Economic Rescue: The Problem

We were at a tipping point." (Secretary Paulson, November 12, 2008)

-- 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

-- Investor confidence in our system was dangerously low.
Economic Rescue: Actions “pre-TARP”

- Foreclosures: "HOPE NOW"
- FHA changes
- GSE receivership
- GSE MBS: preferred stock purchase agreements
- GSE MBS: credit facility

Equity positions in failing companies
- GSEs
- AIG
Economic Rescue: Comprehensive Authority

• Administration asked for broad and flexible mandate to meet financial crisis
• $700B appropriated for use to purchase troubled assets from financial institutions
• Assets divided into securities and whole loans
• Legislation passed in two weeks - enacted October 3, 2008
Economic Rescue: Changes in Strategy

- More direct capital injections needed; asset purchase too slow
- IMF/World Bank meetings: direct capital purchase program
- October 14: plan to purchase $250B in preferred stock in federally-regulated banks and thrifts
- October 26: $115B "out the door" to eight large institutions
- FDIC temporary guarantee of bank debt, increase in deposit insurance and money markets
- Federal Reserve multiple liquidity facilities
- AIG plan revision
Economic Rescue: Current priorities

• Reinforce stability of financial system

• Support markets for securitizing credit outside of the banking system (credit cards, auto loans, student loans)

• Reducing the risk of foreclosure

• Significant shift: distressed asset purchases no longer a priority
Economic Rescue: Disaster Relief

National Disaster Relief
Tax breaks for taxpayers affected by qualifying natural disasters between December 31, 2007 and January 1, 2010
• A special qualified disaster property depreciation
• Increased expensing for qualified disaster expenses
• Enhanced net operating loss carryback

Hurricane Katrina Relief Extension
• Work Opportunity Tax Credit for employers affected by Hurricane Katrina
• Increased rehabilitation credit for structures in the Gulf Opportunity Zone extended through 2009.
Economic Rescue: Disaster Relief (2)

Hurricane Ike Relief
• Temporary tax-exempt bond financing and low-income housing tax relief targeted to the parts of Louisiana and Texas included in the Hurricane Ike Disaster Area
• Victims of Hurricane Ike may also be eligible for the national disaster relief provisions outlined above.

Midwestern Disaster Area Relief
Tax incentives for parts of Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin included in a presidentially declared disaster area between May 20, 2008 and August 1, 2008, including:
• Increased expensing for demolition, environmental remediation and clean-up costs
• Enhanced depreciation for qualified property, education and housing tax benefits
• Increased standard mileage rate for charitable vehicle use