



BROWN RUDNICK'S STRUCTURED RESOLUTION GROUP

US TREASURY BAIL-OUT ALERT

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As of this writing, a revolt from the Republican side of the aisle has slowed progress toward Congressional passage of the federal bail-out plan. On Thursday afternoon, the Republican and Democratic congressional leaders announced that they had reached an agreement in principle (detailed below) on the bail-out legislation. The "Mission Accomplished" banner had to be quickly taken down after the outline was presented at the White House meeting with President Bush, Senators John McCain and Barack Obama, and leaders from the House and Senate. The meeting was described as "contentious" and highlighted the fact that many Republican Congressmen are deeply troubled by the details (and, in some cases, the very concept) of the bail-out.

It has also been reported that a group of Republican legislators, led by Representative Eric Cantor, has circulated yet another counterproposal to the Treasury plan. The draft legislation would differ drastically from other counterproposals in that it rejects the very idea of the Treasury's bail-out through the purchase of troubled assets. Instead, this new proposal would have the government provide insurance to financial institutions which hold such assets, with the institutions paying insurance premiums for the coverage. House Minority Leader John Boehner has insisted that a large majority of Republicans will not support the bill unless "serious consideration" be given to this alternative plan.

The Agreement on Principles reached earlier on Thursday by the lawmakers supports the core ideas of the Treasury's original proposal but also includes a number of changes and additions outlined in the House and Senate draft bills championed by the Democrats, as discussed in our earlier alerts this week. The agreement includes the following provisions:

- **Funding Authority:** In a major change to the original proposal, only \$250 billion of the \$700 billion in the program would be available immediately, with an additional \$100 billion to be released upon the Treasury Secretary's certification that funds are required, and disbursement of the remaining \$350 billion being subject to a Congressional joint resolution of disapproval.
- **Taxpayer Protection:** The agreement requires that the Treasury Secretary set limits on executive pay for participating companies, that any transaction within the program include equity sharing and that most profits resulting from the program be used to reduce the national debt.
- **Oversight and Transparency:** The agreement calls for the establishment of a strong oversight board (with cease and desist authority) and an independent Inspector General to monitor the use of the Treasury's authority. The agreement also requires periodic audits and detailed reports to be furnished to Congress on a regular basis.

- **Homeownership Preservation:** The agreement requires loan modifications for mortgages owned or controlled by the government, increased efforts to modify mortgages for homeowners at risk of foreclosure and allocation of future profits toward affordable housing.

Interestingly enough, the Congressional compromise does not call for an amendment of bankruptcy laws to allow judges wider discretion with respect to the terms of mortgages securing primary residences. Nonetheless, some of the strongest opposition to the legislation continues to come from Congressional Republicans who do not support the government's interference in the economic sphere.

As of now, the administration and Congressional leaders are continuing to negotiate the rescue package. Presidential politics, which was injected into the debate on Thursday, has now been extracted from the negotiating process as both candidates travel to Oxford, Mississippi for the first debate tonight. The consensus view remains that a final agreement will be hammered out before the markets open for business on Monday.

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