

# Financial Crisis Policy Responses in the US National Accounts

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## Background

- Financial crisis resulted in several programs that meant to allow banks to deal with defaults
- Maintain confidence in the financial system
- Avoid contagion of financial institution closures
- Relieve house burden/forestall foreclosures



## Programs

- Troubled Asset Relief Program (TARP)
- Government Sponsored Enterprises (GSE) Program
- Guarantee Programs
- American Recovery and Reinvestment Act of 2009
- Homebuyer Tax Credits
- Consumer Assistance to Recycle and Save Programs



## Troubled Asset Relief Program (TARP).

- Program established in October 2008 by the Emergency Economic Stabilization Act of 2008
- To support financial and other companies to help prevent severe financial market disruptions.
- Department of the Treasury authorized to purchase or insure up to \$700 billion in assets in various programs.



- As part of the program, the government receives equity warrants
- Contains many programs

Capital Purchase

Targeted Investment

Systemically Significantly Failing Institutions

Automotive Industry Financing





- Portion represents the difference between the actual prices paid for the financial assets and an estimate of their market value.
- In the case of stock purchases, the market value of the preferred stock and the warrants are combined.
- These capital transfers recognize that the federal government paid over market value for these financial assets.



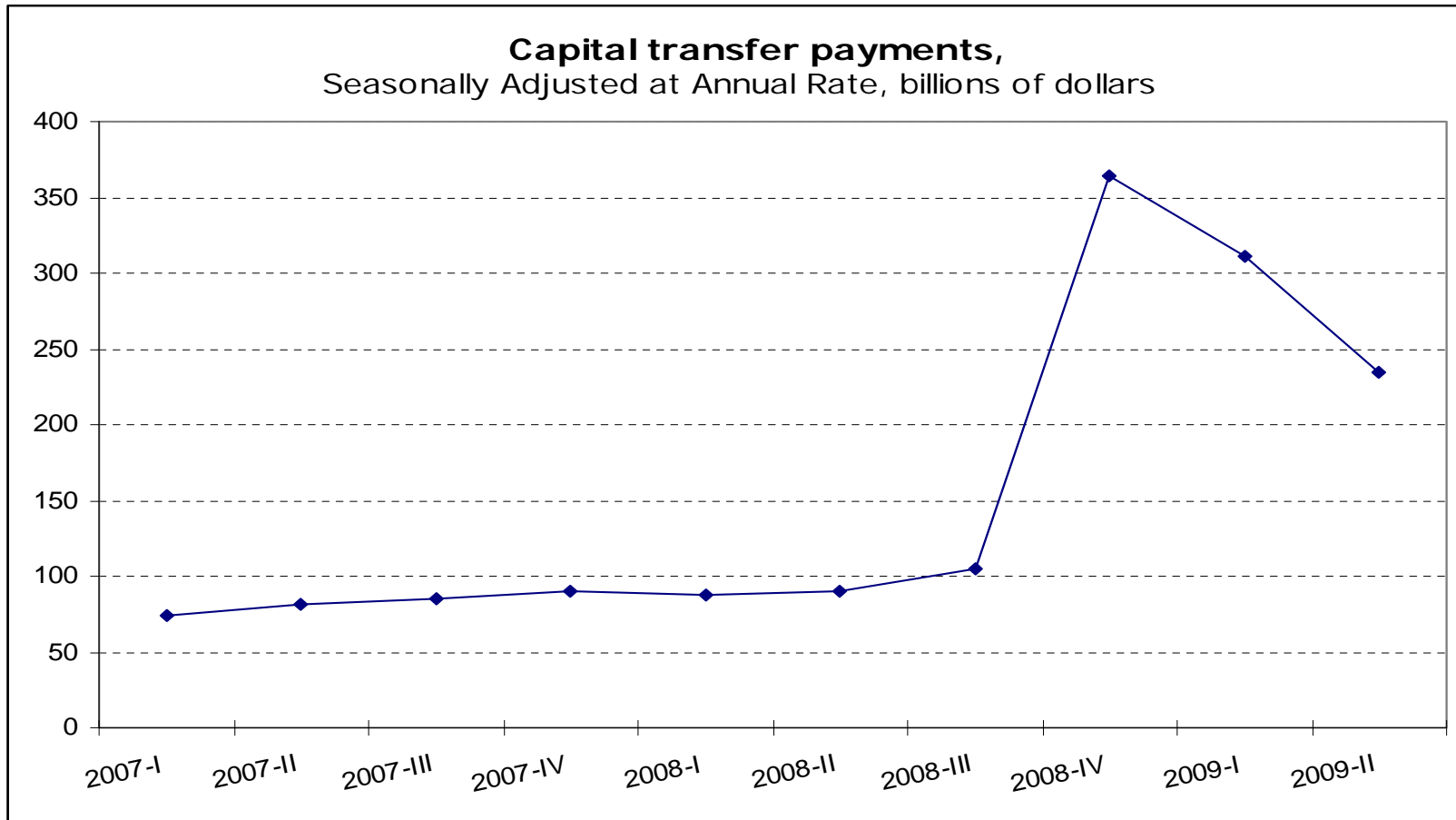


- Dividends estimated at 5% of Face Value for the first 5 years, more afterward.
- Repayment schedule difficult because it depends on bank behavior.
  - Starts in 5<sup>th</sup> year assumed to be completed in 10 years
  - Recently, there was a surprise repayment of sizeable portions by some large banks





- As would be expected the rates for different banks can be quite different. On July 12, 2009, Bank of America's preferred stock had a current yield of 9.1%; Wells Fargo, 9.8%, and Citibank, 11.24%.
- Federal Budget now includes subsidy in the monthly Treasury statement as an outlay.
  - That is what BEA uses.





- For consistency with the *SNA* recommendation that loans should be valued at the full amount the borrower is obliged to repay,
  - An implicit capital transfer was not recorded for loans to General Motors.



## GSE program

- The Housing and Economic Recovery Act of 2008 (HERA) allowed the Treasury Department to purchase Senior Preferred Stock with the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.



- The Treasury Department received \$1.0 billion of preferred stock of each enterprise and warrants representing 79.9 percent of the common stock of each enterprise.
- Treasury also committed to purchase up to \$200 billion of senior preferred stock in each if the Federal Housing Finance Agency determines that their liabilities have exceeded their assets.



- Unlike TARP, CBO did not calculate a subsidy cost for the GSEs, so BEA made estimates of the subsidy rate.
- From the first quarter of 2009 forward, BEA has recorded 90 percent of the amount of GSE preferred stock purchases as a capital transfer
  - Due to changes in market conditions and deteriorating financial condition of the companies



- Federal Budget however treats 100% of the amount purchased as an outlay.
  - This is a reconciliation difference.



## Guarantee programs

- September 2008, the Treasury Department established the Temporary Guarantee Program for Money Market Funds to insure holdings of participating funds.
- The Federal Deposit Insurance Corporation (FDIC) also created the Temporary Liquidity Guarantee Program which guarantees certain senior unsecured debt of banks, thrifts, and certain holding companies issued by June 30, 2009.



- Program also provides full guarantees for noninterest bearing accounts of participating institutions through the end of calendar year 2009.
- In the NIPAs, fees received by the Treasury Department and the FDIC related to these guarantee programs are treated as current transfer receipts from business



## American Recovery and Reinvestment Act of 2009.

- The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009.
- The act contains provisions for initiatives such as job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization.





- ARRA related grants, transfers, and taxes, however, are included in BEA's government sector estimates and in some cases in personal income and outlays statistics.



## Homebuyer Tax Credits.

- The Housing and Economic Recovery Act of 2008 (HERA) established federal interest-free loans to first-time homebuyers for home purchases between 4/8/08 and 6/30/09.
- The loan amount would be claimed by the homebuyer as an income tax credit and paid back through increased income tax liabilities over the following 15 years.



- This program was modified by the American Recovery and Reinvestment Act of 2009 (ARRA).
  - For purchases made after 1/1/2009, the interest-free loan was converted into a true tax credit that would not need to be repaid.
  - Homebuyers were also given the option of claiming the credit for homes purchased in 2009 on their 2008 tax returns.



- The amount of a claimed income tax credit reduces income tax liability owed by the homebuyer at the time of the credit.
- Outlays from Treasury are required only in those cases when the amount of the claimed income tax credit exceeds the taxpayer's total tax liability.
- It was decided that tax credit outlays related to the HERA program, which are paid back through increased tax liabilities over 15 years, would be treated as deferments of current tax liabilities rather than as a loan or subsidy.



- This would avoid the need to extract the “repayment” from future tax receipts.
- Outlays related to the ARRA, tax credits that do not have to be repaid, are treated as a capital transfer payment to non-corporate businesses.



## Consumer Assistance to Recycle and Save Program (CARS).

- The CARS program, otherwise known as the “cash for clunkers” program, allows customers to receive credits of \$3,500 or \$4,500 when purchasing a new car when an approved trade-in is made.
- These credits will be treated as subsidies in the NIPAs.



Longer term research issues.

The financial crisis has raised a couple of national accounting issues that BEA will be researching.

- 1) The treatment of deposit insurance will be examined.
  - a. Currently only premiums received by the government for deposit insurance are included in the NIPAs.



- b. We will be looking into how insurance payouts related to failed banks are treated and determine if a classification change is necessary.
- 2) The NIPA treatment of loans and loans guarantees will be examined.
- a. Specifically, we are interested in looking into if the subsidy costs associated with these programs should be included in the NIPAs.



## Other future activities

- BEA hopes to obtain more complete data on those institutions that played a large role in the crisis: hedge funds, private equity funds, structured investment vehicles.
- More Detailed Data: By type of instrument; By maturity; Valuation by type of instrument; By ultimate owner rather than counterparty; Details on special purpose entities; Leverage by institution and instrument



## New Macro Detail:

- Information to Identify Bubbles/Sustainability
  - Income to Asset Data
  - Household Leveraging
  - Sources of Saving
  - Net Investment
- Household Spending and Consumer Confidence:
  - Cash Income
  - Discretionary Income
  - Asset-Income Data