Program Brief

“FINANCIAL CRISIS AND GOVERNMENTAL RESPONSES”

A talk by
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Dr. Benton E. Gup has a broad background in finance. His undergraduate and graduate degrees are from the University of Cincinnati. After receiving his Ph.D. in economics, he served as a staff economist for the Federal Reserve Bank of Cleveland. He currently holds the Robert Hunt Cochrane/Alabama Bankers Chair of Banking at the University of Alabama, Tuscaloosa, Alabama, U.S.A. He also held banking chairs at the University of Virginia and the University of Tulsa. He is a member of the Academy of Financial Services, the American Financial Association and is also a past president of the Midwest Finance Association. He worked in bank research for the Office of the Comptroller of the Currency while on sabbatical in 1997.

Dr. Gup is the author or editor of the following books: *The Valuation Handbook: Valuation Techniques from Today's Top Practitioners* (forthcoming); *Handbook for Directors of Financial Institutions* (2008); *Corporate Governance in Banking: A Global Perspective* (2007); *Money Laundering, Financing Terrorism, and Suspicious Activities* (2006); *Capital Market, Globalization, and Economic Development* (2005); *Commercial Banking: The Management of Risk*, 3rd. ed., (with J. Kolari, 2004); *The New Basel Capital Accord* (2004); *Too Big To Fail: Policies and Practices in Government Bailouts* (2004); *Investing Online* (2003); *The Future of Banking* (2003); *Megamergers in a Global Economy: Causes and Consequences* (2002); *The New Financial Architecture: Banking Regulation in the 21st Century* (2000); *International Banking Crises: Large-Scale Failures, Massive Government Interventions* (1999); *Bank Failures in the Major Trading Countries of the World: Causes and Remedies* (1998); *The Bank Director's Handbook* (1996); *Targeting Fraud: Uncovering and Deterring Fraud in Financial Institutions*, rev. ed. (1994); *Interest Rate Risk Management* (with R. Brooks, 1993); *The Basics of Investing*, 5th ed. (1992); *Bank Fraud: Exposing the Hidden Threat to Financial Institutions* (1990); *Bank Mergers: Current Issues and Perspectives* (1989); *Commercial Bank Management* (with D. Fraser and J. Kolari, 1989); *Personal Investing: A Complete Handbook* (1986); *Cases in Bank Management* (1986); *How to Ask for a Business Loan* (1984); *Management of Financial Institutions* (1984); *Principles of Financial Management* (1983); *Guide to Strategic Planning* (1980); *Financial Intermediaries: An Introduction* (1976).

Dr. Gup's articles on financial subjects have appeared in *The Journal of Finance*, *The Journal of Financial and Quantitative Analysis*, *The Journal of Money, Credit, and Banking*, *Financial Management*, *The Journal of Banking and Finance*, *Financial Analysts Journal*, and elsewhere.

He is an internationally known lecturer in executive development and graduate programs in Australia (University of Melbourne, University of Technology, Sydney), New Zealand (University of Auckland), Peru (University of Lima), and South Africa (Graduate School of Business Leadership). He has been a visiting researcher at the Bank of Japan, and at Macquarie University, Sydney, Australia.

Finally, he serves as a consultant to government and industry. Dr. Gup's current research interests include banking issues and corporate valuation.

The University of Alabama: http://www.ua.edu/
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U.S. GOVERNMENT RESOURCES

REMARKS, STATEMENTS, TESTIMONIES AND BRIEFINGS

Update on the TARP Program

Interim Assistant Secretary for Financial Stability Neel Kashkari
December 8, 2008

Washington - ... Today, I will focus my remarks on a couple of very important issues -- compliance and oversight of the TARP and on measuring the results of this program. The American people provided Treasury with broad authorities to stabilize the financial system and it is essential we communicate our actions in an open and transparent manner to maintain their trust. I will describe the many steps we are taking to ensure compliance with both the letter and spirit of the law and what measurements we look at to gauge the success of our programs. A program as large and complex as the TARP would normally take many months or years to establish. But, we don't have the luxury of first building the operation, then designing our programs and then executing them. Given the severity of the financial crisis, we must build the Office of Financial Stability, design our programs, and execute them - all at the same time. We have made remarkable progress since the President signed the law only 66 days ago. ...

FULL TEXT: **http://www.treas.gov/press/releases/hp1321.htm**

President Bush Discusses Economy

The White House, December 5, 2008

... We are focusing on the root causes of the economic downturn in order to return our economy to health. The most urgent issue facing the economy is the problem in the credit markets. Businesses and consumers need access to credit at affordable rates to spend and invest. And so we're working to stabilize the markets and make credit more affordable and available. We're working with the Federal Reserve and FDIC, and credit is beginning to move. A market that was frozen is thawing. There's still more work to do. But there are some encouraging signs.

A root cause of the slowdown is housing, and so we continue to take actions that will avoid preventable foreclosures and speed a return to a healthy housing market. Interest rates help the housing market recover, and interest rates, mortgage rates, are going down. And plus there's a number of programs in place to help Americans stay in their homes, to limit the preventable foreclosures. ...

FULL TEXT: **http://www.whitehouse.gov/news/releases/2008/12/20081205-1.html**

Remarks on Financial Markets and TARP Update

Interim Assistant Secretary for Financial Stability Neel Kashkari

December 5, 2008

Washington - … We are in an unprecedented period and market events are moving rapidly and unpredictably. We at Treasury have responded quickly to adapt to events on the ground. Throughout the crisis, we have consistently acted with the following three critical objectives: one, to stabilize financial markets and reduce systemic risk; two, to support the housing market by avoiding preventable foreclosures and supporting mortgage finance; and three, to protect taxpayers. The authorities and flexibility granted to us by Congress have been essential to developing the programs to meet these objectives.

Today, I will focus my remarks on one of our vital programs, the Capital Purchase Program, which Treasury launched on October 14 to stabilize the financial system by increasing the capital in banks. I cannot think of an example where a program of this scale and complexity has been launched and executed as quickly and as effectively as the Capital Purchase Program – in either the public or private sectors. ...

FULL TEXT: http://www.treas.gov/press/releases/hp1314.htm

Housing, Mortgage Markets, and Foreclosures

Remarks by Chairman Ben S. Bernanke

Federal Reserve System Conference on Housing and Mortgage Markets, Washington, D.C., December 4, 2008

The U.S. financial system has been in turmoil during the past 16 months. Credit conditions have tightened and asset values have declined, contributing substantially, in turn, to the weakening of economic activity. As the participants in this conference are keenly aware, I am sure, housing and housing finance played a central role in precipitating the current crisis. As the crisis has persisted, however, the relationships between housing and other parts of the economy have become more complex. Declining house prices, delinquencies and foreclosures, and strains in mortgage markets are now symptoms as well as causes of our general financial and economic difficulties. These interlinkages imply that policies aimed at improving broad financial and economic conditions and policies focused specifically on housing may be mutually reinforcing. Indeed, the most effective approach very likely will involve a full range of coordinated measures aimed at different aspects of the problem. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081204a.htm

Testimony by Interim Assistant Secretary for Financial Stability Neel Kashkari

Before the Senate Appropriations Subcommittee on Financial Services and General Government, December 4, 2008

Washington, D.C. – I would like to provide an update on the Treasury Department's actions to work through the financial crisis and restore the flow of credit to the economy. We have taken multiple actions with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

We have acted quickly and creatively in coordination with the Federal Reserve, the FDIC, OTS, and the OCC to help stabilize the financial system and it is clear that our coordinated actions have made an impact. ...

FULL TEXT: http://www.treas.gov/press/releases/hp1312.htm

Secretary Paulson Remarks on the U.S. Economy and Financial System

Washington, D.C., December 1, 2008

… Today we continue to work through a severe financial crisis. While we are making progress, the journey ahead will continue to be a difficult one. But I have confidence that we are pursuing the right strategy to stabilize the financial system and support the flow of credit into our economy. The new authorities Congress provided in October dramatically expanded the tools available to the federal government to address the needs of our system. As I and my fellow regulators stated clearly at the time, we now have a set of tools - new authorities in addition to our existing ones- that we can deploy in creative combinations to maximize their impact on our system. And we have taken significant collaborative actions that demonstrate that strategy in action.

This consistent effort to strengthen our financial institutions so they can support our economy is critical to our progress through the current economic downturn. Strong financial institutions and a stable financial system will smooth the path to recovery and an eventual return to prosperity….

There is no single action the Federal Government can take to end the financial market turmoil and the economic downturn. In these extraordinary times, we must instead focus on developing the most effective combination of our tools to further stabilize our financial system and speed the process of recovery. …
FULL TEXT: http://www.ustreas.gov/press/releases/hp1301.htm

Federal Reserve Policies in the Financial Crisis

Remarks by Chairman Ben S. Bernanke
Greater Austin Chamber of Commerce, Austin, Texas, December 1, 2008

... The Federal Reserve's strategy for dealing with the financial crisis and its economic consequences has had three components. First, to offset to the extent possible the effects of the crisis on credit conditions and the broader economy, the Federal Open Market Committee (FOMC) has aggressively eased monetary policy. The easing campaign began in September 2007, shortly after the turbulence began, with a cut of 50 basis points in the target for the federal funds rate. The cumulative reductions in the target rate reached 100 basis points--that is, a full percentage point--by the end of 2007. As indications of economic weakness proliferated, the Committee continued to respond, reducing the target rate by an additional 225 basis points by the spring of this year. By way of historical comparison, this policy response stands out as exceptionally rapid and proactive. In taking these actions, we aimed not only to cushion the direct effects of the financial turbulence on the economy, but also to reduce the risk of a so-called adverse feedback loop in which economic weakness exacerbates financial stress, which, in turn, leads to further economic damage. Unfortunately, despite the support provided by monetary policy, the intensification of the financial turbulence this fall has led to a further deterioration in the economic outlook. The Committee again responded by cutting the target for the federal funds rate an additional 100 basis points in October. Half of that reduction came as part of an unprecedented coordinated interest rate cut by six major central banks on October 8. ...
FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081201a.htm

Remarks on International Financial Institution Reform

Assistant Secretary for International Affairs Clay Lowery
Reinventing Bretton Woods Committee Conference on Building an International Monetary and Financial System for the 21st Century, New York, New York, November 24, 2008

… Just over a week ago, leaders from 20 of the world's largest advanced and emerging market countries – representing more than 85 percent of global economic output – met in Washington, D.C., to address the current crisis and lay the foundation for reforms that could help prevent a similar crisis in the future. The work plan that came out of the Summit on Financial Markets and the World Economy reflects strong consensus on three critical priorities:

- First, meaningful regulatory reforms are needed to address the root causes of the crisis. There is a growing recognition across major economies that global financial markets require national financial regulation to be as consistent as possible and not work at cross-purposes.
- Second, reform of the International Financial Institutions is needed to allow for greater participation of developing nations in order for these institutions to remain relevant.
- Third, we must avoid protectionism, push forward on further trade and investment liberalization, and implement other pro-growth policies. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1288.htm

Joint Statement by Treasury, Federal Reserve and the FDIC on Citigroup

Washington, D.C., November 23, 2008

The U.S. government is committed to supporting financial market stability, which is a prerequisite to restoring vigorous economic growth. In support of this commitment, the U.S. government on Sunday entered into an agreement with Citigroup to provide a package of guarantees, liquidity access and capital.

As part of the agreement, Treasury and the Federal Deposit Insurance Corporation will provide protection against the possibility of unusually large losses on an asset pool of approximately $306 billion of loans and securities backed by residential and commercial real estate and other such assets, which will remain on Citigroup's balance sheet. As a fee for this arrangement, Citigroup will issue preferred shares to the Treasury and FDIC. In addition and if necessary, the Federal Reserve stands ready to backstop residual risk in the asset pool through a non-recourse loan. …
FULL TEXT: http://www.ustreas.gov/press/releases/hp1287.htm

President Bush Attends APEC CEO Summit 2008

Ministry of Defense Convention Center, Lima, Peru, November 22, 2008

... A week ago in Washington, you might have heard that I had the honor of hosting a summit in what will be the series of international summits to address the financial crisis. ...

At the summit, leaders from around the world sent a powerful message of unity and determination. We agreed on principles and actions to modernize the financial structures of the 21st century. There's a recognition that while our economies have changed, the financial structures that we are dealing with were primarily written in the 20th century. We believe in transparency and integrity in the markets that will make sure that firms and financial products are subject to proper regulation and oversight. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081122-7.html

Remarks by Secretary Henry M. Paulson, Jr.

The Ronald Reagan Presidential Library, Simi Valley, California, November 20, 2008

… We are working through a severe financial crisis caused by many factors, including government inaction and mistaken actions, outdated U.S. and global financial regulatory systems, and by the excessive risk-taking of financial institutions. This combination of factors led to a critical stage this fall when the entire U.S. financial system was at risk. This should never happen again. The United States must lead global financial reform efforts, and we must start by getting our own house in order.

The most significant discussion of financial system reform in the last 60 years has begun. This debate offers great opportunities - and great peril. The events of the last year have exposed excesses and flaws that are, to put it mildly, humbling. If we do not correctly diagnose the causes, and instead act in haste to implement more rather than better regulations, we can do long term harm. …

As I assess our current situation, I believe we have taken the necessary steps to prevent a financial collapse. And the authorities and capacity granted to us by Congress has been the key to this accomplishment. Looking forward, working with the Fed and the FDIC we now have the tools and the commitment to do what is necessary to maintain the stability of our financial system. Many challenges lie ahead and progress will not be in a straight line. The excesses in our system built up over years, and it will take time to work through them. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1285.htm

Testimony by Governor Randall S. Kroszner

Hearing "Review of Recent Federal Efforts to Improve Credit Conditions for Small Businesses"
Before the U.S. House of Representatives Committee on Small Business, November 20, 2008

… Small businesses are critical to the health of the U.S. economy. They generate more than half of nonfarm business gross domestic product, employ more than half of private-sector workers, and over the past decade have created well over half of net new jobs annually. Moreover, larger firms often begin as smaller firms that prosper and grow. If small businesses are to continue to provide major benefits to the economy, their access to credit is clearly a high priority. My statement today will address how the ongoing turmoil in the financial sector and the weakening macroeconomy appear to be affecting small businesses' access to credit, while recognizing that the impressive diversity across both industry and geography of the small business sector makes it very difficult to draw too many general conclusions. In addition, I will discuss the policy actions that the Federal Reserve, the Congress, the Treasury, and other government agencies have taken in recent weeks to address the overall functioning of financial markets and deteriorating economic conditions as well as how these policies should assist small businesses going forward. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/testimony/kroszner20081120a.htm

Testimony by Acting Assistant Secretary for Financial Markets Karthik Ramanathan

Hearing "Review of Recent Federal Efforts to Improve Credit Conditions for Small Businesses"
Before the U.S. House of Representatives Committee on Small Business, November 20, 2008

Washington, D.C. - Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for this opportunity to testify this morning on the recent financial market and economic conditions, Treasury's actions in implementing the Emergency Economic Stabilization Act (EESA), and how these actions will assist small businesses and entrepreneurs in leading the economic recovery in the United States.

Small businesses are crucial to the health of the U.S. economy – they provide the entrepreneurial talent that keeps the economy flexible and dynamic. Small businesses employ over half the workforce in the United States, and are estimated to generate seventy percent of all new jobs. Given the current economic challenges we are facing, I am pleased to be here to address this timely topic and to emphasize the importance of this sector for the growth of the American economy. …

As you know, the economy is currently working through a prolonged housing correction that began over two years ago, and has in turn impacted credit markets and financial institutions. The downturn in the housing market as well as financial and credit market pressures have negatively impacted the real economy. Small businesses and consumers have also felt these headwinds as employment, capital investment, and consumption have declined. ...
FULL TEXT: http://www.ustreas.gov/press/releases/hp1282.htm

Testimony by Treasury Secretary Henry M. Paulson, Jr.

Hearing "Oversight of Implementation of the Emergency Economic Stabilization Act of 2008 and of Government Lending and Insurance Facilities; Impact on Economy and Credit Availability"
Before the U.S. House of Representatives Committee on Financial Services, November 18, 2008

Washington, D.C. - Good morning and thank you for the opportunity to testify this morning on implementation of the Emergency Economic Stabilization Act. I am grateful and everyone in this country should be grateful, for the efforts of Chairman Frank, ranking member Bachus, this committee and other members of Congress toward adoption of the financial rescue legislation, which created critically important authorities and financial capacity to stabilize our financial system. Before Congress provided these tools, we were facing a financial crisis without the authorities and resources necessary to meet the challenge. At the risk of oversimplification, the financial rescue package is about restoring confidence – restoring the confidence of depositors and investors in our financial institutions, and restoring the confidence that our financial institutions need so that they will get back to normal lending practices.

This law has already allowed us to take decisive action to prevent the collapse of our financial system. But more needs to be done, and it is my responsibility to use the authorities Congress provided to protect and strengthen the financial system, and in so doing, protect the taxpayer. …
FULL TEXT: http://www.ustreas.gov/press/releases/hp1279.htm

Testimony by Chairman Ben S. Bernanke

Hearing "Oversight of Implementation of the Emergency Economic Stabilization Act of 2008 and of Government Lending and Insurance Facilities; Impact on Economy and Credit Availability"
Before the U.S. House of Representatives Committee on Financial Services, November 18, 2008

… I appreciate having this opportunity to review some of the activities to date of the Treasury's Troubled Asset Relief Program, or TARP, and to discuss recent steps taken by the Federal Reserve and other agencies to support the normalization of credit markets. ...

The value of the TARP in promoting financial stability has already been demonstrated. The financial crisis intensified greatly in the latter part of September and spread to many countries that had not yet been touched by it, which led to grave concerns about the stability of the global financial system. Failure to prevent an international financial collapse would almost certainly have had dire implications for both the U.S. and world economies. Fortunately, the existence of the TARP allowed the Treasury to react quickly by announcing a plan to inject $250 billion in capital into U.S. financial institutions. ...
FULL TEXT: http://www.federalreserve.gov/newsevents/testimony/bernanke20081118a.htm

Fighting the Financial Crisis, One Challenge at a Time

By Secretary Henry M. Paulson, Jr., *The New York Times*, November 17, 2008

We are going through a financial crisis more severe and unpredictable than any in our lifetimes. We have seen the failures, or the equivalent of failures, of Bear Stearns, IndyMac, Lehman Brothers, Washington Mutual, Wachovia, Fannie Mae, Freddie Mac and the American International Group. Each of these failures would be tremendously consequential in its own right. But we faced them in succession, as our financial system seized up and severely damaged the economy.

By September, the government faced a systemwide crisis. After months of making the most of the authority we already had, we asked Congress for a comprehensive rescue package so we could stabilize our financial system and minimize further damage to our economy.

By the time the legislation had passed on Oct. 3, the global market crisis was so broad and so severe that we needed to move quickly and take powerful steps to stabilize our financial system and to get credit flowing again. ...
FULL TEXT: http://www.ustreas.gov/press/releases/hp1280.htm

President Bush Hosts Summit on Financial Markets and the World Economy

National Building Museum, Washington, D.C., November 15, 2008

... So my administration has taken significant measures to deal with a credit crisis. And then we worked with Congress to deal with the credit crisis, as well.

We're beginning to see some positive results. One of the things people around the table were interested in is, are you beginning to see the results of your actions? And our credit markets are beginning to thaw, having been severely frozen; businesses are beginning to get access to short-term credit. It's going to take more time for the measures we have put in place to take hold. No question about that. As a matter of fact, we just started, for example, on the $700 billion fund to start getting money out to our banks. So it's going to take more time. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081115-5.html

Testimony of Interim Assistant Secretary for Financial Stability Neel Kashkari

Hearing "Is Treasury Using Bailout Funds to Increase Foreclosure Prevention, as Congress Intended?"
Before the U.S. House of Representatives Committee on Oversight and Government Reform, Subcommittee on Domestic Policy, November 14, 2008

Washington, D.C. - … I would like to provide an update on the Treasury Department's actions to stabilize our financial markets and restore the flow of credit to the economy. We have taken action with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers.

We have acted quickly and in coordination with the Federal Reserve, the FDIC, OCC and colleagues around the world to help stabilize the global financial system and it is clear that our coordinated actions have made an impact. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1273.htm

President's Radio Address

November 14, 2008

... I know many of you listening are worried about the challenges facing our economy. Stock market declines have eroded the value of retirement accounts and pension funds. The tightening of credit has made it harder for families to borrow money for cars, homes, and education. Businesses have found it harder to get loans to expand their operations and create jobs. Many nations have suffered job losses and have serious concerns about the worsening economy. Nations around the world have responded to this situation with bold measures, and our actions are having an impact. Credit markets are beginning to thaw and businesses are gaining access to essential short-term financing. It will require more time for these improvements to fully take hold and there will be more difficult days ahead, but the United States and our partners are taking the right steps to get through the crisis. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081114-1.html

Policy Coordination Among Central Banks

Remarks by Chairman Ben S. Bernanke
Fifth European Central Bank Central Banking Conference, The Euro at Ten: Lessons and Challenges, Frankfurt, Germany, November 14, 2008

... The current financial crisis and global economic slowdown likewise have been an occasion for unprecedented international policy coordination, within Europe but also globally. For example, in its regulatory capacity, the Federal Reserve has worked closely with regulators and supervisors from a number of European nations, and we are active participants in the international Financial Stability Forum and the standard-setting bodies operating under the aegis of the Bank for International Settlements. My focus today, however, will be cooperation in monetary policy and, especially, in the meeting of the liquidity needs of our increasingly globalized financial markets.

As you know, financial markets remain under severe strain. The proximate cause of the financial turmoil was the end of the U.S. housing boom and the attendant losses on mortgages and mortgage-related assets by many institutions. However, more fundamentally, the turmoil was the product of a global credit boom, characterized by a broad underpricing of risk, excessive leverage by financial institutions, and an increasing reliance on complex and opaque financial instruments that have proven to be fragile under stress. The unwinding of this boom (and the associated financial losses) has led to the withdrawal of many investors from credit markets and deleveraging by financial institutions, both of which have acted to constrict available credit to households and businesses. This credit squeeze is, in turn, a principal cause of the economic slowdown now taking place in many countries.

Central bankers have been working closely together throughout this period of financial turmoil. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081214a.htm

President Bush Discusses Financial Markets and World Economy

Federal Hall National Memorial, New York, New York, November 13, 2008

... We are faced with the prospect of a global meltdown. And so we've responded with bold measures. I'm a market-oriented guy, but not when I'm faced with the prospect of a global meltdown. ...

Here in the United States, we have taken unprecedented steps to boost liquidity, recapitalize financial institutions, guarantee most new debt issued by insured banks, and prevent the disorderly collapse of large, interconnected enterprises. These were historic actions taken necessary to make - necessary so that the economy would not melt down and affect millions of our fellow citizens.

In Europe, governments are also purchasing equity in banks and providing government guarantees for loans. In Asia, nations like China and Japan and South Korea have lowered interest rates and have launched significant economic stimulus plans. In the Middle East, nations like Kuwait and the UAE have guaranteed deposits and opened up new government lending to banks.

In addition, nations around the world have taken unprecedented joint measures. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081113-4.html

Remarks by Secretary Henry M. Paulson, Jr. on Financial Rescue Package and Economic Update

Washington, D.C., November 12, 2008

… The actions taken by Treasury, the Federal Reserve and the FDIC in October have clearly helped stabilize our financial system. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. U.S. and European financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

We also acted quickly and in coordination with colleagues around the world to stabilize the global financial system. Going into the Annual IMF/World Bank meetings in early October, I made clear that we would use the financial rescue package granted by Congress to purchase equity directly from financial institutions – the fastest and most productive means of using our new authorities to stabilize our financial system. We launched our capital purchase program the following week when we announced that nine of the largest U.S. financial institutions, holding approximately 55 percent of U.S. banking assets would sell $125 billion in preferred stock to the Treasury. …

As I assess where we are today, I believe we have taken the necessary steps to prevent a broad systemic event. Both at home and around the world we have already seen signs of improvement. Our system is stronger and more stable than just a few weeks ago. Although this is a major accomplishment, we have many challenges ahead of us. Our financial system remains fragile in the face of an economic downturn here and abroad, and financial institutions' balance sheets still hold significant illiquid assets. Market turmoil will not abate until the biggest part of the housing correction is behind us. Our primary focus must be recovery and repair. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1265.htm

Our Economy, a Global Challenge

Remarks by Treasury Under Secretary For International Affairs David H. McCormick
to the Barclays Asia Forum, November 12, 2008

Washington, D.C. – … Since August last year, when the cracks in the global financial system began to appear, U.S. policymakers have responded in three phases. In the first phase, recognizing the risk of the housing downturn, the U.S. government took a number of immediate steps, including implementing a $150 billion stimulus package and launching a number of other initiatives to help mitigate the impact on the real economy and help preserve home ownership.

In the second phase – as instability in the financial services sector grew – we acted on a case-by-case basis, as, for example, when the Federal Reserve facilitated the sale of Bear Stearns. These moves were intended to address the systemic risk to the financial system that would have resulted from a sudden collapse of these firms. Fannie Mae and Freddie Mac were placed in conservatorship, or government control, so the regulator could put in place business changes to restore the capital of the enterprises and Treasury could provide a firm commitment to protect agency debt holders. In each of these cases, policymakers attempted to strike a careful balance between promoting market discipline and mitigating systemic risk, holding investors and management teams accountable and protecting consumers from collateral damage.

Despite the hardening of the government's support for Fannie Mae and Freddie Mac and the decisive resolutions of destabilizing situations ranging from American International Group (AIG) to Wachovia, investors became increasingly concerned over the possibility of other failing financial institutions. This resulted in a freezing of credit markets and an unwillingness of investors around the world to assume counterparty risk. Given this fragile environment, U.S. authorities moved to a third phase of action, taking decisive and comprehensive steps to stabilize the markets and address the underlying sources of uncertainty. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1276.htm

The Future of Mortgage Finance in the United States

Remarks by Chairman Ben S. Bernanke

UC Berkeley/UCLA Symposium: The Mortgage Meltdown, the Economy, and Public Policy, Berkeley, California, October 31, 2008

... The financial crisis has upset the linkage between mortgage borrowers and capital markets and has revealed a number of important problems in our system of mortgage finance, including weaknesses in the structure and oversight of the GSEs and perhaps in the originate-to-distribute model of credit provision itself. Private-label securitization has largely stopped, and Fannie and Freddie were placed into conservatorship by their regulator after they were judged to be operating in an unsafe and unsound manner. Our task now is to begin thinking about how to best reestablish a link between homebuyers and capital markets in a way that addresses the weaknesses of the old system. In light of the central role that the GSEs played, and still play, any such analysis must pay particular attention to how those institutions should evolve. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081031a.htm

The Stabilizing Force of Open Investment in the Global Economy

Remarks by Deputy Secretary Robert M. Kimmitt

Dubai International Financial Centre, October 28, 2008

… As we meet today, countries around the world are encountering unprecedented economic challenges. Financial market conditions are severely strained, and risks to the global economic environment are the most serious and challenging in memory. In recent weeks, it has become evident that the turmoil is not isolated to the United States and Europe, but has ramifications for all countries, including in the Gulf.

Our capital markets are more integrated than ever before, allowing opportunities, but also financial difficulties, to spread rapidly across borders.

It is critical to learn the correct lessons from the current turmoil, starting with the fact that our economies are stronger acting together than in isolation. Collectively, we need to rebuild confidence in our markets so that capital can flow again to help spur global growth. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1241.htm

President's Radio Address

The White House, October 25, 2008

… The Federal government has taken bold action to stabilize our economy. Earlier this month, my Administration worked with Congress to pass bipartisan legislation that is providing funds to help banks rebuild capital and resume lending. The Federal Deposit Insurance Corporation has temporarily guaranteed most new debt issued by insured banks, which will make it easier for these banks to borrow needed money. And the Federal Reserve is launching a new program to provide support for commercial paper - a key source of short-term financing for America's businesses and financial institutions. These steps are beginning to show results, but it will take time for their full impact to be felt.

In coordination with the United States, many other nations have taken similar steps to address turbulence in their domestic markets. This crisis is global in reach - and addressing it will require further international cooperation. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081025.html

Update on the Global Financial Situation

Foreign Press Center Briefing with Tony Fratto, White House Deputy Press Secretary

Washington, D.C., October 22, 2008

... MR. FRATTO: … we announced today the President sent out invites to the leaders from countries that are part of the G-20 finance ministers' process. Of course, the G-20 does not have a heads of state component to it, but we thought that was the most appropriate grouping for countries for this summit and remind you that the G-20 was created in the aftermath of the financial crises of the late 1990s. This will be the first in a series of summits that bring together leaders from countries that participate in this process.

As the President explained in his comments over the weekend, it's important that this first summit discuss the underlying causes of the financial crisis, that we review the progress that has been made by all of our countries in trying to respond to the current financial crisis, that we begin to develop the principles for reform needed to ensure that we don't see a repetition of the crisis, and then that the leaders are able to charge working groups and experts groups to go out and to develop policies that fit under – within the umbrella of principles that the leaders will discuss. ...

FULL TEXT: http://fpc.state.gov/111149.htm

Financial Turmoil and the Global Economy

Remarks by Under Secretary for International Affairs David H. McCormick

Better Hong Kong Foundation, October 22, 2008

Hong Kong – These are unprecedented and difficult times for the global economy. The world's financial market conditions are severely strained, and risks to the global growth are significant. The largest advanced economies are feeling this most acutely. In the United States, our financial markets are experiencing unprecedented challenges, and this is adding even greater pressure to our already slowing economy. …

Over the past two weeks, we have witnessed an unprecedented international response to this financial turmoil. The Group of Seven industrialized countries have announced and are implementing a coordinated action plan to stabilize financial markets and restore the flow of credit. Others around the world, from Hong Kong to Denmark, have adopted similar approaches. Together these countries are taking steps to provide liquidity to markets, strengthen financial institutions, prevent failures that pose systemic risk, protect depositors, and enhance confidence in financial institutions. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1230.htm

Statement of the United States, France and the Presidency of the European Commission

The White House, October 18, 2008

The three leaders had a very positive discussion about the continued coordination of steps needed to solve the crisis in today's global economy. They agreed they would reach out to other world leaders next week with the idea of beginning a series of summits on addressing the challenges facing the global economy.

World leaders will be consulted about the idea of a first summit of heads of government to be held in the U.S. soon after the U.S. elections, in order to review progress being made to address the current crisis and to seek agreement on principles of reform needed to avoid a repetition and assure global prosperity in the future. Later summits would be designed to implement agreement on specific steps to be taken to meet those principles.

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081018-2.html

Stabilizing the Financial Markets and the Economy

Remarks by Chairman Ben S. Bernanke

Economic Club of New York, New York, New York, October 15, 2008

… The crisis we face in the financial markets has many novel aspects, largely arising from the complexity and sophistication of today's financial institutions and instruments and the remarkable degree of global financial integration that allows financial shocks to be transmitted around the world at the speed of light. However, as a long-time student of banking and financial crises, I can attest that the current situation also has much in common with past experiences. As in all past crises, at the root of the problem is a loss of confidence by investors and the public in the strength of key financial institutions and markets. The crisis will end when comprehensive responses by political and financial leaders restore that trust, bringing investors back into the market and allowing the normal business of extending credit to households and firms to resume. … Fortunately, the Congress and the Administration have acted at a time when the great majority of financial institutions, though stressed by highly volatile and difficult market conditions, remain strong and capable of fulfilling their critical function of providing new credit for our economy. This prompt and decisive action by our political leaders will allow us to restore more normal market functioning much more quickly and at lower ultimate cost than would otherwise have been the case. Moreover, we are seeing not just a national response but a global response to the crisis, commensurate with its global nature. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081015a.htm

Statement by Secretary Henry M. Paulson, Jr. on Actions to Protect the U.S. Economy

U.S. Department of the Treasury, October 14, 2008

Washington, D.C. - Treasury today issued the following statement by Secretary Henry M. Paulson, Jr. on actions to protect the economy and restore confidence and stability to our financial markets:

America is a strong nation. We are a confident and optimistic people. Our confidence is born out of our long history of meeting every challenge we face. Time and time again our nation has faced adversity and time and time again we have overcome it and risen to new heights. This time will be no different. …

President Bush has directed me to consider all necessary steps to restore confidence and stability to our financial markets and get credit flowing again. Ten days ago Congress gave important new tools to the Treasury, the Federal Reserve and the FDIC to meet the challenges posed to our economy. My colleagues and I are working creatively and collaboratively to deploy these tools and direct our powers at this disruption to our economy. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1205.htm

President Bush Discusses Economy

The White House, October 14, 2008

… I just completed a meeting with my working group on financial markets. We discussed the unprecedented and aggressive steps the federal government is taking to address the financial crisis. Over the past few weeks, my administration has worked with both parties in Congress to pass a financial rescue plan. Federal agencies have moved decisively to shore up struggling institutions and stabilize our markets. And the United States has worked with partners around the world to coordinate our actions to get our economies back on track.

This weekend, I met with finance ministers from the G7 and the G20 - organizations representing some of the world's largest and fastest-growing economies. We agreed on a coordinated plan for action to provide new liquidity, strengthen financial institutions, protect our citizens' savings, and ensure fairness and integrity in the markets. Yesterday, leaders in Europe moved forward with this plan. They announced significant steps to inject capital into their financial systems by purchasing equity in major banks. And they announced a new effort to jumpstart lending by providing temporary government guarantees for bank loans. These are wise and timely actions, and they have the full support of the United States.

Today, I am announcing new measures America is taking to implement the G7 action plan and strengthen banks across our country. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081014.html

Remarks by Chairman Ben S. Bernanke

At the President's Working Group Market Stability Initiative Announcement, October 14, 2008

… As Americans well know, the challenges evident in the financial markets and in the economy are large and complex, but I believe that the steps taken today will help us to overcome them. Our strategy will continue to evolve and be refined as we adapt to new developments and the inevitable setbacks. But we will not stand down until we have achieved our goals of repairing and reforming our financial system and thereby restoring prosperity to our economy.

Over the past year, the Federal Reserve has actively used all its powers and authorities to try to help our economy through this difficult time. And central banks around the world have consulted closely and cooperated in unprecedented ways to reduce strains in financial markets and to bolster our economies. We will continue to do so. However, clearly the time had come for a more comprehensive and broad-based solution. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081014a.htm

President Bush Meets with G7 Finance Ministers to Discuss World Economy

The White House, October 11, 2008

…Secretary Paulson, Secretary Rice and I just had a productive discussion with finance ministers of America's partners in the G7 - Canada, France, Germany, Great Britain, Italy, and Japan. I'm pleased to be with Prime Minister Junker of Luxembourg, who is the President of the Eurogroup of countries, Managing Director Strauss-Kahn of the International Monetary Fund, President Zoellick of the World Bank, Chairman Draghi of the Financial Stability Forum. Thank you all for coming. …

The United States has a special role to play in leading the response to this crisis. That is why I convened this morning's meeting here at the White House, and that is why our government will continue using all the tools at our disposal to resolve this crisis. At our meeting, Secretary Paulson and I described the bold actions the United States has taken over the past few weeks:

To help thaw frozen markets, the Federal Reserve has taken unprecedented measures to boost liquidity. The Securities and Exchange Commission has cracked down on abusive practices in the markets. Federal agencies have significantly expanded the amount of money insured in bank and credit union accounts. My administration worked with the Congress to pass legislation authorizing the government to recapitalize banks by purchasing troubled assets or providing insurance or purchasing equity in financial institutions. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081011-2.html

Statement by Secretary Henry M. Paulson, Jr. on Financial Markets Update

October 8, 2008

Washington, D.C. - … Last Friday Congress finalized and President Bush signed into law the bipartisan Emergency Economic Stabilization Act. The EESA provides the Treasury, the Federal Reserve and the FDIC with important new authorities to complement existing ones. We will continue to coordinate with other federal regulators to use these tools to implement our strategy to address the four key challenges in our financial markets today - confidence, capital, systemic risk and liquidity. Although we are facing particularly difficult circumstances, I remain confident that we will work through this challenge, as we have always successfully worked through every economic challenge in the history of

the United States. We are a strong and wealthy nation, with the resources to address the needs we face. I am confident that, with the right public policy response, time and effort, we will conquer these challenges as well.
U.S. and global financial markets continue to be severely strained. A chain of events caused by the ongoing housing correction has reverberated through U.S. banks and financial institutions, and has seriously impacted the underlying economy, reaching American households and businesses. A root cause of this situation is the housing correction and a lack of confidence in mortgage assets, as well as a lack of confidence in many of the financial institutions that hold these assets. Because of this widespread uncertainty, investors are hesitant to commit capital to financial institutions. Investor confidence is critical to restore liquidity and enhance the stability of our financial system.
This financial market turmoil is now directly affecting more families and businesses. …
FULL TEXT: http://www.treas.gov/press/releases/hp1189.htm

President Bush Discusses Emergency Economic Stabilization Act of 2008
Guernsey Office Products, Inc., Chantilly, Virginia, October 7, 2008

… We also know that we're the most dynamic economy in the world, that we have been through tough times before, and that we're going to come through this time again. Our entrepreneurial system has delivered unparalleled levels of productivity and growth and prosperity. During my presidency, we have faced tough times after the terrorist attack of 9/11 and we came through strongly. And we're going to come through this. No question the times are tough, but no question America will emerge. And yet, we got some work to do, and that's what I want to share with you.
The immediate challenge facing the economy is a lack of credit. The problem became clear when the housing market declined, and complex financial assets related to home mortgages dropped in value. People put together securities based upon mortgages, and when the mortgage's value went down, so did those securities. And this led banks that owned the securities to suffer losses. And then they found themselves short on capital. Some banks have failed. And other banks, in reaction, have restricted lending to businesses and to each other. And that's the definition of a credit crunch: people just are not lending. …
FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081007-4.html

Statement by the President's Working Group on Financial Markets
U.S. Department of the Treasury, October 6, 2008

Washington, D.C. - The President's Working Group on Financial Markets issued the following statement today:
Conditions in U.S. and global financial markets remain extremely strained. The President's Working Group on Financial Markets (PWG) is working with market participants and regulators globally to address the current challenges and restore confidence and stability to financial markets around the world.
With the passage of the Emergency Economic Stabilization Act of 2008 (EESA), Congress has granted important new authorities to the Treasury, Federal Reserve, and the FDIC. These new authorities will be employed in conjunction with existing authorities to restore market confidence by strengthening the balance sheets of financial intermediaries and improving overall market functioning. ...
FULL TEXT: http://www.ustreas.gov/press/releases/hp1177.htm

President Bush Discusses Emergency Economic Stabilization Act of 2008
The White House, October 3, 2008

A short time ago, the House of Representatives passed a bill that is essential to helping America's economy weather the financial crisis. The Senate passed the same legislation on Wednesday night. And when Congress sends me the final bill, I'm going to sign it into law.
There were moments this week when some thought the federal government could not rise to the challenge. But thanks to the hard work of members of both parties in both Houses - and a spirit of cooperation between Capitol Hill and my administration - we completed this bill in a timely manner. …
By coming together on this legislation, we have acted boldly to help prevent the crisis on Wall Street from becoming a crisis in communities across our country. We have shown the world that the United States of America will stabilize our financial markets and maintain a leading role in the global economy. ...
FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081003-11.html

Paulson Statement on Emergency Economic Stabilization Act
U.S. Department of the Treasury, October 3, 2008

Washington, D.C. - By acting this week, Congress has proven that our Nation's leaders are capable of coming together at a time of crisis, even at a critical stage of the political calendar, to do what is necessary to stabilize our financial system and protect the economic security of all Americans.

The American people will appreciate the leadership of their elected representatives and senators who took bold action to help stem a severe credit crunch that threatens to cost many jobs and undermine access to credit for working Americans.

This bill contains a broad set of tools that can be deployed to strengthen financial institutions, large and small, that serve businesses and families. Our financial institutions are varied – from large banks headquartered in New York, to regional banks that serve multi-state areas, to community banks and credit unions that are vital to the lives of our citizens and their towns and communities. Each institution has its own unique benefits, and their collective strength makes our financial system more resilient, and more innovative. The challenges our institutions face are just as varied – from holding illiquid mortgage backed securities, to illiquid whole loans, to raising needed capital, to simply facing a crisis of confidence. This diversity of institutions and challenges requires that we deploy the tools in this rescue package, in combination with the tools the Fed, the Treasury, the FDIC and other bank regulators already have, in a variety of ways that addresses each of these needs and restores the ability of our financial system to fuel our broader economy. …

FULL TEXT: http://www.treas.gov/press/releases/hp1175.htm

U.S. Response to Global Financial Turmoil

Foreign Press Center Briefing with David H. McCormick, Under Secretary for International Affairs, U.S. Department of Treasury

Washington, D.C., September 30, 2008

... UNDER SECRETARY MCCORMICK: … It's obviously a very challenging time for the financial markets. And the challenges in the financial markets have real implications for everyday Americans in terms of the availability of credit, in terms of jobs, in terms of small businesses being able to be successful.

And the challenges we see are not just here in the markets - in the United States. We also see challenges around the globe. This week in Europe, a number of financial institutions are struggling. So it's within that context that we were disappointed that the House yesterday didn't pass the legislation that had been negotiated between the leadership of both parties and in both the Senate and the House of Representatives. We thought that was a strong package that would have given the Secretary of Treasury and all the regulators the authority that they needed to address the underlying causes and underlying challenges in our markets.

We - we're hopeful that congressional leaders, many of whom have already spoken out publicly since yesterday's vote, will come together. We know many of them are committed to addressing those challenges and recognize the gravity of the situation and we're very committed - I know Secretary Paulson is very committed, I know the President is very committed - to working with Congress to find a package and path ahead that addresses these underlying concerns and also has broader congressional support. ...

FULL TEXT: http://fpc.state.gov/110482.htm

Statement by G-7 Finance Ministers and Central Bank Governors on Global Financial Market Turmoil

U.S. Department of the Treasury, September 22, 2008

Washington, D.C. - The Group of Seven Finance Ministers and Central Bank Governors released the following statement today:

The G-7 held a conference call today to discuss global financial markets. We reaffirm our strong and shared commitment to protect the integrity of the international financial system and facilitate liquid, smooth functioning markets, which are essential for supporting the health of the world economy.

We strongly welcome the extraordinary actions taken by the United States to enhance the stability of financial markets and address credit concerns, especially through its plan to implement a program to remove illiquid assets that are destabilizing financial institutions. We also strongly welcome the measures taken by other G-7 countries. Major central banks have been coordinating to address liquidity pressures in funding markets, which has been critical in addressing disruptions in global financial markets. Several regulators have taken decisive actions to combat market manipulation and stabilize financial markets, including a temporary ban on short selling of financial stocks.

We recognize the importance of making regulation more effective and bringing investors back into a liquid and stable marketplace....

FULL TEXT: http://www.treas.gov/press/releases/hp1152.htm

FACT SHEETS, PRESS RELEASES AND DOCUMENTS

Treasury Distributes 1.546 Million Additional Stimulus Checks in November

Press Release, U.S. Department of the Treasury, December 5, 2008

Washington, D.C. – The Treasury Department announced today that it distributed 1.546 million additional stimulus payments in November, totaling $1.092 billion. As of the end of November, a total of 118.919 million payments have been distributed totaling $96.130 billion since disbursements started April 28. ...

FULL TEXT: http://www.treas.gov/press/releases/hp1319.htm

Fact Sheet: Asia-Pacific Economic Cooperation Leaders Meeting

The White House, November 23, 2008

At the 16th Annual Asia-Pacific Economic Cooperation (APEC) Leaders Meeting in Lima, Peru, President Bush and Fellow APEC Leaders Reaffirmed Their Commitment to Enhancing Economic Growth, Prosperity, Security, and the Quality of Life for all Citizens in the Asia-Pacific Community.

President Bush and other APEC Leaders Discussed The Current Global Financial Turmoil and its Impact on the Asia-Pacific Region:

- The Leaders pledged to take coordinated action to restore stability to financial markets and economic growth.
- They endorsed the principles and the specific actions to implement those principles identified in the declaration issued at the Summit on Financial Markets and the World Economy. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081123-1.html

Declaration of the Summit on Financial Markets and the World Economy

The White House, November 15, 2008

1. We, the Leaders of the Group of Twenty, held an initial meeting in Washington on November 15, 2008, amid serious challenges to the world economy and financial markets. We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world's financial systems.
2. Over the past months our countries have taken urgent and exceptional measures to support the global economy and stabilize financial markets. These efforts must continue. At the same time, we must lay the foundation for reform to help to ensure that a global crisis, such as this one, does not happen again. Our work will be guided by a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment, and poverty reduction. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081115-1.html

Fact Sheet: Summit on Financial Markets and the World Economy

The White House, November 15, 2008

Today, President Bush and world leaders gathered for the first in a series of meetings to discuss efforts to strengthen economic growth, deal with the financial crisis, and to lay the foundation for reform to help to ensure that a similar crisis does not happen again. Since the outbreak of this crisis, the world's leading nations have coordinated actions more closely than ever before. …No single nation will be able to fix this crisis, but with continued cooperation and determination, it will be solved as long as we are steadfast in our commitment to reforming our financial sectors and maintaining free and open markets.

- Today's Summit achieved five key objectives. The leaders:
    - Reached a common understanding of the root causes of the global crisis;
    - Reviewed actions countries have taken and will take to address the immediate crisis and strengthen growth;
    - Agreed on common principles for reforming our financial markets;
    - Launched an action plan to implement those principles and asked ministers to develop further specific recommendations that will be reviewed by leaders at a subsequent summit; and
    - Reaffirmed their commitment to free market principles. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/11/20081115-4.html

Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act

Press Release, U.S. Department of the Treasury, November 10, 2008

The Treasury Department today announced that it will purchase $40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down $40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1261.htm

AIG TERM SHEET: http://www.ustreas.gov/press/releases/reports/111008aigtermsheet.pdf (pdf)

Fact Sheet: Plan to Stabilize Financial System Is Limited In Size, Scope, and Duration

The White House, October 17, 2008

The Federal Government Is Acting Swiftly to Preserve Our System of Free Market Capitalism and Return Our Nation to a Path of Prosperity, Job Creation, and Long-Term Economic Growth

Today, President Bush visited the United States Chamber of Commerce and discussed the actions that the Federal Government has taken in response to the financial crisis. The President explained that the government took swift action to protect the financial security of the American people. One important element, the equity purchase program, is designed with strong protections to ensure the government's involvement is limited in size, limited in scope, and limited in duration:

- The government's involvement is limited in size. The government's investment is capped for any individual firm that chooses to participate in this voluntary program, so that private investors retain control.
- The government's involvement is limited in scope. The government will not exercise control over any private firm. The shares owned by the government will have voting rights that can be used only to protect the taxpayer's investment – not to direct the firm's operations.
- The government's involvement is limited in duration. This program includes provisions to encourage banks to buy back their shares from the government when the markets stabilize and they can raise money from private investors….

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081017-3.html

U.S. Government Actions to Strengthen Market Stability

Press Release, U.S. Department of the Treasury, October 14, 2008

Washington, D.C. - Today we are taking decisive actions to protect the U.S. economy, to strengthen public confidence in our financial institutions, and to foster the robust functioning of our credit markets. These steps will ensure that the U.S. financial system performs its vital role of providing credit to households and businesses and protecting savings and investments in a manner that promotes strong economic growth in the U.S. and around the world. These actions are consistent with the strategy announced by the President's Working Group on October 6 and the action plan announced by the G7 Finance Ministers on October 10.

Purchasing Capital in Financial Institutions

... Under the authority of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury will make available $250 billion of capital to U.S. financial institutions. This facility will allow banking organizations to apply for a preferred stock investment by the U.S. Treasury. Nine large financial organizations have already indicated their intention to subscribe to the facility in an aggregate amount of $125 billion. ...

FULL TEXT: http://www.treas.gov/press/releases/hp1209.htm

Federal Reserve and Other Central Banks Announce Further Measures to Provide Broad Access to Liquidity and Funding to Financial Institutions

Press Release, Board of Governors of the Federal Reserve System, October 13, 2008

In order to provide broad access to liquidity and funding to financial institutions, the Bank of England (BoE), the European Central Bank (ECB), the Federal Reserve, the Bank of Japan, and the Swiss National Bank (SNB) are jointly announcing further measures to improve liquidity in short-term U.S. dollar funding markets.

The BoE, ECB, and SNB will conduct tenders of U.S. dollar funding at 7-day, 28-day, and 84-day maturities at fixed interest rates for full allotment. Funds will be provided at a fixed interest rate, set in advance of each operation. Counterparties in these operations will be able to borrow any amount they wish against the appropriate collateral in each jurisdiction. Accordingly, sizes of the reciprocal currency arrangements (swap lines) between the Federal Reserve and the BoE, the ECB, and the SNB will be increased to accommodate whatever quantity of U.S. dollar funding is demanded. The Bank of Japan will be considering the introduction of similar measures.

Central banks will continue to work together and are prepared to take whatever measures are necessary to provide sufficient liquidity in short-term funding markets. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/press/monetary/20081013a.htm

G-7 Finance Ministers and Central Bank Governors Plan of Action

Press Release, U.S. Department of the Treasury, October 10, 2008

Washington, D.C. - The G-7 agrees today that the current situation calls for urgent and exceptional action. We commit to continue working together to stabilize financial markets and restore the flow of credit, to support global economic growth. We agree to:

1. Take decisive action and use all available tools to support systemically important financial institutions and prevent their failure.
2. Take all necessary steps to unfreeze credit and money markets and ensure that banks and other financial institutions have broad access to liquidity and funding.
3. Ensure that our banks and other major financial intermediaries, as needed, can raise capital from public as well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses.
4. Ensure that our respective national deposit insurance and guarantee programs are robust and consistent so that our retail depositors will continue to have confidence in the safety of their deposits.
5. Take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets. Accurate valuation and transparent disclosure of assets and consistent implementation of high quality accounting standards are necessary.

The actions should be taken in ways that protect taxpayers and avoid potentially damaging effects on other countries.

…

FULL TEXT: http://www.ustreas.gov/press/releases/hp1195.htm

Summary of the "Emergency Economic Stabilization Act of 2008"

United States Senate Committee on Banking, Housing, and Urban Affairs

October 2008

I. Stabilizing the Economy

The Emergency Economic Stabilization Act of 2008 (EESA) provides up to $700 billion to the Secretary of the Treasury to buy mortgages and other assets that are clogging the balance sheets of financial institutions ...

II. Homeownership Preservation

EESA requires the Treasury to modify troubled loans – many the result of predatory lending practices – wherever possible to help American families keep their homes. ...

III. Taxpayer Protection

Taxpayers should not be expected to pay for Wall Street's mistakes. The legislation requires companies that sell some of their bad assets to the government to provide warrants so that taxpayers will benefit from any future growth these companies may experience as a result of participation in this program. ...

IV. No Windfalls for Executives

Executives who made bad decisions should not be allowed to dump their bad assets on the government, and then walk away with millions of dollars in bonuses. In order to participate in this program, companies will lose certain tax benefits and, in some cases, must limit executive pay. ...

V. Strong Oversight

Rather than giving the Treasury all the funds at once, the legislation gives the Treasury $250 billion immediately, then requires the President to certify that additional funds are needed ($100 billion, then $350 billion subject to Congressional disapproval). ...

FULL TEXT: http://banking.senate.gov/public/_files/latestversionEESASummary.pdf (pdf)

Emergency Economic Stabilization Act of 2008

October 2008

... The purposes of this Act are—

(1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and

(2) to ensure that such authority and such facilities are used in a manner that—

(A) protects home values, college funds, retirement accounts, and life savings;

(B) preserves homeownership and promotes jobs and economic growth;

(C) maximizes overall returns to the taxpayers of the United States; and

(D) provides public accountability for the exercise of such authority. ...

FULL TEXT: http://banking.senate.gov/public/_files/latestversionAYO08C32_xml.pdf (pdf)

Fact Sheet: Confronting Economic Challenges Head On

The White House, September 19, 2008

President Bush Outlines Five Measures to Address the Nation's Financial Challenges

Today, President Bush outlined decisive government action to preserve and sustain America's financial system and economy. This is a pivotal moment for America's economy. Problems that originated in the credit markets – and first showed up in the area of subprime mortgages – have spread throughout our financial system. As a result, the government is acting now to protect our Nation's economic health from serious risk.

Our Economy Faces Unprecedented Challenges, So We Are Responding With Unprecedented Action

The Federal Government should intervene in the marketplace only when necessary; in today's financial market, government intervention is essential. In recent weeks, the Federal Government has taken a series of measures to help promote stability in the overall economy. But more action is needed. We must address the root cause behind much of the instability in our markets – the mortgage assets that have lost value during the housing decline and are now restricting the flow of credit. …

FULL TEXT: **http://www.whitehouse.gov/news/releases/2008/09/20080919-12.html**

FROM THE OFFICE OF THE PRESIDENT-ELECT

Agenda: Economy

The Obama-Biden Plan

Our country faces its most serious economic crisis since the great depression. Working families, who saw their incomes decline by $2,000 in the economic "expansion" from 2000 to 2007, now face even deeper income losses. Retirement savings accounts have lost $2 trillion. Markets have fallen 40% in less than a year. Millions of homeowners who played by the rules can't meet their mortgage payments and face foreclosure as the value of their homes have plummeted. With credit markets nearly frozen, businesses large and small cannot access the credit they need to meet payroll and create jobs.

Barack Obama and Joe Biden have a plan to revitalize the economy.

1. Immediate Action to Create Good Jobs in America
2. Immediate Relief for Struggling Families
3. Direct, Immediate Assistance for Homeowners, Not a Bailout for Irresponsible Mortgage Lenders
4. A Rapid, Aggressive Response to Our Financial Crisis, Using All the Tools We Have ...

FULL TEXT: **http://change.gov/agenda/economy_agenda/**

Vice President-elect Biden Announces Chief Economist and Economic Policy Advisor

Press Release, December 5, 2008

Washington, D.C. - Given the critical nature of the economic challenges facing America, Vice President-elect Joe Biden announced today the creation of a new position in the Office of the Vice President: Chief Economist and Economic Policy Advisor to the Vice President. The Vice President-elect has selected nationally-prominent economist Jared Bernstein for the post. ...

Jared Bernstein, Chief Economist and Economic Policy Advisor to the Vice President

Jared Bernstein is an expert in the areas of federal, state and international economic policies, specifically the middle-class squeeze, income inequality and mobility, trends in employment and earnings, low-wage labor markets, poverty, and international comparisons. Bernstein has been an economist at the Economic Policy Institute since 1992 and is a renowned author of several books and academic treatises on the economy and the middle class. From 1995-1996, he served as Deputy Chief Economist for the Department of Labor under Labor Secretary Robert Reich. Bernstein is on the Congressional Budget Office's advisory committee and has been a contributor to the financial news station CNBC. He has also taught at Howard University, Columbia University and New York University. He holds a Bachelors Degree in Fine Arts from the Manhattan School of Music; a Masters Degree in Social Work from the Hunter School of Social Work; a Masters Degree in Philosophy and Ph.D. in Social Welfare from Columbia University.

FULL TEXT: **http://change.gov/newsroom/entry/vice_president_elect_biden_announces_chief_economist/**

President-elect Barack Obama Establishes President's Economic Recovery Advisory Board

Press Release, November 26, 2008

Chicago - Today, President-elect Barack Obama announced the establishment of the President's Economic Recovery Advisory Board. Modeled on the Foreign Intelligence Advisory Board created by President Dwight D. Eisenhower to provide an independent voice on intelligence issues, the new Economic Recovery Advisory Board will be charged with offering independent, nonpartisan information, analysis, and advice to the President as he formulates and implements his plans for economic recovery. The Economic Recovery Advisory Board will provide regular briefings to the President, Vice President and their economic team. The Board will be established initially for a two-year term, after which the President will make a determination on whether to continue its existence based on its continued necessity. ... Members of the Board will be drawn from among distinguished citizens outside the government who are qualified on the basis of achievement, experience, independence, and integrity. The Board will bring a diverse set of perspectives and voices from different parts of the country and different sectors of the economy to bear in the formulation and evaluation of economic policy. Additional members will be announced in the future. ...

Paul Volcker, Chair of the President's Economic Recovery Advisory Board

Paul Volcker has served under five presidents of both parties in a life committed to public service. He was chairman of the Board of Governors of the U.S. Federal Reserve System from 1979 to 1987. Prior to that, he served as President of the Federal Reserve Bank of New York and the Undersecretary of the Treasury for Monetary Affairs. He is professor emeritus of international economic policy at Princeton University and has served as chairman of the board of trustees of the International Accounting Standards Committee and of the Independent Inquiry Committee for the United Nations Oil-for-Food Program and Chairman of the Board of the Group of Thirty.

Austan Goolsbee, Staff Director and Chief Economist of the President's Economic Recovery Advisory Board & Member of the Council of Economic Advisers

Austan Goolsbee is the Robert P. Gwinn Professor of Economics at the University of Chicago Booth School of Business where he has taught since 1995. He is also a Research Associate at the National Bureau of Economic Research and the American Bar Foundation. Goolsbee, a Fulbright Scholar and Sloan Fellow, co-directs the Chicago Booth Initiative on Global Markets and formerly served as lead editor for the Journal of Law and Economics. He has been a key economic adviser to the President-elect since 2004. ...

FULL TEXT:

http://change.gov/newsroom/entry/president_elect_barack_obama_establishes_presidents_economic_recovery_advis/

Geithner, Summers Among Key Economic Team Members Announced Today

Press Release, November 24, 2008

Chicago - President-elect Barack Obama and Vice President-elect Joe Biden officially announced key members of their economic team today, naming Timothy Geithner as Secretary of the Treasury and Lawrence Summers as Director of the National Economic Council. Obama and Biden also named Christina Romer as Chair of the Council of Economic advisors, ...

The economic team members announced today are listed below:

Timothy F. Geithner, Secretary of the Treasury

Timothy Geithner currently serves as president and CEO of the Federal Reserve Bank of New York, where he has played a key role in formulating the nation's monetary policy. He joined the Department of the Treasury in 1988 and has served three presidents. From 1999 to 2001, he served as Under Secretary of the Treasury for International Affairs. Following that post he served as director of the Policy Development and Review Department at the International Monetary Fund until 2003. Geithner is a graduate of Dartmouth College and the Johns Hopkins School of Advanced International Studies.

Lawrence H. Summers, Director of the National Economic Council

Lawrence Summers is currently the Charles W. Eliot University Professor at Harvard University. Summers served as 71st Secretary of the Treasury from 1999 to 2001 and as president of Harvard from 2001 to 2006. Before being appointed Secretary, Summers served as Deputy and Under Secretary of the Treasury and as the World Bank's top economist. Summers has taught economics at Harvard and MIT, and is a recipient of the John Bates Clark Medal, awarded to the American economist under 40 judged to have made the most significant contribution to economics. Summers played a key advisory role during the 2008 presidential campaign.

Christina D. Romer, Director of the Council of Economic Advisors

Christina Romer is the Class of 1957 Professor of Economics at the University of California, Berkeley, where she has taught and researched since 1988. Prior to joining the faculty at Berkeley, Romer was an assistant professor of economics and public affairs at Princeton University's Woodrow Wilson School of Public and International Affairs. Romer is co-director of the Program in Monetary Economics at the National Bureau of Economic Research and has been a visiting scholar at the Board of Governors of the Federal Reserve System. ...

FULL TEXT:

http://change.gov/newsroom/entry/geithner_summers_among_key_economic_team_members_announced_today/

CRS Reports

(published by the Congressional Research Service/Library of Congress)

The U.S. Financial Crisis: The Global Dimension with Implications for U.S. Policy

November 18, 2008

What began as a bursting of the U.S. housing market bubble and a rise in foreclosures has ballooned into a global financial crisis. Some of the largest and most venerable banks, investment houses, and insurance companies have either declared bankruptcy or have had to be rescued financially. In October 2008, credit flows froze, lender confidence dropped, and one after another the economies of countries around the world dipped toward recession. The crisis exposed fundamental weaknesses in financial systems worldwide, and despite coordinated easing of monetary policy by governments and trillions of dollars in intervention by governments and the International Monetary Fund, the crisis continues.

The process for coping with the crisis by countries across the globe has been manifest in four basic phases. ...

Full Text: http://fpc.state.gov/documents/organization/112525.pdf (pdf)

"Fast Track" Parliamentary Procedures of the Emergency Economic Stabilization Act

November 14, 2008

The Emergency Economic Stabilization Act of 2008 (Division A of H.R. 1424, P.L. 110-343) empowers the Secretary of the Treasury to purchase certain "troubled assets" as a means to stabilize the economy. Should the Secretary wish to have more than $350 billion outstanding under the troubled assets program, the President must submit a written report to Congress detailing the Secretary's request and his plan to implement it. The receipt of this report triggers a 15-day period during which Congress may reject the Secretary's request by enacting a joint resolution of disapproval. This disapproval resolution would be considered in the House and Senate under "fast track" parliamentary procedures which are intended to ensure an opportunity to consider and vote on the measure. ...

Full Text: http://fpc.state.gov/documents/organization/112408.pdf (pdf)

Federal Loans to the Auto Industry Under the Energy Independence and Security Act

November 13, 2008

U.S. automakers are facing a myriad of unfavorable conditions, including a worsening economy and credit crunch that have dampened consumers' demand for new vehicles, high legacy costs, increased competition from foreign automakers, and stricter Corporate Average Fuel Economy (CAFE) standards. The last concern — the regulatory cost of higher fuel economy standards — led Congress to consider various federal programs, including grants and loans, to help automakers with the increased cost to comply with the new standards. ...

Full Text: http://fpc.state.gov/documents/organization/112523.pdf (pdf)

Reporting Requirements in the Emergency Economic Stabilization Act of 2008

Updated November 13, 2008

The Emergency Economic Stabilization Act of 2008 (EESA, Division A of H.R. 1424, P.L. 110-343) established numerous reporting requirements regarding a variety of issues. The entities charged with preparation of these reports include both new entities established by the act (e.g., the Financial Stability Oversight Board and the Congressional Oversight Panel) as well as agencies and officials who existed before the enactment of EESA (e.g., the Secretary of the Treasury and the Comptroller General of the United States). The recipients of these reports also vary, as well as their timing, frequency, and factors that trigger their development. These differences notwithstanding, all of the EESA reports appear to share a common purpose — to provide information to Congress and other entities on the implementation of the act's provisions. ...

Full Text: http://fpc.state.gov/documents/organization/112548.pdf (pdf)

Emergency Economic Stabilization Act: Preliminary Analysis of Oversight Provisions

Updated October 31, 2008

The Emergency Economic Stabilization Act of 2008 (EESA, H.R. 1424, P.L 110-343) provides authority for the Secretary of the Treasury to purchase and insure "troubled assets" to provide stability and prevent disruption in the economy and financial system. The act established two organizations to provide broad oversight for the stability program — a Financial Stability Oversight Board (FSOB) and a Congressional Oversight Panel (COP). The act also placed audit responsibilities for the program with two individuals — a new Special Inspector General (IG) for the Troubled Asset Relief Program (TARP), and the Comptroller General (CG) of the Government Accountability Office

(GAO). The duties and responsibilities of both oversight panels and both auditors overlap in some areas, but are different in other areas. ...
FULL TEXT: http://fpc.state.gov/documents/organization/112476.pdf (pdf)

The Global Financial Crisis: The Role of the International Monetary Fund (IMF)

Updated October 30, 2008

This report discusses two potential roles the International Monetary Fund (IMF) may have in helping to resolve the current global financial crisis: (1) immediate crisis control through balance of payments lending to emerging market and less-developed countries and (2) increased surveillance of the global economy through better coordination with the international financial regulatory agencies. ...
FULL TEXT: http://fpc.state.gov/documents/organization/112052.pdf (pdf)

Federal Reserve Interest Rate Changes: 2001-2008

Updated October 29, 2008

The Federal Open Market Committee (FOMC) decided at its scheduled meeting held on October 29 to lower the target rate for federal funds to 1% from 1½% set at its unscheduled meeting of October 8, 2008. In making its decision to reduce the target, the FOMC stressed the following factors: (1) the pace of economic growth appears to have slowed markedly owing importantly to a softening of consumer spending; (2) business equipment spending and industrial production have weakened; (3) economic slowdowns abroad have dampened the prospects for U.S. exports; (4) intensified strains in financial markets are also likely to further reduce spending; and (5) inflation prospects have improved due to declines in energy and other commodity prices. Because of the international scope of the financial turmoil, the downside risks to growth remain. Nevertheless, the FOMC believes that the substantial easing of monetary policy to date, combined with other measures to provide liquidity to the financial system, should help to promote moderate growth over time. ...
FULL TEXT: http://fpc.state.gov/documents/organization/112465.pdf (pdf)

Monetary Policy and the Federal Reserve: Current Policy and Conditions

Updated October 29, 2008

Monetary policy can be defined as any policy relating to the supply of money. Since the agency concerned with the supply of money is the nation's central bank, the Federal Reserve, monetary policy can also be defined in terms of the directives, policies, statements, and actions of the Federal Reserve, particularly those from its Board of Governors that have an effect on national spending. The nation's financial press and markets pay particular attention to the pronouncements of the chairman of the Board of Governors, the nation's central banker. The reason for this attention is that monetary policy can have important effects on aggregate demand and through it on real Gross Domestic Product (GDP), unemployment, real foreign exchange rates, real interest rates, the composition of output, etc. ...
FULL TEXT: http://fpc.state.gov/documents/organization/112464.pdf (pdf)

Financial Turmoil: Federal Reserve Policy Responses

Updated October 23, 2008

The Federal Reserve (Fed) has been central in the response to the current financial turmoil that began in August 2007. It has sharply increased reserves to the banking system through open market operations and lowered the federal funds rate and discount rate on several occasions. As the turmoil has progressed without signs of subsiding, the Fed has introduced new policy tools to try to restore normality. ...
FULL TEXT: http://fpc.state.gov/documents/organization/112452.pdf (pdf)

Economic Slowdown: Issues and Policies

Updated October 17, 2008

Recent policies have sought to contain damages spilling over from housing and financial markets to the broader economy. These policies include monetary policy, which is the responsibility of the Federal Reserve, and fiscal policy. Legislators and the President adopted an economic stimulus package (P.L. 110-185) on February 13. Another stimulus package is under consideration. Over the past few months, the government has also intervened in specific financial markets, including financial assistance to troubled firms. Legislation authorizing a massive intervention in financial markets was adopted on October 3 (P.L. 110-343); it includes authority to purchase $700 billion in troubled assets. …
FULL TEXT: http://fpc.state.gov/documents/organization/112050.pdf (pdf)

Auction Basics: Background for Assessing Proposed Treasury Purchases of Mortgage- Backed Securities

October 14, 2008

To address the turmoil in financial markets, the Emergency Economic Stabilization Act (EESA; H.R. 1424, P.L. 110-343), enacted on October 3, 2008, authorizes purchases of "troubled assets." The act passed the Senate on October 1, 2008, passed the House on October 3, 2008, and was signed into law the same day.

The Administration proposed using reverse Dutch auctions to purchase troubled assets — primarily mortgage-related securities from financial institutions. In reverse Dutch auctions, a buyer purchases multiple objects from private parties at a price set by the last accepted bid. The government has used reverse auctions since the Revolutionary War. Designing efficient reverse Dutch auctions may present some tradeoffs between enhancing competition among bidders and overpaying for assets relative to their quality. Careful auction design, however, can help minimize these problems. ...

FULL TEXT: http://fpc.state.gov/documents/organization/112042.pdf (pdf)

Financial Turmoil: Comparing the Troubled Asset Relief Program to the Federal Reserve's Response

October 8, 2008

As financial conditions have deteriorated over the past year, the Federal Reserve (Fed) has greatly increased its lending to financial firms. It has also expanded the scope of eligible borrowers to include non-bank financial firms. As of October 1, 2008, the Fed had loans of $559 billion outstanding, compared with less than $1 billion outstanding one year earlier. In addition, it has provided financial assistance to Bear Stearns and American International Group (AIG).

Some have asked why these loans have not restored financial stability, and if the purchase of up to $700 billion of distressed assets through the recently enacted Troubled Asset Relief Program (TARP) might lead to a different result. H.R. 1424, signed into law on October 3 (P.L. 110-343), authorizes the creation of TARP. ...

FULL TEXT: http://fpc.state.gov/documents/organization/112021.pdf (pdf)

Financial Market Intervention

September 29, 2008

Financial markets continue to experience significant disturbance and the banking sector remains fragile. Efforts to restore confidence have been met with mixed success thus far. After attempting to deal with troubled institutions on a case-by-case basis, Treasury has proposed a plan to purchase mortgage-related assets to alleviate stress in financial markets and in the banking system. This report provides answers to some frequently asked questions concerning the financial disruptions of September 2008 and the Troubled Asset Relief Program (TARP) in H.R. 3997. …

FULL TEXT: http://fpc.state.gov/documents/organization/110707.pdf (pdf)

The Cost of Government Financial Interventions, Past and Present

Updated September 23, 2008

In response to ongoing financial turmoil that began in the subprime mortgagebacked securities market, the federal government has intervened with private corporations on a large scale and in an *ad hoc* manner three times from the beginning of 2008 through September 19, 2008. The firms affected were Bear Stearns, Fannie Mae and Freddie Mac, and AIG. Another large investment bank, Lehman Brothers, sought government intervention, but none was forthcoming; subsequently, the firm sought bankruptcy protection.

These interventions have prompted questions regarding the taxpayer costs and the sources of funding. The sources of funding are relatively straightforward, the Federal Reserve (Fed) and the U.S. Treasury. The costs, however, are difficult to quantify at this stage. In the most recent interventions (Fannie Mae and Freddie Mac, and AIG), all the lending that is possible under the interventions has yet to occur. Also, in all the current cases, the government has received significant debt and equity considerations from the private firms. At this point, Fannie Mae, Freddie Mac, and AIG are essentially owned by the federal government. Depending on the proceeds from the debt and equity considerations, the federal government may very well end up seeing a positive fiscal contribution from the recent interventions, as was the case in some of the past interventions summarized in the tables at the end of this report. The government may also suffer significant losses, as has also occurred in the past. ...

FULL TEXT: http://fpc.state.gov/documents/organization/110285.pdf (pdf)

Proposal to Allow Treasury to Buy Mortgage-Related Assets to Address Financial Instability

September 22, 2008

Financial markets underwent severe stress during the week of September 15-22, 2008. After Lehman Brothers declared bankruptcy and AIG received a bridge loan from the Federal Reserve, policymakers reassessed their case-by-case approach to resolving financial problems. Secretary of the Treasury Paulson announced a plan to allow Treasury to purchase mortgage-related assets from U.S. financial institutions. The announced intent of the plan is to unclog financial markets, increase the health of the banking sector, and reduce ongoing risks to the economy. This report discusses a draft of the proposal as it stood on September 21, 2008, and analyzes frequently asked questions. ...

FULL TEXT: http://fpc.state.gov/documents/organization/110286.pdf (pdf)

Fannie Mae and Freddie Mac in Conservatorship

September 15, 2008

On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSEs) that play a critical role in the U.S. home mortgage market, in conservatorship. As conservator, the FHFA has full powers to control the assets and operations of the firms. Dividends to common and preferred shareholders are suspended, but the U.S. Treasury has put in place a set of financing agreements to ensure that the GSEs continue to meet their obligations to holders of bonds that they have issued or guaranteed. This means that the U.S. taxpayer now stands behind about $5 trillion of GSE debt. This step was taken because a default by either of the two firms, which have been battered by the downturn in housing and credit markets, could have caused severe disruptions in global financial markets, made home mortgages more difficult and expensive to obtain, and had negative repercussions throughout the economy. …

FULL TEXT: http://fpc.state.gov/documents/organization/110097.pdf (pdf)

Fannie Mae's and Freddie Mac's Financial Problems: Frequently Asked Questions

September 12, 2008

The decision to place Fannie Mae and Freddie Mac in conservatorship raises questions about their impact on the housing and finance markets. To a certain extent, the housing, mortgage, and even general financial markets are in an unprecedented situation.

This action by their new regulator, the Federal Housing Finance Agency
(FHFA), came after turmoil in the housing, mortgage, and financial markets has raised doubts about the future of Fannie Mae and Freddie Mac, which are chartered by Congress as government-sponsored enterprises (GSEs) and were widely believed to have an implicit guarantee from the federal government.

The Treasury will buy mortgage-backed securities from the GSEs and raise funds for them. Each GSE gave Treasury $1 billion in senior preferred stock and warrants to acquire, at nominal cost, 80% of each GSE. Treasury pledged to invest up to $100 billion in each GSE, and committed to invest more if necessary. Now the formerly implicit guarantee is nearly explicit. ...

FULL TEXT: http://fpc.state.gov/documents/organization/110096.pdf (pdf)

Financial Institution Insolvency: Federal Authority over Fannie Mae, Freddie Mac, and Depository Institutions

September 10, 2008

On September 7, 2008, the Secretary of the Treasury announced that the Federal Housing Finance Agency (FHFA), the newly installed regulator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), had been appointed conservator of the two enterprises. Until the enactment of the Housing and Economic Recovery Act of 2008 (P.L. 110- 289), there was no clear statutory authority for dealing with the insolvency of either or both of these two mortgage giants. Among the reforms included in P.L. 110-289 were extensive provisions providing the FHFA with powers that substantially parallel those accorded the Federal Deposit Insurance Corporation (FDIC) to deal with every aspect of insolvencies of any bank or thrift institution that holds federally insured deposits. …

FULL TEXT: http://fpc.state.gov/documents/organization/110098.pdf (pdf)

AMERICA.GOV ITEMS

(published by the Bureau of International Information Programs/U.S. Department of State)

Nations Plan More than $1 Trillion in Stimulus Spending

Will a global "New Deal" boost consumer spending?

December 8, 2008

Washington, D.C. — Governments around the globe are taking steps to encourage consumer spending and economic expansion.

Through increasing public spending, offering tax breaks and bolstering consumer confidence, they hope to bring a quick end to economic recessions many countries are experiencing and thereby restore world economic growth.

First on the agenda: combating the largest quarterly drop in U.S. consumer spending since 1980.

"The fastest way to move the economy forward is to get consumer spending to jump," said David Cross, president of the business consulting firm Market Outlook. "It immediately translates into more business investment, more hiring, and a restoration of confidence in the system."

To boost consumer spending, the U.S. Congress in February approved a $168 billion package, including income-tax rebates, and the Bush administration in November announced that up to $800 billion will be spent by the Federal Reserve, the U.S. central bank, to encourage loans for education, cars and real estate. (This is money not included in a $700 billion rescue plan for the financial sector — the Emergency Economic Stabilization Act of 2008, signed into law October 3.) …

FULL TEXT: **http://www.america.gov/st/econ-english/2008/December/20081208173902berehellek0.5290033.html**

U.S., China Agree to Coordinated Action to Face Economic Woes

Officials reach agreements on energy and environmental issues

December 5, 2008

Washington — The United States and China have agreed to coordinated action to contain the global financial meltdown and deal with slower-boiling problems related to energy, the environment and food and product safety.

"We had a robust discussion of the current global financial market turmoil and economic downturn, its implications for both our nations and our efforts to address it," said U.S. Treasury Secretary Henry Paulson December 5 in Beijing.

Paulson led the U.S. delegation to the fifth session of the U.S.-China Strategic Economic Dialogue, which takes place every six months in alternating capitals. Chinese Vice Premier Wang Qishan led the host delegation. ...

FULL TEXT: **http://www.america.gov/st/washfile-english/2008/December/20081202170326xjsnommis6.025332e-02.html**

Coordinated Approach at Financial Summit Praised

Economist discusses the future of financial markets

December 4, 2008

Washington — With the first global economic crisis in decades to deal with, the November summit of major developed and emerging market economies was right to emphasize coordinated or collective action to address the market turmoil, according to a journalist who writes on international economic issues.

Leaders of the Group of 20 (G20) countries November 15 pledged to reform the global financial system and take action against the economic slowdown.

"We are all in this together," said Bruce Stokes in a December 2 webchat on *America.gov*. "The global recession will definitely shrink the U.S. economy, and others." Stokes is an international economics columnist for *National Journal*, a Washington-based public policy magazine. ...

FULL TEXT: **http://www.america.gov/st/econ-english/2008/December/20081204144243EMsutfoL0.4566461.html**

FINANCIAL CRISIS, Ask America webchat with Bruce Stokes, international economics columnist for the *National Journal*, December 2, 2008

FULL TRANSCRIPT: **http://www.america.gov/st/washfile-english/2008/December/20081202170326xjsnommis6.025332e-02.html**

World Economy Turns on U.S. Consumer Behavior, and It Is Changing

American spending partly cultural, partly related to tax policy

December 3, 2008

Washington — Goods and services purchased by Americans make up one-fifth of the global economy, but the third quarter of 2008 saw the largest drop in consumer spending since 1980.

As the financial-market turbulence prompts U.S. households to cut back spending, economies around the globe feel repercussions.

"The U.S. consumer is a voracious consumer of goods and services," said Scott Talbott, a senior vice president at the Financial Services Roundtable, which represents large financial institutions. "We [are] at the heart of the recession. That's why we're going to have to be at the heart of the recovery."

Historically, Americans have spent a greater share of gross domestic product (GDP) — a measure of a nation's economic size — than citizens of other countries have. Those expenditures translate into jobs and economic growth around the world. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/December/20081203154212berehellek0.2330286.html

Large Economies Move to Get at Roots of Financial Crisis

Push on regulatory cooperation may help to avert turmoil in the future

November 21, 2008

Washington — A group of large economies has signaled its willingness to get ahead of the global financial crisis as it pushed for reform of the financial system.

Opinions of American analysts about the outcome of the Group of 20 summit differ, ranging from "neither a disappointment nor a triumph" to "better than expected."

Barry Eichengreen's view is somewhere in the middle. Eichengreen, a professor of economics and political science at the University of California, Berkeley, told *America.gov* that expecting the leaders of 19 industrialized and emerging-market nations plus the European Union who gathered in Washington in mid-November to "solve all the world's economic problems in one day" would be unrealistic. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081121172043saikceinawz0.3495142.html

Financial Crisis to Top U.S. Agenda at Asia-Pacific Meeting

Continued progress toward economic integration key to confronting crisis

November 20, 2008

Washington — President Bush will urge leaders at the Asia-Pacific Economic Cooperation (APEC) leaders' conference to join him in endorsing proposed reform measures formulated by leaders of the Group of 20 (G20) countries to confront the global financial crisis, say top White House officials.

"The G20 represents a certain global consensus," Deputy National Security Advisor for International Economic Affairs Dan Price told reporters November 19. "As non-G20 members of APEC subscribe to those same principles, it gives them more power and I think enhances the likelihood that we will all succeed in accomplishing those shared goals." ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081120163628idybeekcm0.7072718.html

Snapshot: Financial Summit Outlines Growth Agenda, Reform

Leaders agree on plan for economic crisis and reforming financial system

November 19, 2008

On November 14-15, the leaders of the G20 nations agreed on a blueprint for addressing the current global economic turbulence and reforming the global financial system. Specific plans to revive stagnating economies were left to individual countries, and details of medium-term regulatory reforms were left to their finance ministers. Nevertheless, the leaders indicated in what direction they want to go collectively to restore growth and make financial markets more resilient in a crisis. Following is a snapshot of the summit's action plan and the agreed-upon principles for financial reform.

To restore growth, prevent crisis spillovers and support the developing world, the G20 countries have committed to:

• Use fiscal measures, where possible, to stimulate demand.

• Ease monetary policy by lowering interest rates.

• Ensure that the World Bank, International Monetary Fund (IMF) and regional development banks have sufficient resources to assist emerging-market and developing countries. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081119170501saikceinawz0.9249994.html

Large World Economies Agree to Boost Growth, Tackle Crisis

Leaders vow to cooperate, call for revival of Doha trade negotiations

November 15, 2008

Washington — Leaders of 20 of the world's largest economies vowed to reform the global financial system and take action against the economic slowdown.

While they refrained from planning coordinated fiscal action, they vowed to cooperate closely as they individually pursue efforts to boost growth in their respective countries. …

"We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world's financial systems," said the final declaration from the Group of 20 (G–20), which comprises developed and emerging market countries.

G–20 members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, plus the European Union.

The leaders met November 14-15 in Washington at what they are calling the first in a series of meetings to discuss measures to strengthen economic growth, deal with the financial crisis and lay the foundation for reform of the financial system to prevent a catastrophic crisis in the future. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081115190815saikceinawz0.6696588.html

Economist Discusses Causes of Global Economic Downturn

Says countries must find right mix of capitalism, government intervention

November 14, 2008

Washington — Trouble in housing markets, regulatory structures and capital flow have contributed to the global economic downtown, according to James Barth of the Milken Institute.

Barth, during an *America.gov* webchat November 12, explained some of the problems that precipitated the downturn in the U.S. financial markets, in particular the subprime mortgage crisis. These mortgages, which were extended to individuals with questionable creditworthiness, often were securitized, meaning they were pooled into securities and then were sold internationally. When the loans declined in value due to the inability of homeowners to pay their loans, the securities declined in value also, spelling trouble for investors.

"Firms that have too little capital and too many assets are at serious risk of insolvency should those assets decline in value by even a relatively small amount," said Barth. "Financial regulatory authorities have to, therefore, reassess the appropriate amount of capital that should be required for financial institutions." ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081114180033EMsutfoL0.7829096.html

THE GLOBAL FINANCIAL CRISIS: WHAT NEXT?, Ask America webchat with Dr. James Barth, Senior Finance Fellow at the Milken Institute, November 12, 2008

FULL TRANSCRIPT: http://www.america.gov/st/washfile-english/2008/November/20081112153902ihecuor0.4380915.html

U.S. Financial Rescue Works but Needs Refinement, Paulson Says

Buying up bad securities not viewed as an effective option

November 12, 2008

Washington — U.S. Treasury Secretary Henry Paulson says the U.S. and global financial systems have improved in recent weeks, but the challenges faced by U.S. credit markets require a revised approach from the government.

"Our system is stronger and more stable than just a few weeks ago" as a result of steps taken by governments and central banks around the world, Paulson said November 12.

However, he said, the system remains fragile in the face of a significant economic downturn and the weak positions of financial institutions that have many troubled assets on their balance sheets.

The treasury secretary reviewed the progress in implementing the $700 billion financial rescue plan and announced a change in its focus. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/November/20081112144904saikceinawz1.643008e-02.html

Central Bank Aims to Prevent Financial Downturn from Worsening
Federal Reserve collaborates with foreign counterparts to calm turmoil
October 31, 2008

Washington — The U.S. central bank's push to restore the circulation of credit in the economy and calm currency markets is likely to mitigate an economic downturn in the United States and around the world, analysts say.

On October 29, the Federal Reserve, the U.S. central bank, lowered its benchmark interest rate by 0.5 percentage point to 1 percent, barely two weeks after a previous cut. This move was accompanied by similar measures in China, Norway and several other countries. The European Central Bank and Bank of England are likely to follow suit in the week of November 3.

Analysts believe extraordinary collaboration among central banks has been prompted by the gravity of the financial problems, uncertainty about their consequences and their global scale. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081031144106saikceinawz0.5178644.html

Wall Street Is Gloomy After Years of Exuberance
Analysts say the Street will recover, predict no repeat of Great Depression
October 24, 2008

New York — As Wall Street's financial businesses continue a wild ride of panicked sell-offs in stocks and face regulatory changes to their business practices, the stress is showing on the professionals working in the district's banks, stock-trading houses and insurance companies.

"I don't go out to restaurants any more," said Lara, an insurance professional who spoke a few steps from the 60-story Wall Street headquarters of American International Group (AIG), where she works. Lara, who declined to give her full name, and her co-workers worry about their jobs and their pensions, which are partly in company shares that fell sharply in value when AIG's problems became public. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081023194443berehellek0.9093286.html

Congressional Democrats Push for Economic Stimulus
White House warms up to the idea; central bank calls for targeted bill
October 23, 2008

Washington — U.S. congressional leaders are discussing an economic stimulus plan to revive a slowing economy as credit markets gradually thaw.

Congressional Democrats have been pushing for an economic recovery package in response to gloomy economic news. On October 19, Edward Lazear, the chairman of President Bush's Council of Economic Advisers, said some U.S. regions have already entered a recession.

His view is supported by recent economic data. According to the Blue Chip forecast, gross domestic product declined in the third quarter and is likely to decline further in the fourth quarter. Many corporations have reported weak earnings, and job losses have accelerated in recent months. In September, the U.S. economy shed 159,000 jobs, and the unemployment rate rose 0.4 percentage points to 6.1 percent between July and September, according to the Labor Department. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081023171249saikceinawz0.7237055.html

Major Countries Consider New Global Financial Order
Lessons from the crisis likely to lead to regulatory convergence
October 20, 2008

Washington — A reform of the global financial order will strengthen and harmonize financial regulation across borders as countries seek to prevent a repeat of the excesses that led to the current financial crisis, according to experts.

In an October 15 statement, the Group of Seven (G7) industrialized countries plus the European Union (EU) and Russia urge "changes to the regulatory and institutional regimes for the world's financial sectors." The countries are considering a leaders' summit, which would include some emerging market nations, "in the near future to adopt an agenda for reforms." The idea was furthered at President Bush's Camp David retreat, where he met October 18 with President Nicolas Sarkozy of France and President José Manuel Barroso of the European Commission. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081017145942saikceinawz0.5320246.html

U.S. Government to Invest in Banks to Boost Confidence

Bush administration acts on an internationally agreed plan

October 14, 2008

Washington — The U.S. government is taking partial ownership of some of the largest banks and is applying other extraordinary and aggressive measures to return confidence to financial markets and restore their capacity to lend to consumers and businesses.

President Bush announced October 14 that the federal government will inject $250 billion in healthy U.S. banks in return for preferred shares of stock as part of the $700 billion financial rescue plan enacted by Congress earlier in October.

The administration says it is moving as quickly as possible to implement the entire rescue package. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081014135509saikceinawz0.6060907.html

U.S. Acting Aggressively to Stem Market Instability, Bush Says

Bush will meet with G7, IMF and World Bank officials

October 10, 2008

Washington — The United States has developed an effective and aggressive financial plan to restore stability to the nation's financial markets, ease a credit crunch that has gripped the nation's economy, and help world economies stabilize, President Bush says.

Bush will meet with finance ministers from the Group of Seven major industrialized economies before and during the annual meetings of the International Monetary Fund and the World Bank in Washington October 10-12.

"We're working closely with partners around the world to ensure that our actions are coordinated and effective," Bush said in remarks at the White House October 10. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081010115540dmslahrellek0.8273279.html

U.S. Moves Forward on Financial Rescue, Considers Other Measures

International coordination sought, but unified response unlikely

October 9, 2008

Washington — U.S. government and central bank officials vow to apply bold and innovative measures to stabilize financial markets, which so far have failed to respond to U.S. and international actions.

Treasury Secretary Henry Paulson said in a prepared October 8 statement that his department has made progress in implementing the $700 billion financial rescue plan, which gives the government broad powers to intervene in the markets. But it will take several weeks before the department will make its first purchases of troubled securities, he said. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081009144558saikceinawz0.9806177.html

Financial Advisers Urge Investors to Stay Calm

Many stockholders fall into panic when faced with uncertainty, losses

October 9, 2008

Washington — When the stock market goes up, investors jump in. When the market goes down, they often flee.

But occasionally moments of outright panic occur. This feeling is now being experienced across the globe by millions of investors overwhelmed by developments — the mortgage-default crisis, the credit freeze, bank failures and the extraordinary interventions and bailouts by governments and central banks around the world.

Institutional investors and big players seek to salvage what they can and find some safe ground. The small investors, including those with retirement accounts in the stock market, are feeling helpless as they get buffeted by events beyond their control or understanding. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081009155125saikceinawz0.8412439.html

World Markets Remain Hesitant Following Financial Rescue Plan

President Bush says newly enacted rescue plan needs time to take effect

October 7, 2008

Washington — World stock markets remain jittery even after the U.S. Congress approved a $700 billion financial rescue plan. In the first full day of trading after President Bush signed the bill into law, New York's Dow Jones industrial

average stock index fell more than 7 percent before rebounding slightly and closing down 3.5 percent. These movements were echoed in markets around the globe.
Speaking to an audience in Ohio on October 6, President Bush said it will take time for the rescue plan to take effect.
…
FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081007150229ndyblehs0.9892389.html

Financial Rescue Bill Boosts Hope as Bush Signs It into Law

House of Representatives approves controversial plan on second try
October 3, 2008

Washington — The president signed into law a $700 billion financial rescue bill within hours of its passage by the House of Representatives.
The congressional chamber reversed itself October 3 and approved a revised version of the $700 billion rescue it had rejected four days earlier.
The House cleared by a 263-171 vote the bill designed to stabilize the U.S. and global financial systems by thawing frozen credit markets and preventing major bank bankruptcies. The Senate endorsed the bill October 1 after adding several new features to the House-rejected version, including a temporary increase in the amount of bank deposits insured by the government, tax-cut measures and a few unrelated provisions. ...
FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081003163122saikceinawz0.9851496.html

U.S. Senate Endorses Financial Rescue Plan

Senators sweeten the package to sway reluctant House members
October 2, 2008

Washington — The U.S. Senate approved a revised version of the $700 billion plan to shore up the U.S. and global financial systems, reviving hope that the measure will be passed by the other congressional chamber, which rejected the plan days earlier.
Senators voted overwhelmingly October 1 in favor of the bill. It is designed to prevent further bankruptcies of U.S. and foreign financial institutions jeopardized by the fallout from the U.S. mortgage crisis and to bring back confidence to the credit markets, which have practically frozen up in recent days.
President Bush said the plan is "essential to the financial security of every American." …
On September 29, the House of Representatives rejected the initial version of the plan by a slim margin. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081002141728saikceinawz0.723263.html

How Will Washington Prevent Another Financial Crisis?

Everything from abusive lending to unregulated derivatives may be curbed
October 1, 2008

Washington — Whatever the impact of the federal government's gigantic rescue plan for the country's financial system, observers say, new rules governing the system will surely follow.
Treasury Secretary Henry M. Paulson Jr. indicated as much to a 60 Minutes reporter in a September 28 interview. "We don't have the regulatory authorities and structure in place to protect the American people," he said.
Officials will seek new regulations in two areas: the way housing loans, credit cards and similar financial products are sold to consumers — the "primary market" — and how banks and other institutions invest the money they raise from these operations — the "secondary market."
The crisis, the worst since the Great Depression of the 1930s, has already brought down a half-dozen major banks and other financial companies. ...
FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20080930185854berehellek0.3798029.html

House of Representatives Rejects Massive Financial Rescue Plan

Bush administration considers next steps, acts on related measures
September 29, 2008

Washington — The U.S. House of Representatives rejected the initial version of a $700 billion plan to shore up the U.S. and global financial systems, which have been jeopardized by the fallout from the U.S. mortgage crisis.

Despite the bipartisan compromise deal struck September 28 by the Bush administration and congressional leaders, on September 29 the chamber defeated the measure 205-228 as most Republicans refused to support it. The Dow Jones Industrial Average stock index fell 778 points, or close to 7 percent, on the news, the largest one-day drop in the index since 2001. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080929184405saikceinawz0.6227991.html

U.S. Partners May Act Individually on Global Financial Woes

While countries cooperate, bailouts unlikely to be concerted, global effort
September 24, 2008

Washington — Some foreign countries will try to shore up their financial systems but are not expected to emulate the U.S. financial rescue plan and make their efforts a coordinated global action, according to experts.
U.S. Treasury Secretary Henry Paulson and the chairman of the Federal Reserve, the U.S. central bank, Ben Bernanke, put together the $700 billion plan, which calls for the government to buy mortgage-backed and other securities that no one else wants to buy.
Paulson and other U.S. officials have been trying to persuade governments of developed countries to help the American effort to clean up the balance sheets of banks with bad loans. …
U.S. officials argue the crisis — caused by the weakness in the U.S. mortgage market — affects the global financial system because of interconnections among countries' financial markets. They suggest that action on a global scale will more fully solve the problem. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080924172625saikceinawz0.8556787.html

Central Banks Pump Billions into Short-Term Credit

Bush says measures are necessary to shore up troubled global markets
September 18, 2008

Washington — The U.S. Federal Reserve, in coordination with other central banks, has taken steps to provide additional funds to support financial markets after bank lending froze to nearly a standstill, threatening the stability of the global economy, President Bush said.
"These actions are necessary, and they're important, and the markets are adjusting to them," Bush said in brief remarks September 18 at the White House. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080918114632dmslahrellek0.2236292.html

Government Rescues Two Biggest Mortgage Companies

Help meant to stem further problems in housing market
September 11, 2008

Washington — The decision of the U.S. government to seize control of America's two largest mortgage companies, known as Fannie Mae and Freddie Mac, could cost taxpayers many billions of dollars. But the move was made to prevent what many feared could be an even costlier scenario: a possible collapse of the two companies, with disastrous consequences for the housing and financial markets.
President Bush said in a written statement that the government had to act because the companies' problems posed "an unacceptable risk" to the American economy. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080911160721berehellek0.5592157.html

USEFUL LINKS

- The White House
  - **Economy and Jobs**
    http://www.whitehouse.gov/infocus/economy/

- U.S. Department of the Treasury
  - **Economy**

- **http://www.treas.gov/economic-plan/**
  Current financial market stresses are a strain on our economy. The Emergency Economic Stabilization Act of 2008 gives Treasury the authority it needs to purchase the troubled assets that are weighing down our financial institutions and threatening our economy. This will help boost liquidity and add capital to the financial system, thereby restoring confidence in our markets and our financial institutions so they can fuel continued growth and prosperity.
- **Emergency Economic Stabilization Act**
  http://www.treas.gov/initiatives/eesa/

- Board of Governors of the Federal Reserve System
  - **News & Events**
    http://www.federalreserve.gov/newsevents/default.htm
  - **Press Releases**
    http://www.federalreserve.gov/newsevents/press/all/2008all.htm

- *America.gov* – Bureau of International Information Programs/U.S. Department of State
  - **Economics and Trade**
    http://fpolicy.america.gov/fpolicy/econ/index.html

OTHER RESOURCES

ARTICLES AND THINK TANK ITEMS

(for full text please contact the American Reference Center at: arc@usembassy.at)

The End

By Michael Lewis, *Condé Nast Portfolio*, December 2008

In this article Lewis, a former Wall Street investment banker and the author of *Liar's Poker*, returns to his old haunts to chronicle the causes of the monumental collapse of the financial markets that the Wall Street firms brought about. He writes that even financial-world insiders had a hard time grasping the scope of the economic bubble in housing and finance that evolved during the past decade. Lewis profiles a small group of bankers and hedge-fund managers who shared a jaded view of Wall Street, and who were among the few who realized that Wall Street had constructed a "doomsday machine" that would eventually implode.

FULL TEXT: http://www.portfolio.com/news-markets/national-news/portfolio/2008/11/11/The-End-of-Wall-Streets-Boom

The Crisis & What to Do About It

By George Soros, *The New York Review of Books*, December 2008

The salient feature of the current financial crisis is that it was not caused by some external shock like OPEC raising the price of oil or a particular country or financial institution defaulting. The crisis was generated by the financial system itself. This fact—that the defect was inherent in the system —contradicts the prevailing theory, which holds that financial markets tend toward equilibrium and that deviations from the equilibrium either occur in a random manner or are caused by some sudden external event to which markets have difficulty adjusting. The severity and amplitude of the crisis provides convincing evidence that there is something fundamentally wrong with this prevailing theory and with the approach to market regulation that has gone with it. To understand what has happened, and what should be done to avoid such a catastrophic crisis in the future, will require a new way of thinking about how markets work.

FULL TEXT: http://www.nybooks.com/articles/22113

Bankruptcy Is Best: Responding to Automakers' Arguments against Chapter 11 Restructuring

By Andrew M. Grossman, WebMemo #2165, The Heritage Foundation, December 9, 2008

Last week, the chiefs of the Big Three automakers returned to Washington bearing "turnaround plans' that they say will, with the addition of $34 billion in government loan guarantees, return their firms to profitability. But in revealing the dire straights faced by General Motors and Chrysler (Ford, despite its request, says it really does not need taxpayer

dollars), the plans provide further evidence that a taxpayer bailout will be insufficient to save the industry. Future bailouts, or eventual bankruptcy, would be sure to follow, say industry analysts and economists. …
FULL TEXT: http://www.heritage.org/Research/Economy/wm2165.cfm

Auto Bailout Bill: Nationalizing Detroit?

By James L. Gattuso, WebMemo #2164, The Heritage Foundation, December 9, 2008

Would Washington do a better job running the automobile industry than Detroit would? Taxpayers may be about to find out. Under legislation proposed yesterday by congressional leaders, Detroit-based automakers would be offered some $15 billion in federal low-interest loans. In return, they would be subject to unprecedented federal controls on how they run their businesses.

This is a deal that would serve neither Detroit nor America's taxpayers. Detroit needs to change to respond to the 21st-century marketplace. This plan will instead simply make Detroit more responsive to Washington's politicians. That is the wrong road for the auto industry, and taxpayers, to go down. …
FULL TEXT: http://www.heritage.org/Research/Economy/wm2164.cfm

Saving Detroit Automakers with an Advance Purchase of Cars and Trucks

By Ronald D. Utt, Ph.D., WebMemo #2163, The Heritage Foundation, December 9, 2008

After several days of negotiation, the President and the leadership of Congress are closing in on an agreement to bailout the indigenous automobile manufacturers with a loan that may be as high as $15 billion. Details are still fluid as the final agreement is hammered out, but under the President's initial proposal, a "car czar" would be tasked with overseeing the industry's recovery, while early reports on the congressional plan suggest that Senator Christopher Dodd (D-CT)--who, as chairman of the Senate Banking Committee, most recently oversaw the diminution and nationalization of Fannie Mae and Freddie Mac--expects to lead the reformation of General Motors, Chrysler, and Ford.

Dodd has already announced his intention to influence company personnel decisions, while others in Congress, notably Senator Chuck Schumer (D-NY), expect to guide the industry's future product selection and development.

It is essential that any bailout plan be structured to limit the damage that unqualified bureaucrats and elected officials might inflict on the companies while at the same time better protecting the taxpayers' investment in the struggling industry. …
FULL TEXT: http://www.heritage.org/Research/Economy/wm2163.cfm

Why Wall Street Always Blows It

By Henry Blodget, *The Atlantic*, December 2008

The magnitude of the current bust seems almost unfathomable – and it was unfathomable, to even the most sophisticated financial professionals, until the moment the bubble popped. How could this happen? And what's to stop it from happening again? A former Wall Street insider explains how the financial industry got it so badly wrong, why it always will—and why all of us are to blame.
FULL TEXT: http://www.theatlantic.com/doc/200812/blodget-wall-street

After the Crash - Helping the U.S. Economy Right Itself

By James Grant, *Foreign Affairs*, November/December 2008

Economic growth in the United States is almost, if not quite, irrepressible. Democratic administration or Republican, it hardly seems to matter to the long postwar trend. Indeed, based on the evidence of 232 years of federal tinkering, American enterprise is policyproof.

Not that the incoming administration can draw much solace from that historical observation. This year's president-elect will be the heir to a burst financial bubble, just as George W. Bush was in 2000. Bush high-mindedly refused to blame the previous administration for the dot-com mania, but the new incumbent would be better served by candor. The truth is that the current mess is a symptom of persistent financial derangement, in particular a sickness of the dollar. At all-too-frequent intervals over the past 20 or so years, supposedly sound institutions and ostensibly rational markets have gone off the deep end. To meet the crisis, the Federal Reserve has intervened with lower interest rates and a faster pace of printing money. But the emergency monetary stimulus has predictably ignited a new speculative upswing - and so it is over the cliff again. ...
FULL TEXT: http://www.foreignaffairs.org/20081001faessay87611/james-grant/after-the-crash.html

Policy and Security Implications of the Financial Crisis - A Plan for America

By James K. Galbraith, *Challenge*, November/December 2008

In mid-June 2008, an international group of economists met in Paris to discuss the gravity of the current economic crisis and what the United States should do about it. The meeting was convened by Economists for Peace and Security and the Initiative for Rethinking the
Economy. The author presided over the off-the-record discussions, summarized here on his own responsibility. In the process, he provides one of the most comprehensive and compelling assessments of where the United States and the world now stand, and what can be done to ameliorate the situation.

FULL TEXT: http://www.metapress.com/content/887460h84406px87/fulltext.pdf (pdf)

The Origins of the Financial Crisis

By Martin Neil Baily, Robert E. Litan, and Matthew S. Johnson, Initiative On Business and Public Policy, The Brookings Institution, November 2008

The financial crisis that has been wreaking havoc in markets in the U.S. and across the world since August 2007 had its origins in an asset price bubble that interacted with new kinds of financial innovations that masked risk; with companies that failed to follow their own risk management procedures; and with regulators and supervisors that failed to restrain excessive taking.

A bubble formed in the housing markets as home prices across the country increased each year from the mid 1990s to 2006, moving out of line with fundamentals like household income. Like traditional asset price bubbles, expectations of future price increases developed and were a significant factor in inflating house prices. As individuals witnessed rising prices in their neighborhood and across the country, they began to expect those prices to continue to rise, even in the late years of the bubble when it had nearly peaked. ...

FULL TEXT:
http://www.brookings.edu/~/media/Files/rc/papers/2008/11_origins_crisis_baily_litan/11_origins_crisis_baily_litan.pdf (pdf)

From "Henry Penny" Morgenthau to Henry Paulson

By William F. Jasper, *The New American*, November 2008

The circumstances of today's $700 billion bailout are eerily similar to those of FDR's New Deal, and today's Pied Pipers are playing the same bipartisan, power-grabbing tune. "It's not based on any particular data point," a Treasury Department spokeswoman told Forbes.com concerning how the figure of $700 billion was arrived at for the financial bailout package. "We just wanted to choose a really large number."

FULL TEXT: http://www.thenewamerican.com/history/american/473

Plan

By James K. Galbraith, *Harper's Magazine*, November 2008

The problem is not how to save capitalism but how to save the unique and successful mixed economy built in the United States over the eighty-five years since the New Deal. Our system is not capitalism. Our economy has a large public sector, which at its best was competently concerned with research, defense, financial stability, environmental safety, social security, and large measures of education, health care, and housing. Today, after thirty years of attack on government, all these functions are damaged and in peril.

FULL TEXT: http://www.harpers.org/archive/2008/11/0082254

Realign the Interests of Wall Street

By Joseph E. Stiglitz, *Harper's Magazine*, November 2008

From the seventeenth-century tulip mania to this century's housing bubble, economies have been susceptible to the quest for the easy buck. Clever people will invariably circumvent regulations and accounting standards; they will seize opportunities to prey upon the poor and the ill-informed, to profit by selling the notion of the free lunch.

Reindustrialize

By Eric Janszen, *Harper's Magazine*, November 2008

Home sales and prices have declined more in the past year than in any year during the Great Depression. Credit contraction has spread to corporate borrowing and student loans. Debate continues over whether the United States as a whole has been in recession since the GDP contraction during the fourth quarter of 2007. But data ranging from retail sales to declining tax revenues serve as clear warnings that the recession may be ongoing. Evidence of economic contraction has been obscured, ironically enough, by the rising inflation that has been spurred by record energy prices.

Republic of the Central Banker

By J. Bradford Delong, *American Prospect*, November 2008

The author, professor of economics at the University of California at Berkeley and former deputy assistant secretary of the treasury in the Clinton administration, writes that Ben Bernanke "is the closest thing to a central economic planner the United States has ever had." He notes that the fate of the U.S. economy depends much more upon the Federal Reserve chairman than on the president. Delong believes that Bernanke may very well be the right person for his job at this juncture in U.S. economic history; a former chair of the economics department at Princeton University, Bernanke is a student of the Great Depression, and his highest priority is to avoid the mistakes that were made at the time. The evolution of central banks on either side of the Atlantic was not by design, notes Delong, but came about through a series of accidents and crises. The absence of a central bank in the U.S. was blamed for most of the financial panics between the 1860s and World War I; presidential administrations after World War II did not plan to turn over macroeconomic policy to the Federal Reserve, writes Delong - "it just seemed like the least-bad idea at the time."

FULL TEXT: **http://www.prospect.org/cs/articles?article=republic_of_the_central_banker**

TARP and the Treasury: Time to Allow Markets to Work

By James L. Gattuso, David C. John and J.D. Foster, Ph.D., WebMemo #2131, The Heritage Foundation, November 14, 2008

Treasury Secretary Henry Paulson recently announced yet another change in direction of the "Troubled Asset Relief Program" (TARP), sowing more uncertainty and confusion in the very financial markets the program is supposed to stabilize. Instead of buying mortgage-backed assets as originally intended, Paulson says he is now considering three alternative initiatives:

1. Stock purchases in non-bank financial firms;
2. Federal financing for investors in securities backed by consumer debt such as car loans, student loans, and credit cards; and
3. Subsidies to mitigate mortgage foreclosures.

Rather than moving forward with these new and troubling approaches, Paulson should follow his own advice and let the markets work--including time for them to absorb his earlier initiatives. …

FULL TEXT: **http://www.heritage.org/Research/Economy/wm2131.cfm**

Financial Bailout - Will U.S. and Overseas Action Stem the Global Crisis?

CQ Researcher, October 24, 2008

Bowing to doomsday warnings that the U.S. and global financial systems could collapse, Congress passed a $700 billion rescue bill early this month. Part of a sweeping $1 trillion government plan to calm the stock market and unfreeze credit — the unprecedented rescue came amid mounting fears of a deep recession and the collapse of such major financial institutions as Lehman Brothers and Washington Mutual. The government's efforts included the federal takeover of mortgage giants Fannie Mae and Freddie Mac, which together hold or guarantee $5.4 trillion in mortgage loans — 45 percent of the national total. The quasi-governmental firms were dragged down by investments in subprime mortgages and other "toxic" financial instruments. Meanwhile, even as the Bush administration and congressional leaders were calling the bailout plan vital, fundamental questions were being raised, including: Is the bailout big enough? And did risky lending by Fannie and Freddie and poor regulatory oversight fuel the crisis?

How to Successfully Stimulate the Economy

By William W. Beach, WebMemo #2113, The Heritage Foundation, October 24, 2008

When the economy is struggling, Congress has a tendency to invoke the same tried and failed policies of the past. Typically, these policies promise hundreds of billions of dollars in government spending while doing little to actually revitalize economic activity. The first round of stimulus checks, like those rebates issued in the 1970s and 2001, were a bust, with only a small portion (perhaps less than 30 cents on every rebate dollar) used for consumption. Furthermore, prior government spending on infrastructure such as highways merely transferred--rather than created--wealth.
During the current period of slow economic growth, Congress should do what it does best: set broad economic policy. Specifically, Congress should concentrate on signaling to investors and workers alike that its principal focus will be on improving pro-growth economic policy, mainly in the areas of tax, energy, and spending policies. The test for distinguishing good stimulus ideas from bad ones should be this: Is the proposal likely to raise the economy to a sustained, higher level of growth? …

FULL TEXT: **http://www.heritage.org/Research/Economy/wm2113.cfm**

A Monetary Malaise

The Economist, October 9, 2008

Founded in 1930, the Bank for International Settlements (BIS) is the oldest and chummiest of the international financial institutions. Based in Basel (with its famously good food), the central bankers' club is the nerve centre for international co-operation on monetary technicalities. How ironic, then, that the BIS's economists put much of the blame for the current mess on central bankers and financial supervisors.

For years, BIS reports have given warning about excess global liquidity, urged central bankers to worry about asset bubbles even when consumer-price inflation was low, encouraged policymakers in a global economy to pay more attention to global measures of economic slack, and argued that banking supervisors needed to look beyond individual firms to the soundness of the financial system as a whole. Today's calamity, in the BIS's view, stems from one fundamental source: a world where credit-driven excesses went on for too long. "The unsustainable has run its course," thundered the organisation's annual report in June.

The case against central bankers comes in two parts. The first is that they, along with other financial regulators, were asleep at the wheel, failing to appreciate the scale of risks being built up in the "shadow" banking system that modern finance had created. The second is that they fuelled a credit bubble by keeping money too cheap for too long. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373682

Shifting the Balance

The Economist, October 9, 2008

Just under ten years ago, during the emerging-market financial crises, *Time* magazine ran a cover headlined "The committee to save the world". It showed Alan Greenspan, then chairman of the Federal Reserve; Robert Rubin, the treasury secretary; and Larry Summers, his deputy. Inside was a breathless account of how this trio of Americans had saved the world economy from calamity by masterminding IMF rescue packages for cash-strapped Asian countries through weekend meetings and late-night conference calls.

Today the threats facing the global economy are graver than they were a decade ago, yet it would be hard to know whom to put on such a cover. Wall Street is at the centre of the mess, so America's stature and intellectual authority has plunged. Rather than staving off defaults in Asia, Mr Paulson, today's treasury secretary, and Ben Bernanke, chairman of the Federal Reserve, are battling to prevent the implosion of their own financial system. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373710

Taming the Beast

The Economist, October 9, 2008

"Wall Street got drunk." "Bankers deserve D." A few years ago those phrases might have appeared on placards held by purple-haired protesters at anti-globalisation rallies. Now they come from the president of the United States and a former chairman of the Federal Reserve. Thinking the microphones were off, George Bush told a group of Republicans in July that Wall Street needed to "sober up" and wean itself from "all these fancy financial instruments". And long before September's events, Paul Volcker gave financiers their D grade along with a devastating critique. "For all its talented participants, for all its rich rewards," he said in April, the "bright new financial system" has "failed the test of the marketplace".

In light of the events of recent weeks, it is hard to disagree. A financial system that ends up with the government taking over some of its biggest institutions in serial weekend rescues and which requires the promise of $700 billion in public money to stave off catastrophe is not an A-grade system. The disappearance of all five big American investment banks—either by bankruptcy or rebirth as commercial banks—is powerful evidence that Wall Street failed "the test of the marketplace". Something has gone awry. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373748

When Fortune Frowned

The Economist, October 9, 2008

After the stockmarket crash of October 1929 it took over three years for America's government to launch a series of dramatic efforts to end the Depression, starting with Roosevelt's declaration of a four-day bank holiday in March 1933. In-between, America saw the worst economic collapse in its history. Thousands of banks failed, a devastating deflation set in, output plunged by a third and unemployment rose to 25%. The Depression wreaked enormous damage across the globe, but most of all on America's economic psyche. In its aftermath the boundaries between government and markets were redrawn.

During the past month, little more than a year after the financial storm first struck in August 2007, America's government made its most dramatic interventions in financial markets since the 1930s. At the time it was not even certain that the economy was in recession and unemployment stood at 6.1%. In two tumultuous weeks the Federal

Reserve and the Treasury between them nationalised the country's two mortgage giants, Fannie Mae and Freddie Mac; took over AIG, the world's largest insurance company; in effect extended government deposit insurance to $3.4 trillion in money-market funds; temporarily banned short-selling in over 900 mostly financial stocks; and, most dramatic of all, pledged to take up to $700 billion of toxic mortgage-related assets on to its books. ...

FULL TEXT: http://www.economist.com/specialreports/displayStory.cfm?story_id=12373696

The First-World Debt Crisis of 2007–2010 in Global Perspective

By Robert Wade, *Challenge*, July/August 2008

We do not yet know how bad the current credit crisis will get. But we do know that policies in rich nations, dominated by the United States, were often the opposite of corrective. As the author writes in this incisive review of the events that led to the crisis, while boom times rolled on, the cost of credit fell, generating pro-cyclical momentum that made matters worse. A new regulatory apparatus is needed, he argues, one that is more aggressive than is currently being discussed.

FULL TEXT: http://www.challengemagazine.com/extra/023_054.pdf (pdf)

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The program page on **"Financial Crisis and Governmental Responses"** will be available at: http://www.usembassy.at/en/embassy/photo/gup.htm.

Information about the services and resources of the American Reference Center is available at:
http://www.usembassy.at/en/embassy/arc.htm

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