has seen Bear Sterns bailed out, Fannie Mae and Freddie Mac placed under conservatorship, Merrill Lynch collapse, AIG bailed out, and numerous financial institutions sitting on the precipice of failure. The Treasury had been addressing these issues one at a time; however, it soon became clear that putting one fire out at a time was not going to work.

On September 17, the interest rate on U.S. Treasuries dropped to almost zero. This happened because investors were pulling their money from other investments and putting it into U.S. Treasuries, the safest investment possible. The fact that the return was almost zero was irrelevant to investors; it was the safety of the investment they were looking for. This brought the financial and credit market to a complete stop. Financial companies could no longer raise capital because no one was willing to invest in them.

The following day Paulson, Bernanke, and Congressional leaders from both parties held a joint press conference to announce they were going to work on a bipartisan rescue plan. The culprit was determined to be the poorly performing mortgage assets on the books of almost every financial institution.

NAR Position:
NAR supported the efforts of Congress to pass a rescue plan. They did a Call-for-Action to have members email their Congressman on the issue.

C.A.R. Position:
C.A.R. supported the recovery plan and followed NAR's Call-for-Action with a "me to." C.A.R. has supported efforts by Congress and the government to ensure there is an easy and stable flow of capital to the markets. Most recently C.A.R. lobbied Congress to ensure the role and mission of Fannie Mae and Freddie Mac were maintained following the Treasury placing them into conservatorship.

In 1989, in response to the S&L crisis, C.A.R. took the following position:

"That, with respect to efforts to resolve the thrift industry crisis. C.A.R. in conjunction with N.A.R., seek to maintain the separate identity of the savings and loan industry as a specialized housing lender. Specifically, C.A.R. policy should include the following provisions:

a. Support the transfer of S&L industry supervision and examination to the FDIC.

b. Seek to preserve chartering, as well as certain rulemaking and regulatory functions of the Federal Home Loan Bank System, within an independent federal entity.

c. Support efforts to increase the Qualified Thrift Lender (QTL) ratio from 60 percent to 70 percent.

d. Seek to extend the timetable for thrifts to meet new, higher capital standards from 1991 to 1993."

It is under these policies that C.A.R. has supported government efforts to maintain the flow of capital, and bolster the viability, integrity and role of financial institutions providing home financing. The goal of the rescue plan is in fact to get capital flowing again and bolster financial institutions by alleviating them of the albatrosses of their poorly performing mortgage backed assets.

California Congressional Delegation Votes:

Yeas: Total: 36; Dem: 26 (+7); Rep: 10 (no change)

Baca (s)
Berman
Bono
Calvert
Campbell
Capps
Cardoza
Costa
Davis
Dreier
Eshoo
Farr
Harman
Herger
Honda
Lee (s)
Lewis
Lofgren
Lungren
Matsui
McKeon
McNerney
Miller
Miller
Pelosi
Radanovish
Richardson
Schiff (s)
Solis(s)
Speier
Tauscher
Thompson (s)
Waters
Watson (s)
Waxman
Woolsey (s)

Nays: Total: 18; Dem: 8; Rep: 9

Becerra
Bilbray
Doolittle
Filner
Gallegly
Hunter
Issa
McCarthy
Napolitano
Nunes
Rohrabacher
Roybal-Allard
Royce
Sanchez
Sanchez
Sherman
Stark

(s) - **Members who switched their votes**