

THE WHITE HOUSE

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Confronting Economic Challenges Head On

President Bush Outlines Five Measures To Address The Nation's Financial Challenges

Today, President Bush outlined decisive government action to preserve and sustain America's financial system and economy. This is a pivotal moment for America's economy. Problems that originated in the credit markets – and first showed up in the area of subprime mortgages – have spread throughout our financial system. As a result, the government is acting now to protect our Nation's economic health from serious risk.

Our Economy Faces Unprecedented Challenges, So We Are Responding With Unprecedented Action

The Federal Government should intervene in the marketplace only when necessary; in today's financial market, government intervention is essential. In recent weeks, the Federal Government has taken a series of measures to help promote stability in the overall economy. But more action is needed. We must address the root cause behind much of the instability in our markets – the mortgage assets that have lost value during the housing decline and are now restricting the flow of credit. Therefore, after consulting closely with Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke, and Securities and Exchange Commission Chairman Christopher Cox, President Bush outlined the following five actions:

1. The Administration will work with Congress to pass legislation approving the Federal government's purchase of difficult-to-sell assets, such as troubled mortgages, from banks and other financial institutions. This is a decisive step that will address underlying problems in our financial system. It will help take pressure off the balance sheets of banks and other financial institutions, and it will allow them to resume lending and get our financial system moving again.

The President appreciates the willingness of Congressional leaders to confront this situation head on.

- While we work with Congress to pass legislation, the Treasury will take immediate action to provide additional funding to mortgage markets by increasing Treasury purchases of GSE mortgage securities.
- The President believes we must join together to move the urgently needed legislation as quickly as possible, without adding controversial provisions that could delay action.

2. The Treasury Department is acting to restore confidence in a key element of America's financial system – money market mutual funds. Recent stresses on the markets have caused some to question whether these investments are safe and accessible, so the Treasury Department has established a temporary guarantee program to ensure that investors are compensated in the unlikely event that a money market fund must liquidate. For every dollar invested in an insured fund, you will be able to take a dollar out.

- To participate, money market funds must opt in and pay a fee.
- The President has approved the use of up to \$50 billion through the existing Exchange Stabilization Fund.
- Concerns about the value of money market funds falling below the amount invested in them have exacerbated global financial market turmoil. Without this guarantee program, there would be a substantial risk of heightened global instability.

3. The Federal Reserve is also taking steps to provide additional liquidity to money market mutual funds, which will help ease pressure on our financial markets. These measures will ensure the functioning of the financial markets and support the flow of credit to households and businesses.

- The Federal Reserve will foster liquidity in the asset-backed commercial paper and money markets by extending loans to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper from money market mutual funds.
- The Federal Reserve will further enhance market liquidity by purchasing short-term obligations issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

4. The Securities and Exchange Commission has issued new rules temporarily suspending the practice of short selling on the stocks of financial institutions. This is intended to prevent investors from intentionally driving down particular stocks for their own personal gain. The SEC is also requiring certain investors to disclose their short selling and has launched rigorous enforcement actions to detect fraud and manipulation. Anyone engaging in illegal financial transactions will be caught and prosecuted.

- Short selling increases liquidity in the market in normal market conditions but may currently be contributing to sudden price declines.
- The new rules, effective immediately until October 2, prohibit short selling on 799 financial institutions.

5. The Administration looks forward to working with Congress on measures to bring greater long-term transparency and reliability to the financial system. This includes those in the regulatory blueprint submitted earlier this year by Secretary Paulson. Many of the regulations governing America's markets were written in a different era, patched together over the last 75 years in response to market conditions that may no longer exist. It is vital that we update them to meet the realities of today's global financial system.

- The current regulatory framework includes five Federal depository regulators, one Federal securities regulator, one Federal futures regulator, and insurance regulations that are mostly State-based, with more than 50 regulators.

- The Blueprint recommends instead 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.

These measures will entail risk, but the risk of not acting would have been far higher. Further stress on our financial markets would cause massive job losses, devastate retirement accounts, further erode housing values, and dry up loans for new homes, cars, and college tuitions. These are risks America cannot afford to take.

The Federal Government Is Taking Action To Restore Confidence In America's Financial Markets

In this difficult time, President Bush knows many Americans are wondering about the security of their finances. Every American should know that the Federal Government continues to enforce laws and regulations protecting your money. Through the Federal Deposit Insurance Corporation, every savings account, checking account, and certificate of deposit is insured by the Federal Government for up to \$100,000. The FDIC has been in existence for 75 years, and no one has ever lost a penny on an insured deposit. This will not change.

- **In the long term, Americans have good reason to be confident in our economic strength.** We have a flexible and resilient system that absorbs challenges, makes corrections, and bounces back. America has the most talented, productive, and entrepreneurial workers in the world. This country is the best place in the world to invest and do business. Consumers around the world continue to seek out American products, as evidenced by record-high exports.