

Stoltzfoos, Jeffrey

From: Woodall III, Samuel R. [WoodallS@sullcrom.com]
Sent: Wednesday, March 19, 2008 9:45 AM
To: Stoltzfoos, Jeffrey; Norton, Jeremiah; Nason, David
Subject: fyi

In case you haven't seen the story below. Thx again for yesterday.

Sam

Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

By Brendan Murray and John Brinsley

March 19 (Bloomberg) -- Treasury Undersecretary Robert Steel was huddling with regulators at the Federal Reserve Bank of New York the morning of March 14, when word came that President George W. Bush needed an update on the chaos enveloping financial markets.

Stocks were falling for a third straight week, and Bear Stearns Cos. was getting bought by JPMorgan Chase & Co. through an unprecedented Fed-backed infusion of cash. Steel, Treasury Secretary Henry Paulson's closest confidant, met Bush at a lower Manhattan heliport and briefed him in the 10-minute drive past Wall Street ahead of the president's speech to the Economic Club of New York.

The worst credit crisis in at least two decades falls directly into Steel's responsibilities as head of Treasury's domestic finance division. In an interview yesterday, Steel, 56, was unapologetic about the administration's reluctance to back a taxpayer bailout of mortgages and said the early market response to the Fed action has been favorable.

"The real proof will be in the pudding longer term with markets being stable and orderly, but it's good to have an initial constructive reception," he said, hours before the Standard & Poor's 500 Index rallied 4.24 percent, the most in five years.

The Bush administration's reliance on markets to some analysts has prolonged the decline in the housing industry.

"They're going to have to recognize the reality that fiscal and monetary policy aren't going to be enough to get us out of this crisis," said Michael Barr, a former assistant to Treasury Secretary Robert Rubin and professor of law at the University of Michigan in Ann Arbor.

Goldman Ties

Steel, who worked under Paulson as head of equities and later vice chairman at Goldman Sachs Group Inc., used his 30 years of experience on Wall Street to help hammer out two deals culminating in JPMorgan Chase's purchase of Bear Stearns. Paulson said he chose Steel for the job in part because he "has worked through tough times in a calm manner."

Starting at 5 a.m. on March 14, the two Treasury officials counseled the Fed and other regulators while participating in talks that culminated in the deal for JPMorgan to buy Bear for about \$2 a share, or \$240

million, before markets in Asia opened.

Throughout the crisis, Steel has been a surrogate for Paulson on Wall Street. On March 17, at a White House photo opportunity, Steel sat on one side of Bush and Paulson on the other as the president sought to reassure Americans that the administration was ``on top" of the situation.

No 'Playbook'

Steel is ``clearly the closest guy to Hank, based on the longevity of the relationship, comparable stamina, business acumen, intelligence and the typical Goldman zeal to get things done," said T. Timothy Ryan, chief executive officer of the Securities Industry and Financial Markets Association.

``They've had to make decisions -- which so far have been very good decisions -- without a playbook," said Ryan, who was director of the Office of Thrift Supervision during the savings- and-loan crisis from 1990 to 1992. ``They are focused on the right issue, and the right issue for everybody is to assure that the capital markets function efficiently."

Bear Stearns' selling price, at less than 10 percent of its market value, reflects the inevitable fallout from the credit crunch, in which banks and securities companies have lost some \$190 billion since the start of 2007, Steel indicated.

``I view the resolution as a logical one," Steel said. ``Two dollars a share really says that there was pain, and in the current environment, we're focused on the stability of the market."

Goldman Experience

Steel received a bachelor's degree from Duke University and a master's degree in business administration from the University of Chicago. His Goldman career started in the bank's Chicago office in 1976 and his experience with markets and focus on stability wins him praise from former colleagues.

``Every day the markets are full of rumor and trivia, and he has an ability to cut through that and get to what is the heart of the problem," said Rick Rieder, managing director and head of Global Principal Strategies at Lehman Brothers Holdings Inc., who serves as vice chairman of the Treasury's bond borrowing advisory committee.

Sheila Bair, head of the Federal Deposit Insurance Corp., has led calls for lenders and loan servicing companies to modify mortgages for struggling homeowners, a more aggressive approach than that endorsed by Treasury. Still, she says Steel is ``non- ideological" in his desire to seek solutions.

``He's calm, he's a steady hand, he doesn't overreact," Bair said in an interview. ``I'm very impressed with him. He's made his fortune, he doesn't need to think about his next career step, he's just here to do what he thinks is right."

Political Donations

Steel, a married father of three daughters, has ties to leading lawmakers, both Democrats and Republicans. He has donated more than \$160,000 to campaigns of both political parties in recent years, giving to Republican Senators John McCain and Lamar Alexander and Democrats including Senators Charles Schumer and Bill Bradley.

Still, Schumer, chairman of the Joint Economic Committee of Congress, rebuked the administration's response earlier this week to the economic slump.

``Hopefully, Bear's problems will wake this administration out of its torpor," Schumer, a Democrat from New York, said in a March 17 statement. ``It is imperative that Secretary Paulson and Chairman Bernanke persuade the president to remove his ideological blinders and act to stop the spread of these problems."

Relations With Congress

When asked about criticism from Congress that the administration has moved too slowly, Steel said lawmakers haven't done their part to modernize the Federal Housing Administration and toughen Fannie Mae and Freddie Mac's regulator.

``These two things are really important things that can help housing," said Steel, who has a master's degree in business administration from the University of Chicago. ``We don't want to think it's right to start using large amounts of government revenues to basically be bailing out the situation."

To contact the reporters on this story: [Brendan Murray](mailto:brmurray@bloomberg.net) at brmurray@bloomberg.net [John Brinsley](mailto:jbrinsley@bloomberg.net) in Washington at jbrinsley@bloomberg.net

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Stoltzfoos, Jeffrey

From: Stoltzfoos, Jeffrey
Sent: Wednesday, March 19, 2008 9:51 AM
To: 'Woodall III, Samuel R.'
Subject: RE: fyi

These guys sure do get there share of good press.

Let's compare notes on other items tomorrow.

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To contact the reporters on this story: [Brendan Murray](#) at brmurray@bloomberg.net [John Brinsley](#) in Washington at jbrinsley@bloomberg.net

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Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Wednesday, March 19, 2008 9:52 AM
To: Foley, Trip
Subject: DealBook: Profits Fall at Morgan Stanley, but Top Estimates

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DealBook

Edited by Andrew Ross Sorkin

The New York Times

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- BANKING:** Quattrone Returns to Roots, With New Venture
- PRIVATE EQUITY:** Colonial Backs Dubai's \$2.98 Billion Bid
- HEDGE FUNDS:** Hedge Funds in Distressed Debt Rush
- OFFERINGS:** Visa's I.P.O. Is a Welcome Tonic for Wall St.
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TOP STORY

Profits Fall at Morgan Stanley, but Top Estimates

Morgan Stanley reported \$1.55 billion in profit for its first quarter on Wednesday, dragged down by \$2.3 billion in write-downs but still above expectations.



The profit, which comes out to \$1.45 a share on revenues of \$8.3 billion, is 33 percent lower than what it earned for its first quarter of 2007. Analysts surveyed by Thomson Financial had expected on average \$1.03 a share.

Morgan Stanley's announcement falls in line with those from **Goldman Sachs** and **Lehman Brothers** on Tuesday, as investment banks seek to prove their stability amid continuing market fallout over the demise of **Bear Stearns**.

Morgan Stanley said Wednesday that it had taken a \$1.2 billion trading charge for its mortgages for the quarter. It also wrote down \$1.1 billion tied in part to leveraged loans, or those meant to finance private equity deals.

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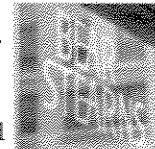
Euthanizing the Bear

Did Wall Street save its hide or devour its own? The collapse of Bear Stearns seems to be a little of both. [More»](#)



The Bear Bailout

Full coverage of the proposed takeover of the troubled investment bank -- and the crisis that led to the sale. [More»](#)



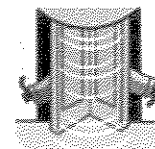
Spitzer Schadenfreude

Many Wall Streeters were taking pleasure in the scandal around New York's governor, who aggressively policed the Street in his previous job. (156 comments) [More»](#)



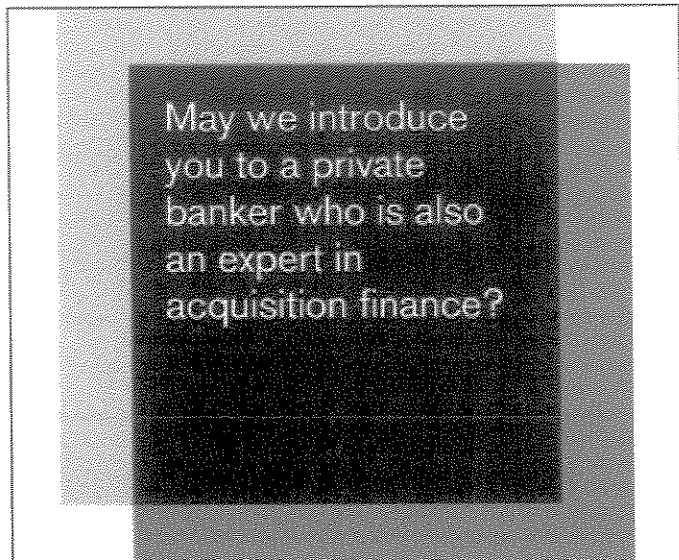
Revolving Door

The latest hires, promotions and departures at Goldman, Bear, Cowen and more. [More»](#)



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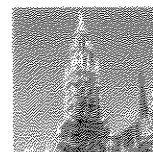


Professor

A blog-within-a-blog that looks at mergers, private equity and corporate governance through a legal lens, written by Steven M. Davidoff, a professor at Wayne State University Law School and a former lawyer at Shearman & Sterling. [More»](#)

Live From Super Return 2008

Some of the biggest names in private equity gathered in Munich to share strategies for weathering the industry's recent downturn. [More»](#)



MERGERS & ACQUISITIONS

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Bear Stearns's bondholders and shareholders appear to be clashing over the fate of the troubled investment bank and its controversial sale to **JPMorgan Chase**. Amid the uncertainty, Bear's stock has risen to well above the \$2-per-share offer price.



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JPMorgan has a strong hand in the Bear deal, enjoying both a government backstop and terms that give it plenty of power to call the shots, The Deal Professor writes.



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Yahoo, seeking to persuade investors that it can thrive without being acquired by **Microsoft**, reaffirmed its earnings guidance and described plans for doubling its operating cash flow in three years. Its shares rose 7 percent.



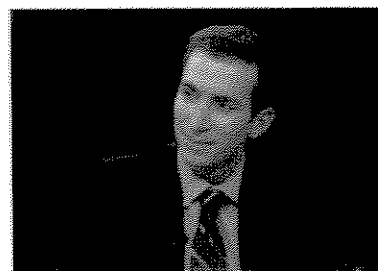
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[Go to Yahoo's Presentation via the S.E.C.»](#)

Alibaba Group of China is reportedly seeking investors to buy the 39 percent stake in the Internet company held by Yahoo, indicating it thinks Microsoft is likely to win its bid.

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Wireless companies such as **AT&T** and **Verizon** bid more than \$19



DealBook Talks Yahoo

DealBook's Andrew Ross Sorkin discussed Microsoft's offer for the Internet giant on "Charlie Rose." [Watch here. More»](#)

Microsoft's Yahoo Bid

Full coverage of Microsoft's unsolicited \$44.6 billion offer for Yahoo, what it means and how it might play out. [More»](#)



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billion for the rights to radio spectrum licenses at a government auction. A list of the winners is expected in the coming days.

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BNP Paribas, France's biggest listed bank, said on Wednesday that it has decided not to pursue a possible tie-up with rival **Societe Generale**, which has been hit by a trading scandal.

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Amid reports that pilots at **Delta Air Lines** and **Northwest Airlines** appear to have given up efforts to combine their seniority lists -- considered essential to the two carriers' hopes for a merger without crippling rancor -- industry observers and analysts are wondering: What next?



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Spurred on by booming commodity prices and unfazed by financial market turmoil, Canada's fast-growing **Sherritt International** has unveiled a 704 million Canadian dollar (\$708 million) stock-and-cash bid for full control of the country's largest thermal coal producer.

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INVESTMENT BANKING

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Frank P. Quattrone, the former star investment banker whose career was derailed by a four-year fight against obstruction of justice charges, said Tuesday he will launch **Qatalyst Group**, a technology-focused merchant bank. In an interview with The New York Times, he discussed his new venture and the other avenue he considered for his comeback: private equity.



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Buoyed by an aggressive interest rate cut, investors sent stocks soaring to their biggest gain in five years on Tuesday. Shares of financial firms surged, for a day at least, and the Dow Jones industrial average gained 420 points.

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Shares in **Lehman Brothers** rose more than 46 percent on Tuesday after reporting better-than-expected earnings, erasing a two-day drop caused by investor fears over its financial health.



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PRIVATE EQUITY

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Investment Corporation of Dubai's 1.95 billion euro (\$2.98 billion) plan to break up troubled Spanish property group **Inmobiliaria Colonial** edged closer to completion Tuesday, after the Spanish real estate company's board backed the arrangement.

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Lawyers who specialize in private-equity deals remain in hot demand despite the cooling off in leveraged buyouts.

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HEDGE FUNDS

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More than 70 hedge funds -- including those run by **Blackstone Group** and **Goldman Sachs** -- are rushing into the melee to snap up distressed mortgages and securities from banks battered by the subprime meltdown, according to Bloomberg News.

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In agreeing to give two board seats to hedge funds threatening a proxy fight, **The New York Times Company** may have beaten activist investors at their own game, Fortune.com writes.



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Luminus Management dropped its high-profile push to get **TransAlta** to load up on debt to fund stock buybacks on Tuesday, saying it is encouraged by the Canadian power generator's recent moves to boost its share value.

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[Go to Article from The Canadian Press via The Globe and Mail»](#)

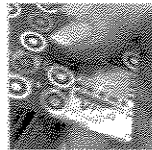
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I.P.O. / OFFERING

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In a boon for big banks and Wall Street, **Visa**, the credit card giant, went public Tuesday in the largest initial public offering in American history.



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One of the question marks hanging over **Bear Stearns** is what will become of the bank's underwriting commitments. The Deal.com's Dealscape blog notes that it has a sizable stable of upcoming initial public offerings.

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CardioNet, a health care technology start-up which **Citigroup** is taking public on Wednesday, cut the number of shares it allocated in half and lowered the price after several big shareholders backed out of the offering.

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VENTURE CAPITAL

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Funding of Web 2.0 companies in the U.S. reached a record \$1.34 billion last year, up 88 percent over 2006, but the rate of growth slowed, according to Dow Jones VentureSource. **Facebook** accounted for 22 percent of the total.



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Intel and **Microsoft** said Tuesday that they planned to finance two groups of university researchers to start over and design a new generation of computing systems intended to break the industry out of a technological cul-de-sac that threatens to end decades of performance increases in computers.

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Advanced Power Projects, a new start-up that promises to make new and existing power plants run more reliably and produce less greenhouse gas emissions, has raised an undisclosed amount of funding by **Bay Partners**, **Sequoia Capital** and **Redpoint Ventures**.

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LEGAL

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Securities regulators haven't ruled out legal action over potentially misleading comments about the financial health of **Bear Stearns** made days before **JPMorgan Chase** arranged to buy the struggling investment bank.



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[Go to CNBC Interview with Bear Stearns C.E.O. Alan Schwartz via The New York Times»](#)

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The current financial crisis has been going on for seven months now, and many people probably feel as if they should understand it. But, says The New York Times' David Leonhardt, they don't, not really. And the confusion is shared by many people who are in the middle of the crisis.

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Former sub-prime mortgage lender **Fremont General** said Tuesday that it was trying to restructure some of its debt and would delay making a \$6.6 million payment during the negotiations.

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Federal prosecutors overseeing a big tax shelter case involving former employees of the **KPMG** accounting firm brought a separate charge Tuesday against one of the defendants in that case.

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 Change: -0.66

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 Change: -0.68

Target: Penn National ...
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 Spread: 22.50
 Change: 1.07

Target: Performance F ...
 Acquirer: Wellspring Capi ...
 Spread: 0.47
 Change: -0.09

Target: Post Properti ...
 Acquirer: Cadim and Willi ...
 Spread: 7.54
 Change: -0.25

Target: Puget Energy ...
 Acquirer: Macquarie Infra ...
 Spread: 2.05
 Change: 0.07

Target: Rio Tinto plc
 Acquirer: BHP Billiton pl ...
 Spread: 95.10
 Change: -9.15

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The Deal offers an expanded list of arbitrage situations that are updated throughout the day.

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Foley, Trip

From: Foley, Trip
Sent: Wednesday, March 19, 2008 10:18 AM
To: Scogin, Matthew
Subject: Bear Merger Agmt Summary

Just FYI

The Merger Agmt is posted to the Bear website (link below). The highlights below aren't meant to cover every nuance or qualification of the agreement, but I thought they might be helpful. This is entirely based on public information available on the BSC website.

- 1) The "Effective Time" of the merger is not specified, nor is a date yet set for shareholder vote. However, the JPM press release expects the merger to close by July 1, 2008.
- 2) Exchange Ratio is fixed at 0.05473 shares of JPM stock for each BSC share
- 3) Stock options, RSUs, etc. at BSC all continue and are converted at the Exchange Ratio
- 4) All directors of BSC must submit their resignations upon the Effective Time of the merger
- 5) Reps and Warranties seem fairly standard (i.e. truthful reporting, financials, organization, charters, licensing, etc.) and are usually accompanied by a MAC qualifier
- 6) The Agmt states that the Board of BSC "has determined that this Agreement is advisable and in the best interest of the Company and its stockholders and has directed that this agreement be submitted to BSC's stockholders....Except for the approval and adoption of this Agreement...no other corporate proceedings on the part of BSC are necessary to approve this Agreement."
- 7) The MAC seems pretty solid and does not have outs for i) changes in global politics or market conditions affecting "other companies in the industries in which such part and its Subsidiaries operate," ii) changes in credit markets or downgrades, iii) failure to meet earnings projections, "including any underlying causes thereof," iv) any outbreak of war or terrorism
- 8) BSC's board approves the transaction and Lazard provides a fairness opinion
- 9) BSC covenants to operate under normal circumstances, to not take any action to adversely affect the deal, and agrees to operate within its risk limits (which can be changed by JPM). BSC also agrees to not hire or fire any employees at the VP level or above
- 10) No date for the shareholder vote is set but the S-4 must be filed "promptly". BSC agrees to submit this agmt to a shareholder vote even if the Board shall withdraw its recommendation. BSC may also not take any action to lead to an Alternate transaction or participate in any alternate transaction unless necessary for the Board's fiduciary duty. If BSC prepares to support an Alternate Transaction, they must negotiate in good faith to alter the JPM agmt so it is an equal offer. Any switch to an Alternate Transaction must also take into account the likelihood to receive legal & regulatory approval. If shareholders don't approve the vote, the parties must negotiate in good faith to fix, although its not necessary to increase the Merger Consideration.
- 11) There breakup fee is the ability for JPM to purchase BSC's headquarters for \$1.1bn less any outstanding debt (and to require BSC to buyout the other parties of the JV that currently hold the building)
- 12) The deal may be terminated by mutual consent. Otherwise, by either party A) after the 1yr anniversary, B) if government approvals are not received and there is no appeal available, C) if there is any breach (after a 30-day cure), D) and by JPM if BSC's board goes with an Alternate Transaction.

http://www.bearstearns.com/includes/pdfs/investor_relations/merger.pdf

Trip Foley
Special Assistant to the

Foley, Trip

From: Foley, Trip
Sent: Wednesday, March 19, 2008 10:57 AM
To: Dad (b) (6)
Subject: FW: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 8:19 AM
To: _DL_FYI
Subject: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

Paulson's Surrogate Steel Sees 'Initial' Progress in Markets 2008-03-19 07:39 (New York)

By Brendan Murray and John Brinsley

March 19 (Bloomberg) -- Treasury Undersecretary Robert Steel was huddling with regulators at the Federal Reserve Bank of New York the morning of March 14, when word came that President George W. Bush needed an update on the chaos enveloping financial markets.

Stocks were falling for a third straight week, and Bear Stearns Cos. was getting bought by JPMorgan Chase & Co. through an unprecedented Fed-backed infusion of cash. Steel, Treasury Secretary Henry Paulson's closest confidant, met Bush at a lower Manhattan heliport and briefed him in the 10-minute drive past Wall Street ahead of the president's speech to the Economic Club of New York.

The worst credit crisis in at least two decades falls directly into Steel's responsibilities as head of Treasury's domestic finance division. In an interview yesterday, Steel, 56, was unapologetic about the administration's reluctance to back a taxpayer bailout of mortgages and said the early market response to the Fed action has been favorable.

"The real proof will be in the pudding longer term with markets being stable and orderly, but it's good to have an initial constructive reception," he said, hours before the Standard & Poor's 500 Index rallied 4.24 percent, the most in five years.

The Bush administration's reliance on markets to some analysts has prolonged the decline in the housing industry. "They're going to have to recognize the reality that fiscal and monetary policy aren't going to be enough to get us out of this crisis," said Michael Barr, a former assistant to Treasury Secretary Robert Rubin and professor of law at the University of Michigan in Ann Arbor.

Goldman Ties

Steel, who worked under Paulson as head of equities and later vice chairman at Goldman Sachs Group Inc., used his 30 years of experience on Wall Street to help hammer out two deals culminating in JPMorgan Chase's purchase of Bear Stearns.

Paulson said he chose Steel for the job in part because he "has worked through tough times in a calm manner."

Starting at 5 a.m. on March 14, the two Treasury officials counseled the Fed and other regulators while participating in talks that culminated in the deal for JPMorgan to buy Bear for about \$2 a share, or \$240 million, before markets in Asia opened.

Throughout the crisis, Steel has been a surrogate for Paulson on Wall Street. On March 17, at a White House photo opportunity, Steel sat on one side of Bush and Paulson on the other as the president sought to reassure Americans that the administration was "on top" of the situation.

No 'Playbook'

Steel is "clearly the closest guy to Hank, based on the longevity of the relationship, comparable stamina, business acumen, intelligence and the typical Goldman zeal to get things done," said T. Timothy Ryan, chief executive officer of the Securities Industry and Financial Markets Association.

"They've had to make decisions -- which so far have been very good decisions -- without a playbook," said Ryan, who was director of the Office of Thrift Supervision during the savings- and-loan crisis from 1990 to 1992. "They are focused on the right issue, and the right issue for everybody is to assure that the capital markets function efficiently."

Bear Stearns' selling price, at less than 10 percent of its market value, reflects the inevitable fallout from the credit crunch, in which banks and securities companies have lost some \$190 billion since the start of 2007, Steel indicated.

"I view the resolution as a logical one," Steel said.

"Two dollars a share really says that there was pain, and in the current environment, we're focused on the stability of the

market."

Goldman Experience

Steel received a bachelor's degree from Duke University and a master's degree in business administration from the University of Chicago. His Goldman career started in the bank's Chicago office in 1976 and his experience with markets and focus on stability wins him praise from former colleagues.

"Every day the markets are full of rumor and trivia, and he has an ability to cut through that and get to what is the heart of the problem," said Rick Rieder, managing director and head of Global Principal Strategies at Lehman Brothers Holdings Inc., who serves as vice chairman of the Treasury's bond borrowing advisory committee.

Sheila Bair, head of the Federal Deposit Insurance Corp., has led calls for lenders and loan servicing companies to modify mortgages for struggling homeowners, a more aggressive approach than that endorsed by Treasury. Still, she says Steel is "non-ideological" in his desire to seek solutions.

"He's calm, he's a steady hand, he doesn't overreact," Bair said in an interview. "I'm very impressed with him. He's made his fortune, he doesn't need to think about his next career step, he's just here to do what he thinks is right."

Political Donations

Steel, a married father of three daughters, has ties to leading lawmakers, both Democrats and Republicans. He has donated more than \$160,000 to campaigns of both political parties in recent years, giving to Republican Senators John McCain and Lamar Alexander and Democrats including Senators Charles Schumer and Bill Bradley.

Still, Schumer, chairman of the Joint Economic Committee of Congress, rebuked the administration's response earlier this week to the economic slump.

"Hopefully, Bear's problems will wake this administration out of its torpor," Schumer, a Democrat from New York, said in a March 17 statement. "It is imperative that Secretary Paulson and Chairman Bernanke persuade the president to remove his ideological blinders and act to stop the spread of these problems."

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When asked about criticism from Congress that the administration has moved too slowly, Steel said lawmakers haven't done their part to modernize the Federal Housing Administration and toughen Fannie Mae and Freddie Mac's regulator.

"These two things are really important things that can help housing," said Steel, who has a master's degree in business administration from the University of Chicago. "We don't want to think it's right to start using large amounts of government revenues to basically be bailing out the situation."

--With reporting by Matthew Benjamin in Washington and Fergal O'Brien in Dublin. Editors: Carlos Torres

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Phone: 202-622-8657
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Foley, Trip

From: Foley, Trip
Sent: Wednesday, March 19, 2008 11:06 AM
To: Deye, Andrew (IBD)
Subject: RE: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

Yeah - not bad!

Yeah, I think I should be around. **Non-Responsive**
Non-Responsive

From: Deye, Andrew (IBD) [mailto:Andrew.Deye@morganstanley.com]
Sent: Wednesday, March 19, 2008 11:02 AM
To: Foley, Trip
Subject: RE: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

Nice article on your boss there!

It looks like I am going to be back in town April 5-6 if you might have a chance to get together?
Aaron will be in town (obviously) but also Pete K., Rob C., Russell J., and potentially others.

Hope you are doing well in DC,

Andrew Deye

Morgan Stanley | Investment Banking Division
440 S LaSalle Street | One Financial Place | Floor 37
Chicago, IL 60605
Phone: +1 312 706-4416
Mobile: +1 513 375-2207
Andrew.Deye@morganstanley.com

From: Trip.Foley@do.treas.gov [mailto:Trip.Foley@do.treas.gov]
Sent: Wednesday, March 19, 2008 9:57 AM
Subject: FW: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 8:19 AM
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Subject: Bberg- Paulson's Surrogate Steel Sees 'Initial' Progress in Markets

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2008-03-19 07:39 (New York)

By Brendan Murray and John Brinsley

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5/22/2008

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Jennifer Zuccarelli
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Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Wednesday, March 19, 2008 11:07 AM
To: _DL_FYI
Subject: Reuters - UPDATE 2-Frank: White House ready to discuss foreclosure plan

UPDATE 2-Frank: White House ready to discuss foreclosure plan

By Svea Herbst-Bayliss

383 words

19 March 2008

08:43

Reuters News

English

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(Adds **Treasury** spokeswoman comments, details)

BOSTON, March 19 (Reuters) - U.S. Rep. Barney Frank said on Wednesday that the Bush administration is getting ready to negotiate a plan seeking to avoid home foreclosures.

"We are now getting some indications that they are ready to talk about it," Frank, who chairs the powerful Financial Services Committee, told Reuters before an event in Boston.

The indications are coming "not so much from the White House but from the **Treasury**," Frank said.

"**Treasury** said, 'let's talk'," he said, noting the call came late last week or early this week.

A **Treasury** spokeswoman, however, said on Wednesday that the department's opposition to recent housing industry proposals calling for a bigger taxpayer role -- including Frank's latest plan -- had not changed.

"**Treasury** has reviewed a lot of ideas on housing but so far, we've only seen proposals that would do more harm than good. Our position has not changed," said **Treasury** Department spokeswoman **Jennifer Zuccarelli**.

Frank has proposed a federal program that would provide insurance for up to \$300 billion in refinanced, affordable-cost mortgages.

The **Treasury** has favored housing relief efforts driven by the private sector, consisting chiefly of voluntary refinancings, renegotiations of terms and other modifications by an alliance of most mortgage lenders and servicers called Hope Now. For some mortgages, these programs include an automatic freeze of interest rates at more affordable levels.

Any development between the Bush administration and congressional Democrats would break a long deadlock over how to provide more help to hundreds of thousands of Americans who are facing the prospect of foreclosure.

Administration officials had long been cool to Frank's plan, arguing that there should be no "bailout" for lenders or housing speculators. But Frank said movement came after the collapse of liquidity at investment bank Bear Stearns last week, which threatened a broad collapse on Wall Street.

"The Bear Stearns thing obviously pushed them although I think there were people within the department who thought we ought to do something about it," Frank said. (Additional reporting by David Lawder in Washington, Editing by Chizu Nomiyama,)

USA-HOUSING/FRANK (UPDATE 2)|LANGEN|ABN|E|RBN|U|D|M|RNP|DNP

Foley, Trip

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 11:12 AM
To: _DL_FYI
Subject: Reuters- Frank: White House ready to discuss foreclosure plan

UPDATE 2-Frank: White House ready to discuss foreclosure plan
By Svea Herbst-Bayliss
19 March 2008
Reuters News

(Adds Treasury spokeswoman comments, details)

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Jennifer Zuccarelli
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Appleton, Jesse

From: Schuler, Kurt
Sent: Wednesday, March 19, 2008 12:02 PM
To: Schuler, Kurt; Abbott, Matthew; Byrne, Kathleen; Hill, Rob; McDaniel, Christine; Monaco, Ralph; Risk_Analysis; Ryan, Tony; Schetzel, Michael; Swagel, Phillip
Cc: Baker, Jeffrey; Kohler, Lukas; Mathiasen, Karen; Bleiweis, Seth; Rose, Jonathan; Haarsager, Mathew; Winship, Chris; Cushman, Benjamin; Yang, Tsung-Tao; Gujadhur, Vishal; Poggi, Matthew; Nugent, Malachy; Chun, Susan
Subject: RE: Treasury Financial Markets Weekly draft global items

Here is the draft global overview for this week's Treasury Financial Markets Weekly. I welcome your comments, by 2 p.m. There are items in the main text or Briefly Noted on:

China
Eurozone
Japan
Korea
Taiwan
Turkey
Venezuela

Kurt Schuler
622-7527

Global Financial Developments

Risk appetite tumbled through Monday but partly rebounded Tuesday and today under the influence of events in U.S. financial markets, especially the actions of the Federal Reserve.

The **United States** was again at the center of events. Thursday, retail sales figures were lower than expected, an affiliate of U.S.-based buyout firm Carlyle Group defaulted on about \$16.6 billion of debt, and customers were withdrawing money at a rapid pace from Bear Stearns, an investment bank that had large holdings of subprime mortgage securities and was heavily involved in securities clearing. Liquidity in various markets grew tighter. Friday, Bear Stearns secured temporary funding from J. P. Morgan Chase in conjunction with the Federal Reserve. Sunday, U.S. Government officials and executives of the two banks reached a deal for Morgan to buy Bear Stearns at \$2 a share, versus a market price of \$87 a share in late February. As part of the deal, the Federal Reserve guaranteed \$30 billion of the riskiest securities Bear Stearns held. It was the first time since the 1960s that the Fed participated in the rescue of a firm other than a commercial bank.

Also on Sunday, the Fed made all primary dealers of U.S. government securities eligible for loans from it, whereas previously only those that were commercial banks had been eligible; extended the maximum length of such loans to 90 days from 30 days; and reduced the discount rate (the rate it charges borrowers) by 25 basis points to 3.25%. The highly unusual Sunday announcement was timed to occur before Asian markets opened.

Monday's market reaction to the Fed's announcement was a worldwide flight to quality out of concern that more problems were to come. However, U.S. markets began to rally late in the day. Tuesday, markets around the world rebounded strongly and risk spreads narrowed, helped by higher-than-expected earnings from investment banks Lehman Brothers and Goldman Sachs and especially by the Fed's cut of the target Fed funds rate by 75 basis points, to 2.25%. (The Fed likewise cut the discount rate by 75 basis points, to 2.5%.) The Fed was influenced by weak economic data, conditions in financial markets, and inflation numbers announced on Friday, which showed no change in consumer prices or in core inflation for February. The worldwide rally continued today, further helped by higher-than expected earnings at investment bank Morgan Stanley.

Today's other significant development was a regulatory change that will reduce the capital surplus requirements of U.S. mortgage issuers Fannie Mae and Freddie Mac, which is expected to add up to \$200 billion of immediate liquidity to the market for mortgage-backed securities.

G-3 sovereign yields fell in a flight to quality. At one point Monday, the three-month U.S. Treasury bill was yielding only 0.65%, the lowest since 1958. Risk spreads widened until Monday, then partly recovered. Investment-grade credit-default spreads narrowed in the **United States** and **Europe**, but widened in **Japan** as it approaches the end of its financial year. Funding pressure on banks rose. J. P. Morgan's EMBIG index of emerging market sovereign spreads rose 8 basis points on falling U.S. sovereign yields; EMBIG yields were almost unchanged.

The dollar depreciated against most major currencies through Monday, but partly recovered Tuesday and today on the developments described above. The biggest gainer was the **Japanese yen**, up 2.7%* for the week as it breached the 100 yen per dollar mark and at one point attained its strongest level in 12 years. The dollar depreciated to a record low against the **euro**. Inflation in the eurozone rose slightly to 3.3% year-over-year, the highest since the euro came into existence and well above the European Central Bank's target of 2%. It is therefore unlikely that the bank will soon follow the Fed in cutting its policy interest rate. Also, the dollar for the first time became worth less than 1 **Swiss franc**. The biggest loser against the dollar was the **South Korean won**, which depreciated 3.6%. The won was down as much as 5% on persistent sales of Korean stocks by foreigners, before suspected central bank intervention helped it rally Tuesday.

Almost all advanced- and emerging-economy stock markets except the **United States** were lower for the week, though they followed rallied with the United States Tuesday and today off their Monday lows. Asia was hard hit, with **Japan** off 4.7% on a further reduction in the government's growth forecast and concern about effect of currency appreciation on export competitiveness. **China, Hong Kong, India, Indonesia** and **Vietnam** were off 6-11%, perhaps another indication that they would not escape the effects of a U.S. recession. **Turkey** lost 7.6% as global developments plus a state prosecutor's lawsuit to shut down the ruling AK Party on the grounds that it engaged in illegal Islamist activities.

Commodities were lower on concerns about slowing U.S. and global growth. Gold rose above \$1,000 per troy ounce for the first time but gave back its gains today [recheck at market close].

(Kurt Schuler, 622-7527)

*Changes in asset prices or yields are Wednesday-to-Wednesday unless otherwise noted.

Oil: [To come] (Ken Austin, 622-0174)

Briefly Noted

China repressed protests by Tibetans marking the anniversary of a failed 1959 uprising against Chinese rule. Separately, China's central bank raised the minimum reserve requirement for commercial banks to 15.5% from 15% in response to the recent strength of growth and inflation.

On March 22, **Taiwan** holds presidential elections and a referendum on whether to request membership in the United Nations as Taiwan (rather than, as formerly, the Republic of China). The Chinese government opposes the referendum.

Japanese legislators failed to agree on a replacement for Bank of Japan governor Toshihiko Fukui, whose term expires today. Deputy governor Masaaki Shirakawa will serve as acting governor.

A U.K. judge overturned a freeze on assets of **Venezuelan** state oil company PdVSA, which ExxonMobil had requested in a dispute over Venezuela's nationalization of ExxonMobil assets.

(Kurt Schuler, 622-7527)

From: Robertson, William
Sent: Wednesday, March 19, 2008 12:30 PM
To: _DL_FYI
Subject: Reuters - WRAPUP 1-US mortgage lenders to pump \$200 bln into markets

WRAPUP 1-US mortgage lenders to pump \$200 bln into markets

By Patrick Rucker
933 words
19 March 2008
11:25
Reuters News
English
(c) 2008 Reuters Limited

WASHINGTON, March 19 (Reuters) - The two largest U.S. mortgage finance companies on Wednesday won approval to pump up to \$200 billion into the distressed U.S. mortgage market, the latest step in government efforts to ward off a credit crunch.

Policy-makers at the Federal Reserve, regulatory agencies and the Treasury Department have unveiled a flood of measures to try to tamp down rising home foreclosures and stabilize shaky markets, but some still see the need for a more direct government hand.

The Office of Federal Housing Enterprise Oversight said it was immediately easing restrictions on Fannie Mae and Freddie Mac to give them a bigger role in settling queasy mortgage markets. It said they should be able to buy or guarantee about \$2 trillion total in mortgages this year.

"All hands are on deck to try and prevent this U.S. situation from becoming a dire crisis," said David Watt, a currency strategist with RBC Capital Markets in Toronto. "They're doing everything they can, making policy on the fly." Even after the step by OFHEO and other measures by the U.S. central bank to put fresh cash into capital markets, some lawmakers still insisted a bigger government backstop was needed.

Rep. Barney Frank, chairman of the powerful U.S. House of Representatives' Financial Services Committee, has proposed a program to insure up to \$300 billion in refinanced, affordable mortgages through the Federal Housing Administration. He claimed on Wednesday the Bush administration might be warming up to the idea. "We are now getting some indications that they are ready to talk about it," Frank told Reuters. "Not so much from the White House but from the Treasury." The Treasury, however, said it was not interested in negotiating over Frank's proposal for wider FHA loan guarantees. Fannie Mae and Freddie Mac had to boost reserves because of lax accounting and risk controls that came to light in mid-2003 and 2004. OFHEO now says they will be required to hold only 20 percent more in reserves rather than 30 percent originally ordered, and OFHEO said it may consider more cuts.

Efforts to ease financial market stress helped bring down mortgage rates early this year, but they have risen in recent weeks as investors have dumped souring loans to meet margin requirements, undercutting the Fed's efforts to spur the economy by cutting overnight interest rates.

Shares of Fannie Mae and Freddie Mac, which rose sharply on Tuesday in anticipation of the announcement, blasted higher for a second day on Wednesday. Fannie Mae stock was up 8.5 percent in mid-morning at \$30.70 and Freddie Mac was up 8.3 percent at \$28.17.

The global nature of mortgage market problems was underlined as the Bank of England stepped in on Wednesday to dampen rumors that HBOS, Britain's biggest mortgage lender, might be in trouble.

"No meetings have taken place or been scheduled to discuss problems with any institution in the UK," a BoE spokesman said, a rare step by the bank to comment on rumors.

DRASTIC TIMES, DRASTIC MEASURES

In a joint statement with OFHEO at a news conference in Washington, Fannie Mae and Freddie Mac said they had promised to raise "significant capital" in return for easing the amount of reserves they have to keep on hand against potential losses. The Treasury Department has been pushing Wall Street firms and others facing losses to quickly raise new capital. That is vital for a return to some kind of normal lending and business activity and to avert a full-blown financial meltdown. Treasury Secretary **Henry Paulson** quickly endorsed OFHEO's actions to give Fannie Mae and Freddie Mac more running room, which gives them scope to do anything from buying up new home loans to refinancing existing ones or purchasing mortgage backed securities.

"Additional capital will enable the companies to help more homeowners and will strengthen the underlying fundamentals of the mortgage market," Paulson said.

Paulson, a pragmatic-minded veteran of Wall Street, has so far hewed to the administration line that it would not countenance a taxpayer-financed "bailout" for people who took excessive risks.

But that argument suffered over the weekend when Treasury helped broker a proposed deal for a takeover of troubled investment bank Bear Stearns.

President George W. Bush said on Tuesday the White House was monitoring financial markets and, if further actions were needed to ease mortgage woes, it would be done "in a way that does not damage the long-term health of our economy." Until now, the Bush administration has argued the combined \$1.4 trillion portfolios of Fannie Mae and Freddie Mac represents more risk to the U.S. financial system than help to homeowners. Its shift in attitude comes as falling home prices and increasingly jittery financial markets have put the U.S. economy at risk of a severe recession.

"It's good news," said Chris Rupkey, chief financial economist at Bank of Tokyo/Mitsubishi in New York. "A lot of mortgage originators have left the business, so it's a good thing that mortgage money will be made more available." (Additional reporting by Svea Herbst in Boston, David Lawder and Mark Felsenthal in Washington, Al Yoon in New York and Steve Slater in London; Writing by Glenn Somerville, Editing by Neil Stempleman)

Stoltzfoos, Jeffrey

From: Foley, Trip
Sent: Wednesday, March 19, 2008 1:09 PM
To: Stoltzfoos, Jeffrey; Norton, Jeremiah; Appleton, Jesse; Scogin, Matthew
Subject: Reuters: investment banks are borrowing from Fed

Investment banks are borrowing from Fed
Wednesday March 19, 12:12 pm ET

NEW YORK (Reuters) - Investment banks Goldman Sachs Group Inc (NYSE:GS - [News](#)), Lehman Brothers Holdings Inc (NYSE:LEH - [News](#)) and Morgan Stanley (NYSE:MS - [News](#)) are testing a new program that allows investment banks to borrow directly from the Federal Reserve, according to people at the banks.

In a bid to stabilize jittery markets, the Fed said on Sunday that it would allow investment banks to borrow from its discount window using a wide range of investment-grade securities as collateral.

Markets were unstable after a run on the bank at Bear Stearns Cos Inc (NYSE:BSC - [News](#)) forced the investment bank to sell itself to JPMorgan Chase & Co (NYSE:JPM - [News](#)) at a fire-sale price.

The Fed has also cut the rate at which dealers borrow at the discount window to 2.5 percent from 3.5 percent, in two separate actions this week.

Goldman Sachs plans to test the program sometime this week, a spokesman said. Morgan Stanley Chief Financial Officer Colm Kelleher said his bank has already tested the program, and a spokeswoman for Lehman said the investment bank has also done so.

Erin Callan, CFO at Lehman Brothers Holdings Inc (NYSE:LEH - [News](#)), said in a conference call on Tuesday that dealers can borrow from the discount window at attractive terms.

"We would expect that the dealer community will actively begin to access the new program," Callan said. The program is a statement of confidence to parties that trade with and finance Lehman, and will also allow Lehman to fund more business with clients, she added.

In August, when commercial paper markets were seizing up, the Fed cut the discount rate for commercial banks. Soon after that, the four largest U.S. banks and a major international bank borrowed more than \$2 billion total at the discount window, to help remove the stigma of getting short-term financing from the central bank.

(Reporting by Dan Wilchins; additional reporting by Chris Reiter and Christian Plumb; editing by John Wallace)

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Special Assistant to the
Under Secretary for Domestic Finance

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From: Forsell, Courtney
Sent: Wednesday, March 19, 2008 1:57 PM
To: _DL_FYI
Subject: Reuters: UPDATE 1-U.S. Treasury's Ryan: Markets to emerge stronger

UPDATE 1-U.S. Treasury's Ryan: Markets to emerge stronger

By David Lawder

338 words

19 March 2008

13:50

Reuters News

English

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(Adds details)

WASHINGTON, March 19 (Reuters) - The U.S. Treasury is confident that capital markets will recover from their current turbulence and emerge stronger with enhancements such as improved credit ratings, better disclosure and increased risk management, a senior Treasury official said on Wednesday.

Anthony Ryan, Treasury assistant secretary for financial markets, said markets were experiencing "a great deal of deleveraging" that has hurt liquidity and their ability to facilitate economic activities.

"I have confidence in the resilience of our markets, and that collectively we will work through this period of stress and make our markets even stronger," Ryan said in prepared remarks to the Exchequer Club in Washington.

Ryan said the weakness that triggered market turmoil was a breakdown in underwriting standards for mortgage origination, particularly for subprime mortgages originated from late 2004 through 2006.

Ryan said Treasury was working to deal with such breakdowns, mitigate systemic risks, restore investor confidence and facilitate economic growth.

His remarks did not directly address Treasury's role in arranging a weekend buyout for Wall Street investment bank Bear Stearns amid a liquidity crisis that threatened a broader collapse on Wall Street.

Ryan's speech also promoted initiatives announced by the Treasury-led President's Working Group on financial markets to enhance stability by changing practices and some rules for participants to improve risk awareness, and enhance capital positions, credit ratings, disclosures and mortgage underwriting standards. Among these is implementation of strong national standards for state licensing of mortgage brokers and national standards for consumer protection on mortgages.

"Looking ahead, we expect practices to be different," Ryan said. "Financial products will be less complex and more transparent, and the mechanisms for dealing with complexity will improve. This will include better credit rating practices, improved capital cushions, better liquidity management, and enhanced disclosure and due

diligence." (Editing by Leslie Adler)

Stoltzfoos, Jeffrey

From: Woodall III, Samuel R. [WoodallS@sullcrom.com]
Sent: Wednesday, March 19, 2008 2:53 PM
To: Stoltzfoos, Jeffrey
Subject: probably old news for you, but just in case....

UPDATE 2-Frank: White House ready to discuss foreclosure plan

Reuters

Svea Herbst-Bayliss

BOSTON, March 19 (Reuters) - U.S. Rep. Barney Frank said on Wednesday that the Bush administration is getting ready to negotiate a plan seeking to avoid home foreclosures.

"We are now getting some indications that they are ready to talk about it," Frank, who chairs the powerful Financial Services Committee, told Reuters before an event in Boston.

The indications are coming "not so much from the White House but from the Treasury," Frank said.

"Treasury said, 'let's talk'," he said, noting the call came late last week or early this week.

A Treasury spokeswoman, however, said on Wednesday that the department's opposition to recent housing industry proposals calling for a bigger taxpayer role -- including Frank's latest plan -- had not changed.

"Treasury has reviewed a lot of ideas on housing but so far, we've only seen proposals that would do more harm than good. Our position has not changed," said Treasury Department spokeswoman Jennifer Zuccarelli.

Frank has proposed a federal program that would provide insurance for up to \$300 billion in refinanced, affordable-cost mortgages.

The Treasury has favored housing relief efforts driven by the private sector, consisting chiefly of voluntary refinancings, renegotiations of terms and other modifications by an alliance of most mortgage lenders and servicers called Hope Now. For some mortgages, these programs include an automatic freeze of interest rates at more affordable levels.

Any development between the Bush administration and congressional Democrats would break a long deadlock over how to provide more help to hundreds of thousands of Americans who are facing the prospect of foreclosure.

Administration officials had long been cool to Frank's plan, arguing that there should be no "bailout" for lenders or housing speculators. But Frank said movement came after the collapse of liquidity at investment bank Bear Stearns last week, which threatened a broad collapse on Wall Street.

"The Bear Stearns thing obviously pushed them although I think there were people within the department who thought we ought to do something about it," Frank said. (Additional reporting by David Lawder in Washington, Editing by Chizu Nomiyama,)

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From: Forsell, Courtney
Sent: Wednesday, March 19, 2008 2:55 PM
To: _DL_FYI
Subject: Reuters: WRAPUP 2-US mortgage lenders to pump \$200 bln into markets

WRAPUP 2-US mortgage lenders to pump \$200 bln into markets

By Patrick Rucker

1017 words

19 March 2008

12:25

Reuters News

English

(c) 2008 Reuters Limited

(Adds detail, Treasury comment in paragraphs 5-10; updates stock prices)

WASHINGTON, March 19 (Reuters) - The two largest U.S. mortgage finance companies on Wednesday won approval to pump up to \$200 billion into the distressed U.S. mortgage market, the latest step in government efforts to stabilize credit markets and save the economy from recession.

Policy-makers at the Federal Reserve, regulatory agencies and the Treasury Department have let loose a flood of measures to battle rising home foreclosures and stabilize shaky markets, but some still see the need for a more direct government hand.

The Office of Federal Housing Enterprise Oversight said it was immediately easing restrictions on Fannie Mae and Freddie Mac to give them a bigger role in settling queasy mortgage markets. It said they should be able to buy or guarantee about \$2 trillion total in mortgages this year.

"All hands are on deck to try and prevent this U.S. situation from becoming a dire crisis," said David Watt, a currency strategist with RBC Capital Markets in Toronto. "They're doing everything they can, making policy on the fly."

Still, some on Capitol Hill and Wall Street want a government backstop to catch sliding home values and stem growing foreclosures.

Rep. Barney Frank, chairman of the powerful U.S. House of Representatives' Financial Services Committee, has proposed using the Federal Housing Administration to insure up to \$300 billion of shaky home loans after lenders erase some of the mortgage amount.

The Massachusetts Democrat said on Wednesday the Bush administration seemed open to his plan but the Treasury later said it expressed "no interest" in negotiation over the proposal.

In a separate speech, one senior Treasury official said the Bush administration would reject big bailout plans or efforts that would change conventions in the mortgage finance system.

"We've heard of proposals that would create new bureaucracies and will take years to implement. We've also

seen proposals that will cause mortgages to be more expensive for borrowers in the future," said Anthony Ryan, treasury assistant secretary for financial markets. "But these types of proposals will do more harm than good."

The Treasury Department did welcome letting Fannie Mae and Freddie Mac increase their mortgage holdings and the formula that relaxes the companies' reserves that they were forced to raise after accounting scandals came to light in mid-2003 and 2004. Reducing their reserve requirement is expected to free up about \$200 billion.

OFHEO now says they will be required to hold only 20 percent more in reserves rather than 30 percent originally ordered, and OFHEO said it may consider more cuts.

Efforts to ease financial market stress helped bring down mortgage rates early this year, but they have risen in recent weeks as investors have dumped souring loans to meet margin requirements, undercutting the Fed's efforts to spur the economy by cutting overnight interest rates.

Shares of Fannie Mae and Freddie Mac, which rose sharply on Tuesday in anticipation of the announcement, blasted higher for a second day on Wednesday. Fannie Mae stock was up 10.3 percent in mid-afternoon at \$31.12 and Freddie Mac was up 15.5 percent at \$30.06.

The global nature of mortgage market problems was underlined as the Bank of England stepped in on Wednesday to dampen rumors that HBOS, Britain's biggest mortgage lender, might be in trouble.

"No meetings have taken place or been scheduled to discuss problems with any institution in the UK," a BoE spokesman said, a rare step by the bank to comment on rumors.

DRASTIC TIMES, DRASTIC MEASURES

In a joint statement with OFHEO at a news conference in Washington, Fannie Mae and Freddie Mac said they had promised to raise "significant capital" in return for easing the amount of reserves they have to keep on hand against potential losses.

The Treasury Department has been pushing Wall Street firms and others facing losses to quickly raise new capital. That is vital for a return to some kind of normal lending and business activity and to avert a full-blown financial meltdown.

Treasury Secretary Henry Paulson quickly endorsed OFHEO's actions to give Fannie Mae and Freddie Mac more running room, which gives them scope to do anything from buying up new home loans to refinancing existing ones or purchasing mortgage backed securities.

"Additional capital will enable the companies to help more homeowners and will strengthen the underlying fundamentals of the mortgage market," Paulson said.

Paulson, a pragmatic-minded veteran of Wall Street, has so far hewed to the administration line that it would not countenance a taxpayer-financed "bailout" for people who took excessive risks.

But that argument suffered over the weekend when Treasury helped broker a proposed deal for a takeover of troubled investment bank Bear Stearns.

President George W. Bush said on Tuesday the White House was monitoring financial markets and, if further actions were needed to ease mortgage woes, it would be done "in a way that does not damage the long-term health of our economy."

Until now, the Bush administration has argued the combined \$1.4 trillion portfolios of Fannie Mae and Freddie Mac represents more risk to the U.S. financial system than help to homeowners. Its shift in attitude comes as falling home prices and increasingly jittery financial markets have put the U.S. economy at risk of a severe

recession.

"It's good news," said Chris Rupkey, chief financial economist at Bank of Tokyo/Mitsubishi in New York. "A lot of mortgage originators have left the business, so it's a good thing that mortgage money will be made more available." (Additional reporting by Svea Herbst in Boston, David Lawder and Mark Felsenthal in Washington, Al Yoon in New York and Steve Slater in London; Writing by Glenn Somerville, Editing by Neil Stempleman)

Ridgway, Diana

From: Ridgway, Diana
Sent: Wednesday, March 19, 2008 3:24 PM
To: Steel, Robert
Subject: Jamie Dimon called-212-270-(b) (6) (3:20)

From: Forsell, Courtney
Sent: Wednesday, March 19, 2008 3:29 PM
To: _DL_FYI
Subject: Reuters: UPDATE 3-Movement may be seen on mortgage aid plan-Rep. Frank

UPDATE 3-Movement may be seen on mortgage aid plan-Rep. Frank

By Svea Herbst-Bayliss and David Lawder

713 words

19 March 2008

09:43

Reuters News

English

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(Recasts with new details, comments from Treasury officials)

BOSTON/WASHINGTON, March 19 (Reuters) - An influential Democratic congressman said on Wednesday the Bush administration was willing to discuss a bold plan he proposed to tackle the nation's worsening mortgage foreclosure crisis.

But minutes after U.S. Rep. Barney Frank said the White House indicated a willingness to discuss the possibility of federal backing for hundreds of thousands of home loans, the U.S. Treasury Department denied any deal was in the works.

The back-and-forth between Frank, who chairs the powerful House of Representatives Financial Services Committee, and the White House underlines the political obstacles facing the ambitious plan to guarantee more federal aid in the form of insurance for up to \$300 billion in refinanced, affordable-cost mortgages.

"We are now getting some indications that they are ready to talk about it," Frank told Reuters before addressing a town hall meeting in Boston on harmful banking practices.

"Treasury said, 'let's talk'," he said.

Frank said the Treasury officials made the overtures late last week or early this week as a crisis on Wall Street threatened to unhinge the U.S. financial system.

Frank's plan to expand Federal Housing Administration guarantees to ease the strain on Americans at risk of losing their homes has faced stiff political resistance since it was unveiled on March 13. His comment on Wednesday suggested a possible end to the deadlock.

But Treasury spokeswoman Michele Davis fired back that the administration is unwilling to haggle over Frank's plan.

"While we are always willing to listen to the chairman's ideas, we have expressed no interest in negotiating on this proposal," Davis said.

PRIVATE-SECTOR AID

The government has indicated it wants more private aid to resolve a crisis in the property market where home foreclosures and the share of borrowers who face losing their homes hit records in the fourth quarter and look set to climb further.

A senior Treasury official on also on Wednesday said the administration was opposed to housing proposals that would "create new bureaucracies" and those that could raise future borrowing costs by allowing bankruptcy judges to erase mortgage debt.

"These types of proposals will do more harm than good," Treasury assistant secretary for financial markets Anthony Ryan told a business group in Washington. He urged Congress to pass a more modest FHA modernization bill and create a stronger regulator for housing finance giants Fannie Mae , and Freddie Mac which gained a government green light to invest in \$200 billion more mortgages this year.

The Treasury is already returning billions of dollars to taxpayers under the government's fiscal stimulus package, trying to tempt them into spending more to stimulate an economy that some experts say is already in recession.

Frank said he already had constructive talks with federal bank regulators including the Federal Reserve.

The White House long supported voluntary refinancings, renegotiations of terms and other modifications by an alliance of most mortgage lenders and servicers called Hope Now.

For some mortgages, these programs include an automatic freeze of interest rates at more affordable levels.

Administration officials have been cool to Frank's plan, arguing lenders or housing speculators should get no lifelines.

"Our bill says it starts with the holders of the paper taking a hit. There is no subsidy to the lenders here," Frank said.

He suggested the Bush administration's tone had changed after Wall Street investment bank Bear Stearns nearly collapsed last week before being rescued by the Fed and rival JPMorgan Chase .

"The Bear Stearns thing obviously pushed them although I think there were people within the department who thought we ought to do something about it," Frank said.

U.S. stock markets, which had been tumbling on worsening economic news recently, roared back on Tuesday when the Federal Reserve cut interest rates for a sixth time in six months. The Bush administration is also returning billions of dollars to U.S. taxpayers trying as part of stimulus package to tempt consumers to buy more.

(Editing by Richard Satran)

Appleton, Jesse

From: Harvey, Reavie
Sent: Wednesday, March 19, 2008 3:39 PM
To: Appleton, Jesse
Subject: RE: ANOTHER PHONE CALL FROM Mr. Alan Katz, President of USI Wants to talk to someone about purchasing some of Bear and Stearns (617) 332-0040

Jesse,

The Treasury Operator referred this guy to me on yesterday. He called me again today. Do you have any idea who I should give him to to answer his questions? Alan Katz (USI) phone: 617-332-040

From: Harvey, Reavie
Sent: Wednesday, March 19, 2008 8:32 AM
To: Appleton, Jesse
Subject: PHONE CALL FROM Mr. Alan Katz, President of USI Wants to talk to someone about purchasing some of Bear and Stearns (617) 332-0040

Stoltzfoos, Jeffrey

From: Mason, Jeb
Sent: Wednesday, March 19, 2008 3:40 PM
To: _DL_FYI
Subject: The American (Wallison, 3/19) Capital Ideas

AEI's Wallison says Lawmakers should turn their attention to persuading banks and other financial intermediaries to raise more capital.

Capital Ideas

By [Peter J. Wallison](#) Wednesday, March 19, 2008

Filed under: [Economic Policy](#)

Lawmakers should turn their attention to persuading banks and other financial intermediaries to raise more capital.

The key question in the so-called mortgage meltdown is whether shareholders or taxpayers are going to bear the loss. The most serious problem we face is not the fact that some homeowners are unable or unwilling to meet their mortgage obligations—as bad as that is—but the fact that the capital bases of banks and other financial institutions have been substantially weakened by the decline in the value of the mortgages and mortgage derivatives that they hold. As a result of this weakness, banks have been forced to reduce their lending, and the lack of confidence in the stability of these and other financial institutions has caused the credit markets to freeze up. The shortage of credit, in turn, is adding to the risk of recession, and its depth if one is already upon us. Thus, the problems in the mortgage markets are affecting the wider economy as well as the lives of the American people—the vast majority of whom are perfectly willing and able to meet their mortgage obligations.

To address this problem, many people are looking to the government to bail out one or another of the participants in this cycle. Government solutions have two major drawbacks—they prolong the crisis and they require the taxpayers ultimately to bear the losses. Private solutions would work better, but what are they?

To consider this question fully, we should go back to first principles.

Banks and other financial intermediaries are required to have capital. The purpose of capital is to cushion them and keep them solvent in times like these when they are suffering losses. If banks and other intermediaries had sufficient capital, they would still be suffering losses today, but we would not be seeing the financial turmoil and fear that is so apparent now in the markets.

Many of the proposals that are coming forward from Capitol Hill and elsewhere are intended to substitute in some way for adequate capital in the banks and other financial intermediaries. For example, the Dodd-Frank proposal unveiled last week would have the Federal Housing Administration guarantee newly reformed mortgages for those in default. Under ordinary circumstances, adequately capitalized banks and other lenders would renegotiate and carry these mortgages without a federal guarantee. Proposals to create a new Homeowners Loan Corporation, like the one that bought mortgages during the Depression, would

have the same effect. They are all using taxpayer funds or inserting taxpayer risk into private markets in order to ease the strain on lenders.

The Fed's bailout of Bear Stearns can be read two ways—as a signal that bailouts will save everybody's bacon, or as a demonstration that waiting too long for a recapitalization could mean financial disaster.

What's more, proposals to freeze interest rates or have bankruptcy judges reform mortgages to levels that people can afford are intended to place the burden for the losses on the lenders. They will make the problem worse, and probably skewer the mortgage markets for years to come.

But the fundamental problem is the lack of capital—also called excessive leverage—in the lenders. If they had sufficient capital, they could ride out this crisis by taking the losses that their previous lack of prudence produced. Naturally, the lenders are not eager to increase their capital; it dilutes their existing shareholders and drives down stock prices. But given the potential losses that are building in our frozen credit system, shareholders face a Hobson's choice between dilution and failure.

Not surprisingly, banks and others are up on Capitol Hill pushing bailout plans. But politicians of both parties are unwilling to bail out lenders, and the public seems unwilling to bail out either the lenders or the homeowners who imprudently signed up for mortgages they couldn't afford.

Once again, the public seems to have the right idea. Without a bailout, the best solution is an increase in the capital of financial intermediaries. Many have already sought and received capital injections. More are necessary. Regulators are quietly—perhaps too quietly—encouraging this step.

One way to bring it about is to stop the speculation in Washington about who will be bailed out and under what circumstances. Banks and other financial institutions should face the fact that they are going to have to recapitalize, and get on with it.

In this sense, the Fed's bailout of Bear Stearns can be read two ways—as a signal that bailouts will save everybody's bacon, or as a demonstration that waiting too long for a recapitalization could mean financial disaster. The Bear Stearns case shows just how high the stakes in this bet can be. Financial institutions can hope that they will not have to raise more capital, but that may not be how their creditors see it. As housing prices and mortgage values continue to fall, what appears adequate today may be insufficient tomorrow. The only safe course in this environment is seeking and adding new capital. Shareholders may not be happy with the dilution, but it is very likely that the shareholders of Bear Stearns would now be happy with that trade—if it were still available.

In reality, the prospects for recapitalization do not seem particularly bleak. There are many reasons for investors to want to buy into banks and other financial institutions at the low prices to which markets have driven their shares. For one thing, many observers believe that the valuation of mortgages, and the write-downs in assets that have resulted, have not been realistic. Analysts at Standard and Poor's wrote last week "When we dissect the percentage of writedowns taken against various types of exposures, the magnitude of some writedowns is greater than any reasonable estimate of ultimate losses."

There have been losses, to be sure, but these observers contend that the extreme write-downs are the result of distressed market values and not a true reflection of the value of these assets. We don't know whether this is true, but if it is, the potential for profit is substantial.

Most Americans are paying their mortgages and will continue to do so. The final losses arising from the

mortgage defaults—which some observers have pegged at as high as a trillion dollars—are probably greatly exaggerated. When markets return to normal, the chances are that these values will be written up and substantial profits will be made. This is the way these “crises” usually play out, and there is a lot of money on the sidelines waiting for the bottom and the profit opportunities this will present.

Indeed, the likelihood that their portfolios will ultimately increase in value is a reason that some companies give for not seeking more capital. Freddie Mac, for example, noted in a recent statement, that “the unrealized losses on the [asset backed securities] portfolio as of December 31, 2007, are principally the result of decreased liquidity and larger risk premiums in the subprime market...we have concluded that the impairment of these securities is temporary.” Maybe, maybe not. The potential profit if this is correct should be attractive to the risk capital waiting on the sidelines. The trouble is, this only works if that capital goes into the companies, not into the secondary market.

So what we have is a standoff. Companies that have been compelled to write down their assets believe that they will eventually recover a good portion of that value, but as housing values continue to fall, they are increasingly risking the loss of all if they find themselves with insufficient capital to stay the course. Our political leaders should busy themselves less with figuring out how to bail out the losers and turn their attention to persuading banks and other financial intermediaries to raise more capital.

Peter J. Wallison is a senior fellow at the American Enterprise Institute. He was General Counsel of the Treasury in the Reagan administration.

Jeb J. Mason

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Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Wednesday, March 19, 2008 4:27 PM
To: _DL_FYI
Subject: Fox Business - Ryan

Fox Business – Ryan

<http://www.shadowtv.com/redirect/notification.jsp?vid=c51c6e03b61b36f83066f9f72007f575>

HOST: Just how important to the credit market was this week's sale of bear stems to jp morgan chase.

HOST2: For that, we welcome anthony ryan secretary for foreign markets. Thanks for coming.

RYAN: My pleasure to be here.

HOST: What did this do for the financial markets?

RYAN: We have to continue to work through the current challenges in the markets. One of the challenges has been liquidity. The federal reserve took action and enables our financial institutions to continue to engage and function. We appreciate the efforts the federal reserve too to enhance the efficiency of the capital market.

HOST: Anthony, a will the of people are saying this was a bailout of a wall street bank. How do you respond to that?

RYAN: Our focus was on the markets. We need to see our markets function in an orderly way. We recognize the challenges and have users of capital that need to borrow capital. is there anyone out there We need to see our financial institutions be in a point of liquidity to allow borrowing to occur to individuals who are trying to borrow for education or homes as well.

HOST2: If they get into trouble, this started in a hedge fund. Two bear stems hedge funds went under. I understand that the federal government can't sit there, but at what point does it do to help drug addicts who are taking the drugs on your own if you get my point?

RYAN: They have an obligation to get the information necessary to assess risk. We can't have markets where investors are complacent about risks. They play an important role, and part of the work we have been undertaking are geared toward looking at the real weaknesses existing in the capital markets and put forth recommendations. The president's working group has done a broad assessment of the underlying weaknesses that contributed to the current turmoil. We are moving from recommendations into implementation, and they'll serve to strengthen market discipline, awareness of risk, and institutional management of risk.

HOST: The washington post recorded an article saying they looked like a comforting parent in all of this. What has his demeanor been in this?

RYAN: He's been a terrific leader. He continues to provide encouragement not just in the treasury, but also with market participants. We are making progress as we work through these challenges. We have confidence in the market and continue to make progress in the days ahead.

HOST: Thanks for coming on "fox business."

RYAN: Thank you for having me.

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 4:50 PM
To: _DL_FYI
Subject: Bberg- Update: Paulson's Surrogate Steel Sees Early Market Progress

Paulson's Surrogate Steel Sees Early Market Progress (Update2) 2008-03-19 16:45 (New York)

(Adds former Treasury Secretary Rubin's comment in eighth paragraph.)

By Brendan Murray and John Brinsley

March 19 (Bloomberg) -- Treasury Undersecretary Robert Steel was huddling with regulators at the Federal Reserve Bank of New York the morning of March 14, when word came that President George W. Bush needed an update on the chaos enveloping financial markets.

Stocks were falling for a third straight week, and Bear Stearns Cos. was getting bought by JPMorgan Chase & Co. through an unprecedented Fed-backed infusion of cash. Steel, Treasury Secretary Henry Paulson's closest confidant, met Bush at a lower Manhattan heliport and briefed him in the 10-minute drive past Wall Street ahead of the president's speech to the Economic Club of New York.

The worst credit crisis in at least two decades falls directly into Steel's responsibilities as head of Treasury's domestic finance division. In an interview yesterday, Steel, 56, was unapologetic about the administration's reluctance to back a taxpayer bailout of mortgages and said the early market response to the Fed action has been favorable.

"The real proof will be in the pudding longer term with markets being stable and orderly, but it's good to have an initial constructive reception," he said, hours before the Standard & Poor's 500 Index rallied 4.24 percent, the most in five years.

The Bush administration's reliance on markets to some analysts has prolonged the decline in the housing industry.

Policy Critics

"They're going to have to recognize the reality that fiscal and monetary policy aren't going to be enough to get us out of this crisis," said Michael Barr, a former assistant to Treasury Secretary Robert Rubin and professor of law at the University of Michigan in Ann Arbor.

Steel, who worked under Paulson as head of equities and later vice chairman at Goldman Sachs Group Inc., used his 30 years of experience on Wall Street to help hammer out two deals culminating in JPMorgan Chase's purchase of Bear Stearns. Paulson said he chose Steel for the job in part because he "has worked through tough times in a calm manner."

Former Treasury Secretary Robert Rubin, who has known Steel since the two worked together at Goldman Sachs in Chicago in the 1970s, in an interview said that market regulators are "in uncharted waters. You need to have someone equal to the task, which in Bob's case you obviously do."

White House Photo-Op

Starting at 5 a.m. on March 14, the two Treasury officials counseled the Fed and other regulators while participating in talks that culminated in the deal for JPMorgan to buy Bear for about \$2 a share, or \$240 million, before markets in Asia opened. Since that morning, the S&P 500 index is up about 1.6 percent.

Throughout the crisis, Steel has been a surrogate for Paulson on Wall Street. On March 17, at a White House photo opportunity, Steel sat on one side of Bush and Paulson on the other as the president sought to reassure Americans that the administration was "on top" of the situation.

Bear Stearns' selling price, at less than 10 percent of its market value, reflects the inevitable fallout from the credit crunch, in which banks and securities companies have lost some \$190 billion since the start of 2007, Steel indicated.

"I view the resolution as a logical one," Steel said. "Two dollars a share really says that there was pain, and in the current environment, we're focused on the stability of the market."

Other Regulators

Steel received a bachelor's degree from Duke University and a master's degree in business administration from the University of Chicago. His Goldman career started in the bank's Chicago office in 1976 and his experience with markets and focus on stability wins him praise from former colleagues.

"Every day the markets are full of rumor and trivia, and he has an ability to cut through that and get to what is the heart of the problem," said Rick Rieder, managing director and head of Global Principal Strategies at Lehman Brothers Holdings Inc., who serves as vice chairman of the Treasury's bond borrowing advisory committee.

Sheila Bair, head of the Federal Deposit Insurance Corp., has led the call for loan-servicing companies to modify mortgages for struggling homeowners. This month she began calling for a reduction in loan principal, a more aggressive approach than that endorsed by Treasury.

"He's calm, he's a steady hand, he doesn't overreact," Bair said in an interview. "I'm very impressed with him. He's made his fortune, he doesn't need to think about his next career step, he's just here to do what he thinks is right."

Congress' Role

Steel, a married father of three daughters, has ties to leading lawmakers, both Democrats and Republicans. He has donated more than \$160,000 to campaigns of both political parties in recent years, giving to Republican Senators John McCain and Lamar Alexander and Democrats including Senators Charles Schumer and Bill Bradley.

When asked about criticism from Congress that the administration has moved too slowly, Steel said lawmakers haven't done their part to modernize the Federal Housing Administration and toughen Fannie Mae and Freddie Mac's regulator.

"These two things are really important things that can help housing," said Steel, who has a master's degree in business administration from the University of Chicago. "We don't want to think it's right to start using large amounts of government revenues to basically be bailing out the situation."

--With reporting by Matthew Benjamin in Washington and Fergal

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Stoltzfoos, Jeffrey

From: Richard, Gregg [Gregg_Richard@crapo.senate.gov]

Sent: Wednesday, March 19, 2008 5:13 PM

To: Stoltzfoos, Jeffrey

Subject: Fossella

By Judith Burns

Of DOW JONES NEWSWIRES

WASHINGTON (Dow Jones)--Rep. Vito Fossella, R-N.Y., plans to introduce legislation shortly to modernize oversight of U.S. financial institutions, something he said is needed to help U.S. markets remain competitive worldwide.

"Financial service regulation in the United States is outdated," Fossella said during a conference call with reporters on Wednesday. He said his proposal would update a regulatory structure that dates from the 1930s and reduce duplication without creating a single super-regulator.

Instead, Fossella said the bill would preserve regulatory specialization and competition while strengthening systemic oversight and increasing cooperation and information sharing across financial regulatory agencies.

In another change, he said the legislation would shift U.S. financial regulation toward a more "principles-based" approach. Some consolidation could be in the works as well, as Fossella questioned whether the U.S. needs multiple numbers of regulatory bodies to oversee the nation's banks.

The New York Republican stressed that his bill has been in the works for more than year and was spurred by concerns about U.S. competitiveness, not the recent

turmoil on Wall Street or the near-meltdown of Bear Stearns Cos. (BSC) last week.

"One thing we're not going to do is Bear Stearns reaction legislation," said Fossella.

Although Fossella's bill isn't targeted at Bear Stearns, it would give regulators new ways to work together in overseeing Wall Street in the future. He said he is looking to increase cooperation between the Federal Reserve and the Securities and Exchange Commission and give the Fed new authority over Wall Street companies, saying such changes would benefit investors and regulators, and help U.S. markets that face growing competition from abroad.

Fossella serves on the House Financial Services Committee, whose chairman, Rep. Barney Frank, D-Mass., has his own legislative agenda for the spring, focusing on addressing the mounting numbers of home foreclosures. Still, Fossella said he is hopeful that congressional Democrats will support his push for financial regulatory reform.

"This is an issue about American competitiveness," said Fossella. "It's not a Republican or Democratic issue."

-By Judith Burns, Dow Jones Newswires; 202-862-6692; Judith.Burns@dowjones.com

(END) Dow Jones Newswires

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Appleton, Jesse

From: Lin, Stephen
Sent: Wednesday, March 19, 2008 5:54 PM
To: Lin, Stephen
Subject: Treasury Financial Markets Weekly for March 19, 2008
Attachments: TFMW VIIIIN12 080319.pdf

I've attached the Treasury Financial Markets Weekly for March 19, 2008. A Blackberry-friendly text version appears below.

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=====

Summary

- **U.S.:** Economic activity continues to deteriorate, while core inflation remains contained. The Federal Reserve assisted in a takeover of the investment bank Bear Stearns and cut the target Fed funds rate by 75 basis points, to 2.25%.
- **Global overview:** Risk appetite tumbled through Monday but partly rebounded Tuesday and today under the influence of events in U.S. financial markets, especially the actions of the Federal Reserve.
- **Oil:** Oil prices staged a major retreat today on the third day of major market volatility.

Domestic Financial Developments

Economic data released in the past week show that activity continues to deteriorate, while core inflation remains contained. Retail sales fell in February, the second decline in the last three months. Industrial production fell 0.5% in February, and although part of the decline was due to a drop in utilities output, production fell in manufacturing. Housing starts and building permits fell further in February. Indicators for March point to further economic weakness; the Federal Reserve Bank of New York's regional manufacturing index dropped sharply and consumer sentiment edged down further. Core consumer prices were unchanged in February, and over the past 12 months core inflation was 2.3%.

The main news in the U.S. this week concerned financial markets and monetary policy responses to ongoing credit market turmoil, including weekend actions related to the J.P. Morgan acquisition of Bear Stearns (see below), and the \$30 billion loan from the Federal Reserve to J.P. Morgan in exchange for hard-to-value securities. In addition to the actions related to Bear Stearns, the Federal Reserve announced several other initiatives to ease credit conditions, including opening the discount window for the next 6 months to primary dealers in Treasury securities; cutting the discount rate from 3.5% to 2.5% in two steps Sunday and Tuesday; and lowering the Federal funds target rate from 3% to 2.25% Tuesday.

Equity markets were very volatile over the past week, but the S&P 500 was up about 1% for the week ending midday Wednesday. The yield on the 10-year Treasury bond fell to about 3.4% through midday Wednesday, down about 15 basis points from the previous Wednesday close. (*R. M. Monaco, 622-2293*)

Global Financial Developments

Risk appetite tumbled through Monday, partly rebounded Tuesday, and fell again today under the influence of events in U.S. financial markets, especially the actions of the Federal Reserve.

The **United States** was again at the center of events. Thursday, retail sales figures were lower than expected, an affiliate of U.S.-based buyout firm Carlyle Group defaulted on about \$16.6 billion of debt, and customers were withdrawing money at a rapid pace from Bear Stearns, an investment bank that had large holdings of subprime mortgage securities and was heavily involved in securities clearing. Liquidity in various markets grew tighter. Sunday, U.S. Government officials and executives of the two banks reached a deal for J. P. Morgan to buy Bear Stearns at \$2 a share, versus a market price of \$87 a share in late February. It was the first time since the 1960s that the Fed participated in the rescue of a firm other than a commercial bank. Also on Sunday, the Fed took other measures described above making all primary dealers of U.S. government securities eligible for loans from it; previously, only those that were commercial banks had been eligible.

The unusual Sunday announcement was timed to occur before Asian markets opened Monday morning. Monday's market reaction was a worldwide flight to quality out of concern that more problems were to come. However, U.S. markets began to rally late in the day. Tuesday, markets around the world rebounded strongly and risk spreads narrowed, helped by higher-than-expected earnings from investment banks Lehman Brothers and Goldman Sachs and especially by the cut in the target Fed funds rate (see above). The Fed was influenced by weak economic data, conditions in financial markets, and February's inflation numbers. The worldwide rally initially continued today, further helped by higher-than-expected earnings at investment bank Morgan Stanley, but fizzled this afternoon.

Today's other significant development was a regulatory change that will reduce the capital surplus requirements of U.S. mortgage issuers Fannie Mae and Freddie Mac, which is expected to add up to \$200 billion of immediate liquidity to the market for mortgage-backed securities.

Over the week,* G-3 sovereign yields fell in a flight to quality. At one point Monday, the three-month U.S. Treasury bill was yielding only 0.65%, the lowest since 1958. Risk spreads widened until Monday, then partly recovered Tuesday and widened again today (see Chart of the Week). For the week, indexes of risk spreads on investment-grade corporate bonds narrowed in the **United States** and **Europe**, but widened in **Japan** as it approaches the end of its financial year on March 31. Funding pressure on banks rose. J. P. Morgan's EMBIG index of emerging market sovereign spreads rose 17 basis points; EMBIG yields were almost unchanged.

The dollar depreciated against most major currencies through Monday, but partly recovered Tuesday and today on the developments described above. The biggest gainer was the **Japanese yen**, up nearly 3% for the week as it breached the 100 yen per dollar mark and at one point attained its strongest level in 12 years. The dollar depreciated to a record low against the **euro**. Inflation in the eurozone rose slightly to 3.3% year-over-year, the highest since the euro came into existence and well above the European Central Bank's target of 2%. It is therefore unlikely that the bank will soon follow the Fed in cutting its policy interest rate. Also, the dollar for the first time became worth less than 1 **Swiss franc**. The biggest loser against the dollar was the **South Korean won**, which depreciated nearly 4% on persistent sales of Korean stocks by foreigners.

Almost all stock markets were lower for the week. Asia was hard hit, with **Japan** off 4.7% on a further reduction in the government's growth forecast and concern about effect of currency appreciation on export competitiveness. **China, Hong Kong, India, Indonesia** and **Vietnam** were off 6-11%, perhaps another indication that they would not escape the effects of a U.S. recession. **Turkey** lost 7.6% on global developments plus a state prosecutor's lawsuit to shut down the ruling AK Party on the grounds that it is a focal point of anti-secular activities.

Commodities were lower on concerns about slowing U.S. and global growth. Gold rose above \$1,000 per troy ounce for the first time but gave back its earlier gains and more today.

(Kurt Schuler, 622-7527)

**Changes in asset prices or yields are Wednesday-to-Wednesday unless otherwise noted.*

Oil: Oil prices staged a major retreat today on the third day of major market volatility. Oil prices were down almost \$5 a barrel Monday, made back most of it yesterday, and then lost \$5 again today. The expiring April contract for U.S. benchmark West Texas Intermediate crude oil (WTI) closed just over \$104 a barrel. In intraday trade Monday, it traded just under \$112. For the last few days, oil has generally moved broadly with other commodities as conditions in financial markets seem to be increasing commodity price volatility. The May WTI contract, which will be the new front month contract, fell to \$103.

Inventory data today were generally disappointing compared to expectations, which should have bolstered oil prices. Crude oil stocks rose an anemic 200,000 barrels and gasoline and heating oil each fell more than 3 million barrels last week. *(Ken Austin, 622-0174)*

Briefly Noted

China repressed protests by Tibetans marking the anniversary of a failed 1959 uprising against Chinese rule. Separately, China's central bank raised the minimum reserve requirement for commercial banks to 15.5% from 15% in response to the recent strength of growth and inflation.

On March 22, **Taiwan** holds presidential elections and a referendum on whether to request membership in the United Nations as Taiwan (rather than, as formerly, the Republic of China). The Chinese government opposes the referendum.

Japanese legislators failed to agree on a replacement for Bank of Japan Governor Toshihiko Fukui, whose term expired today. Deputy Governor Masaaki Shirakawa will serve as acting governor.

A U.K. judge overturned a freeze on assets of **Venezuelan** state oil company PdVSA, which ExxonMobil had requested in a dispute over Venezuela's nationalization of ExxonMobil assets.

(Kurt Schuler, 622-7527)