

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



Week ending Friday 12 December, 2008

Top line

As Congress completes work on its temporary “bandaid” for the U.S. auto industry, the SEC announces mark-to-market accounting rule will remain, the life insurance industry gets relief on capital/reserve requirements, and efforts to reduce foreclosures founder again.

At their last meeting this week under the French Presidency of the European Council, EU heads of state and government will devote much of the summit to the credit crunch and to fine-tuning a coordinated response among the 27 EU Member States, including initiatives for reform of the international financial system.

Key developments this week

US

Auto industry, the debate this week resulted in a short-term \$14 billion rescue effort, and a long-shot hope that an auto “Czar” may be able to force the restructuring needed without a formal chapter 11 bankruptcy. The Bush Administration succeeded in blocking Democrats in Congress from utilizing the TARP funds for the auto bailout.

Loan Modifications. Of the 200,000 homeowners whose loan terms were modified during the first half of 2008, the majority have since missed at least one payment. 58% of borrowers who received a modification in the first quarter have missed at

least one monthly payment. The problem remains – home depreciations continue, causing homeowners to walk away.

Mark-to-Market Accounting. SEC says mark-to-market accounting rule will stay, but hedges, saying on January 2nd, when it makes its report to Congress, there will be recommendations for FASB to issue guidance to auditors about what information to use when trying to value assets when they are distressed, how to define “distressed” and how to develop models to place values on distressed assets.

Federal Reserve Actions. Despite Fed providing \$1 trillion in new loans and credits -- lending to financial institutions, commercial paper issuers and other central banks -- in the first two weeks of November, bank lending decreased by \$162 billion.

EU

EU Council 11 and 12 December: EU heads of State and Government meet this week to analyse the impact of the financial crisis on the economy and to try to co-ordinate and EU response. In particular the Council will review the work done on: strengthening financial stability and financial supervision; initiatives for reforming the international financial system; and support for growth and employment.

Guidance on bank recapitalisation: this week the European Commission has published guidance on how Member States can recapitalise banks in the current financial crisis to ensure adequate levels of lending to the rest of the economy and stabilise financial markets.

European Parliament approves increase in bank deposit guarantee: this week the European Parliament’s Economic and Monetary Affairs Committee (ECON) has approved gradually increasing the deposit guarantee level to €100,000, from the current level of €20,000.

Commission authorizes state aid to financial sector: the European Commission has passed a number of measures to support the financial business and to help boost consumer confidence in the sector. These include approval of Dutch recapitalization of SNS REAAL and an Austrian support scheme for financial institutions.

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