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Senate Passes Rescue Provisions – Support in House Unclear

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Tonight, by a vote of 74 to 25 the U.S. Senate passed a comprehensive package which includes the financial rescue deal (the Emergency Economic Stabilization Act of 2008). The rescue provisions are the same ones considered and rejected by the U.S. House of Representatives on Monday by a vote of 205 to 228. The difference is that the Senate added provisions that would extend FDIC coverage to accounts worth $250,000 and the Senate version of the tax extenders bill. Now the question is whether the U.S. House of Representatives will pass this comprehensive rescue/tax extenders bill (H.R. 1424).

The ultimate fate of the bill in the House is unclear. The addition of the FDIC provisions and the tax extenders bill could be just the change needed to get some of the House members who opposed the rescue bill on Monday to change their votes. Earlier this week, the tax extenders bill was in jeopardy of not being passed this year because of an impasse between the House and Senate. The Senate version of the tax extenders bill includes a one-year patch for the alternative minimum tax, an extension of numerous tax breaks for corporations – including tax breaks for the fossil fuel industry, an extension of renewable energy tax breaks, and mental health parity provisions. Many House Republicans who had voted against the rescue bill on Monday strongly support these provisions and may be willing to change their vote, especially if the only alternative is that these tax breaks expire at the end of the year. On the other hand, because it includes tax breaks for fossil fuel, more Democrats could end up voting against the comprehensive rescue/tax bill.

In the broadest of terms, the rescue seeks to restore

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confidence and liquidity to markets that are frozen and unyielding. It targets the real estate market as a proxy for the credit markets as a whole because it (housing most certainly) is the root cause of the problems being confronted. The intention is to encourage private capital to conclude that a floor has been set so private deals should happen.

The bill allows the Treasury Department to spend up to $700 billion to purchase troubled mortgage debt from financial institutions through the Troubled Asset Relief Program (TARP). The Treasury would hold these assets and ultimately sell them to third parties once the market has stabilized.

The first $250 billion would be made immediately available and an additional $100 billion released upon the Treasury Secretary's certification of need. The President must request the final $350 billion from Congress in writing. Congress could prevent the release by passing a joint resolution of disapproval within 15 days of that request.

The bill also requires the Treasury Department to create an insurance program for troubled assets, including mortgage-backed securities. This part of the program would be paid for by premiums from participating financial institutions. House Republicans urged the adoption of these provisions; however, Treasury Secretary Paulson has criticized them. So, it is unclear how much this program will be used.

The legislation continues to be short on details and leaves many of the crucial decisions up to the Treasury Department, in consultation with industry experts. In other words, if the bill becomes law, industry representatives still have an opportunity to lobby for beneficial regulations, guidance, and other implementation policies. A summary of rescue provisions is available here.

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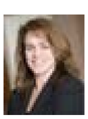

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