

RealityCheck

The 411 on the Emergency Economic Stabilization Act of 2008 *A layman's guide to what it means for consumers and how it may benefit home buyers and sellers*



President Bush recently signed into law a far-reaching, \$700 billion legislation known as the Emergency Economic Stabilization Act of 2008. Originally dubbed by the media as the “Bailout Bill,” the legislation is designed to unlock credit markets and restore confidence in the nation’s banking system. The measure authorizes the government to buy troubled assets from financial institutions reeling from record home foreclosures. The bill contains \$149 billion in tax breaks and affirms regulators’ power to suspend asset-valuing rules that many companies blame for fueling a financial crisis.

As CNNMoney.com’s October 4, 2008 article entitled *Bailout: Will it work?* reported, “The goal is to unfreeze the credit markets. Financial institutions have become paralyzed with fear and though they have plenty of cash on hand, they’ve been hoarding it. Without this intra-bank lending, businesses are having trouble getting the financing they need even for daily operations, much less loans for longer-term projects.”

I know the question we are all asking ourselves right now is how is this going to affect all of us. How will it affect our retirements? How will it affect the mortgage crisis? The answers to these and other questions will only be answered over time but what I can tell you is that this legislation is a step towards stabilizing our market. The main goals of the new act are to:

- **Shine a new light of scrutiny and accountability on Wall Street** including a curb on executive pay for companies selling assets or buying insurance from Uncle Sam. According to CNNMoney.com’s October 4, 2008 *Bailout 101: What new law says*, “For example, any bonus or incentive paid to a senior executive officer for targets met would have to be repaid if it’s later proven that earnings or profit statements were inaccurate.” That article further reported, “The bailout plan also underlines the Securities and Exchange Commission’s power to change accounting rules on how banks and Wall Street firms value securities, and directs the agency to study the issue.”
- **Allow financial institutions to sell their troubled assets**, mostly mortgage related to the government. According to the CNNMoney.com article, “It would allow the Treasury access to the \$700 billion

in stages, with \$250 billion being made available immediately.” It is believed that as a result of passing this act banks will no longer be afraid to lend to each other, thereby making loans more available.

- **Provide support for taxpayers.** According to the CNNMoney.com Bailout 101 article, there are a number of provisions that will protect taxpayers. “One will direct the president to propose a bill requiring the financial industry to reimburse taxpayers for any net losses from the program after five years. And the Treasury would be allowed to take ownership stakes in participating companies.”
- **Better oversight through two committees that will be set up.** The CNNMoney.com Bailout 101 article reported, “A Financial Stability Board would include the Federal Reserve chairman, the Securities and Exchange Commission chairman, the Federal Home Finance Agency director, the Housing and Urban Development secretary and the Treasury secretary. A congressional oversight panel, to which the Financial Stability Board would report, would have five members appointed by House and Senate leadership from both parties.”
- **Encourage Lenders to Mitigate Foreclosures.** The CNNMoney.com Bailout 101 article also reported, “The new law calls on federal agencies to encourage loan servicers to modify mortgages by a number of means—including reducing the principal or interest rate. It also extends a temporary provision that exempts from federal income tax any debt forgiven by a bank to a borrower in a foreclosure.”
- **Provide tax breaks for the middle class.** The CNNMoney.com Bailout 101 article explained the three key tax elements as follows, “It extends a number of renewable energy tax breaks for individuals

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and businesses, including a deduction for the purchase of solar panels. The law also continues a host of other expiring tax breaks. Among them: the research and development credit for businesses and the credit that allows individuals to deduct state and local sales taxes on their federal returns. In addition, the bill includes relief for another year from the Alternative Minimum Tax, without which millions of Americans would have to pay the so-called 'income tax for the wealthy.'"

So how long will it take for these anticipated benefits to be seen on the proverbial Main Street? President Bush noted in his public address immediately following the bill's passage that it "will take some time for this legislation to have a full impact on the economy."

What the New Act May Mean For Home Buyers and Sellers

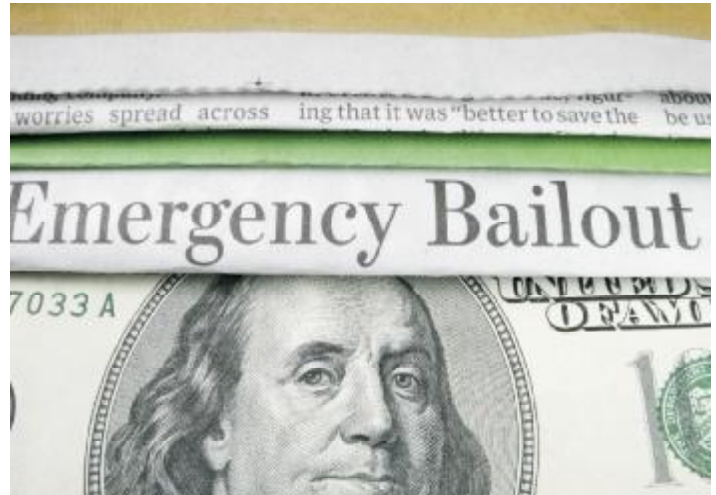
I agree with the National Association of Realtors' stance that the passing of the Emergency Economic Stabilization Act of 2008 is a positive move for our economy, particularly the housing sector which represents 20 percent of the nation's gross domestic product (GDP). The health of the nation's housing market is critical to the financial well being of every household in the country.

According to *USA Today's* October 6, 2008 article entitled *For bailout to work, housing market needs to mend*, "Housing is a critical component to the U.S. economy and by extension the availability of credit. Roughly one in eight U.S. jobs depends on housing directly or indirectly — from construction workers to bank loan officers to big brokers on Wall Street. A turnaround in housing prices would boost confidence in the wider economy and, experts hope, goad banks into lending again."

The government's resolve to take action that is focused on fixing the credit crisis is to be commended, particularly because these major moves to add greater liquidity to the market should have a beneficial effect on home buyers and sellers and the real estate industry as well which should ultimately benefit other areas of our nation's economy.

As we have seen in prior challenging financial cycles, consumers often invest in tangible assets like real estate during times of economic uncertainty. We expect this may be the case in the months ahead, as consumers look to buy homes for all the lifestyle reasons that prompt people to buy (i.e. marriage, births, divorce, death, retirement, etc.).

According to NAR, home prices appreciated at a compound annual growth rate of 6.2% between 1972 and year-end 2007, a period that included four economic recessions. Over the long-term, real estate has typically proven to be a good investment. The current credit crunch is different than previous shocks to the financial system so making predictions about demand for housing is difficult.



I believe the Emergency Economic Stabilization Act of 2008 is a positive step forward. No, it isn't an overnight answer but I believe that this legislation is pointing us in the right direction and will put us on the right path towards long-term economic growth and prosperity.

In view of this new act, now may be the best time to buy, thanks to a number of important factors that are characterizing our current market:

- Interest rates remain attractive
- Mortgage money should become more easily accessible to qualified consumers
- Inventory is plentiful
- Many sellers are motivated
- The economic stimulus package is allowing you a limited opportunity to purchase more house for your money than you may have been able to buy in the recent past
- A home is still the place where you live and plant your roots

As you can see, home buyers may have an incredible opportunity right now. But this type of market may not last forever and if you intend to buy a home, now may be your time to enter or re-enter the real estate market.

If you are ready to make an informed and educated decision about real estate, please contact me today. I would be happy to help you find the opportunities in today's market.

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