



## ECONOMIC RESCUE ALTERNATIVE PLAN

September 29, 2008

*We believe that policymakers must act decisively and correctly.*

*We believe that we can help Wall Street “workout” of this crisis, not force the taxpayers into a “bailout.”*

*We believe that voluntary private capital, not involuntary taxpayer capital, will help the system recover.*

### A Work-Out—Not a Bail-Out

- **Stabilizing Financial Markets:** Require the Treasury Department to guarantee losses up to 100%, resulting from the failure of timely payment and interest from mortgage-backed securities (MBS) originated *prior* to the date of enactment. Such insurance would provide immediate value to the MBS and a foundation for which they could then be sold.
- **Risk-Based Premiums:** Direct the Treasury Department to assess a premium on outstanding MBS to finance this insurance. Participation in the program would be mandatory for *all* holders of such MBS in order to guard against adverse selection where only the holders of troubled assets participate. A risk-based premium would be assessed on those with troubled MBS. The premium would expire when the Treasury Secretary determines the fund has sufficient resources to meet any projected losses.

### Private-Capital Off the Sidelines by Empowering Private Investors

- **Net Operating Losses:** Allow companies to carry-back losses arising in tax years ending in 2007, 2008, or 2009 back 5 years, generating a tax refund and immediate capital. Despite the presence of willing buyers, many firms with MBS are not willing to sell at such a huge loss. Such a carry-back provides a cushion for any such loss, making firms more willing sellers.
- **Repatriation Infusion:** Allow a repatriation window for profits earned by U.S. firms overseas. Such repatriation amounts would be taxed at 0% *if* invested in distressed debt (as defined by Treasury) for at least one year.
- **Bank Losses on GSE Stock:** Allow banks to treat losses on shares of preferred stock in Fannie Mae and Freddie Mac as ordinary losses, not as capital losses.
- **Two-Year Suspension of the Capital Gains:** Immediately suspend the capital gains rate from 15% for individuals and 35% for corporations. By encouraging corporations to sell unwanted assets, this provision would unleash funds and materials with which to create jobs and grow the economy. After the two-year suspension, capital gains rates would return to present levels but assets would be indexed permanently for any inflationary gains.

### Reforming a Failure in Government Institutions

- **Limit Federal Backing for High Risk Loans:** Mandate that GSEs no longer securitize any unsound mortgage that is: (1) not fully documented to meet minimum requirements for work, assets, and income; (2) written to comply with any law or regulation that would otherwise violate a firm’s lending rules.
- **Schedule the GSEs for Privatization:** Transition Fannie and Freddie over a reasonable time period to truly private companies without special government privileges and open them up to real market competition. This reform would 1) establish commonsense limits for their capital requirements and portfolio holdings relative their size, 2) focus their mission on affordable housing only, not profit

making, 3) require them to pay an appropriate risk-based amount for the government guarantee they enjoy, 4) subject them to state and local taxes and accurate SEC filings like every other private for-profit corporation, and 5) ultimately provide for the phase out their GSE charters once their conservatorship has ended.

- **Suspend “Mark to Market” Accounting:** Direct the SEC to suspend the mark-to-market regulatory rules until the agency can issue new guidelines that will allow firms to mark these assets to their true economic value. The current rules contribute to a downward spiral as firms have to evaluate their assets not on the basis of their long-term investment but rather on a short-term mania.
- **Stabilize the Dollar:** Repeal the Humphrey-Hawkins Full Employment Act which diverts the Federal Reserve’s attention from long-term price stability to short-term economic growth. In an effort to fuel the economy, this additional mandate has encouraged the Fed to keep rates artificially low, fueling economic boom and busts, and now a strong up-tick in inflation and the decline of the dollar (as investors free dollars for hard assets). This reform would require the Fed to establish a numerical definition for price stability and maintain a policy that promotes it over the long-term.

### **Oversight and Corporate Accountability**

- **Executive Compensation Limits:** Require the Treasury to write rules prohibiting excessive compensation or golden parachutes to executives of failed companies at the expense of taxpayers.
- **Strict Enforcement of Laws Designed to Protect Investors:** Task the SEC with reviewing the annual audit reports of entities the federal government has brought under conservatorship or now owns, and determine if those annual audit reports from years 2005 to present accurately reflected the financial health of those businesses.

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