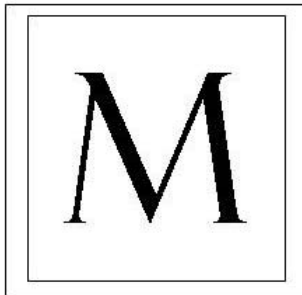


“BUSINESS LAWYERS SERVING BUSINESS”



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August 2007

Welcome

Dear Friends,
This summer has been characterized by high volatility in the credit and equity markets. Much of this has been precipitated by the dramatic changes to the U.S. sub-prime mortgage market. While the Fed has taken some action with respect to the credit markets, it has elected to do nothing with respect to the mortgage markets. While the Fed has elected to not act in this arena, the Administration announced action today designed to lessen the impact of the current mortgage problems and to minimize the risk of further problems arising in the future. The Administration’s proposals are described below.

In addition to focusing on the current troubles in the mortgage market, this edition of our newsletter also addresses the issue of which entity type to select when forming a new venture and highlights the differences between limited liability companies and "S" corporations. Also, we address the ongoing saga of Mexican truckers in the United States. We know that this continues to be a hot button for many of you.

We remain appreciative of the opportunity that we have to serve you. As your lawyers, we are mindful of the trust that is involved in the lawyer-client relationship and look forward to our continuing association with you. The mission of the McCarrey Law Group is to provide sound legal advice tempered by the realities of the business world. Our lawyers operate in the real world and understand the challenges that business faces. The purpose of "Business Lawyers Serving Business" is to highlight both issues and solutions to problems facing you and the rest of our diverse group of clients.

The McCarrey Law Group is a boutique firm that provides legal services to real estate professionals, financial institutions, entrepreneurs and businesses operating among the NAFTA countries. We are worldwide in our view, but never forget that our business is our clients. We desire to provide you with the best legal service possible and hope that you will find "Business Lawyers Serving Business" helpful and informative.

If there are issues that you would like to see addressed in our Newsletter, please contact us. We prize our relationship with you and look forward to continuing our association.

THE MCCARREY LAW GROUP

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President Bush Announces Lending Changes

On August 31, 2007, President Bush announced wide ranging proposals designed to fix the significant problems facing the mortgage lending industry. Principal among the concerns of the President are homeowners needing assistance to avoid foreclosure and thus, steps to be taken to address this concern include:

1. Congress is being asked to pass legislation to modernize the Federal Housing Agency ("FHA"). The President's proposals would lower FHA down payment requirements, provide FHA with broader authority to issue larger loans and give FHA greater pricing flexibility. In addition, the President said that the Administration will pursue actions to help families stay in their homes during the current transition period in the mortgage market.
2. The President has called upon Congress to amend the tax code so that individuals are not taxed for mortgage forgiveness. Current tax law counts cancelled mortgage debt on primary residences as taxable income.
3. According to the President, the Administration will launch a new foreclosure avoidance initiative to help struggling homeowners find a way to refinance existing mortgages. The goal of this initiative is to expand mortgage financing options, identify homeowners before they face hardships, help homeowners understand their financing options, and allow current borrowers to find viable mortgage product.
4. The President directed federal banking regulators to improve disclosure requirements so that borrowers are provided with complete, accurate and

- understandable information about potential mortgages. At the same time, regulators have been ordered to work on strengthening lending standards in order to eliminate questionable loan programs that have resulted in borrowers being placed in loans that ultimately the borrower could not afford.
5. The President indicated that long awaited changes to the Real Estate Settlement Procedures Act ("RESPA") will be issued this fall. RESPA reforms will be proposed that promote comparative shopping by consumers for the best loan terms, provide clearer disclosures, limit settlement cost increases and require additional fee disclosures.
 6. The President also declared that there will be a significant push made to focus on the broad issues surrounding mortgage brokers and originators. Efforts are to be made to place a spotlight on fraud and wrongdoing in the mortgage industry which includes the actions of some lenders in deceiving customers and to pushing them into loan products that they knew the borrower could not afford.
 7. Finally, the President announced the creation of a working group to examine some of the broad market issues underlying the recent highly visible problems in the mortgage industry. Among other things, the group will examine the role of the rating agencies and how ratings are used in the development and implementation of lending procedures and the effect of securitization in changing the mortgage industry and related business practices.
- We will keep you posted as the action described by the President proceeds.

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Limited Liability Companies vs. "S" Corporations

Invariably, when attempting to determine the proper business structure for a new business, one is left to decipher the relative differences and benefits of a limited liability company or an "LLC" versus a so-called "S" corporation. While both entity types are similar in that they are "pass-through" vehicles for federal income tax purposes, each also has significant differences. As pass-through vehicles, income as well as any losses are passed from the entity to its owners and are reported to the IRS on the owner's tax returns. The effect is to eliminate the double taxation which might otherwise be incurred by the shareholders of a garden variety "C" corporation. Double taxation occurs when the corporate entity is taxed on its income and that same income is taxed again to shareholders at the time that dividends are distributed to them.

To understand which entity is the best for any venture, one must consider some of the key differences between an LLC and an S corporation. Often the decision is the result of the weighing of the relative benefits of the ease and flexibility of operation found in a limited liability company versus the lower employment taxes found in an "S" corporation.

Key Differences between the Two Entity Types

While the following list does not detail all of the differences between a limited liability company and an S corporation some of the key differences are as follows:

1. Ownership. An S Corporation may not have more than 75 shareholders and none of its shareholders can be corporations, limited liability companies or non-resident

aliens. None of these restrictions apply to a limited liability company and LLC's may be owned by individuals, corporations and other limited liability companies.

2. Operation. Generally S corporations are operated in the same manner as conventional corporations and the owners must meet the same record keeping and management formalities required of all corporations. Limited liability companies do not have similar requirements and therefore, LLC's offer significant flexibility and simplicity in the operation of the entity. While the shareholders and directors of a corporation are required to hold regular meetings after complying with strict notice requirements, similar requirements are not made of limited liability companies. The effect of this is that owners of a S corporation might inadvertently lose liability protection as a result of failing to meet corporate formality requirements while the owners of an LLC generally should not have similar concerns.

3. Management. With an S corporation, directors and officers manage its day to day operations while with limited liability companies, management is performed either by its members or by a manager. If an LLC is "member managed", the owners of the company manage the business of the company and if it is "manager managed", management responsibilities are fulfilled by a manager, which may or may not be an owner.

4. Profit Distribution. An S corporation has no flexibility in how its profits are split among owners and profits must be distributed to each owner based upon his percentage ownership of the company. This is the case without taking into account the relative value provided by each of the owners to the corporation. The owners of a limited liability company may, however, distribute profits in almost any manner that they deem appropriate.

5. Employment Tax. One of the major differences between an S corporation and a limited liability company is that an owner of a LLC is deemed to be self employed and therefore liable for the 15.3% self employment tax on all income of the LLC while only the salary paid to an owner/employee of an S corporation is similarly taxed. The remaining amounts that may be distributed to owners are not subject to employment tax. Therefore, an opportunity to limit significant employment taxes may exist with an S corporation.

6. California Tax Law. In the state of California, unlike most other states, in addition to the annual base fee that must be paid by every limited liability company, an additional tax is imposed upon the annual income of each LLC. Although this tax is totally inconsistent with the concept of a pass-through tax entity, the reality of this additional tax must be taken into account when determining whether to create a LLC or an S corporation.

There is no single entity that works for everyone and your individual situation will dictate that which best for you. Please do not hesitate to call us if you have questions about your new business structure.

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Mexico Trucks Permitted to Enter the United States

In an interesting twist of irony, the Teamsters Union has been notified by the Bush Administration that Mexican trucks will begin coming across the border during the Labor Day weekend. Short of an injunction, which the Teamsters have promised to seek, it does appear that the long battle to keep Mexican truckers off of U.S. roads is over. Both the Sierra Club and the non-profit group, Citizen Public have vowed to join the Teamsters in instituting legal action to stop Mexican trucks believed poised to begin crossing the international border the first weekend of September.

The Bush Administration indicated that the Inspector General of the Federal Motor Carrier Safety Administration has certified safety and inspection plans for the new one year demonstration project which will permit 100 Mexican motor carriers full access to U.S. roads. While the opposition to the plan has been wide and come from disparate sources, supporters claim that letting Mexican trucks on the roads will provide a significant savings to consumers. Since 1982, Mexican trucks have had to stop within a buffer border zone and transfer their loads to U.S. truck. According to the California Highway Patrol, 18 percent of Mexican carriers were sidelined in 2006 compared to 19 percent of American companies.

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