

Summary of HR 7226
Key Issues by Mr. William M. Isaac (former Chairman of the FDIC)
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If implemented, these proposals will stabilize the banking industry and make economic downturns less severe and shorter in length. The estimated cost is de minimis and they can make an impact almost immediately.

Net Worth Certificate

- Congress should approve a “net worth certificate” similar to what was enacted in the 1980s for the savings and loan industry. This action resolved \$100 billion insolvency in the saving banks for a total cost of less than \$2 billion.
- A net worth certificate shores up the capital of weak banks to give them more time to resolve problems without any subsidy or cash outlay by the government.
- The FDIC should purchase net worth certificates in troubled banks that the FDIC determines can be viable if give more time.
- The FDIC will look at a bank to determine if given more time (approximately 5 years) it is reasonable to conclude the bank could pay back a note. If the answer is yes, a note is issued to the institution.
- Banks entering the program should agree to strict supervision from the FDIC, including oversight of compensation of top executives and removal of poor management.
- Net worth certificates should be paid for by issuing FDIC senior notes to the banks resulting in NO cash outlay.
- The interest rate on the net worth certificate and the FDIC notes should be identical so NO subsidy is necessary.

Modify Fair Value Accounting

- Fair Value Accounting dictates that financial institutions holding financial instruments available for sale (such as mortgage-backed securities) must mark those assets to market.
- Currently, there is NO meaningful market for mortgage backed securities.
- Assets should not be marked to unrealistic fire-sale prices. Regulators must evaluate the assets on the basis of their true economic value.
- The SEC should exercise its immediate ability to suspend fair value accounting standards as applied to mortgage backed securities.

End “Naked” Short Selling

- In recent years the SEC has lifted restraints on short sellers of stock to allow “naked selling” (shorting a stock without actually possessing it) and to eliminate the requirement that short sellers could sell only on an uptick in the market.
- The Feds have temporarily restricted short sells on financial stocks.
- Going forward, there should be no naked short sales and short sells should only take place when there are upticks in the market.

The FDIC should protect all general creditors in bank failures during the period of instability.