



A HILL & KNOWLTON COMPANY

# “New Financial Order”

Wexler Walker Public Policy Associates

1317 F Street, NW

Washington, DC 20004

Jack Howard

Tim Hannegan

Robert Healy



October 24, 2008

# There's a Bad Moon on the Rise

--Creedence Clearwater Revival

"Looks like we are in for Nasty Weather"

## New President Inherits the "Nasty Weather"

- > Most Challenging Economic Conditions since FDR
- > Biggest Wartime Troop Deployment Since Nixon

## Risk and Scale:

- > Scope of Current Financial Crisis only Emerging
- > Almost 1500 FIDC Banks – \$2.4 Trillion Assets
- > Over 150 S & L Loans – \$750 Billion
- > Credit Default Swaps – Your Guess

## Speed of Crisis is Accelerating

# Financial Impact

- Wall Street Extreme Makeover
  - Historic size and scope of Federal Intervention
  - Extraordinary power in hands of government bureaucrats
- Implosion on Main Street
  - Assault on middle class living standards
  - Across board impact: retirees, 401k, college loans, consumer purchasing, financial viability
  - \$2 trillion household net worth loss
  - Host of the Bad: financial collapse, Katrina, energy prices, housing value decreases, global financial insecurity

# Implications for Government Policy

- Government Intervention is Back: A first, not last, resort
- Deregulation is on the far back burner
- Vigorous Oversight: Scrutinize Private and Public Institutions
- Accountability at all levels: Public and Private

# Characteristics of Government Financial Services Policy Making

- Fire Drill Policy Making
- Unchartered Territory
- Accelerated Activity: Sense of Urgency
- Ad Hoc Decision Making: unintended consequences
- Fluid Political Environment
- Rules? What Rules?



# Guide Post Going Forward: Financial/ Housing

- Focus on Foreclosures: Other Half of the Equation
- Transparency over Federal and Private Activities
  - >Credit Default Swaps: Clearing House
  - >Treasury Operations/Decisions
  - >No Change in Mark to Market
- Error on side of Government as Standards Written
- New Openness to Global Approaches

# Areas of Legislation and Regulation

- Major Economic Stimulus Program
- Direct Intervention in Housing Mortgages/bankruptcy
- Regulation and Legislative expansion in policy: credit agencies, housing agencies, hedge funds, derivatives, swaps.
- Reorganization of Independent Commissions (CTFC, SEC, Agencies within Treasury)
- Disposition of status of Fannie Mae and Freddie Mac
- Review of FASB: Accounting for CDS/Mark to Market
- Review/Expansion of Federal Reserve powers
- Federal Equity Share Management procedures
- Oversight of Treasury Bank Equity/TARP
- Participation with International Monetary Authority Rewrites

# “Game Changing Events” -the timeline-

- How does President-Elect See The World?
- November 5: 77 Days before Inauguration
  - Relentless Pace of Events
  - Crisis of Confidence – Every Move New President Makes Measured against Restoring Confidence
  - November 17: Congressional Lame Duck
    - Economic Stimulus
  - Late November/December: Global Economic Summit
    - What role President Elect? What role current President?

- Nov-Dec: Personnel is Policy
  - Treasury Department/Economic Team
  - Foreign Policy Team
  - Key Cabinet Positions: Chief of Staff, OMB Director, Attorney General
- Mid January:
  - Congressional Budget Office: Economic Outlook/Budget Review
    - What impact FY 2009 Deficit—maybe \$1 Trillion?
- January 20: Inauguration Day
  - Legislative Agenda/Relationship with Congress
- February 2: New Administration Budget to Congress

- Questions???

