THE WHITE HOUSE
PRESIDENT
GEORGE W. BUSH

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Office of the Press Secretary
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Fact Sheet: Plan To Stabilize Financial System Is Limited In Size, Scope, And Duration

The Federal Government Is Acting Swiftly To Preserve Our System Of Free Market Capitalism And Return Our Nation To A Path Of Prosperity, Job Creation, And Long-Term Economic Growth

President Bush Discusses the Economy
In Focus: Economy
White House News

Today, President Bush visited the United States Chamber of Commerce and discussed the actions that the Federal Government has taken in response to the financial crisis. The President explained that the government took swift action to protect the financial security of the American people. One important element, the equity purchase program, is designed with strong protections to ensure the government's involvement is limited in size, limited in scope, and limited in duration:

- **The government's involvement is limited in size.** The government's investment is capped for any individual firm that chooses to participate in this voluntary program, so that private investors retain control.
- **The government's involvement is limited in scope.** The government will not exercise control over any private firm. The shares owned by the government will have voting rights that can be used only to protect the taxpayer's investment – not to direct the firm's operations.
- **The government's involvement is limited in duration.** This program includes provisions to encourage banks to buy back their shares from the government when the markets stabilize and they can raise money from private investors.

We must never lose sight of the enormous benefits delivered by the free enterprise system. Democratic capitalism remains the greatest system ever devised. Around the world, free market policies have lifted millions of people out of poverty and given them the opportunity to build a more hopeful life. In the United States, it has given our large and dynamic economy the flexibility and resilience to absorb shocks, adjust, and bounce back.

The Government Is Focused On Preserving The Stability Of The Financial System

The Federal Government has responded to the financial crisis with systematic and aggressive measures to protect the financial security of the American people. These actions will take time to have their full impact, but they are decisive measures and big enough to work. As these actions take effect, they will help restore stability to our markets and confidence to our financial institutions; they will allow small businesses to return to a path of prosperity; and they will make it easier for Americans to borrow for cars, college education, and homes.

The government has taken unprecedented action to boost liquidity:

- The Federal Reserve has used a variety of tools to inject hundreds of billions of dollars in new liquidity into the financial system.
- The Federal Deposit Insurance Corporation (FDIC) is temporarily guaranteeing most new debt issued by insured banks, which will make it easier for banks to borrow needed funds from each other, and protecting taxpayers by charging banks an appropriate fee for the additional insurance coverage.
- The Federal Reserve has announced a new program to provide support for commercial paper – a key source of short-term financing for American businesses and financial institutions.

The government has provided substantial new protections for responsible consumers, businesses, and investors:

- The Federal Government has temporarily expanded the amount of money insured in bank and credit union savings accounts, checking accounts, and certificates of deposit from $100,000 to $250,000.
- The FDIC has created a new short-term program to grant unlimited insurance for non-interest bearing transaction accounts, which are used by many small businesses.
- The Treasury Department has offered temporary government insurance for money market mutual funds.
- The Securities and Exchange Commission (SEC) is vigorously investigating fraud, manipulation, and abuse in the markets.

The government prevented a disorderly failure of large, interconnected firms, and did so in a way that protects taxpayers and does not shield executives from the consequences of their irresponsible decisions. For example, out of concern that the failure of Bear Stearns, Fannie Mae, Freddie Mac, and AIG could collapse our financial system, the government moved to protect the American people. Failed executives will not be eligible to receive a windfall from hard-earned taxpayer dollars.

The United States is cooperating closely with partners overseas who are also feeling the effects of this global financial crisis. Last week, President Bush met with finance ministers from the G-7 and the G-20 groups, which include some of the world's largest and fastest-growing economies. On Wednesday, leaders of the G-8 issued a statement calling for a leaders meeting with a broader group of countries – developed and developing – to work together to improve the regulatory and institutional structures of our nations' financial systems. Earlier this week, leaders in Europe announced steps to purchase equity in major banks and provide temporary government guarantees for bank loans. And last week, the Federal Reserve and other central banks around the world enacted a joint cut in interest rates, which will help ease the pressure on credit markets around the world. Tomorrow, President Bush will meet with French President Nicolas Sarkozy and European Commission President Jose Barroso.

<u>The Government Has Undertaken An Extraordinary Effort To Help Banks Get Loans Flowing To American Consumers And Businesses</u>

This week, President Bush announced that the Treasury Department will use a portion of the $700 billion rescue package to inject capital directly into banks by purchasing equity shares. This new capital will help banks fill the gap created by losses during the financial crisis, so they can make loans to businesses and consumers. Large banks, as well as smaller community and regional banks, will be able to participate. Additionally, the Treasury Department will use some of the $700 billion to purchase troubled assets that are weighing down banks' balance sheets and clogging the financial system.

- **The taxpayer money spent on the economic rescue package will be subject to strong oversight by a bipartisan board.**
- **The Administration and many other experts, including the Congressional Budget Office, believe that the final cost of this package could be significantly less than the initial investment.** Many troubled assets that the government purchases will increase in value as the market recovers, and the government will eventually have the ability to resell these assets at a higher price. Also, the government will receive quarterly dividends from the equity shares it purchases in financial institutions, and if banks do not repurchase these shares within five years, the annual dividend they owe the government will increase.

<u>It Is Vital That We Update Our Financial Regulations To Meet The Realities Of Today's Global Financial System</u>

In the long term, we need to update America's system of financial regulations. Many of the regulations governing America's markets were written in a different era, patched together over the past 75 years in response to market conditions that may no longer exist. Secretary Paulson has proposed a detailed blueprint for modernizing regulations. The blueprint recommends creating a new objectives-based approach to regulation that includes a market stability regulator, a prudential regulator, and a business conduct regulator that focuses on consumer protection. Enacting these ideas into law should be a top priority for the next President and the next Congress.

- **We also must ensure that efforts to prevent a recurrence of this global financial crisis do not lead us to give in to false temptations such as economic isolationism.** The best way to demonstrate

America's commitment to open markets is for Congress to approve the Colombia, Panama, and South Korea free trade agreements this year.

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