

# Emergency Economic Stabilization Act of 2008

## Summary of Major Provisions

**TARP-Troubled Asset Relief Program** Creates an office within the U.S. Department of the Treasury authorized to purchase mortgage-related, and potentially other “troubled” assets. Authority will be exercised in consultation with the Federal Reserve Board and other federal agencies. \$250 billion is available immediately and the President can authorize an additional \$100 billion for the program. If the President certifies that it is necessary, another \$350 billion will be available unless Congress passes a resolution disapproving. **Oversight of TARP**

- **TARP Reporting.** Treasury is required to submit a report to Congress within 60 days of the first purchase under TARP, with additional reporting every 30 days thereafter. Additionally, Treasury will file a report for each \$50 billion of purchases under the program.

- **Financial Stability Oversight Board.** The Board has oversight authority of TARP. It is comprised of the Chair of the Federal Reserve, the Secretary of the Treasury, the Secretary of HUD, the Director of Federal Housing Finance Agency, and the Chair of the SEC. It will report to Congress quarterly.

- **Special Inspector General.** Conduct, supervise and coordinate audits and investigations of TARP. Reports quarterly to Congress.

- **Comptroller General.** Responsible for oversight of TARP and reports to Congress every 60 days. Conducts an annual audit of TARP.

- **Judicial Review.** Courts have authority to review actions of Treasury under TARP to ensure they are in accordance with law, and not arbitrary or capricious.

- **Congressional Oversight Panel.** Five-member panel appointed by congressional leaders (One member appointed by each of the Senate majority and minority leaders, the House Speaker and House minority leader. The remaining member chosen by House Speaker and Senate majority leader, after consultation with the Senate and House minority leaders.) Reporting every 30 days to Congress on TARP and its effectiveness and contribution to market transparency. Also reporting on the effectiveness of foreclosure mitigation efforts.

**Insurance Program for Troubled Assets** Alternative to asset purchase. Treasury will establish insurance program for troubled assets, charging a risk-based premium. Limited to assets originated or issued prior to March 14, 2008. Treasury to report on the program to Congress within 90 days of enactment.

### Taxpayer Protections

- Revenues from sale of troubled assets to be used to pay down national debt.

- In 5 years, if TARP has incurred any losses, the President must propose plan to recover such losses from the financial industry.

- Treasury to receive non-voting warrants from institutions to cover any losses and costs, or to share in any equity gains.

### **Homeowners**

- For mortgages and mortgage-backed securities purchased under TARP, Treasury will implement a plan to mitigate foreclosures and encourage mortgage servicers to do the same through the HOPE for Homeowners or other programs.
- Treasury will coordinate with the Federal Reserve, FDIC and government agencies to identify assets for purchase that will help the Treasury improve the loan modification and restructuring process, and to help tenants remain in their homes under current lease terms.
- Treasury may use loan guarantees or credit enhancements to facilitate loan modification and prevent avoidable foreclosures. Treasury will consent to reasonable requests for loss mitigation measures, where appropriate.
- Increased eligibility for participation in Hope for Homeowners Program.

### **FDIC & Federal Credit Union Insurance**

Temporarily increases deposit insurance limit from \$100,000 to \$250,000 per account, until December 31, 2009.

### **Executive Compensation**

Treasury will establish compensation standards for senior executives (top 5) of institutions whose assets are directly purchased under TARP. Standards include barring incentives for taking unnecessary and excessive risks, prohibiting golden parachutes while Treasury holds a debt or equity position in the institution, and providing for recovery of compensation based on earnings or gains that are later proved to be inaccurate – so called “claw back” provisions. For institutions participating in auction sales under TARP (aggregating \$300 million or more including direct purchases), new golden parachute arrangements that pay out in the event of termination, bankruptcy, insolvency, or receivership are prohibited. Establishes 20% excise tax on golden parachute payments triggered by events other than retirement, and tax deduction limits for compensation above \$500,000.

### **Special Report on Regulatory Reform**

The Congressional Oversight Panel will report on the current state of the financial regulatory system and its effectiveness at overseeing market participants and protecting consumers. The panel will make recommendations for improvements, including whether to regulate participants currently outside the regulatory structure and whether there are gaps in consumer protection. The report is to be submitted to Congress by January 20, 2009.

### **Regulatory Modernization Report**

By April 30, 2009, the Treasury Secretary will review the state of the markets and the effectiveness of the regulatory system in overseeing market participants, including the OTC swaps market and the GSEs. It will include recommendations on regulating market participants that are currently outside the regulatory system and on enhancing the clearance and settlement of OTC swaps.

### **Authority to Suspend Mark-to-Market**

SEC has authority to suspend mark-to-market accounting requirements for any issuer or for any class or category of transaction.

**Study on Mark-to-Market**

SEC, in consultation with the Federal Reserve and Treasury, will conduct a study on mark-to-market (FAS 157), including its effects on balance sheets, its impact on bank failures in 2008, and its impact on the quality of information available to investors. The report will also look at the Financial Accounting Standards Board process in developing accounting standards. The SEC will report to Congress within 90-days.

**Study on Margin Authority**

Comptroller General will conduct a study to determine the role of leveraging and sudden deleveraging of financial institutions in the current financial crisis. The report will include an analysis of regulatory authority relating to leveraging. The report is due to Congress by June 1, 2009.

**Unrelated Tax Provisions**

**AMT Patch**

Extends alternative minimum tax (AMT) relief for nonrefundable personal credits and increases the AMT exemption to \$69,950 for joint filers and \$46,200 for individuals in 2008. For tax filers who were not subject the AMT in 2007, these changes will generally protect them from being subject to the AMT in 2008 all other things being equal. Also provides relief to taxpayers who recognized AMT income by exercising incentive stock options (ISOs) in which the stock subsequently lost value.

**Disaster Relief**

Provides for \$8.8 billion in disaster tax benefits. The provisions are generally similar to those enacted in the Gulf Opportunity Zone Act and the Katrina Emergency Tax Relief Act of 2005.

**Tax Extenders**

For individuals, extends the deduction for state and local sales taxes and the above-the-line deduction for qualified tuition expenses, among others.