

Stoltzfoos, Jeffrey

From: Market Room
Sent: Wednesday, March 19, 2008 6:43 PM
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DJIA	12099.66	-2.36	%
S&P	1298.42	-2.43	%
NASDAQ	2209.96	-2.57	%
FTSE	5545.60	-1.07	%
DAX	6361.22	-0.50	%
Nikkei	12260.44	2.48	%
Kospi	1622.23	2.11	%
Hang Seng	21866.94	2.26	%
1-Month Tsy	0.21	-24.41	bps
3-Month Tsy	0.56	-31.63	bps
3-month LIBOR	2.59875	5.69	bps
2-yr Tsy	1.477	-12.26	bps
10-yr Tsy	3.337	-14.54	bps
2-yr SwSpr	80.65	4.85	bps
10-yr SwSpr	59.80	-2.70	bps
30-yr Conf Mtge	107.058	-10.18	bps
10-yr Gilt	4.308	-4.70	bps
10-yr Bund	3.761	0.00	bps
10-yr JGB	1.275	-6.30	bps
Oil NMX WTI	\$102.45	-\$6.05	
Gold Spot	\$943.90	-\$38.34	
\$/Euro	\$1.5622	-0.02	%
Yen/\$	99.1	-0.78	%
Yen/Euro	154.793	-0.77	%
CHF/\$	0.9989	-0.36	%
\$/GBP	\$1.9843	-1.10	%
\$/AUD	\$0.9147	-1.34	%
JPM	42.47	-0.56	%
Citi	20.41	-1.45	%
GS	166.49	-5.18	%
MER	41.45	-11.11	%
LEH	42.23	-9.16	%
MS	43.45	1.38	%
FNMA	30.71	8.82	%
FRE	29.9	14.91	%
BOA	38.56	-0.95	%

Source: Bloomberg, Moody's, TradeWeb, Dow Jones, Reuters and NY Fed Markets

Despite the Fed's \$15 billion outright sale of 6-month bills, bill yields declined 32 basis points, with the benchmark 1-month Treasury bill currently trading at 0.21 percent. Market participants noted continued demand from Treasury-only money funds, which received \$6.8 billion dollars yesterday according to iMoneyNet, likely the largest daily increase in recent years. In addition, several traders suggested strong demand for Treasury bills from hedge funds with increased cash balances. Higher cash balances are a result of both heightened counter-party credit risk concerns following the Bear Stearns's sale and a reduction of positions across asset classes as a result of reduced access to leverage.

Heightened demand for Treasury securities prompted overnight GC repo to trade as low as 20 basis points this morning, despite a \$7.25 billion reverse RP conducted by the Desk. Current overnight GC repo yields are nearly 200

basis points lower since the end of last week.

Treasury yields declined 12 to 15 basis points across the 2- to 10-year Treasury curve. Market participants noted unwinds of curve steepened trades by leveraged accounts seeking to reduce extended positions as contributing to the price action. In addition, negative news regarding financial institutions led to yield declines at the front end of the curve.

Intermediate- to longer-dated TIPS breakeven rates declined 10 to 5 basis points across the curve. Traders widely attributed the action to continued delevering, although traders noted that the sharp price action was likely exacerbated by the illiquid conditions in the market. Short-dated breakevens narrowed up to 20 basis points which traders noted was consistent with the broad decline in commodity prices.

The option-adjusted spread on current coupon agency pass-through securities narrowed 9 basis points relative to Treasuries following a reduction in OFHEO's capital surcharge for Fannie Mae and Freddie Mac to 20 percent. Analysts believe that this could lead to a \$200 billion expansion of the GSE retained portfolio, although many believe that Fannie and Freddie will likely increase purchases gradually and may not focus solely on purchasing agency pass-through securities. Liquidity in the agency MBS market improved slightly with bid-ask spreads for \$100 million transactions quoted at around 1 tick, significantly lower than recent levels.

Commodity prices declined broadly, with the front-month WTI contract declining 5.5 percent to trade \$102.54 per barrel. In addition, the Goldman Sachs commodity index decreased nearly 5 percent. Dealers attributed the sharp decline in commodity prices to unwinds of long positions, given the growing view that a global economic slowdown will lead to a near-term decline in the demand for commodities. In addition, dealers indicated that the financial market delevering also led to commodity position unwinds among some investors. Gold futures suffered their biggest one-day dollar decline in 28 years with April gold futures closing down \$59 to \$945.30 on Comex. Crude-oil futures for April delivery settled down 4.5% at \$104.48 despite data showing U.S. crude stockpiles rose by 133,000 barrels last week, according to EIA.

The S&P 500 index declined 2.4 percent led by the energy sector. Despite better-than-expected earnings by Morgan Stanley which initially supported the market, the financial sector ETF declined 1.5 percent, following news that Merrill Lynch sued XL Capital Assurance over \$3.1 billion of financial guarantees on CDOs. Moreover, shares of Lehman Brothers and Merrill Lynch were down 9 and 11 percent, respectively, as rumors of further mortgage-related write-downs at large investment banks weighed on sentiment.

The CDX Index widened 3.5 basis points to 163.5, after narrowing as much as 15 basis points earlier in the session. Along with the decline in equity prices, credit market participants attributed the late-day widening to the pricing of several 'BBB' and 'A' primary corporate debt issues at yields of 50 to 100 basis points above comparable bonds in the secondary market, suggesting that significant credit concerns remain despite recent significant narrowing in the CDX index.

The dollar reversed much of its overnight weakness against the euro, leaving it unchanged on the day, while the dollar depreciated 0.8 percent against the yen.



Mkts Briefing
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From: McLaughlin, Brookly
Sent: Thursday, March 20, 2008 8:10 AM
To: DL_FYI
Subject: (BN) Top Stories: Business and Finance

Top Stories: Business and Finance
2008-03-20 08:08 (New York)

March 20 (Bloomberg) -- The following are the day's top business stories:

Dollar Rises to Highest in Week Against Euro as Oil, Commodity Prices Drop

The dollar rose to its strongest in a week against the euro as speculation a global economic slowdown will reduce demand for raw materials pushed gold and oil lower. Europe's common currency declined after Credit Suisse Group said it may have a loss this quarter because of writedowns on debt securities. The dollar climbed to the highest level in more than a week versus the currencies of its major trade partners as crude, which is priced in the U.S. currency, dropped after a government report showed weaker demand for fuel. "The main driver is the liquidation of long commodity positions, specifically crude oil," said Lee Hardman, a currency strategist in London at Bank of Tokyo-Mitsubishi UFJ Ltd. "That's potentially been a positive for the dollar on the back of the drop in commodity prices." The dollar advanced to \$1.5443 per euro as of 7:55 a.m. in New York, the strongest since March 12, from \$1.5626 yesterday. It gained to 99.66 yen, from 99.03 yesterday. The European common currency weakened to 153.87 yen from 154.80.

Citigroup Plans to Cut More Than 5% of Securities Employees After Losses

Citigroup Inc., the biggest U.S. bank by assets, plans to cut more than 5 percent of staff in the securities unit to rein back expenses after U.S. subprime-mortgage related losses.

"Each year we identify the bottom 5 percent of performers in the institutional clients group, and some number of these people leave the firm," London-based spokesman Adam Castellani said in an interview today. "This year we will have a larger number of reductions as we continue to strengthen the business and lower our expense base." Chief Executive Officer Vikram Pandit promoted former Morgan Stanley colleague John Havens this week to oversee the firm's trading, investment banking and hedge-fund units. The division posted a \$4.6 billion loss last year, compared with a \$8.4 billion profit, or almost 40 percent of the total, in 2006. The New York-based company said in January it is cutting about 4,200 jobs and curbing year-end bonuses for top executives after \$18.1 billion in writedowns on subprime home loans and bonds. The world's biggest financial firms have dismissed more than 30,000 workers in the last seven months and reported at least \$195 billion in writedowns and losses.

Gold Declines, Leading Drop in Commodities, on Outlook for Dollar, Economy

Gold headed for its biggest weekly drop in 25 years, leading a drop in commodity prices, after the dollar rallied and concern mounted a U.S.-led slowdown in the global economy will reduce consumption of raw materials. Oil fell below \$100 a barrel for the first time since March 5, soybeans dropped for a second day and copper had its biggest two-day decline in seven months. The UBS Bloomberg Constant Maturity Commodity Index of 26 raw materials is having its worst week since at least 1997, led by declines in soybeans, cocoa and cotton. There is "a glaring divergence between escalating commodity prices and waning world economic growth," James Steel, an analyst with HSBC Securities in New York, wrote in a report e-mailed today.

It is "no longer assured that commodity price appreciation is a safe one-way bet." Gold in London has plunged 12 percent from its record \$1,032.70 an ounce on March 17 after the Federal Reserve cut its overnight-lending rate less than expected by 75 basis points to 2.25 percent. The dollar has recovered 2.8 percent from an all-time low against the euro and rallied 4.6 percent from a 12-year low against the yen.

Sherr's 'One William Street' Leads \$10 Billion Hedge Fund Rush of Startups

David Sherr, a former Lehman Brothers Holdings Inc. executive, is opening a New York-based hedge fund to trade today's most toxic

investments: mortgage bonds and asset-backed securities. Sherr, a 21-year Lehman veteran who most recently ran the firm's securitization group, is starting One William Street Capital Management LP after Peloton Partners LLP and Sailfish Capital Partners LLC collapsed because of losses in the credit markets. With the Standard & Poor's 500 Index down

11.6 percent in 2008, Treasury yields at five-year lows and Wall Street firms cutting more than 15,000 jobs, it's a good time for managers with a clean slate to raise money, according to industry executives. "The timing is great because the market dislocations create opportunities and have shaken out a lot of very good talent," said Patric de Gentile-Williams, chief operating officer of FRM Capital Advisors Ltd., a London-based firm that seeds hedge funds. "Some guys on Wall Street prop desks who feel like their capital has been cut are looking at making the leap to setting up their own business."

Sherr, 44, expects to start by June with more than \$1 billion, including backing from his former employer, said people with knowledge of his plans, who declined to be identified because fundraising hasn't been completed.

Credit Suisse May Have First Loss Since 2003 on Intentional Pricing Errors

Credit Suisse Group, Switzerland's second-largest bank, probably will post its first quarterly loss since 2003 after writing down debt securities that were deliberately mispriced by traders. Credit Suisse fell as much as 11 percent in Swiss trading after the bank said it will take \$2.65 billion of writedowns spread over the fourth quarter and first three months of 2008. The markdowns and "difficult" market conditions in March may lead to a first-quarter loss, the Zurich-based company said. An internal review found that the pricing errors, first announced last month, were made intentionally "by a small number" of traders who have since been fired or suspended. The episode is the biggest setback for Chief Executive Officer Brady Dougan since he took over from Oswald Gruebel in May after heading the investment banking unit for three years. "This is clearly embarrassing for Credit Suisse and further damages the reputation that it had worked so hard to improve after years of reckless risk taking," said Peter Thorne, a London-based analyst at Helvea Ltd., in a note.

He has a "neutral" rating on the shares.

JPMorgan Chairman Dimon Offers Bear Stearns Executives Cash, Stock to Stay

JPMorgan Chase & Co. Chairman Jamie Dimon offered Bear Stearns Cos. managing directors cash and stock incentives to win their support for a takeover and prevent them from leaving the firm, two people familiar with the matter said. Dimon said executives asked to remain after the takeover will be granted additional JPMorgan stock, said the people, who attended a meeting yesterday evening at Bear Stearns's New York headquarters when he made the proposal. The people asked not to be identified because the meeting was private. About one-third of Bear Stearns stock is owned by employees, with a large concentration in the hands of senior managing directors. Their support might help JPMorgan counter opposition from billionaire Joseph Lewis, who owns 8.4 percent of Bear Stearns and said yesterday he may seek an alternative proposal. Bear Stearns fell 9.8 percent to \$5.33 in New York Stock Exchange composite trading yesterday, more than double the original \$2 a share bid agreed by JPMorgan and Bear Stearns's board for a securities firm that began the month trading at \$79.

IKB Says Loss Will Climb to \$1.2 Billion; KfW Injects Another \$696 Million

IKB Deutsche Industriebank AG, the German bank bailed out because of subprime-related losses, said it will have a higher loss because of rising writedowns and that it needs another capital injection. IKB expects a full-year net loss of about 800 million euros (\$1.2 billion), the Dusseldorf-based lender said today. KfW Group, the state-owned development bank that controls IKB, will inject another 450 million euros to shore up the lender. IKB became the first German casualty of the U.S.

subprime market collapse last year after its finance affiliate couldn't raise funding amid the credit crunch. The German bank has received emergency financial aid totaling 9 billion euros in four bailout packages now. IKB previously forecast a loss of 550 million euros. "The markets have continued to worsen and each month with increasing valuation losses is reducing the chances of IKB coming unscathed out this," said Robert Mazzuoli, an analyst at Landesbank Baden-Wuerttemberg in Stuttgart, who recommends selling the shares.

Alitalia Gains as Berlusconi Urges Investors to Challenge Air France Offer

Alitalia SpA gained for a second day in Milan after former Prime Minister Silvio Berlusconi, the frontrunner in national elections next month, urged Italian investors to challenge Air France-KLM-Group's takeover bid. Alitalia rose as much as 9.2 percent to 31 cents in Milan before being halted for excessive gains. Even with the rebound, the

stock is down 36 percent since March 14, when Air France announced its bid that valued Alitalia at 10 cents a share. Berlusconi, Italy's billionaire media tycoon, said last night that he was lobbying Italian executives to make a counteroffer, and that even his children were prepared to join an alternative bidding group for state-controlled Alitalia. "There are Italian entrepreneurs, I've had contact with some of them but I can't give the names, who have said they're willing to join the fray and allow Alitalia to overcome this crisis within a year or so," he said in remarks broadcast on television channel SkyTG24.

R.H. Donnelley, Idearc Defaults Signaled as Distressed Media Debt Tumbles

Yellow Pages phone-directory publishers R.H. Donnelley Corp. and Idearc Inc. may lead a surge in media-company defaults as the U.S. economy heads into a recession. In February, 17 percent of all high-yield bonds were trading at distressed levels, up from 11 percent in January and the highest since June 2003, according to Standard & Poor's. Media and entertainment companies accounted for more than one-third of the \$104 billion in such debt. High-yield media bonds have lost about 10 percent this year, more than double the decline of the average junk issue, Merrill Lynch & Co. index data show.

Publishers and broadcasters, once a haven for bond investors, are among the weakest in this downturn as advertising dollars shift to the Internet. Some of R.H. Donnelley's \$6.4 billion in bonds have tumbled as much as 33 percent this year while Idearc's \$2.85 billion of notes have lost 29 percent as ads in printed directories dwindle. Notes of Los Angeles Times owner Tribune Co. have slumped as much as 19 percent. "The bond prices are really reflecting extreme pessimism," said Matt Eagan, vice president at Loomis Sayles & Co. in Boston, which manages \$8 billion in high-yield and owns a smaller percentage of media debt than is contained in its benchmark index. "The economic cycle is weighing on their performance and then there's more of a longer-term concern."

Bernanke's Own Home on Capitol Hill Shows Housing Market's Boom and Bust

The U.S. housing recession has arrived literally on the doorstep of Federal Reserve Chairman Ben S. Bernanke. Bernanke lives in Washington's Capitol Hill area in a four-bedroom, 2,600-square-foot house he bought new in May 2004 for \$839,000.

Almost four years later, it may not be worth any more, according to real estate records and local agents. Bernanke's timing wasn't the best -- values in the area peaked a year later -- and he is hardly alone among Americans living in an investment that's turned cold. His situation shows that the slump that began with distress in the subprime market is now engulfing wealthier neighborhoods, including some in the nation's capital. "Even though he's the Fed chairman, he's going to get hit -- but I think lot of people will in Washington," said William Wheaton, an economist at the Massachusetts Institute of Technology. The value of Bernanke's home "probably went up to \$1.1 million and it's probably back down to \$840,000," because prices in Washington just a couple years ago "got out of control," Wheaton said.

Fed Bypasses Own Emergency Loan Regulation in Race to Stave Off Collapse

The Federal Reserve bypassed its own emergency-lending policies to let securities firms borrow at the same interest rate as commercial banks as the central bank sought last weekend to stave off a financial-market meltdown. Guidelines revised in 2002 say the Fed should charge non-banks more than the highest rate that commercial banks pay. Instead, Chairman Ben S. Bernanke and his colleagues, in emergency votes on March 16, invoked broader authority in the Federal Reserve Act to give Wall Street dealers the same rate as banks, a Fed staff official said on condition of anonymity. Backstopping securities firms, coupled with last week's action to keep Bear Stearns Cos. afloat before its sale to JPMorgan Chase & Co., represent the central bank's first lifelines to institutions other than banks since the Great Depression. "They certainly pushed the limit," said Brian Sack, a former Fed researcher who is now senior economist at Macroeconomic Advisers LLC in Washington. The law probably has "enough gray area" to allow the decision, he said.

For the complete stories summarized here, and for more of the day's top news, see TOP <Go>.

-0- Mar/20/2008 12:08 GMT

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Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Thursday, March 20, 2008 8:35 AM
To: Abbott, Matthew; Appleton, Jesse; Butler, John; Davis, Michele; Foley, Trip; Forsell, Courtney; Foster, Robert; Garibay, Marisol; Hill, Rob; Jaconi, Kristen; Kane, Lauren; Kertz, Mary; Mason, Jeb; McLaughlin, Brookly; Nason, David; Norton, Jeremiah; Papagianis, Christopher C.; Ryan, Tony; Schetzel, Michael; Schultheiss, Heidilynne; Scogin, Matthew; Steel, Robert; Stoltzfoos, Jeffrey; Ugoletti, Mario; Wheeler, Seth
Subject: Reuters- Rep. Frank calls for US financial risk regulator

UPDATE 1-Rep. Frank calls for US financial risk regulator
20 March 2008
Reuters News

(Adds details, background)

WASHINGTON, March 20 (Reuters) - The chairman of the House Financial Services Committee called on Thursday for Congress to consider creating a "financial services risk regulator" with broad powers across a wide range of financial institutions.

Addressing the recent financial turmoil that brought down investment bank Bear Stearns Cos Inc , Rep. Barney Frank said Congress could consider authorizing the Federal Reserve to act in the role of risk regulator.

In a document outlining a speech to be given to the Greater Boston Chamber of Commerce, the Massachusetts Democrat said it was important to bring under scrutiny new financial players and older institutions that are doing new things.

"To the extent that anybody is creating credit they ought to be subject to the same type of prudential supervision that now applies only to banks," said the speech outline.

Frank proposed that if a non-bank institutions wanted access to the Fed's discount window for cash, they would be subject to requests from the risk regulator for timely market information and be subject to inspections.

"Congress should seriously consider establishing (or empowering the Federal Reserve to act as) a 'Financial Services Risk Regulator' that has the capacity and power to assess risk across financial markets regardless of corporate form and to intervene when appropriate," said the outline of Frank's speech.

Frank also called for a reassessment of capital, margin and leverage requirements, saying the current credit crisis had illustrated that seemingly well-capitalized institutions can be frozen when liquidity runs dry and particular assets lose favor.

The Fed allowed investment banks to borrow directly from it in steps announced Sunday to arrest a crisis of financial confidence that forced Bear Stearns to sell itself to JPMorgan Chase & Co .

But access to the Fed's discount window has sparked speculation of a change in how investment banks are regulated.

The Securities and Exchange Commission currently regulates investment banks such as Bear Stearns, Goldman Sachs Group Inc , Lehman Brothers Holdings Inc , Merrill Lynch & Co Inc and Morgan Stanley .

The Treasury Department is currently studying if the U.S. regulatory structure for banks, securities, commodities and insurance needs to be changed on the federal and state levels.

A final "blueprint" report with recommendations are expected within several weeks.

Frank called for reforming the regulatory system saying there should be consolidation of duplicative regulatory structures. (Reporting by John Poirier; Editing by Andrea Ricci)

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Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Thursday, March 20, 2008 8:48 AM
To: _DL_FYI
Subject: WP- Democrats, Bush Square Off Over Housing Relief; President Resists Wide-Scale Assistance

Democrats, Bush Square Off Over Housing Relief; President Resists Wide-Scale Assistance
Jeffrey H. Birnbaum and Lori Montgomery
20 March 2008
The Washington Post
D01

Now that the Federal Reserve has pledged billions of dollars to rescue Wall Street bankers from possible default, lawmakers and regulators are turning their attention to helping average citizens -- from homeowners in danger of foreclosure to people who want to buy a home.

But unlike the Fed's rapid moves last week to stabilize financial markets, the consumer benefits are likely to progress slowly as they face resistance from the Bush administration on some broad issues and from special interests on some narrow ones.

Bush officials are working with lawmakers on proposals that would help new home buyers and small investors by strengthening rules that govern mortgage lending.

The House, meanwhile, plans to move within weeks to approve a multibillion-dollar program to prevent hundreds of thousands of home foreclosures. The outlook for the plan, the most ambitious of several proposals, is uncertain; President Bush continues to resist large-scale legislation to bail out homeowners in distress.

"We have not seen any new ideas out there that we're willing to support," White House spokesman Tony Fratto said.

But Democratic congressional leaders and industry lobbyists do not see the president as immovable and expect that he will compromise eventually, pushed by Treasury Secretary Henry M. Paulson Jr. and other senior officials in his administration. "I think Paulson understands you need to move," said Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee. "But Paulson can't move as quickly as the rest of us."

Industry representatives agree. "There's real fear about where this crisis is going to end up," said Francis Creighton, a senior lobbyist for the Mortgage Bankers Association. "This administration appears to be ready to do what it needs to address this crisis."

On Sunday night, the Fed backed J.P. Morgan Chase's acquisition of the wounded investment firm Bear Stearns, promising to take the risk of up to \$30 billion in troubled assets now on Bear's books, and increased the flow of money to other banks pinched for credit. The Fed could move quickly because it is sheltered from the politicking that surrounds administration and congressional initiatives.

So far, the administration is trying to work with the authority it already has. Yesterday, federal regulators increased the flow of mortgage money by giving the federally chartered mortgage finance giants Fannie Mae and Freddie Mac permission to increase their investment in mortgages by a combined \$200 billion. That will improve the availability and affordability of home loans, the companies said.

Congressional Democrats said they want to do more and intend to press the president to accept their plans. "Democrats believe that the time is now to build on the Fed's efforts by taking action to ease the economic burdens facing everyday Americans," House Speaker Nancy Pelosi (Calif.) said in a statement. Senate Majority Leader Harry M. Reid (Nev.) added: "While it is important to calm the turmoil on Wall Street, we must just as urgently help the families and communities on Main Street who are threatened by this mortgage meltdown."

The Democrats are homing in on a proposal advanced last week by Frank and Senate Banking Committee Chairman Christopher J. Dodd (D-Conn.). Under the measure, the Federal Housing Administration, which helps provide low-cost home loans, would be given a key role in helping renegotiate distressed mortgages and would provide insurance for up to \$300 billion in new mortgages.

The program would target homeowners who are solvent and can afford reasonable mortgages, but who face foreclosure because their loan costs are escalating while the value of their homes is declining. A homeowner could seek help from an FHA-approved lender, which would determine the home's value and how much the homeowner could pay. The mortgage holder would be asked to accept the lower payment to clear the old mortgage, and the new one would be insured by the FHA.

Lenders would take a big hit under the legislation. The proposal would limit their payoff to 85 percent of the home's appraised value. At the same time, borrowers would help fund the program by paying FHA mortgage insurance.

Frank has scheduled two days of hearings on the proposal in the House. In the Senate, aides to Dodd said the measure might be attached to a larger "housing stimulus" package that Reid hopes to bring to a vote early this spring.

Under that larger measure, bankruptcy judges would be permitted to alter the terms of mortgages for primary residences by lowering the interest rate, extending the life of the loan or forgiving part of the loan's principal. Advocacy groups have said the legislation would help hundreds of thousands of borrowers keep their homes. But it was blocked in the Senate earlier this year; the president and several bank lobbies opposed it because they said it would lead to higher mortgage rates.

Another proposal pending in Congress would overhaul the FHA. The House and Senate have passed different versions of the plan, which would reduce the down payment requirements for FHA-backed loans. The Senate bill would lower the limit from 3 percent to 1.5 percent, while the House would eliminate the need for a down payment.

The legislation would also require lenders to give homeowners more notice before raising their interest rates or putting them into foreclosure.

In addition, the House version of the legislation would insist that states do a thorough job of overseeing mortgage brokers or the Department of Housing and Urban Development would be asked to take over the task.

Regulators are also considering a variety of suggestions offered last week by the President's Working Group on Financial Markets, a high-level advisory panel consisting of the federal government's top financial-market overseers. Mortgage brokers were in part blamed for allowing so many homeowners to purchase loans they could not afford.

The working group recommended that the brokers be subjected to tougher licensing and enforcement standards and that safeguards against mortgage fraud be tightened. The National Association of Mortgage Brokers called the suggestions "flawed" and said that other players in mortgage lending should also be included in any crackdown.

The American Bankers Association supported efforts to rein in mortgage brokers, but worried that the states would not have enough funds to pay for their oversight. Rules are also pending from the Fed and HUD that would require more disclosures by lenders and borrowers before a home can be bought with a mortgage.

Bush's working group called for more transparency in how credit-rating agencies assess the risk of mortgage-backed securities -- a plan the agencies are not resisting. Some of the packaged mortgages that are now expected to go bad were given high ratings when they originated.

Staff writer Renae Merle contributed to this report.

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From: Robertson, William
Sent: Thursday, March 20, 2008 9:22 AM
To: _DL_FYI
Subject: Reuters - UPDATE 2-Rep. Frank calls for US financial risk regulator

UPDATE 2-Rep. Frank calls for US financial risk regulator

By John Poirier
582 words
20 March 2008
07:17
Reuters News
English
(c) 2008 Reuters Limited

(Adds **Treasury** comments, background)

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Frank also called for a reassessment of capital, margin and leverage requirements, saying the current credit crisis had illustrated that seemingly well-capitalized institutions can be frozen when liquidity runs dry and particular assets lose favor. The Fed allowed investment banks to borrow directly from it in steps announced Sunday to arrest a crisis of financial confidence that forced Bear Stearns to sell itself to JPMorgan Chase & Co .

But access to the Fed's discount window has sparked speculation of a change in how investment banks are regulated. The Securities and Exchange Commission currently regulates investment banks such as Bear Stearns, Goldman Sachs Group Inc , Lehman Brothers Holdings Inc , Merrill Lynch & Co Inc and Morgan Stanley .

The **Treasury** Department is currently studying if the U.S. regulatory structure for banks, securities, commodities and insurance needs to be changed on the federal and state levels.

A final "blueprint" report with recommendations are expected within several weeks.

Treasury spokeswoman **Jennifer Zuccarelli** did not dismiss Frank's suggestions but said the department was close to finalizing its blueprint.

"**Treasury** has been reviewing our regulatory structure over the last year and we welcome thoughts as we near completion of our recommendations for broad changes to the financial regulatory structure," she said.

Frank called for reforming the regulatory system saying there should be consolidation of overlapping regulatory structures, which is among options **Treasury** is considering.

The suggestions come as Frank is also pressing **Treasury** to open discussion on his plan to boost government involvement to aid the troubled housing market. His plan would create a new program to provide Federal Housing Administration guarantees for up to \$300 billion in affordable mortgages to refinance distressed homeowners and prevent foreclosures.

The **Treasury** said on Wednesday it is not interested in negotiating on that plan. It prefers to strengthen a coordinated private-sector effort among mortgage lenders, servicers and investors to modify loan terms. (Additional reporting by David Lawder; Editing by Tom Hals)

USA-SUBPRIME/REGULATION (UPDATE 2)|LANGEN|ABN|C|D|E|M|O|U|MTL|GRO|SOF|OIL
Document LBA0000020080320e43k000qa

Appleton, Jesse

From: Dulaney, Tim
Sent: Thursday, March 20, 2008 9:39 AM
To: Ryan, Tony
Cc: Abbott, Matthew; Sobel, Mark; Schetzel, Michael; Hill, Rob; Hong, Austin
Subject: BOE Meeting

Re our earlier conversation, this is all I have seen on this so far.

06:38 20Mar2008 RTRS-UK banks meet BoE as industry jitters persist

LONDON, March 20 (Reuters) - Liquidity, rumour-mongering and housing market troubles top the list of subjects for discussion when Britain's top bankers meet senior officials from the Bank of England on Thursday.

They run the risk of talking into the Easter holidays such is their full agenda, as Britain's banking industry, already facing its toughest period for over a decade, was rattled on Wednesday by speculation that a bank was facing liquidity problems.

HBOS <HBOS.L>, the country's biggest mortgage provider, bore the brunt of the chatter and its shares crashed 17 percent.

HBOS slammed the rumours and authorities joined in with an unprecedented public reaction. The BoE said no bank was in trouble and the Financial Services Authority warned it will hunt out people spreading "unfounded rumours". [ID:nL19116131].

The quick reaction from authorities showed investors remain jittery about UK banks, and also that authorities are more alert to worries than six months ago, when they were criticised for a slow reaction to a crisis at mortgage lender Northern Rock, since nationalised.

Britain's biggest bank sector victim so far is Northern Rock, also hit by a shortage of liquidity in financial markets, that remains at the heart of industry concerns as banks stop lending to each other.

How the BoE can lubricate the system and restore confidence will therefore dominate much of Thursday's meeting.

Chief executives or senior directors from the "Big 5" banks -- HSBC <HSBA.L>, Royal Bank of Scotland <RBS.L>, Barclays <BARC.L>, Lloyds TSB <LLOY.L> and HBOS -- are expected to meet BoE officials, including Governor Mervyn King, for a "regular exchange of views".

The meeting was only called last week, however, and little in banking at present can be considered routine. Details of the meeting have not been released.

LIQUIDITY CONCERNS

A sharp cut in U.S. interest rates this week and other measures to boost liquidity by central banks have provided only temporary comfort for banks there.

Investment bank Bear Stearns <BSC.N> last week became the latest U.S. casualty of the global financial crisis, prompting the Federal Reserve to expand lending to securities firms for the first time since the Great Depression of the 1930s.

The BoE added an extra 5 billion pounds (\$10 billion) to its normal weekly lending operation on Thursday in an effort to boost UK confidence, after offering the same amount in an exceptional operation on Monday.

The interbank cost of borrowing three-month sterling hit a fresh high for the year of 5.98 percent on Wednesday, after rising for nine straight days as worries about counterparty risks have left banks wary about lending to one another.

That has helped fuel the increased speculation about banks potentially in trouble.

Authorities are concerned that speculators can benefit from wild gyrations in share price and spread false information and banks and the BoE will discuss how to quell the talk early without creating a daily feeding frenzy.

There are also broader economic issues, and banks could encourage policymakers to kick-start the faltering economy with an interest rate cut next month.

Britain's housing market has cooled and there are concerns it will deteriorate further as consumer confidence erodes.

Other issues that could be addressed include the exposure of banks to risky financial assets and the impact on capital positions; the competition they face from state-owned Northern Rock; and changes to the Tripartite system of bank regulation.

(Reporting by Steve Slater)

((steve.slater@reuters.com; +44 207 542 4367; Reuters Messaging: steve.slater.reuters.com@reuters.net))
(\$1=.5008 Pound)
Keywords: BANKS/BOE

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Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Thursday, March 20, 2008 9:56 AM
To: Foley, Trip
Subject: DealBook: Meeting, and Resenting, Bear's New Boss

To view the latest DealBook headlines on your mobile device, go to: <http://mobile.nytimes.com/blogs/dealbook>

DealBook

Edited by Andrew Ross Sorkin

The New York Times

TODAY'S TOP HEADLINES | Thursday, March 20, 2008

- M & A:** Borders to Consider Selling Itself
- BANKING:** Credit Suisse Expects First-Quarter Loss
- PRIVATE EQUITY:** Terra Firma Chief Warns on U.K. Tax Hike
- HEDGE FUNDS:** Commodities: Latest Boom, Plentiful Risk
- OFFERINGS:** Visa's \$45 Billion Day
- VENTURE CAPITAL:** U.S. Picks Tech Executive for Security Post
- LEGAL:** Britain Tries to Quash Rumors in Markets

TOP STORY

Meeting, and Resenting, Bear's New Boss

Only days after his controversial deal for the beleaguered investment bank stunned Wall Street, James Dimon, the chairman and chief executive of **JPMorgan Chase**, made an appearance at **Bear Stearns**, hoping to win over executives who have vowed to fight his offer.



Mr. Dimon left many of them as angry and resentful as he found them, The New York Times writes.

As Bear's employees brace for firings, Bloomberg News is reporting that some of its 550 brokers who handle individual investors' accounts are receiving job offers from competitors promising bonuses of \$2 million or more.

Meanwhile, Joseph C. Lewis, the reclusive billionaire investor who is Bear Stearns' second-largest shareholder, said in a regulatory filing that he will do anything "necessary and appropriate to protect the value" of his shares.

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Editor's note: Markets in the United States will be closed tomorrow for Good Friday, and the DealBook e-mail newsletter will be taking a break as well. We'll be back on Monday.

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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

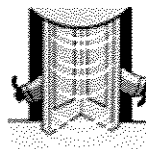
Schadenfreude

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»](#)



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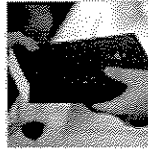
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MERGERS & ACQUISITIONS

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Borders Group, the struggling bookstore chain, said Thursday it would explore strategic alternatives, including a potential sale of all or part of the company. It also said it received a financing commitment from **Pershing Square Capital** which it hopes will ward off "liquidity issues."



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- [Go to Article from Reuters»](#)
- [Go to Press Release from Borders Group via PRNewswire»](#)

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The **Ping An Insurance Company**, a leading life insurer in China, has agreed to pay 2.15 billion euros (\$3.4 billion) for 50 percent of **Fortis's** asset management business, the companies said.

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Who's hedging in the sale of **Bear Stearns to JPMorgan Chase**? Everyone -- bondholders, JPMorgan and directors and top executives -- according to The Deal Professor.



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The Sundance Channel, the cable network spawned from Robert Redford's eponymous annual film festival, is up for sale, The New York Post reported.

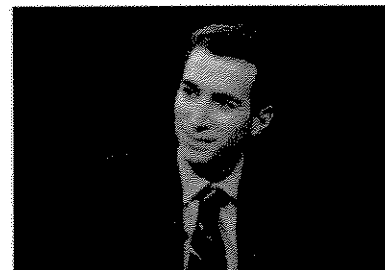
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Professor

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»](#)



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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Delta Air Lines' pilots union rejected Wednesday the idea of submitting to arbitration with its counterpart at **Northwest Airlines** to break their impasse over integrating seniority lists as part of a possible combination of the carriers.



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As **Starbucks** prepares to make sweeping changes to win back customers, the coffee giant said Wednesday that it would acquire **Coffee Equipment Company**, the four-year-old Seattle-based maker of the Clover coffee machine, which brews a more expensive, higher-quality coffee one cup at a time.



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PepsiCo and the **Pepsi Bottling Group** said on Thursday they have agreed to buy 75.53 percent of the juice business of **Lebedyansky**, Russia's leading juice producer, for \$1.4 billion.

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British Airways said it had bought about another 3 percent of the Spanish flag carrier **Iberia Airlines**, raising its stake to 13.15 percent, and that it would look for opportunities to purchase more of Iberia's shares.

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INVESTMENT BANKING

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Credit Suisse warned it was unlikely to be profitable in the first quarter, partly because of this month's tough markets and partly because of previously announced pricing errors that it said Thursday stemmed from "intentional misconduct by a small number of traders."



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Citigroup plans to lay off another 2,000



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Dealboard

investment bankers and traders before the end of the month, according to The New York Times.

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Merrill Lynch sued a unit of bond insurer **Securities Capital Assurance** Wednesday in a Manhattan federal district court, fanning market fears that the firm will soon disclose yet more write-downs.



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In their most recent economics report -- titled "Apart From That, Mrs. Lincoln, How Was the Play?" -- **Bear Stearns** economists detail their sometimes sarcastic critiques of Ben Bernanke, and lay their firm's inescapable demise squarely on the Federal Reserve chairman's shoulders.



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Morgan Stanley gave Wall Street a shot of confidence on Wednesday morning, reporting profits that surpassed analysts' estimates, but the dosage soon wore off.



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Bank of America cut the bonuses for its top management, including chief executive Kenneth Lewis, but they still received millions of dollars in payouts during a tough year.



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PRIVATE EQUITY

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Guy Hands, the founder of **Terra Firma**, is threatening to move part of his private equity group offshore in response to the latest tax rises on capital gains and non-domiciled residents in Britain.

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[Go to Article from The Financial Times»](#)

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It appears that there is some confusion over who is to blame for holding up the buyout of **Clear Channel Communications** and now, according to a report, the deal may not close at all.

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3Com said Wednesday that it was still unable to reach a new deal with its proposed buyers, **Bain Capital** and China's **Huawei Technologies** after its original \$2.2 billion sale failed to receive national security approval. But it will still go forward with a shareholder meeting on Friday to vote on the original deal.

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The New York Post suggested a rift was growing between **Metro-Goldwyn-Mayer's** private equity backers and the studio's chief executive; **Providence Equity Partners** told the Post they support the chief's strategy.



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HEDGE FUNDS

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The booming commodities market has become increasingly attractive to investors, with hard assets like oil and gold perhaps offering a safe hedge against inflation, as well as the double-digit gains that have fast been disappearing from the markets for stocks, bonds and real estate.



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John W. Meriwether, the former **Salomon Brothers** executive who founded **Long-Term Capital Management**, has reported a 24 percent loss at one of his bond hedge funds for the year through March 14, Bloomberg News reported citing unnamed sources.

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Barington Capital Group, the hedge fund that has been pressing

for changes at **Dillard's**, plans to nominate four people for election to the retailer's board.

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David Sherr, a former **Lehman Brothers** executive, is working on starting a new \$1 billion hedge fund that will trade mortgage-backed bonds and securities, Bloomberg News reported.

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I.P.O. / OFFERING

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Catapulted by the biggest initial public offering in American history, **Visa** shares soared 28 percent in their stock market debut on Wednesday as investors bet an accelerating shift to electronic payments will enrich the company.



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Cadbury Schweppes, the candy maker, has set the terms of its soda unit's planned spinoff.

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VENTURE CAPITAL

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The Bush administration is planning to tap a Silicon Valley entrepreneur to head a new inter-agency group charged with coordinating the federal government's efforts to protect its computer networks from organized cyber attacks, The Washington Post reported.



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Retrovo, the Silicon Valley company that helps you shop electronic products, and then helps you after the purchase, has raised \$8 million more in a second round of financing.

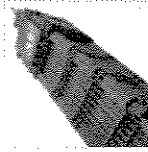
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LEGAL

In an unusual move to calm investors' nerves, two of Britain's top financial authorities stepped forward on Wednesday to quash a spate of rumors that had sent some financial stocks in London -- including that of **HBOS**, the country's largest mortgage lender -- into a tailspin.



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With the blessing of the Bush administration, the regulator of **Fannie Mae** and **Freddie Mac**, the nation's two largest mortgage finance companies, eased a major restriction on the companies on Wednesday in an effort to unfreeze credit markets and stabilize housing prices.

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Investigators took documents from the headquarters of **BP's** joint venture in Russia, **TNK-BP**, which has had rocky relations with the Kremlin.

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E*Trade Financial, an online brokerage struggling with heavy mortgage losses, on Wednesday said R. Jarrett Lilien plans to resign as president and chief operating officer, less than three weeks after Donald Layton filled the vacant chief executive post.



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The former human resources chief of **Brocade Communications Systems**, Stephanie Jensen, was sentenced on Wednesday to four months in prison and ordered to pay a \$1.25 million fine for her role in a stock options backdating scheme.



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Billionaire investor Warren E. Buffett will play himself in an upcoming appearance on the ABC soap opera "All My Children," as his character is drawn into a fictional insider-trading scandal.



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 Change 0.06 



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 Change -0.68 

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 Change 1.07 

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 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
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 Spread  95.10
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Stoltzfoos, Jeffrey

From: Nason, David
Sent: Thursday, March 20, 2008 10:23 AM
To: Jaconi, Kristen; Ugoletti, Mario
Cc: Norton, Jeremiah; Stoltzfoos, Jeffrey
Subject: RE: Executive Summary

Yes. And I will know after 10:30.

Kristen, if HMP is doing it, you can put your pencil down, it will be a topical housing, Bear Stearns, discount window idea speech Bob is off the hook.

From: Jaconi, Kristen
Sent: Thursday, March 20, 2008 10:21 AM
To: Nason, David; Ugoletti, Mario
Cc: Norton, Jeremiah; Stoltzfoos, Jeffrey
Subject: RE: Executive Summary

Are you speaking about the March 26th speech at the Chamber? I have this focusing on the PWG Report. Let me know.

From: Nason, David
Sent: Thursday, March 20, 2008 10:19 AM
To: Ugoletti, Mario; Jaconi, Kristen
Cc: Norton, Jeremiah; Stoltzfoos, Jeffrey
Subject: RE: Executive Summary

FYI, it is likely that HMP is going to do Bob's speech at Chamber tomorrow. This will not be a blueprint speech, but Davis thinks that he need to get in front of the "discount window" train early and say what should could with iBank access to the window. I tend to agree. So, we will probably put two paragraphs in the speech about this – info sharing, conditions, etc

From: Ugoletti, Mario
Sent: Thursday, March 20, 2008 10:00 AM
To: Jaconi, Kristen
Cc: Nason, David
Subject: Executive Summary

David asked that I send up the original draft of the Executive Summary, Mario.

<< File: Executive Summary.doc >>

Foley, Trip

From: Foley, Trip
Sent: Thursday, March 20, 2008 11:17 AM
To: Drapkin, Nicole; Warren, Jeff (IB, 1NYP/48); Demirel, Emre; Perdue, David; Marino, Mark
Subject: FW: Bberg- Update: Paulson's Surrogate Steel Sees Early Market Progress

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 O'Brien in Dublin. Editors: Carlos Torres, Mark Rohner

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1500 Pennsylvania Avenue, NW
Washington, DC 20220
Phone: 202-622-8657
Fax: 202-622-1999

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Thursday, March 20, 2008 12:40 PM
To: _DL_FYI
Subject: AP -Top lawmaker cause for more power over banks, hedge funds after Bear Stearns collapse

Top lawmaker cause for more power over banks, hedge funds after Bear Stearns collapse

By ALAN ZIBEL

AP Business Writer

593 words

20 March 2008

11:36

Associated Press Newswires

English

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WASHINGTON (AP) - A key House Democrat is calling for tougher and broader regulations of the financial system after the fall of investment bank Bear Stearns.

Rep. Barney Frank, D-Mass., the chairman of the House Financial Services Committee, wants to give either the Federal Reserve or a new regulator the power to oversee the activities of major financial players, regardless of whether they are a bank, securities firm or hedge fund.

Frank made the proposal Thursday in a speech to a business group in Boston.

The concept, if enacted, could reshuffle the existing landscape of financial regulators, whose duties are split among several regulators, including divisions of the **Treasury** Department, the Fed and the Securities and Exchange Commission.

Lawmakers are due to return from a spring recess later this month, and the events leading to Bear Stearns buyout will top many an agenda. Like Frank, other congressional members aren't waiting to be in Washington to weigh on Washington's role in steadying the financial sector.

Some fear that the bargain-basement sale of Bear Stearns Cos. to JPMorgan Chase & Co., engineered by the Federal Reserve and **Treasury** Department, opens the door to more government efforts to aid troubled financial players, ultimately putting taxpayers at risk. The Fed, which is providing \$30 billion in backing for that deal, could wind up turning a profit, but could also see its payments to the **Treasury** diminished if the investments it is backing do not pay off.

In addition, the Fed's historic decision Sunday night to allow investment banks to borrow directly from the central bank through its discount window is heightening concerns that taxpayers will wind up on the hook for Wall Street losses.

Frank said in a prepared statement that, in exchange for access to lending from the Federal Reserve, the new regulator should have "enhanced tools to receive timely market information from market players, inspect institutions, report to Congress on the health of the entire financial sector and act when necessary to limit risky practices or protect the integrity of the financial system."

The call for a less opaque window into the investment bank world resonated with commercial banks, which are more tightly regulated and whose depositors are insured by the Federal Deposit Insurance Corp.

"We do understand the concern about providing access to the discount window to institutions that do not have the same regulatory examination," as federally insured banks, said Floyd E. Stoner, executive director for congressional relations and public policy at the American Bankers Association.

However, he added: "We also are always concerned about new, potentially intrusive regulation."

Republicans are rolling out their own proposals, with Rep. Vito Fossella, R-N.Y., saying Thursday he will introduce legislation to reduce duplication among banking regulators, which he said makes it difficult to monitor risks to the system.

The **Treasury** Department has been working on its own plan for banking industry reforms over the past year. A department spokeswoman, **Jennifer Zuccarelli**, said in an e-mail that "we are considering all issues as we propose broad changes to our regulatory structure in the near and short term."

Daniel Forte, president of the Massachusetts Bankers Association, said government banking troubled investments bank industry should be accompanied by stricter regulations. "If we're going to put our money at risk, we should have some protections and greater oversight," Forte said.

AP Business Writer Mark Jewell in Boston contributed to this report.

Scogin, Matthew

From: Scogin, Matthew
Sent: Thursday, March 20, 2008 2:48 PM
To: Davis, Michele
Cc: Steel, Robert
Subject: Bear Stearns Hedge Funds

Week of June 24, 2007 - BS announced that they would pledge up to 1.6 bn to bail out the High Grade Structured Credit Strategies Fund and announced negotiations with other banks to loan money against collateral to the High Grade Structured Credit Strategies Enhanced Leveraged Fund.

July 17, 2007 - BS disclosed that the two hedge funds had lost nearly all of their value.

Let me know if you need anything else...

Matt

Scogin, Matthew

From: matthew.scogin@(b) (6)
Sent: Thursday, March 20, 2008 2:41 PM
To: Scogin, Matthew
Subject: Bear Stearns hedge funds

Week of June 22, 2007 - BS announced that they would pledge up to 1.6 bn to bail out the High grade Structured Credit Strategies Fund and announced negotiations with other banks to loan money against collateral to the High Grade Structured Credit Strategies Enhanced Leveraged Fund.

July 17, 2007 - BS disclosed that the two hedge funds had lost nearly all of their value. Sent via BlackBerry by AT&T

Scogin, Matthew

From: Scogin, Matthew
Sent: Thursday, March 20, 2008 3:00 PM
To: Davis, Michele
Subject: RE: Bear Stearns Hedge Funds

one more relevant date on the hedge funds... BS filed for Chap 11 bankruptcy for the two funds on July 31, 2007. They decided to liquidate the funds in the Cayman Islands instead of NY in an attempt to limit lawsuits.

probably more than you needed....

From: Davis, Michele
Sent: Thursday, March 20, 2008 2:54 PM
To: Scogin, Matthew
Subject: RE: Bear Stearns Hedge Funds

thanks

From: Scogin, Matthew
Sent: Thursday, March 20, 2008 2:54 PM
To: Davis, Michele
Subject: RE: Bear Stearns Hedge Funds

Jan 7, 2008

From: Davis, Michele
Sent: Thursday, March 20, 2008 2:51 PM
To: Scogin, Matthew
Subject: RE: Bear Stearns Hedge Funds

Date Jimmy Cayne stepped down?

From: Scogin, Matthew
Sent: Thursday, March 20, 2008 2:48 PM
To: Davis, Michele
Cc: Steel, Robert
Subject: Bear Stearns Hedge Funds

Week of June 24, 2007 - BS announced that they would pledge up to 1.6 bn to bail out the High Grade Structured Credit Strategies Fund and announced negotiations with other banks to loan money against collateral to the High Grade Structured Credit Strategies Enhanced Leveraged Fund.

July 17, 2007 - BS disclosed that the two hedge funds had lost nearly all of their value.

Let me know if you need anything else...

Matt

Stoltzfoos, Jeffrey

From: Market Room
Sent: Thursday, March 20, 2008 4:41 PM
Subject: UPDATE: Primary Dealer Credit Facility borrowing \$28.8bn

FYI – Primary Dealers borrowed \$28.8bn from the Fed this week - please see article followed by market closing levels below.

- As of yesterday, Primary Dealers had borrowed \$28.8 billion from the Primary Dealer Credit Facility (PDCF)
- Earlier today, the Fed announced expanded collateral eligibility for the first \$75bn TSLF on March 27. The first TSLF will include AAA-rated CMBS and agency CMOs along with the previously announced AAA/Aaa-rated private-label residential mortgage backed securities (RMBS) and OMO-eligible collateral.

DJIA	12361.32	2.16%
S&P	1329.51	2.39%
NASDAQ	2258.11	2.18%

FTSE	5495.20	-0.91%
DAX	6319.99	-0.65%
Nikkei	12260.44	2.48%
Kospi	1623.39	0.07%
Hang Seng	21108.22	-3.47%

1-Month Tsy	0.32	+4.5bps
3-Month Tsy	0.57	1.02bps
3-month LIBOR	2.60625	0.75bps
2-yr Tsy	1.596	13.60bps
10-yr Tsy	3.334	0.54bps
2-yr SwSpr	85.00	4.25bps
10-yr SwSpr	62.00	2.20bps
30-yr Conf Mtge	104.669	-2.03bps
10-yr Gilt	4.289	-1.90bps
10-yr Bund	3.752	-0.90bps
10-yr JGB	1.279	0.40bps

Oil NMX WTI	\$101.54	-\$1.00
Gold Spot	\$912.10	-\$32.32
\$/Euro	\$1.5415	-1.33%
Yen/\$	99.37	0.32%
Yen/Euro	153.16	-1.06%
CHF/\$	1.011	1.24%
\$/GBP	\$1.9844	0.02%
\$/AUD	\$0.8987	-1.71%

JPM	45.97	8.24	%
Citi	22.5	10.24	%
GS	179.63	7.89	%
MER	46.85	13.03	%
LEH	48.65	15.20	%

MS	49.67	14.32	%
FNMA	34.3	11.69	%
FRE	32.58	8.96	%
BOA	41.86	8.56	%

Fed Says Securities Firms Borrow \$28.8 Bln With New Financing 2008-03-20 16:30 (New York)

By Scott Lanman

March 20 (Bloomberg) -- The Federal Reserve, in its first extension of credit to non-banks since the Great Depression, lent \$28.8 billion as of yesterday to large U.S. securities firms with financing aimed at stabilizing capital markets.

Other credit extensions including loans to facilitate JPMorgan Chase & Co.'s purchase of Bear Stearns Cos. averaged \$5.5 billion a day for the week ended yesterday, and the balance ended at zero, according to the Fed's weekly balance sheet. The report listed loans to Wall Street firms under a plan announced March 16 to alleviate a cash shortage.

Morgan Stanley and Goldman Sachs Group Inc. said yesterday that they borrowed to ``test'' the new lending facility, while Lehman Brothers Holdings Inc.'s financial chief said the company was using the facility to ``show some leadership.'' The Fed report today showed that the lending averaged \$13.4 billion in the week ended yesterday.

The central bank's ``Primary Dealer Credit Facility'' allows Wall Street banks to borrow money overnight at a 2.5 percent interest rate, the same charged to commercial banks. The Fed bypassed its own emergency-lending policies and used broader authority in the Federal Reserve Act to give both kinds of companies the same borrowing costs.

The central bank said the loans will be available for at least six months.

The Fed's decision to be lender of last resort to the 20 primary dealers of government debt came two days after the central bank's financing to Bear Stearns through JPMorgan.

Rate Cuts

On March 18, the Fed cut the discount rate by 0.75 percentage point to 2.5 percent, two days after reducing it by a quarter point. The more closely watched U.S. benchmark rate, the federal funds rate, was cut this week to 2.25 percent.

From the discount window, direct lending to commercial banks fell by \$18 million in the past week to a daily average of \$81 million. As of yesterday, the amount of loans outstanding totaled \$120 million, the Fed reported in Washington.

In today's report, the Fed also reported M1 and M2 measures of U.S. money supply. M1 includes all currency held by consumers and companies for spending, money held in checking accounts and travelers checks. M2, the more widely followed, adds savings and private holdings in money market mutual funds.

M2 money supply rose by \$5.3 billion in the week ended March 10, leaving M2 growing at an annual rate of 6.3 percent in the past 52 weeks. M1 fell by \$31.3 billion, declining at a 0.3 percent pace in the past year.

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Thursday, March 20, 2008 6:00 PM
To: _DL_FYI
Subject: Reuters- UPDATE 1-U.S. senator wants details about Bear Stearns execs

UPDATE 1-U.S. senator wants details about Bear Stearns execs
20 March 2008
Reuters News

(Adds more Grassley comments, background)

WASHINGTON (Reuters) - The U.S. Senate Finance Committee's top Republican, Chuck Grassley, said Thursday he ordered his staff to inquire about how Bear Stearns Co Inc insiders are being treated under the deal with JPMorgan Chase & Co.

The Iowa Republican said in a statement he wants to know "whether they'll come out better than if Bear Stearns had gone into bankruptcy."

Grassley said he is interested in details of the Federal Reserve's agreement to lend \$30 billion to help Bear Stearns and about the actions of the company executives.

With support from the Fed and Treasury Department, Bear Stearns agreed Sunday to be sold to JPMorgan for \$2.49 a share at current prices. As part of the deal, the Fed agreed to guarantee up to \$30 billion of Bear's hard-to-value assets.

"I've instructed my staff to delve into the details of the deal," Grassley said.

He said he wants to know how the Fed action compares with previous actions by the Fed and Treasury to intervene in financial problems, such as how the Clinton administration tackled the Mexican bond crisis and then made money.

A long-time interest of his is how insiders are treated in merger and acquisition transactions and said corporate "bigwigs" should not be able to profit while employees, shareholders and creditors have to carry the burden.

Grassley said he was not trying to suggest bankruptcy would have been a better alternative for Bear Stearns.

"The top executives shouldn't be treated better than anyone else when a company goes under," he said. (Reporting by John Poirier, editing by Phil Berlowitz; Editing by Andre Grenon)

Jennifer Zuccarelli
Director, Office of Public Affairs
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Phone: 202-622-8657
Fax: 202-622-1999

Scogin, Matthew

From: Appleton, Jesse
Sent: Thursday, March 20, 2008 6:00 PM
To: Scogin, Matthew; Norton, Jeremiah; Stoltzfoos, Jeffrey; Foster, Robert
Subject: Grassley

Grassley questions Bear Stearns bailout

By J. Taylor Rushing

Posted: 03/20/08 04:47 PM [ET]

The Senate Finance Committee's top Republican on Thursday questioned the Federal Reserve's bailout of Bear Stearns and whether the action may have benefited top executives at the expense of shareholders.

"Corporate bigwigs shouldn't be able to profit from a deal while employees, shareholders and creditors have to carry the burden of a company's demise," Sen. Charles Grassley (Iowa) said in a statement. He said he had asked staffers to "delve into the details" of the Bear Stearns buyout by JP Morgan Chase.

The Federal Reserve engineered the buyout, which JP Morgan agreed to after the Fed said it would assume \$30 billion of risky Bear Stearns mortgage bonds. Bear Stearns would have filed for bankruptcy if the deal had not gone through, which the Fed worried would cause more serious problems for the U.S. economy.

Grassley stopped short of calling for hearings for the Federal Reserve's actions. He also said he was not questioning the decision to prevent Bear Stearns from sliding into bankruptcy.

"My point is not that bankruptcy would've been the better course for Bear Stearns," he said. "I'm looking at a slice of the consequences. The top executives shouldn't be treated better than anyone else when a company goes under."

He also said he wanted to understand what the downside risk of the deal is for taxpayers, as well as whether there could be "upside potential."

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Friday, March 21, 2008 7:59 AM
To: DL_FYI
Subject: (BN) Top Stories: Business and Finance

Top Stories: Business and Finance
2008-03-21 07:54 (New York)

March 21 (Bloomberg) -- The following are the day's top business stories:

Bernanke Vindicated as Fed Lending Spurs Commodities Drop, Rally in Stocks

The biggest commodity collapse in at least five decades may signal Federal Reserve Chairman Ben S. Bernanke has revived confidence in U.S. financial firms. The Standard & Poor's 500 Index posted its first weekly gain in a month, and the dollar leapt from its lowest level since 1973 after the Fed stepped in March 16 to rescue Bear Stearns Cos., the fifth-largest U.S.

securities firm, and expanded its role as lender of last resort to embrace the biggest dealers in Treasury notes. Investors who had poured money into gold, oil and corn, seeking a hedge against inflation and a weak dollar, sold commodities to raise cash or buy stocks. The Reuters/Jefferies CRB Index of 19 commodities tumbled 8.3 percent this week, the most since at least 1956, after touching a record on Feb. 29. "Bernanke took care of the commodity bubble," said Ron Goodis, the retail trading director at Equidex Brokerage Group Inc. in Closter, New Jersey. "Commodities are coming back to earth. The stock market looks OK, and Bernanke is starting to look a little better."

Auction-Rate Market Shrinks by \$21 Billion as Wisconsin, California Escape

Municipal borrowers from Wisconsin to California plan to pull at least \$21 billion of bonds out of the auction-rate market by May 1 to escape soaring costs, according to data compiled by Bloomberg. The amount is more than what was sold in any one year before 2002, the data show. About 69 percent of auctions in a market that also includes debt of student lenders and closed-end mutual funds failed to attract enough buyers this week, resulting in interest rates as high as 14 percent.

Rates are determined through a bidding process managed by banks typically every 7, 28 or 35 days. Borrowers are converting to fixed-rate bonds and other forms of variable-rate securities, after investors pulled back from debt backed by downgraded insurers and dealers stopped acting as buyers of last resort.

Yields on municipal auction debt are almost twice what they were in January on average, based on a Securities Industry and Financial Markets Association index. "The issuers couldn't pay those punitive auction rates and remain solvent after the market effectively shut down," said Mike Pietronico, chief executive officer of Miller Tabak Asset Management, a municipal-bond investment advisory unit at New York-based trading firm Miller Tabak & Co.

French Consumer Spending Rises More Than Forecast on Household Goods, Cars

French consumer spending on manufactured goods rose in February from a 16-month low the previous month, spurred by sales of household goods and cars. Spending by consumers, which accounts for about 15 percent of the economy, rose 1.2 percent from January, when it fell a revised 1.3 percent, Insee, the Paris-based national statistics office, said today. Economists expected a 0.5 percent rebound, the median of 18 estimates in a Bloomberg survey showed. "What is surprising is the size of the rebound, not the rebound itself, which we expected,"

Mathilde Lemoine, chief economist at HSBC France in Paris, said in an interview today. "French consumers continue to buy long-term durable goods, and cars are leading the purchases now after household equipment last year." Economic growth in Europe is easing more slowly than in the U.S., as demand for exports from Asia and eastern Europe and declining unemployment cushion the effect of higher prices and record energy costs.

Insee forecast today the French economy will grow 0.3 percent in the second quarter, while the U.S. will stagnate, the Organization for Economic Cooperation and Development said yesterday.

Dollar Set for Weekly Gain Versus Euro, Yen on Steps to Restore Confidence

The dollar headed for the first weekly advance against the euro and the yen in a month after the Federal Reserve's decision to accept more collateral for loans eased concern about banks' access to capital. The U.S. currency rose against the pound and the Swiss franc this week after the Fed made an emergency cut to the rate it charges banks to borrow and said it would swap Treasuries for mortgage-backed securities. The Fed also lent \$28.8 billion to U.S. securities firms, its first extension of credit to non-banks since the Great Depression.

"The dollar is enjoying a bounce," said Hideki Amikura, deputy general manager of currencies at Nomura Trust and Banking Co. in Tokyo, a unit of Japan's largest brokerage.

"The Fed is working to restore confidence. U.S. investment bank earnings weren't as dire as some predicted." The dollar traded at \$1.5430 per euro as of 7:05 a.m. in New York, set for a 1.4 percent gain in the past five days, the first weekly advance in more than a month. The dollar bought 99.44 yen, little changed from late yesterday and up 0.4 percent this week, the first weekly gain since Feb. 15. The yen rose 1.2 percent this week to 153.53 per euro, touching the strongest since August.

Sony, Nokia Among 30 Companies Named in U.S. LED Patent-Infringement Probe

Sony Corp. and Nokia Oyj were among 30 companies named in a probe by the U.S. International Trade Commission into allegations they violated a patent for technology used in electronics such as Blu-ray DVD players. The investigation is based on a complaint filed by Gertrude Neumark Rothschild that seeks to block U.S. imports of products she says infringe her patent for light-emitting diodes and laser diodes, according to a statement yesterday on the commission's Web site. Rothschild, a retired Columbia University professor, filed her complaint on Feb. 20. Rothschild made a "seminal breakthrough" in the production of blue, ultraviolet and white light, her lawyer Albert Jacobs of Dreier LLP said in New York last month. Blue and ultraviolet LEDs, which use less electricity than red LEDs, are used in computers, traffic lights, instrument panels and as the background color for mobile-phone screens. Sony spokesman Ikuma Nakagawa declined to comment. Calls to Nokia spokeswoman Arja Suominen's office weren't answered as today is a public holiday in Finland, where she is based.

Goldman to Cut Up to 15% of Staff in Capital Markets Unit, N.Y. Post Says

Goldman Sachs Group Inc. plans to dismiss as much as 15 percent of its workforce in the capital markets and related support departments, the New York Post reported, citing unidentified people familiar with the matter. The reductions are likely to come in the division that includes investment banking, debt and equity underwriting and merger advice, the newspaper said. Employees were first notified about the staff cuts on Monday, the Post reported. Goldman Sachs London-based spokesman Paul Kafka had no comment to make on the report, when contacted by Bloomberg News today.

EDF, ACS May Bid Simultaneously for Iberdrola, Union Fenosa, WSJ Reports

Electricite de France SA and Actividades de Construccion y Servicios SA may make simultaneous bids for two Spanish utilities, Iberdrola SA and Union Fenosa SA, the Wall Street Journal reported, citing people familiar with the matter. The combined value of the transactions, including debt, may be about \$134 billion (86.9 billion euros), excluding a premium the buyers might pay, the Journal said. Bilbao-based Iberdrola's market value is about 51 billion euros and the value of Union Fenosa, based in Madrid, is 13 billion euros.

The deals are far from certain, the Journal reported. French President Nicolas Sarkozy, speaking on March 14 amid speculation that state-controlled Electricite de France will buy a stake in Iberdrola, said France and Spain are working to find common ground on energy matters. Electricite de France Chief Executive Officer Pierre Gadonneix said last month the utility is "ready to participate" in the Spanish market.

Iberdrola rose in Madrid trading on March 5 after Negocio newspaper said Actividades de Construccion y Servicios, a Spanish building company and Iberdrola's biggest investor, and Electricite de France, Europe's largest power producer, were buying shares in preparation for a takeover bid. The building company is also Union Fenosa's biggest shareholder.

Verizon's \$9 Billion Airwaves Victory May Prove Risky, Goldman Sachs Says

Verizon Wireless, the biggest winner of airwaves in a government auction that ended this week, may have made a risky investment, Goldman Sachs Group Inc. said. The company spent

\$9.36 billion on airwaves in three blocks, each with their own challenges, Goldman analyst Jason Armstrong said yesterday.

With the biggest block, bought for \$4.74 billion, Verizon needs to let any type of device run on the network. Another block may have interference, and a third chunk came at

an ``extremely high'' price, he said in a note to clients. Verizon Wireless outbid larger rival AT&T Inc. to acquire the airwaves, which will help handle tasks such as sending video to phones. The companies, seeking to bolster growth through wireless subscriptions as customers drop home-phone lines, drove up the prices in the bidding contest, while fending off competition from new entrants such as Google Inc. ``They bought to protect their only really meaningful vehicle for growth right now,'' said Jennifer Fritzsche, an analyst at Wachovia Securities Inc. in Chicago. ``Wireless is key to their earnings.''

CIT May Sell \$7 Billion of Assets to Dispel Concerns About Cash Shortage

CIT Group Inc., trying to quell concerns about a cash shortage at the biggest independent U.S. commercial lender, may raise as much as \$7 billion from asset sales and said it has enough money to last through 2008. CIT, which quit subprime mortgage lending last year, plans to sell some businesses in the first quarter while keeping its ``marquee'' units intact ``as much as possible,'' Chief Executive Officer Jeffrey Peek said in a conference call yesterday. The New York-based company drew on its entire \$7.3 billion of emergency credit lines after being cut off from customary sources of cash. ``Our first priority here is to try and fund our most valuable relationships and keep those functioning, keep those alive, keep those breathing,'' Peek said. ``We haven't had any trouble doing that so far.'' CIT's shrinking access to cash adds to evidence that the credit crunch -- which already has claimed Bear Stearns Cos. and Countrywide Financial Corp. -- isn't responding to the Federal Reserve's effort to encourage more lending. The ``protracted disruption'' in capital markets may force Peek's company to find a ``strategic'' partner that can provide funding, he said.

Dexia Picks Up Market Share in Muni-Bond Insurance as Buffett Enters Fray

Dexia SA, the world's largest lender to local governments, is beating Warren Buffett and Wilbur Ross to grab most of what's left of the bond-insurance business. Dexia, based in Paris and Brussels, bought Financial Security Assurance Holdings Ltd. for \$2.6 billion in 2000 and put \$500 million of fresh capital into the New York-based company last month. The cash infusion helped FSA lock in the top credit rating, while Ambac Financial Group Inc. and MBIA Inc. struggle to keep their AAA grades and write new bond insurance. With bond defaults increasing, FSA was able to charge ``very attractive prices''

on U.S. municipal insurance in the fourth quarter, and its share of new business tripled to 70 percent in January from a year earlier. That puts the 23-year-old firm ahead of Buffett's Berkshire Hathaway Inc., which entered the business in December, and Ross's WL Ross & Co., which has allocated as much as \$1 billion of capital to expand Bermuda-based Assured Guaranty Ltd., his AAA-rated bond insurer. ``FSA commands the market,'' said Duncan Smith, senior managing director and head of trading at New York-based bond broker Leberthal & Co.

``Berkshire Hathaway and Assured have a long way to go.''

Moody's, Fitch Weigh Muni Rating Changes on Pressure From States, Congress

Moody's Investors Service and Fitch Ratings took steps to address calls by public officials from California to Congress to rate municipal bonds by the same standards as those for debt sold by companies and countries. Moody's started taking comments on its plan to give state and local governments the option to get a so-called global-scale rating, based on the criteria used to assess corporations, for tax-exempt bonds beginning in May. Fitch named Robert Grossman to lead efforts by its public finance unit to explore whether corporate and municipal ratings should be blended. More than a dozen states, cities and public agencies said in a March 4 letter to Moody's, Fitch and Standard & Poor's that the current system exaggerates the risk municipal borrowers will default on their debt.

California and Connecticut officials called Moody's plan a good first step, while criticizing the firm's silence on whether it will cost more. ``We don't want to have to pay extra for the privilege of getting an accurate rating,'' said Tom Dresslar, spokesman for California State Treasurer Bill Lockyer. ``Our ultimate objective remains adoption by all rating agencies of a unified global approach.''

By Coincidence or Not, Traders Haven't Worked Good Fridays Since '07 Panic

The New York Stock Exchange is closed today, as it has been every Good Friday for nearly a century and a half except for in 1898, 1906 and 1907. That last one was in the same year as the infamous Panic of 1907, when the value of U.S. stocks plunged by more than a third. Hence, a legend that persists 101 years

later: Traders get to stay home the Friday before Easter not just because it's a Christian holy day but because of its association with one of history's great bear

markets. Brooks P.

Nelson, a second-generation professional investor, remembers his father telling him the story every year: "He used to say, 'It's closed on Good Friday because of the panic of aught-seven,'" Nelson, 53, said in a telephone interview.

Rumor had it that in 1907, "the good Irish-Catholic traders said, 'We told you not to open on Good Friday.'" Supposedly, the tale went, the market behaved so badly that the exchange vowed never to allow trading on Good Friday again.

Circumstantial evidence aside, market historians and the NYSE itself say the story is without foundation.

For the complete stories summarized here, and for more of the day's top news, see TOP <Go>.

-0- Mar/21/2008 11:54 GMT

□

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Friday, March 21, 2008 8:32 AM
To: _DL_FYI
Subject: WSJ- (Levitt OpEd) Regulatory Underkill

Regulatory Underkill
By Arthur Levitt Jr.
21 March 2008
The Wall Street Journal
A13

A little more than a year ago, some of the most eminent voices in the business community and leading policy makers -- including the senior senator from New York, New York City's mayor, the head of the New York Stock Exchange, the leadership of the U.S. Chamber of Commerce and the secretary of the Treasury -- warned that Wall Street's predominance in the world economy was in danger of being eclipsed.

Their concern was not with diminishing transparency, lax accounting standards, or the growing inability to measure the risk of new financial instruments and opaque trading mechanisms. No, their concern was regulatory overkill -- that the NYSE was losing listings to overseas markets. How ironic that this group was fixated on a questionable measure of market health, while the seeds of today's market turmoil were being nourished not by regulatory excess, but by fundamental failures in oversight at almost every level.

With this week's downfall of Bear Stearns, and the worsening of the credit crunch, it is clear that there was a breakdown in how Main Street and Wall Street interacted with each other and the global capital markets. Wall Street's new financial products created incentives for Main Street mortgage lenders to offer loans to previously unqualified borrowers.

With easy credit, millions of people bought homes, propping up the market for securities built from these mortgages. Meanwhile, key standard-setters were asleep at the wheel; federal regulators turned from impartial referees to industry enablers; and important gatekeepers became knotted in conflicts of interest. As a result of these regulatory failures, investors have been left with opacity instead of transparency, fueling their mistrust and the current panic roiling the markets.

How did this happen?

First of all, the combination of structured financial products and subprime mortgages fundamentally changed the lending business. No longer did those doing the lending have to expose themselves to the credit risks of the borrowers. Instead, they packaged their loans for sale to the investing public. With no exposure, loan originators offered mortgages to just about anyone they could find. Unlike the state regulators who sounded alarms, almost all federal banking regulators (except Ned Gramlich, the late Fed governor) stood by cheering securitization as underwriting standards deteriorated.

Accordingly, state and federal banking regulators, under the oversight of Congress, need to act now -- together -- to create enhanced underwriting standards for loans, ensuring that lending practices are commensurate with the risks, and that the lender and borrower are fully informed of these risks.

We must strengthen the licensing standards and oversight of mortgage brokers and originators, as proposed by the President's Working Group on Financial Markets. And we must increase the capital requirements for monoline insurers, as well as greatly enhancing their disclosures of actual and potential ranges of losses from different product lines.

The second factor behind today's market turmoil was the strong ratings bestowed upon the new securitized debt instruments by credit rating agencies. What investors relying upon these ratings didn't know was that the agencies' objectivity was severely compromised -- as they were helping issuers construct the very financial instruments they eventually judged. Meanwhile, the Securities and Exchange Commission (SEC) lacked sufficient power and resources to inspect and take corrective supervisory or enforcement actions. As a result, this conflict of interest persisted.

Credit rating agencies need to adopt, as they have proposed, systems that more accurately reflect the risks of differing types of debt. But Congress should give the SEC greater authority to examine the reasonableness of the ratings issued, to take enforcement actions if necessary, and to be able to set independence standards for the rating agencies as the SEC now does for auditors.

The third factor responsible for today's troubles is that, once structured financial products were purchased, investors had little ability to discover how exposed banks were to these products' risks. Failing to recognize and understand the changing risks and accompanying lack of transparency for investors, the Financial Accounting Standards Board (FASB), and the SEC that oversees it, allowed Structured Investment Vehicles (SIV) and conduits to be kept off bank balance sheets.

Because this loophole was not closed when it was first recognized more than five years ago, we are today still trying to figure out the depth and severity of the current crisis. If the FASB is to maintain its credibility with investors, it will need to bring the off-balance sheet risks and losses associated with both SIV's and other securitizations onto companies' financial statements, with full disclosure, within the next 12 months.

Finally, the management and boards of directors of these financial services firms, such as Bear Stearns and probably others, failed to put in place adequate risk-management systems. Moreover, the Fed, SEC, and the Office of the Comptroller of the Currency did not take any meaningful, proactive regulatory action to require needed improvements in risk management and public disclosure, ignoring the recommendations of their own Working Group on Public Disclosure made seven years ago.

At the very least, the board of every public company should adopt best practices in risk management and disclose those practices to investors, along with significant accompanying risks, and how they are managed.

Beyond these immediate fixes, what's needed to restore public confidence is a more wholesale reconsideration of how we can inject greater transparency into the markets and bring about a change in attitude on the part of business leaders and policy makers that puts the interests of investors first. This may require a more fundamental restructuring of how we regulate the markets -- for instance, merging the SEC and the Commodities Futures Trading Commission to create a single securities regulator -- and giving that regulator the resources and the authority to do its job, something the SEC currently lacks.

Ultimately, those who were so concerned with Wall Street's competitiveness need to realize that the true competitive advantage of America's capital markets has long been their high quality. With that quality in doubt, leaders and policy makers need to put their ideological fixations aside and commit themselves to giving investors the levels of transparency and accountability they deserve and expect from the world's strongest markets.

Only then will trust be restored, our markets' health revived, and a deep economic crisis averted.

Mr. Levitt was chairman of the SEC from 1993 to 2001.

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From: Zuccarelli, Jennifer
Sent: Friday, March 21, 2008 8:34 AM
To: _DL_FYI
Subject: WSJ (Strassel Column)-The Bailout Briar Patch

The Bailout Briar Patch
By Kimberley A. Strassel
21 March 2008
The Wall Street Journal
A12

One problem with rolling is that it can be hard to stop. That's the Bush administration's challenge, as congressional Democrats try to flip it into another economic intervention -- this one a giant housing bailout.

Marshaling this campaign is House Financial Services chief Barney Frank and Senate Banking head Chris Dodd, who see (excuse the pun) a prime opportunity for more government regulation, as well as election-year credit for helping homeowners. The duo proposes the government step in to insure at-risk loans, at a potential cost of hundreds of billions of dollars to taxpayers. Democrats explain that this is nothing more than "Stimulus, Part Two."

For that job, the administration has only itself to blame. Whatever Stimulus Part One's economic merits, the Democrats' chief takeaway from that \$150 billion experience was that the administration was running scared of the political fallout from today's housing mess. Scared enough to set aside good ideas -- say, making permanent the Bush tax cuts -- in favor of Democratic demands. Scared enough to cave to future pressure.

The administration's soothing words to conservative economists back then was that this package would forestall greater and worse political intervention down the road. In fact, as the financial situation has deteriorated -- which should've been expected -- the White House has had to do yet more intervening. The latest was Treasury Secretary Hank Paulson's engineering of a rescue for investment bankers via Bear Stearns.

All this neatly set things up for Democrats, who are now claiming that if the White House is worried enough to prop up Wall Street, it has a downright obligation to prop up Main Street. Presumably Mr. Frank wants a better deal for homeowners than what got handed to Bear Stearns shareholders, but never mind.

To its credit, the White House has so far resisted. It batted down a proposal to have the government buy housing stock, on the correct grounds that the market needs to clear itself. It promised a veto of changes in bankruptcy law, on the correct grounds that this would drive up interest rates for future borrowers. In an interview with CNBC's Larry Kudlow last week, President Bush put the damper on the latest plan to insure underwater loans, presumably on the correct grounds that anything Mr. Frank came up with was worrisome: "Listen, I'm open to new ideas, but I'm not open to ideas that'll make it harder for the market to recover. What we need is -- for the market to work its way through," he said.

Working in Mr. Bush's favor is that he's right. It was a housing problem that initially kicked off today's housing finance problem, but the two issues remain distinct. All the evidence suggests the housing market itself is on the slow road to correction. Housing prices are sticky, so this will take some time, but eventually the market will clear. Government can only get in the way.

The question of struggling mortgage holders meanwhile remains the same today -- even with recent financial turmoil -- as it did last year when policy makers started worrying about resets and foreclosures. At the time, the administration made a clear distinction between the few individuals who may have been hit with predatory lending -- and the vast majority who either speculated or signed up for an unaffordable home. Its solution was a program in which mortgage servicers and lenders would voluntarily reduce or freeze the interest rates of certain subprime borrowers. Workouts are now on the rise, and experts say the worst subprime defaults are over.

The White House knows a bailout now would land it back in a briar patch: Who qualifies for help? Since it is impossible to craft legislation that targets only a victimized few, Democrats will cut checks for everyone, which means the White House would be underwriting shoddy financial planning by some middle-class homeowners. This won't sit well with millions of others who went for that boring 30-year fixed, or are working two jobs to make their payments -- as their McMansion neighbors sign up for the government-mortgage-dole.

A bailout also puts the administration in the unwanted position of favoring yesterday's unwise borrowers over tomorrow's

future homeowners. Federal Reserve head Ben Bernanke -- not content with simply taking his own institution into weird and uncharted territory -- recently piped up in favor of more government mortgage help. His worry was that Americans might walk away from homes that are now worth less than their mortgages. This is the basis of the Frank proposal, which would require lenders to write down loans to match home values as a condition of getting government help.

But the only question for policy makers (if there even is one) is whether a borrower can continue to pay the mortgage he has signed up for -- whatever the underlying value. If house prices continue to fall, there's no guarantee homeowners won't continue to walk away from even government-insured mortgages -- leaving taxpayers with the bill. Mr. Frank's proposal would also be a straight shot to higher fees and interest rates for future borrowers, since lenders will want to bake in the risk that they might again be forced into writedowns. This won't do much to get people to purchase empty homes.

Democrats are looking for any nod here. If they can get Mr. Bush to agree even in principle to some form of government relief, they can stuff a bill full of other market-gumming restrictions. They can also crow that they pushed the White House into finally helping homeowners.

Having failed to get that Bush nod so far, they are ginning up pressure with a whisper campaign suggesting the administration is secretly coming around to a deal. There's no evidence to suggest that's true -- yet. As Congress returns from Easter break, the focus will pivot to congressional Republicans, in hopes that election nerves will cause enough to bolt to the Democratic plan to bring the White House along.

Mr. Bush has made the broad case for standing back on most congressional proposals, and he's been right. But until he draws more specific lines on mortgage relief, Democrats will continue to scatter proposals for government rescue across the Capitol, and up the pressure on Republicans to sign up for at least one. This is the time to stop the roll.

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Politics & Economics: Washington Revisits Financial Regulation

By Damian Paletta and Kara Scannell

21 March 2008

The Wall Street Journal

A6

WASHINGTON -- The credit-market turmoil has sparked a broad rethinking of how Washington regulates financial institutions, giving momentum to several ideas once thought politically unfeasible.

One central issue: What to do with the Federal Reserve, which is taking on more responsibility for the stability of financial markets. Last week, the central bank set a precedent by agreeing to lend funds to investment banks.

Crises often have led to big changes in Washington regulation. The Great Depression spawned the Federal Deposit Insurance Corp. The savings-and-loan crisis of the late 1980s produced the Office of Thrift Supervision, the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board.

In a speech, House Financial Services Committee Chairman Rep. Barney Frank (D., Mass.) said Thursday that policy makers should consider giving a regulator the authority to monitor risks that threaten the broad financial system.

Rep. Frank said this power could be given to the Fed, and he said the entity would supervise risks across all financial markets "regardless of corporate form." Such an idea would more closely align supervision of big Wall Street investment banks and their huge commercial-bank counterparts, which operate under different regulatory frameworks.

"You have two different types of institutions competing with each other but under different rules," Rep. Frank said in an interview. "It's the function, not the form, that's important."

While such a change would threaten the turf of some Washington regulators, officials at the Treasury Department already have been considering a similar restructuring.

Senior Treasury Department officials have spent months drawing up a blueprint for financial-market regulation that also includes a new vision for the central bank's role. The Treasury plan, which has been submitted to the White House for review, could propose moving the Fed out of day-to-day supervision of state-chartered banks, people familiar with it said. Instead, the Fed would be given a more sweeping responsibility to monitor financial-market stability.

Such a change would need congressional approval. A Fed spokesman declined to comment.

"The fundamental question of how to appropriately regulate financial-services companies is incredibly important," Assistant Treasury Secretary David Nason said in an interview. But he said the issue "becomes harder and harder as the financial system grows and becomes more complex."

The Fed has traditionally supervised commercial banks in part to safeguard the money it lends to them. Now it lends to investment banks but has no formal oversight, prompting calls to expand its role. "We're going to lend to them and protect them, shouldn't they be regulated?" former Federal Reserve Chairman Paul Volcker said on the "Charlie Rose" show Tuesday.

At least eight federal agencies supervise different segments of the financial markets. Some agencies have overlapping authority, such as the Fed and the Office of the Comptroller of the Currency, which both regulate parts of the banking industry. Other pockets are left mostly unregulated, such as mortgage brokers and hedge funds.

"I think there is a role to reform and modernize, but I think we have to be cautious not to overreact," said Rep. Vito Fossella (R., N.Y.).

Securities and Exchange Commission Chairman Christopher Cox called the regulatory structure "stovepiping that dates back many decades and is nearly irrelevant to today's market." He said he welcomes Congress taking up an overhaul.

Under federal law, the SEC, which was created during the Depression, is charged with protecting investors and maintaining fair and orderly markets. Its role is in contrast with the Fed, which, through its oversight of bank-holding companies, is focused on maintaining the safety and soundness of financial markets and the banking system.

The unraveling of Bear Stearns Cos., one of the firms under the SEC's consolidated review, exposed limits to what the SEC can do. Unlike the Fed, it can't inject funds into the system or extend loans to brokerage firms. After Bear reached a deal to be sold to J.P. Morgan Chase & Co., the SEC issued a statement saying customer accounts were protected and Bear met its capital requirements.

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