

Ronald White
6701 N. Mesa
Suite D
El Paso TX 79912
915-771-8866
Ronald.White@RaymondJames.com



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What the Bailout Means to You

The Emergency Economic Stabilization Act, referred to by some as the "bailout bill," or, as others prefer to call it, the "rescue plan," was recently enacted in an attempt to stabilize the turmoil in the U.S. economy. The Act allows the Treasury to buy "bad paper"--mortgages and mortgage-backed securities--from banks and financial institutions. According to Treasury Secretary Henry M. Paulson, Jr., the federal government believes this "bad paper" is part of the root cause of the chaos both on Wall Street and on Main Street. Money has stopped flowing because banks and financial institutions holding defaulting mortgages (due to a housing correction) have stopped lending, and investors (due to a lack of confidence) have been reluctant to commit capital to financial institutions. The hope is that by relieving banks and financial institutions of the burden of carrying this "bad paper," money will begin to flow again. What the actual result of the bailout will be on Wall Street remains to be seen, and there is no telling what the future might hold, but here are some results the average American is likely to see.

Cash in the bank will be better protected

The Act temporarily increases the FDIC and National Credit Union Share Insurance Fund deposit insurance limits from \$100,000 per account to \$250,000 through December 31, 2009. This will protect more of your money that is held in an FDIC-insured bank or savings association if that bank or association should fail.

Since accounts at different banks are insured separately, the easiest way to increase your coverage is to simply keep less than \$250,000 at any one bank. You could have \$250,000 each at 500 different banks, and be insured for \$125 million in total. You may also qualify for more than \$250,000 in coverage at one insured bank if you own deposit accounts in different ownership categories. For more information on this, go to the FDIC website at www.fdic.gov, or contact your financial professional.

Note: Through December 31, 2009, there is no FDIC coverage limit on non-interest bearing transaction deposit accounts, and the insurance amount on certain retirement accounts remains fixed at \$250,000 per depositor per bank, even after December 31, 2009.

Mortgages, loans, and credit should become more available

Since many banks and financial institutions began putting the brakes on lending, many small businesses and consumers with lower credit scores have found it difficult, if not impossible, to get mortgages, car loans, credit cards, or other financing. The federal government expects the infusion of capital into banks and financial institutions will ease the credit drought, making mortgages, loans, and credit more available to home buyers, employers, and other borrowers.

Understand, however, that the increased ability to borrow and purchase by itself won't reduce the excess housing inventory, put an end to foreclosures, increase the value of homes on the market, or put builders to work again. Nor will it help consumers with their credit card debt or delinquency. Many expect banks and credit card companies to implement stricter standards, such as lowering credit limits and increasing fees. Borrowers with good credit and adequate collateral, though, should be able to continue borrowing with little problem.

Unemployment may stabilize

Though the bailout itself will not create jobs, the government hopes that the fact that employers will have more

credit available to them will help stem the tide of unemployment. However, the government warns that with consumer spending down, inflation, and other stresses on businesses, it's unlikely that the job market will improve in the short run, and may even get worse before it gets better.

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