

Republican Alternative to the Treasury Plan

Republican Committee Staff Recommendations

1. Private Equity

On Monday, September 22, the Federal Reserve issued policy guidance that will allow investors under certain circumstances to take up to a 33 percent equity stake in a bank without triggering the requirements of the Bank Holding Company Act. To further enhance this action, we can propose increasing the permissible equity stake to 40-45 percent. In order to most effectively address non-aggregation and control regulatory concerns and provide private equity capital to the banking industry, a “silo” structure, which involves the private equity fund’s creation of a separate fund for its investors that would invest solely in banks, could be employed.

2. Commercial Paper

Create the “National Repository and Lending Institution (NRLI)”, which would be a Federal government institution where businesses could access short-term loans with maturities of up to one year. While this would involve direct government involvement in the private economy, the assistance would be flowing directly to Main Street – which played no role in the current financial crisis – rather than rewarding Wall Street, which made the mess. This institution would have the full faith and credit of the Federal government behind it. The NRLI would act as a back-up facility to provide liquidity to businesses in exigent circumstances. The NRLI would be sunset two years from date of enactment.

3. FDIC

Remove the \$100,000 deposit insurance cap on transaction accounts at depository institutions, as a way of shoring up confidence in the banking system among small businesses that often keep funds well in excess of \$100,000 in their payroll and vendor accounts at banks. In the event of a major commercial bank failure that results in many of these currently uninsured deposits being lost, other large depositors may panic and pull their money out, causing a run on the banking system and exacerbating the credit crunch. *(This was proposed by conservative economist and former Fed Governor Larry Lindsey. It would presumably have strong support from community bankers, but would be opposed by free-market conservatives who view higher deposit insurance limits as creating moral hazard issues of the same kind that we are currently dealing with in some of the government bail-outs.)*

4. M3

H.R. 2754, *the Sunshine in Monetary Policy Act*, introduced by Rep. Paul, would promote greater transparency by requiring that the Federal Reserve collect and publish on a weekly basis the aggregate measure of M3 and all components of M3 not currently reported as part of M2. M3 is a measure of money supply that includes both M1 and M2, as well as other components such as time deposits at commercial banks in amounts of \$100,000 or more, term repurchase agreements, institution-only money market mutual funds, term Eurodollars held by U.S. residents in Canada and the U.K., overnight retail purchase agreements (Repos), and overnight Eurodollars held by U.S. residents.

5. Ordinary Loss Treatment for GSE Stock

Allow holders of Fannie Mae and Freddie Mac preferred stock, which lost virtually all of its value when the two Government Sponsored Enterprises were placed into government conservatorship, to treat their losses as ordinary rather than capital losses for tax purposes, which would permit the losses to offset ordinary income. Many community banks across America hold GSE preferred stock that they are being forced to write down as a result of the government's extraordinary intervention, with negative consequences for their capital positions. Extending favorable tax treatment to these transactions will reduce the impact of the write-downs, and allow community banks to continue playing their vital role in lending to families and small businesses.

Republican Committee Member Suggestions

1. Create a private auction facility organized by the government where private parties buy assets at whatever price the market would bear in a series of auctions, forcing institutions to clean out their balance sheets and taking appropriate losses. If the results of the auctions left an institution short of capital and insolvent, use taxpayer money to invest in senior cumulative preferred stock in those institutions in order to make them solvent. The impaired assets would be off the institutions' books, speculators and vulture funds could deal with the complex securities. Taxpayers would then be investing in well capitalized institutions rather than in junk securities, and the taxpayer would receive profits and/or capital gains. (Rep. Jones)
2. Repeal or Suspend Fair Value Accounting (Multiple Members)
3. Moratorium on FASB to implement new accounting changes for 2 years
4. Bond Insurers must return to insuring only municipal debt no structured asset insurance (Rep. Castle)
5. Increased regulation on the credit rating agencies (Rep. Castle)
6. H.R. 6987 - Amend the Sarbanes-Oxley Act of 2002 to require officers to repay bonus amounts received during a year in which their company is subject to a taxpayer bailout, as well as the two previous years (Rep. Feeney)
7. CEOs that participate in the Treasury program are limited to their base salary no incentives or bonus of any kind (Rep. Capito)
8. CEO and other executives cannot serve on a Board of Directors in the future if the institution participates in the Treasury program (Rep. Hensarling and Royce)
9. Punish executives for their behavior if it was tied to compensation incentives (Reps. Biggert and Pryce)
10. Rep. Garrett's bill which makes substantial modifications to Sarbanes-Oxley
11. Increase disclosure of CDOs (Rep. Castle)
12. Increase SEC Enforcement staff (Rep. Castle)
13. Increase FHA's budget to provide for increased staff and technology to handle the volume of new loans (Rep. Biggert)
14. Issue \$700 billion in checks to homeowners (Rep. McCotter)

Tax-Related Policy Suggestions

1. Provide tax benefits to entities that purchase distressed assets and tax benefits to entities to hold distressed assets (Rep. Hensarling)
2. New Carryback Tax Deduction– Financial institutions should have the option to benefit from a one-time, 5-year carryback deduction on net operating losses. (Rep. Price)
3. 0% capital gains tax (Rep. Neugebauer)
4. Increase IRA, 401(k)/403(b) annual contributions (Rep. Paul)
5. H.R. 6373 Amend the Internal Revenue Code to: (1) establish tax-exempt Home Ownership Mortgage Expense Accounts, IRA-like accounts for home ownership. (Rep. McCotter)
6. H.R. 87 Allows increased annual contributions to Coverdell education savings accounts. (Rep. Biggert)
7. Reinststitute a one-year provision on repatriating foreign income that was included in the 2004 Jobs Act, which could raise approximately \$350 billion as it did in the 2004 Jobs Act. (Rep. English)