

## **Schuman/Dutko Financial Weekly** *providing a global solution in finance*



***Week ending Friday 5 December, 2008***

### **Top line**

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As worldwide markets continue their extreme volatility, in the **U.S.**, the auto industry is getting the major attention from a Congress which is still in a Lame-Duck status – prior to the President-elect taking office and the start of the new 111<sup>th</sup> Congress in January. The key developments perhaps are more subtle coming principally from actions by the Federal Reserve and the Treasury pointing to another “reversal” back to the original goal of direct Troubled Asset Relief.

The European Union has made a concerted co-ordination effort to address the global economic downturn adopting 2 key initiatives: a European economic recovery plan that seeks to boost business and consumer confidence, and agreement on 4 key legislative measures in the financial sector as part of a coordinated response by EU member states.

### **Key developments this week**

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#### **US**

Recent announcements from the Treasury and the Federal Reserve have indicated a return to their original objective of buying troubled assets directly. Examples include:

**FannieMae/FreddieMac.** To jumpstart refinancing, the Fed announced a plan to purchase the mortgage-backed securities and debt of FannieMae and FreddieMac.

To encourage new home purchases, the Treasury will buy securities, primarily from Fannie and Freddie, that finance newly-issued loans, conditioned on lenders setting interest rates at low interest rates, for example, no more than 4.5% for 30-year fixed-rated loans.

**Matching Program.** Secretary Paulson has recently cited a possible program for investing additional TARP funds in banks and potentially, in non-bank financial institutions. This is expected to include a requirement that a matching investment of private capital be raised by institutions seeking funds under the Capital Purchase Program.

**Mortgage Foreclosure Mitigation.** FDIC continues to expand its loan modification program which the Administration has yet to embrace. This program, which is also a form of direct purchase of troubled assets, will be embraced - in some form - by the incoming President's economic team.

## EU

**EU finance ministers agree coordinated strategy on economic slowdown:** meeting on 2 December, EU finance ministers devoted its session to agreeing on a comprehensive package of measures as a coordinated response to the current financial situation. This included agreement on 4 legislative initiatives to: strengthen bank deposit guarantee systems; increase banking capital requirements; overhaul the regulatory framework of UCITS (Undertakings for Collective Investment in Transferable Securities); integrate insurance activities.

**European economic recovery plan:** the European Commission has adopted a comprehensive action plan for a coordinated response by EU Member States to the economic crisis. The plan aims to restore consumer and business confidence. It includes action to increase investment in infrastructure and key sectors like cars and construction and a proposal to Member States to co-ordinate national budgetary stimulus packages.

**Hedge funds:** European Commissioner for financial services, Charlie McCreevy, announced, 1 December, an imminent public consultation on hedge funds in order to tackle issues of risk management and of transparency but also balanced with the need to allow funds' flexibility. The aim of the consultation he said is to find ways *"to overcome the economic crisis and how to ensure that the stability of the financial system is never again put in jeopardy to the extent that it almost caused the meltdown of the world financial system"*.

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