

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 11:02 AM
To: _DL_FYI
Subject: AP - Fed endorses rescue effort for Bear Stearns and pledges to supply cash to financial system

Fed endorses rescue effort for Bear Stearns and pledges to supply cash to financial system

By MARTIN CRUTSINGER

AP Economics Writer

338 words

14 March 2008

09:54

Associated Press Newswires

English

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WASHINGTON (AP) - The Federal Reserve said Friday that it has voted to endorse an arrangement to bolster troubled Bear Stearns Cos. and stands ready to provide extra resources to combat a serious credit crisis.

The Fed announcement came in a brief two-sentence statement that was issued as stocks were plunging on Wall Street over worries that a plan to ease a liquidity crisis at Bear Stearns Cos. might not work.

"The Federal Reserve is monitoring market developments closely and will continue to provide liquidity as necessary to promote the orderly functioning of the financial system," the board said.

The statement said that the board had voted unanimously to approve the arrangement announced by JP Morgan Chase and Bear Stearns earlier on Friday.

The plan will provide secured funding to Bear Stearns for an initial period of 28 days, seeking to provide short-term relief for Bear Stearns.

Treasury Secretary **Henry Paulson** praised the Fed's leadership and said that the country's financial system would be able to weather the problems.

"As we have been saying for some time, there are challenges in our financial markets and we continue to address them," Paulson said in a statement.

"This is another challenge that market participants and regulators are addressing. We are working closely with the Federal Reserve" and the Securities and Exchange Commission, he said.

Paulson also said that he appreciated the leadership of the Fed "in enhancing the stability and orderliness of our markets."

The Securities and Exchange Commission issued a statement saying it has been "in close contact" with Treasury, the Federal Reserve and the Federal Reserve Bank of New York during discussions concerning an agreement by J.P. Morgan Chase & Co. to provide a secured loan facility to The Bear Stearns Companies.

"We will continue to work closely together in a way that contributes to orderly and liquid markets," the SEC said.

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Document APRS000020080314e43e001v5

Stoltzfoos, Jeffrey

From: Reyes, Samuel
Sent: Friday, March 14, 2008 11:07 AM
To: DL FYI
Subject: AP: Fed Pledges to Supply Cash

Fed Pledges to Supply Cash

By MARTIN CRUTSINGER

AP Economics Writer

423 words

14 March 2008

10:57

Associated Press Newswires

English

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WASHINGTON (AP) - The Federal Reserve said Friday that it has voted to endorse an arrangement to bolster troubled Bear Stearns Cos. and stands ready to provide extra resources to combat a serious credit crisis.

The Fed announcement came in a brief two-sentence statement that was issued as stocks were plunging on Wall Street over worries that a plan to ease a liquidity crisis at Bear Stearns Cos. might not work.

"The Federal Reserve is monitoring market developments closely and will continue to provide liquidity as necessary to promote the orderly functioning of the financial system," the board said.

The statement said that the board had voted unanimously to approve the arrangement announced by JP Morgan Chase and Bear Stearns earlier on Friday.

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Treasury Secretary **Henry Paulson** praised the Fed's leadership and said that the country's financial system would be able to weather the problems.

"As we have been saying for some time, there are challenges in our financial markets and we continue to address them," Paulson said in a statement. "This is another challenge that market participants and regulators are addressing. We are working closely with the Federal Reserve" and the Securities and Exchange Commission.

Paulson said he appreciated the leadership of the Fed "in enhancing the stability and orderliness of our markets."

The action by the Fed board in Washington represented an endorsement of a rescue effort for Bear Stearns that had already been arranged by JPMorgan and the Federal Reserve's New York regional bank.

It was seen as a last-ditch effort to save the investment bank, which on Friday acknowledged its serious financial problems after a week of denials.

JPMorgan Chase is providing an undisclosed amount of secured funding to Bear for 28 days, backstopped by the Federal Reserve Bank of New York.

The Securities and Exchange Commission issued a statement saying it has been "in close contact" with Treasury, the Federal Reserve and the Federal Reserve Bank of New York during discussions concerning an agreement by J.P. Morgan Chase & Co. to provide a secured loan facility to The Bear Stearns Companies.

"We will continue to work closely together in a way that contributes to orderly and liquid markets," the SEC said.

Appleton, Jesse

From: Appleton, Jesse
Sent: Friday, March 14, 2008 11:12 AM
To: Foster, Robert; Garibay, Marisol
Cc: Stokes, Veronica
Subject: RE: Neugebauer

Thanks we can post them in the future...too early to post on the issue at hand with Bear.

-----Original Message-----

From: Foster, Robert
Sent: Friday, March 14, 2008 11:11 AM
To: Appleton, Jesse; Garibay, Marisol
Cc: Stokes, Veronica
Subject: Re: Neugebauer

OK, I stopped by and saw Frank staff. They didn't object to the postponement. Pretty sparsely populated up here today, actually.

----- Original Message -----

From: Appleton, Jesse
To: Foster, Robert; Garibay, Marisol
Cc: Stokes, Veronica
Sent: Fri Mar 14 09:10:42 2008
Subject: Re: Neugebauer

Bob, I need to cancel the hill markets briefing this afternoon. I'm sorry, but Tony's whole day is now cancelled.

----- Original Message -----

From: Foster, Robert
To: Appleton, Jesse; Garibay, Marisol
Sent: Fri Mar 14 09:03:44 2008
Subject: RE: Neugebauer

Eh, it happens.

-----Original Message-----

From: Appleton, Jesse
Sent: Friday, March 14, 2008 9:03 AM
To: Foster, Robert; Garibay, Marisol
Subject: Re: Neugebauer

Thanks--much appreciated. I know it puts you in an awkward spot, but something has come up.

----- Original Message -----

From: Foster, Robert
To: Appleton, Jesse; Garibay, Marisol
Sent: Fri Mar 14 09:02:04 2008
Subject: RE: Neugebauer

I left a voice mail for his secretary saying we'd have to reschedule.

-----Original Message-----

From: Appleton, Jesse
Sent: Friday, March 14, 2008 8:40 AM
To: Foster, Robert; Garibay, Marisol

Subject: Re: Neugenbauer

Ok--thanks. This is all very last minute. Please do your best to postpone for another day. Thanks.

----- Original Message -----

From: Foster, Robert
To: Appleton, Jesse; Garibay, Marisol
Sent: Fri Mar 14 08:37:54 2008
Subject: RE: Neugenbauer

Probably not next week, but yeah, we'll call.

-----Original Message-----

From: Appleton, Jesse
Sent: Friday, March 14, 2008 8:33 AM
To: Foster, Robert; Garibay, Marisol
Subject: Neugenbauer
Importance: High

Bob Steel is in NY--not expected. Tony is here working on something for the Sec and is tied up all morning.

Is it possible to reschedule the meeting for next week?

Foley, Trip

From: Foley, Trip
Sent: Friday, March 14, 2008 11:12 AM
To: Steel, Robert

Hi Bob - Understand you are busy with the President but just wanted to see if there is anything you need help with from here. The meeting with Neugebauer was cancelled and David & Tony are able to join the 2pm with Shelia, Dugan and HMP in case you're not back. Let me know if you need anything else.

Trip

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 11:23 AM
To: DL_FYI
Subject: AFX Asia - Fed, Treasury issue reassurance statements after Bear Stearns bailout UPDATE

Fed, Treasury issue reassurance statements after Bear Stearns bailout UPDATE

496 words

14 March 2008

10:19

AFX Asia

English

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(Updates with Paulson statement)

NEW YORK (Thomson Financial) - The Federal Reserve will provide whatever liquidity the financial markets need and is watching them closely, it said this morning and the Treasury Secretary said he is confident market disruption will be kept to a minimum.

The Fed "is monitoring market developments closely and will continue to provide liquidity as necessary to promote the orderly functioning of the financial system," its statement said.

The Fed board also "voted unanimously to approve the arrangement announced by JP Morgan Chase and Bear Stearns this morning," according to the release.

Bear Stearns Cos. earlier today confirmed that it's agreed to a secured loan facility for up to 28 days with JPMorgan Chase. Within minutes of the Fed statement, Treasury Secretary **Henry Paulson** released one of his own saying, "our financial system is flexible and resilient and I am confident that the efforts of regulators and market participants will minimize disruption to the system."

Paulson said the Treasury is working closely with the Fed and the Securities and Exchange Commission and that "I appreciate the leadership of the Federal Reserve in enhancing the stability and orderliness of our markets."

Bear Stearns had been the subject of market rumors about its financial viability for the last day or so and the company said its liquidity position had deteriorated rapidly.

Alan Schwartz, the company's president, said "we have tried to confront and dispel these rumors and parse fact from fiction. Nevertheless, amidst this market chatter, our liquidity position in the last 24 hours had significantly deteriorated. We took this important step to restore confidence in us in the marketplace, strengthen our liquidity and allow us to continue normal operations."

The company said it will be able to access liquidity through this facility "as needed" and that it's in talks with JP Morgan about permanent financing or other alternatives.

Market analysts said the Fed has effectively used JP Morgan Chase as a conduit to give Bear Stearns access to financing from its discount window.

According to Robert Brusca of FAO Economics, "this Fed operation in which the Fed is channeling funds to Bear Stearns through JP Morgan is reminiscent of the Fed's lending under (then Fed chairman) Paul Volcker to Prudential-Bache at a time that the Hunt brothers, customers of Pru-Bache were hard pressed to meet margin calls (and filed) in their attempt to corner the silver market."

Volcker didn't want to bail out the Hunt brothers, Brusca said, but the danger to a major brokerage firm was too big a threat to the financial system.

dennis.moore@thomson.com+Michael Baron dem/sal/dem/wash/slj

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MMMM

Steel, Robert

From: Sirri, Erik R. [SirriE@sec.gov]
Sent: Friday, March 14, 2008 11:34 AM
To: timothy.geithner@ny.frb.org; Steel, Robert; Ryan, Tony
Subject: Bear advisor

Bear has retained Lazard as their advisor. They will include this information, and their desire to have other bidders participate in the process, at a 12:30pm public conference call.

Erik R. Sirri
SEC, Div. of Trading and Markets
sirrie@sec.gov (202) 551-5500

Appleton, Jesse

From: Ryan, Tony
Sent: Friday, March 14, 2008 11:36 AM
To: 'sirrie@sec.gov'
Subject: Re: Bear advisor

Thx

----- Original Message -----

From: Sirri, Erik R. <SirriE@sec.gov>
To: timothy.geithner@ny.frb.org <timothy.geithner@ny.frb.org>; Steel, Robert; Ryan, Tony
Sent: Fri Mar 14 11:34:25 2008
Subject: Bear advisor

Bear has retained Lazard as their advisor. They will include this information, and their desire to have other bidders participate in the process, at a 12:30pm public conference call.

Erik R. Sirri
SEC, Div. of Trading and Markets
sirrie@sec.gov (202) 551-5500

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Friday, March 14, 2008 11:42 AM
To: _DL_FYI
Subject: (BN) Fed Takes on Credit Risk From Bear After Firm Sought Fu

Fed Takes on Credit Risk From Bear After Firm Sought Funding
2008-03-14 11:36 (New York)

By Scott Lanman and Craig Torres

March 14 (Bloomberg) -- The Federal Reserve is taking on the credit risk from collateral supplied by Bear Stearns Cos., which approached the central bank for emergency funds, senior Fed staffers said.

The Fed lent the funds through JPMorgan Chase & Co. because it would be operationally simpler to accomplish than a direct loan to Bear Stearns, the staff officials said on condition of anonymity. The Fed said earlier today that its Board of Governors unanimously approved the arrangement with JPMorgan and Bear Stearns.

The Fed Board typically delegates discount-window lending authority to its regional reserve banks when it comes to loans to banks. The Fed invoked a little-used law that allows it to loan to corporations and private partnerships, which required a Board vote, according to the staffers.

The senior staffers declined to describe how large the loan to Bear Stearns is, and declined to say whether a private-sector bailout was attempted first before the Fed extended credit through JPMorgan.

--Editor: Moss

To contact the reporter on this story:

Scott Lanman in Washington at +1-202-624-1934 or slanman@bloomberg.net; Craig Torres in Washington at +1-202-654-1220 or ctorres3@bloomberg.net.

To contact the editor responsible for this story:

Chris Anstey at +1-202-624-1972 or canstey@bloomberg.net

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-0- Mar/14/2008 15:36 GMT

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Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 12:09 PM
To: _DL_FYI
Subject: AP - Bush Concedes Economy Troubled

Bush Concedes Economy Troubled

By JENNIFER LOVEN
Associated Press Writer
370 words
14 March 2008
10:54
Associated Press Newswires
English
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NEW YORK (AP) - Trying to calm jitters about the economy, President **Bush** conceded on Friday that the country "obviously is going through a tough time" but expressed confidence about a rebound.

In a speech to The **Economic Club** of New York, **Bush** said this was not the first time the economy has been rattled and he is certain that it will ride out its troubles. "These are uncertain times," he said.

The president spoke as evidence of an ailing economy piled up. The dollar fell, oil and gold hit record highs, the economy is shedding jobs, retail sales saw a big drop and the effects of a severe credit squeeze linger. Economic worries have replaced the Iraq war as the No. 1 concern of voters in this presidential election year.

"Every time, this economy has bounced back better and stronger than before," **Bush** said, showing his optimism about the resiliency of the economy.

He said unemployment was low at 4.8 percent and productivity was strong. But he acknowledged that prices are up at the gas pump and grocery stores and housing values are down.

"Hardworking Americans are concerned," he said. "They're concerned about their families. They're concerned about making their bills."

The president also praised the work of the Federal Reserve to boost the economy. The Fed on Friday said it has voted to endorse an arrangement to bolster troubled Bear Stearns Cos. and stands ready to provide extra resources to combat a serious credit crisis.

Bush said the Fed has cut interest rates several times and this week, the Fed announced a major move to ease stress in the credit markets by adding liquidity. "It was strong action by the Fed and they did so because some financial institutions that borrowed money to buy securities in the housing industry must now repair their balance sheets before they can make further loans," the president said.

"Today's events are fast moving, but the chairman of the Federal Reserve and the secretary of the treasury are on top of them and will take the appropriate steps to promote stability in our markets," **Bush** assured his audience.

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image

Document APRS000020080314e43e001xo

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 12:15 PM
To: DL_FYI
Subject: MarketWatch -Optimistic Bush says economy will bounce back

News & Commentary

Optimistic Bush says economy will bounce back

Rex Nutting, MarketWatch

MarketWatch; mailto:rnutting@marketwatch.com; Rex Nutting is Washington bureau chief of MarketWatch.

380 words

14 March 2008

11:00

MarketWatch

English

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WASHINGTON (MarketWatch) -- The U.S. economy will emerge from its current problems "better and stronger than ever," President Bush said Friday in a major speech on the economy at the Economic Club of New York.

Speaking just hours after the Federal Reserve helped to engineer a rescue loan for investment bank Bear Stearns, Bush said that, although times are tough, the economy is resilient. (RELATED ARTICLE: Bear gets help from Fed, J.P. Morgan in liquidity crisis) See full story on Bear Stearns.

The country has endured tough times before, he said. "Every time, this economy has bounced back better and stronger than before," Bush said, expressing his optimism in the future of the country.

"The foundation is solid."

Leaders in Washington, including Federal Reserve Chairman Ben Bernanke and Treasury Secretary **Henry Paulson** are "on top of it and will take appropriate actions," he said.

Bernanke is doing a good job, he said.

"We've got an active policy. We are always open to new ideas," Bush said.

Bush rejected several proposals being offered in Congress, including the purchase of boarded-up homes by cities and states, changes in the bankruptcy code to allow mortgages to be discharged in bankruptcy, and extending federal loan guarantees to more homes once lenders have accepted their losses.

Markets need time to correct, he said. "Delaying that correction would only prolong the correction."

Doing something foolish would be worse than doing nothing, he said.

Bush said he and congressional leaders have already taken decisive action to speed temporary tax relief to consumers and businesses this year. And he said programs to help squeezed homeowners refinance their homes are beginning to work without bailing out anyone or distorting markets.

Bush called on Congress to enact the rest of his economic plan, including extending the tax cuts that are set to expire at the end of the decade, and to approve trade agreements.

WASHINGTON (MarketWatch) -- The U.S. economy will emerge from its current problems "better and stronger than ever," President Bush said Friday in a major speech on the economy at the Economic Club of New York. |103

Document MRKWC00020080314e43e00336

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 12:17 PM
To: _DL_FYI
Subject: DJ - Federal Regulators Step In As Credit Crunch Hits Bear Stearns

Federal Regulators Step In As Credit Crunch Hits Bear Stearns

By Brian Blackstone

Of DOW JONES NEWSWIRES

602 words

14 March 2008

11:00

Dow Jones Capital Markets Report

English

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WASHINGTON (Dow Jones)--Federal regulators stepped in Friday to keep the U.S. credit crunch from claiming its biggest victim, as the Federal Reserve approved an arrangement Friday to provide emergency funds to Bear Stearns Cos. (BSC) through JPMorgan Chase & Co. (JPM).

Treasury Secretary **Henry Paulson** Jr. and Federal Reserve Board Chairman Ben Bernanke "will take the appropriate steps to promote stability in our markets," President George W. Bush said in a speech to the Economic Club of New York.

"The Federal Reserve is monitoring market developments closely and will continue to provide liquidity as necessary to promote the orderly functioning of the financial system," the Fed said in a two-sentence statement explaining its unanimous approval of the arrangement.

JPMorgan and the New York Fed will provide Bear Stearns with secured funding for an initial period of up to 28 days. Through its discount window, the Fed will provide financing to JPMorgan.

Fed officials said having JPMorgan as the agent makes the most operational sense since JPMorgan is a depository institution, and that it can use Bear Stearns collateral at the discount window. That shields JPMorgan's risk exposure.

The loans should be included in discount-window borrowings data released each Thursday by the Fed.

The Securities and Exchange Commission said it "has been in close contact with the Department of the Treasury, the Federal Reserve, and the Federal Reserve Bank of New York" on the Bear Stearns matter. "We will continue to work closely together in a way that contributes to orderly and liquid markets," the SEC said in a statement.

On Tuesday, SEC Chairman Christopher Cox reiterated that regulators are constantly monitoring bank capital levels and remain satisfied with them. In response to questioning about Bear Stearns after a press conference, Cox said "we have a good deal of comfort" about capital adequacy at bank holding companies based on "constant," sometimes daily reviews.

Paulson on Friday called U.S. financial markets "flexible and resilient," and said he's confident that efforts by regulators and market participants to address challenges in U.S. financial markets "will minimize disruption to the system."

One regulator pointed to cash flow problems at Bear Stearns as a development requiring action. An individual familiar with the matter, who agreed to speak anonymously, said while Bear Stearns's capital levels are stable, its liquidity had deteriorated in recent days, prompting the discussions on securing a loan for the bank.

The Fed's extraordinary action brought to mind prior major bank rescue efforts. Previous attempts to bail out banks have varied in their substance and effectiveness.

One of the largest bank bailouts in U.S. history occurred in 1984, when federal regulators stepped in to rescue Continental Illinois National Bank and Trust Co. A \$30 billion bank, Continental was the seventh-largest bank in the nation at the time and was considered "too big to fail" by regulators.

The other major bank bailout of note involved the Bank of New England, which ran into trouble in 1991. The FDIC stepped in after deeming that the size of the bank warranted the regulator covering both insured and uninsured deposits. The estimated cost to the FDIC is \$573 million, and despite the agency's efforts the \$20 billion bank still failed and was eventually acquired by Fleet.

-By Brian Blackstone, Dow Jones Newswires; 202-828-3397; brian.blackstone@dowjones.com

(Rob Wells, Judith Burns, Henry Pulizzi, Maya Jackson-Randall and Michael Crittenden contributed to this report.) [03-14-08 1200ET]

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Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Friday, March 14, 2008 12:26 PM
To: _DL_FYI
Subject: AFX Asia - Bush says economy going through 'tough time,' but optimistic for recovery

Bush says economy going through 'tough time,' but optimistic for recovery

329 words

14 March 2008

11:18

AFX Asia

English

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WASHINGTON (Thomson Financial) - In a wide-ranging speech on the economy today, President George **Bush** acknowledged that the US economy is going through a "tough time," but was optimistic that government-led attempts to help struggling homeowners and the prospect of a pending income tax rebate will help improve the situation shortly.

"Our economy is obviously going through a tough time," **Bush** said in remarks to the **Economic Club** of New York today.

But he argued that the US economy is "resilient," and has always "bounced back better and stronger than before," regardless of whether it faced the terror attacks and corporate scandals that occurred earlier during his presidency, or the more recent housing and credit crunch.

Bush acknowledged that the 0.6 pct growth the US economy experienced in the last quarter of 2007 is "clearly slow," and said rising food and energy prices and lower home prices are hurting.

But he said US economic fundamentals remain "solid," and said the economic stimulus package approved earlier this year would help increase consumer spending once checks are released in the late spring. He also praised the Federal Reserve for lowering interest rates beginning last summer.

"I respect Ben Bernanke," **Bush** said. "I think he's doing a good job under tough circumstances."

The Fed this morning approved a deal under which JP Morgan will accept funds on behalf of Bear Stearns, which is suffering a severe cash shortage. **Bush** said today's events are "fast moving," but said the Fed and the Treasury Department are "on top of them, and will take appropriate steps to promote stability in our financial markets."

pete.kasperowicz@thomson.com pik/wash/lam

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Foley, Trip

From: McLaughlin, Brookly
Sent: Friday, March 14, 2008 1:14 PM
To: DL FYI
Subject: (BN) Bernanke Calls for 'Strong Oversight' of All Mortgage L

Bernanke Calls for 'Strong Oversight' of All Mortgage Lenders
2008-03-14 13:01 (New York)

By Brendan Murray and Alison Vekshin

March 14 (Bloomberg) -- Federal Reserve Chairman Ben S. Bernanke said too many home loans have been "neither responsible nor prudent" and called for "strong oversight" of different types of mortgage lenders.

"Far too much of the lending in recent years was neither responsible nor prudent," Bernanke said in prepared remarks for a National Community Reinvestment Coalition conference in Washington today. Now, "the decline in home equity makes it more difficult for struggling homeowners to refinance and reduces the financial incentive of stressed borrowers to remain in their homes."

The 54-year-old Fed chairman, now in his third year, didn't discuss interest rates or the economic outlook in his text.

Among other causes of the current credit crisis, Bernanke said, "much of the weakening in underwriting standards appears to have happened outside of institutions regulated by the federal banking agencies."

He said "strong, uniform oversight of different types of mortgage lenders is critical to avoiding future problems. Regulatory oversight of mortgage lending has become more challenging as the breadth and depth of this market has grown over the past decade." He added the Fed is working with other state and federal agencies "to achieve more uniformly effective supervision."

Housing Recession

The Fed chairman is trying to cushion the economic impact of the worst housing recession in a quarter century. Private sector payrolls have declined for three consecutive months, retail sales fell in February, and a dozen banks and forecasting firms such as Lehman Brothers Holdings Inc. and Goldman Sachs & Co. say the economy is now in a recession.

Bear Stearns Cos. obtained emergency funding from JPMorgan Chase & Co. and the New York Federal Reserve today as the securities firm said its cash position had "significantly deteriorated." The Federal Reserve Board said in a separate statement that it "voted unanimously to approve the arrangement announced by JPMorgan Chase and Bear Stearns."

Fed officials have cut the benchmark lending rate 2.25 percentage points since September. Futures traders expect a three-quarter-point reduction to 2.25 percent from 3 percent when the Fed panel meets March 18. After the JPMorgan announcement today, the probability of a one percentage point cut rose to 34 percent in futures trading, up from zero Thursday.

The downturn in housing has washed back into credit markets as foreclosures boost inventories of unsold homes, depressing prices and limiting refinancing opportunities for troubled borrowers.

Concern About Resets

Bernanke said he is concerned about the number of Americans in danger of losing their homes as their subprime mortgages reset to higher rates of interest.

"The problem posed by resets is serious, but it may be mitigated somewhat by lower short-term interest rates and by the efforts of services" to renegotiate loan terms, Bernanke said.

U.S. home foreclosure filings jumped 60 percent in February over the previous year and bank seizures more than doubled as interest costs on adjustable-rate mortgages rose and home prices fell, Irvine, California-based RealtyTrac Inc., said yesterday. More than 223,000 properties were in some stage of default, or about 1 in every 557 U.S. households.

Homeownership Rate

The U.S. homeownership rate fell to 67.8 percent in the fourth quarter, the lowest since the first quarter of 2002, versus 68.2 percent in the previous three months.

The Fed has proposed to tighten rules for subprime mortgages, including a ban on low-documentation loans and limits on penalties for borrowers who prepay their debts.

The plan, the Fed's biggest regulatory initiative since Bernanke took office in February 2006, is aimed at curbing abusive lending practices that contributed to record foreclosures.

Bernanke is also aiming to preserve the Fed's consumer-protection role after Democratic lawmakers blamed the agency for lax oversight and threatened to dilute the Fed's authority to write new consumer-protection rules.

In a March 4 speech, Bernanke urged lenders to reduce loan principals for homeowners to help them avert foreclosure.

Federal Deposit Insurance Corp. Chairman Sheila Bair, who has echoed Bernanke's call for principal reductions, said today that policy makers have to pursue "more aggressive intervention" to curb foreclosures and her agency is "very actively" considering options.

Bair, speaking to reporters today after a speech at the NCRC conference, declined to elaborate on what type of intervention is needed.

--Editors: Mark Rohner

To contact the reporter on this story:

Craig Torres in Washington at +202-654-1220 or ctorres3@bloomberg.net To contact the reporter on this story:

Alison Vekshin in Washington at +1-202-654-4307 or avekshin@bloomberg.net.

To contact the editor responsible for this story:

Chris Anstey at +1-202-624-1972 or canstey@bloomberg.net

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#<611668.36522.1.0.69.26862.25>#

-0- Mar/14/2008 17:01 GMT

Appleton, Jesse

From: Ryan, Tony
Sent: Friday, March 14, 2008 1:32 PM
To: Davis, Michele
Subject: RE: drexel

http://blogs.wsj.com/deals/2008/03/14/bear-stearns-the-drexel-burnham-lambert-precedent/?mod=googlenews_wsj

fyi-

Appleton, Jesse

From: Ryan, Tony
Sent: Friday, March 14, 2008 1:33 PM
To: Schetzel, Michael; Hill, Rob
Subject: drexel

fyi

http://blogs.wsj.com/deals/2008/03/14/bear-stearns-the-drexel-burnham-lambert-precedent/?mod=googlenews_wsj

Steel, Robert

From: Market Room
Sent: Friday, March 14, 2008 1:37 PM
Subject: Update: Bear Stearns working with Lazard to review "alternatives"

- Bear Stearns attributed its liquidity issues to a combination of repo outflows, and 'broad outflows' in prime brokerage
- Bear is working with Lazard to review "strategic alternatives"
- Bear chose JP Morgan to act as agent due to existing clearing bank arrangements – could easily move the collateral to the Fed
- This 28-day borrowing is "enough to continue business as usual"
- Bear's stock is off 35.8% and its CDS are 45bps wider to 730bps. Lehman equities are off 12% and its CDS spreads widened 65bps to 465bps. Citi shares are off 5.89% and its CDS are 110 basis points wider to 240 basis points. JPMorgan's shares are down 3.91% and its CDS are 20bps wider to 175.

DJIA	11914.78	-1.96	%
S&P	1285.70	-2.31	%
NASDAQ	2211.98	-2.34	%
FTSE	5631.70	-1.07	%
Nikkei	12241.60	-1.54	%
1-Month Tsy	1.16	-39.74	bps
3-Month Tsy	1.16	-19.45	bps
3-month LIBOR	2.76375	-3.63	bps
2-yr Tsy	1.43	-19.60	bps
10-yrTsy	3.389	-13.84	bps
2-yr SwSpr	90.50	0.75	bps
10-yr SwSpr	71.75	0.88	bps
30-yr Conf Mtge	136.453	-6.83	bps
10-yr Gilt	4.335	-2.90	bps
10-yr Bund	3.733	-2.70	bps
10-yr JGB	1.275	-1.50	bps
Oil NMX WTI	\$109.81	-\$0.53	
Gold Spot	\$998.70	\$3.88	
\$/Euro	\$1.5642	0.05	%
Yen/\$	99.86	-0.80	%
Yen/Euro	156.2035	-0.74	%

BEAR STEARNS JP MORGAN CREDIT CRUNCH

Bear Stearns is actively being shopped to a potential acquirer, and not just to JPMorgan Chase, CNBC has learned.

JP Morgan is the most likely candidate to buy Bear right now, considering that the emergency financing from the Fed is being arranged through JP Morgan. But people familiar with the situation say other banks are being approached as well.

Analysts have been speculating for months about a possible acquisition of Bear Stearns, which has been hurt

badly by the subprime mortgage crisis. Even so, Bear chief executive Alan Schwartz said in early January that being acquired is not a strategy for the firm.

But as the credit crisis has increased, so has the possibility of more bank mergers.

Bank of America agreed in January to acquire battered mortgage lender **Countrywide Financial** for a knock-down price of \$4 billion in stock.

Takeover speculation since then has centered on such banks as **Washington Mutual** , **First Horizon National** , **National City** and **KeyCorp**.

"Transactions happen when times are good and valuations are high and they happen when times are very difficult and you have some forced sellers," said Sean Egan, managing director of independent credit-rating firm Egan-Jones Ratings, said after the Countrywide acquisition.

"Washington Mutual probably heads up the list (of targets) because they have similar problems to Countrywide," said Egan, adding: "Bear Stearns is an obvious candidate for some sort of transaction."

Stoltzfoos, Jeffrey

From: Monaco, Ralph
Sent: Friday, March 14, 2008 2:04 PM
To: Monaco, Ralph
Subject: Economic Policy Weekly Review and The Week Ahead
Attachments: Weekly Review 2008-03-14.pdf; Week Ahead 2008-03-17.pdf

OVERVIEW

This week economic activity statistics were mixed, the consumer price report confirmed underlying inflation pressures are contained, and financial market turmoil bubbled up again. Retail sales were weak in February, dropping 0.6 percent and posting a third decline in the last five months. Poor auto sales were partly responsible for sagging retail sales, but even excluding autos and gasoline, retail sales were down. Sluggish consumer spending seems likely to continue: preliminary data for March from the University of Michigan/Reuters survey indicate consumers were slightly more pessimistic than in February, when sentiment fell to a sixteen-year low. Available data suggest consumer spending in Q1 is on track to grow at about half the 1.9 percent rate posted in Q4.

The foreign trade deficit narrowed slightly in January. Exports continued to rise and were up 16.6 percent for the year ending in January. Imports were also up, but the rise was more than accounted for by an increase in petroleum imports. Outside of petroleum, imports fell. The decline in non-oil imports is consistent with slower U.S. economic activity in 2007Q4 that has continued into early 2008. Based on January data, it appears that net exports will add about 1 percentage point to real GDP growth in Q1.

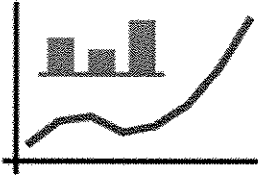
Consumer prices were unchanged in February. Food prices continued to rise, but at a slower rate in February and energy prices fell. Core consumer prices were unchanged in February, and were up 2.3 percent over the past year, down from 2.5 percent growth in the previous year. The respite in consumer energy prices is likely to be temporary: gasoline prices have risen about 30 cents – roughly 9 percent – since mid-February.

Financial markets were volatile again this week and on Friday markets responded to the Federal Reserve actions to support Bear Stearns. The S&P 500 ended the week down slightly and is off about 12 percent so far this year. The ten-year Treasury yield fell this week to about 3.5 percent. Sliding equities and the continued declines in house prices expected by many analysts in Q1 are reducing consumer wealth, which will be a noticeable drag on consumer spending.

Private consensus forecasts call for low GDP growth in Q1: the *Blue Chip* consensus released this week sees 0.1 percent growth in Q1, while the weekly consensus from *Macroeconomic Advisers* projects a decline of 0.1 percent. *MA* itself sees 1 percent growth. The March consensus from the *Wall Street Journal* puts Q1 GDP growth at 0.1 percent, and 71 percent of respondents believe that the U.S. economy is currently in a recession.

Note: All figures in this report except daily financial and commodity price data are seasonally adjusted, unless designated as NSA (not seasonally adjusted).

Treasury users can also find these and other economic indicator updates on the Treasury portal:
<http://portal.do.treas.gov/C15/Market-Economic-Resources/default.aspx>



THE WEEKLY REVIEW OF ECONOMIC DEVELOPMENTS

March 10 - March 14, 2008

OVERVIEW

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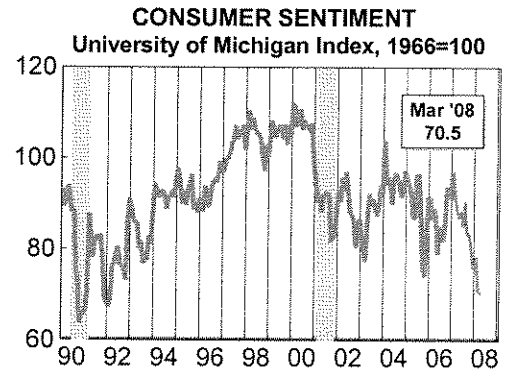
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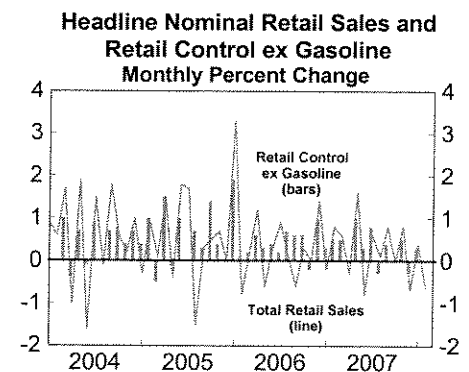
KEY WEEKLY STATISTICS

CONSUMER SPENDING INDICATORS

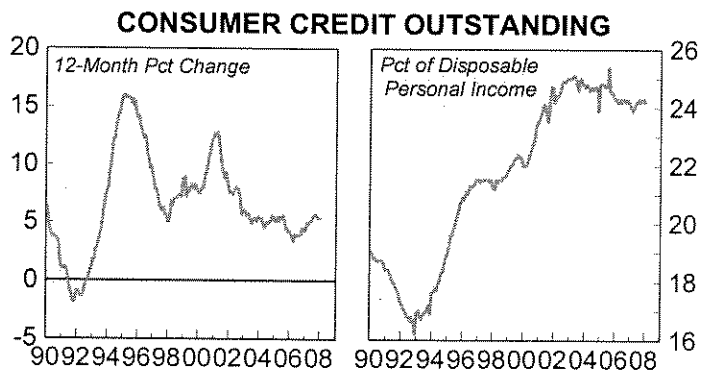
- The Reuters/University of Michigan index of consumer sentiment edged down to 70.5 in early March from 70.8 in February. This level of sentiment is at or near lows reached in the recessions of the mid-1970s, the early 1980s, and the early 1990s. The component measuring current economic conditions rose to 84.6 from 83.8 in February. The component measuring consumer expectations decreased to 61.4 from 62.4 in February. Consumers expected a year-ahead inflation rate of 4.5 percent, up sharply from February's 3.6 percent. Long-term inflation expectations edged down to 2.9 percent.



- Retail and food services sales declined in February, more than offsetting January's gains. Headline nominal retail sales fell 0.6 percent to \$380 billion for the month, following an upwardly-revised 0.4 percent increase in January. Retail sales growth was weak in all sectors, led by declines at auto dealerships, gasoline stations, building supply stores, and furniture stores. Sales at motor vehicle and parts dealers were down 1.9 percent. Sales at gasoline stations fell 1.0 percent. Retail sales growth edged up slightly at clothing stores, sporting goods/hobby/book/music stores, general merchandise stores, and health/personal care stores. The component of sales directly affecting GDP (the retail control) slipped 0.2 percent in February, following a 0.6 percent gain in January. Excluding gasoline, the retail control was flat in February.

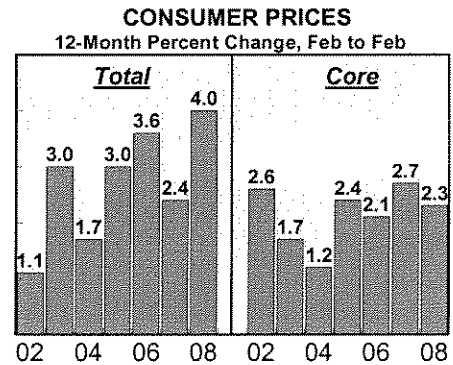


- Consumer credit outstanding rose a modest 3.3 percent at an annual rate in January to \$2.52 trillion (excluding mortgages and other loans secured by real estate). Revolving credit (mainly credit card debt) rose 7.0 percent at an annual rate, and nonrevolving credit (including loans for auto purchases, education, and vacations) rose 1.1 percent at an annual rate. Year-over-year growth of all consumer credit was unchanged from December at 5.4 percent, remaining well below the double-digit gains recorded earlier in the decade. The ratio of consumer credit to disposable income edged down 0.1 percentage point from December to 24.2 percent.

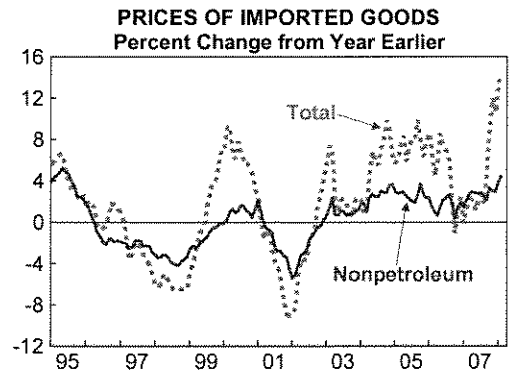


INFLATION

- **Consumer prices for all urban consumers (CPI-U)** were unchanged in February, as energy prices declined and food price inflation slowed. CPI inflation was 4.0 percent in the year ending in February, well above the 2.4 percent pace of the previous twelve months. Energy prices fell 0.5 percent in February and are now 18.9 percent higher over the twelve months ending in February. Gasoline prices declined 2.0 percent in the latest month. Food prices were up 0.4 percent in February and increased 4.6 percent in the latest twelve months, up from the 3.1 percent increase in the year ending February 2007. The **core CPI** (all items less food and energy) was also unchanged in February, after a 0.3 percent rise in January. The core CPI increased 2.3 percent in the twelve months through February, slower than the 2.7 percent rise in the twelve months through February 2007.

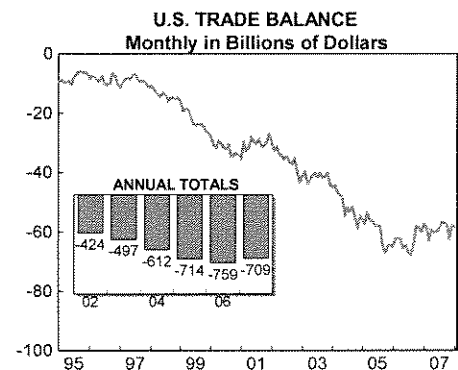


- **Import price inflation** slowed to 0.2 percent in February from 1.6 percent in January due to a 1.5 percent drop in petroleum prices. Prices for nonpetroleum imports rose by 0.6 percent in February, about the same as in the previous month. Prices for most imported goods have risen much faster over the past year, in part due to the decline in the foreign exchange value of the dollar. Prices for nonpetroleum imports were up 4.5 percent year-over-year in February, more than double the 2.2 percent gain posted a year ago. Petroleum import prices surged 60.9 percent in the twelve months ended in February after falling by 4.5 percent in the same period last year. Overall, import prices are up 13.6 percent since February 2007. At the same time last year, the import price index was up just 1.2 percent.



INTERNATIONAL TRADE

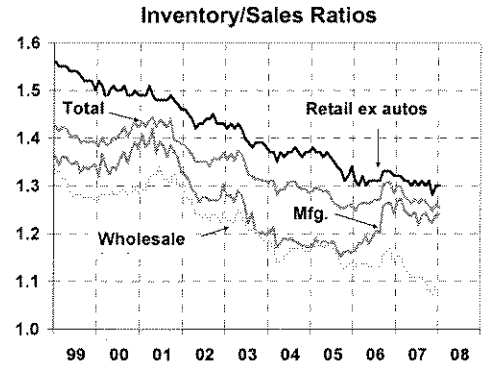
- The **trade deficit** widened by a slight \$0.3 billion to \$58.2 billion in January. Imports rose \$2.7 billion (1.3 percent), reflecting a \$3.8 billion increase in U.S. purchases of foreign petroleum. Nonpetroleum imports fell by \$1.4 billion (1.1 percent), likely reflecting the slower pace of domestic demand signaled by other economic indicators. Imports have risen by 11.9 percent over the past year, but petroleum accounts for roughly two-thirds of the increase. Exports rose by \$2.4 billion (1.6 percent) in



January with gains spread widely across major categories. Over the past year, exports rose 16.6 percent, building on the solid pace seen since 2004.

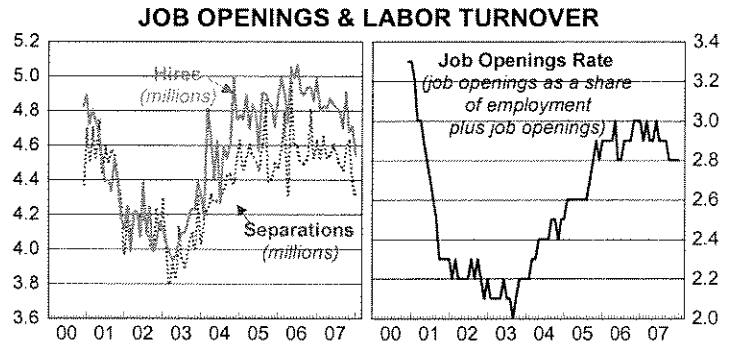
BUSINESS INDICATORS

- Business inventories** increased 0.8 percent in January, and posted a 4.8 percent rise over the previous year. Wholesale stocks increased 0.8 percent while retail inventories were up 0.4 percent. Manufacturing inventories made the largest contribution, rising 1.3 percent. Motor vehicles and parts dealers, part of the retail sector, saw stocks increase 0.4 percent in January. Inventory/sales (I/S) ratios were either unchanged or lower, as total sales growth outpaced inventory builds. The wholesale I/S ratio fell the most, from 1.09 to 1.07, while the manufacturing and retail ratios were unchanged. The overall business I/S ratio edged down to 1.25 in January, matching November's ratio, which was one of the lowest on record.



LABOR MARKETS

- The January **Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings, hires and separations rates changed very little in January but were notably lower than a year ago. Over the twelve months ended in January, the number of job openings in the nonfarm business sector (jobs open on the last business day of the month) declined by nearly 400,000 to 3.9 million, and the job openings rate slipped by 0.2 percentage point to 2.8 percent. Hires have fallen by nearly 500,000 over the past year, and the hires rate has dropped by 0.3 percentage point to a 3½-year low of 3.3 percent. Both the number of separations and the separations rate were also down from a year earlier: separations have declined by roughly 300,000 and the separations rate is down by 0.3 percentage point to 3.1 percent. A large decline in quits, a gauge of a workers' ability to change jobs easily, is responsible for most of the year-over-year drop in separations.

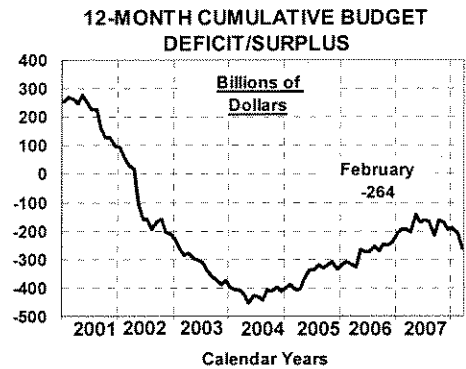


- Initial claims for unemployment insurance** were unchanged at 353,000 in the week ending March 8. The four-week moving average of initial claims edged down by 1,000 for the third consecutive week to 359,000, but still remained near a two-year high and above the average level of weekly claims in 2007 of 322,000. **Continued claims** for unemployment insurance benefits rose by 7,000 to 2.84 million in the week ended March 1, the highest level in 2½ years. The state insured unemployment rate remained at 2.1 percent for the sixth

consecutive week. Some analysts believe that initial claims may have been affected by the strike of General Motors Corporation's (GM) parts supplier American Axle, which has stopped or slowed production at 29 GM plants and affected 42,000 GM employees.

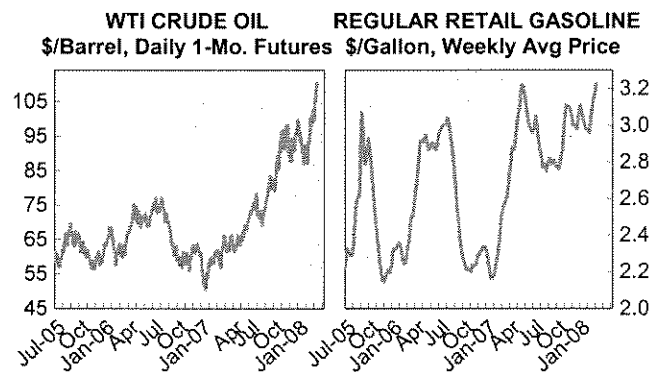
FEDERAL BUDGET

- The **Monthly Treasury Statement** for February shows that receipts and outlays are both running ahead of last year, but outlay growth has picked up while receipts growth has slowed. Timing shifts in some categories of payments and receipts accounted for about half of the increase in outlays and raised the February deficit. Compared to the first five months of FY2007, receipts were up 1.3 percent to \$967 billion in the first five months of FY2008. Outlays were up 10.2 percent over the same period, rising to \$1,230 billion. The federal budget ran a deficit of \$263 billion in the first five months of FY2008, \$101 billion more than the same period in FY2007. The twelve-month cumulative budget deficit through February widened to \$264 billion.



ENERGY MARKETS

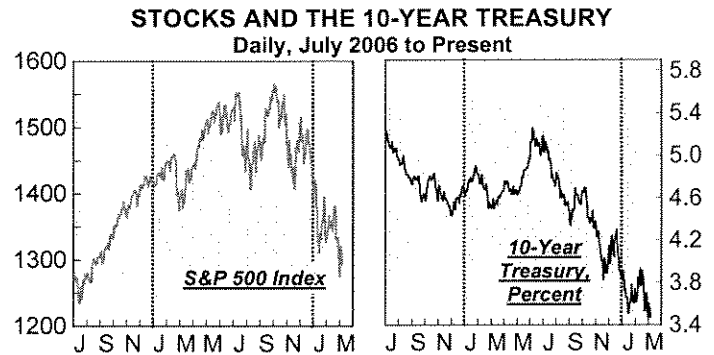
- Front month **West Texas Intermediate (WTI) crude oil futures** jumped to an average of \$109.23 per barrel in the week through Thursday. That is up \$5.81, or 5.6 percent, from last week's average price. WTI closing prices peaked at \$110.33 on Thursday. Prices soared in the week on a weak dollar, speculation, and geopolitical concerns. WTI futures traded around \$109.86 midday Friday.
- The Energy Information Administration (EIA) reported Wednesday that **crude oil inventories** rose by 6.2 million barrels to 311.6 million last week. Gasoline inventories rose 1.7 million barrels to 236 million barrels, the highest level since March 1993.
- Despite relatively high gasoline inventories, the **U.S. average price for regular retail gasoline** rose to a record \$3.23 per gallon in the week ended March 10, according to the EIA. That is up 67 cents from one year ago. Prices were higher across all regions of the country.



FINANCIAL MARKETS

Data measures below are on the week as of midday Friday.

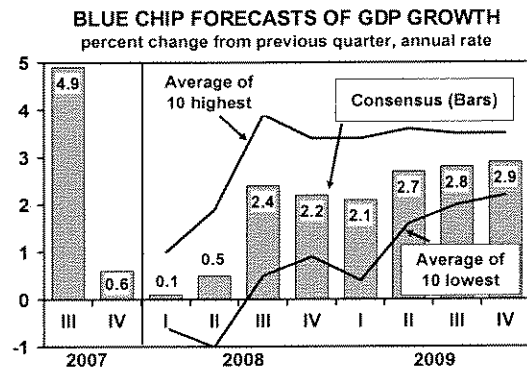
- In a volatile week, the **S&P 500 index** slipped 0.1 percent, bringing its year-to-date decline to 12.0 percent (versus a gain of 3.5 percent in 2007). Concerns about a weak economy weighed on equities early in the week. Equity prices jumped following the Federal Reserve's action to make \$200 billion available for loans to investment banks in exchange for debt, and reports suggesting that subprime loan losses might ease in the near future. Equities dropped after news on Friday of Federal Reserve support aimed at Bear Stearns.

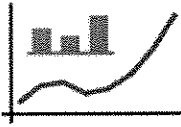


- The **ten-year Treasury yield** fluctuated markedly during the week. Yields were alternately affected by safe-haven buying and easing concerns about credit market losses. Safe-haven buying resumed in the wake of Friday's Bear Stearns announcement and the yield ended the week 9 basis points lower at about 3.5 percent.
- The Cleveland Fed's calculations of market expectations suggests a near certainty that the Fed will cut the **federal funds target rate** by at least 50 basis points at next week's FOMC meeting on March 18. There is a better than 50 percent chance that the reduction will be 75 basis points or more.
- **The dollar** depreciated 1.9 percent against the euro and 2.4 percent against the yen this week.

OUTLOOK

- The **Treasury real-time statistical forecasting system** predicts 1.8 percent real GDP growth in 2008Q1, unchanged from last week's estimate. Private consensus forecasts continue to expect growth in real GDP in 2008Q1 below the Treasury real-time prediction. The *Macroeconomic Advisers (MA)* weekly forecaster's survey lowered its expectation of GDP growth this week to -0.1 percent, while *MA* itself increased its growth prediction to 1.0 percent. The March consensus from the *Wall Street Journal* puts Q1 GDP growth at 0.1 percent, and 71 percent of respondents believe that the U.S. economy is currently in a recession.
- **Blue Chip** forecasters surveyed March 5-6 lowered their projection for 2008 GDP growth to 1.5 percent from February's 1.7 percent. The reduction reflects the series of weak economic reports released in February, but not the employment report for February which showed a second consecutive month of job declines. Almost 40 percent of the panel sees a decline in real GDP in the first two quarters of 2008.
- **CPI inflation** is expected to fall to 2.7 percent in 2008 (Q4/Q4) from the 4 percent of 2007. The projection for CPI inflation during 2009 is 2.4 percent. The **three-month Treasury bill** rate is expected to decline to 1.9 percent by 2008Q2, rising to 2.1 percent by 2008Q4. The yield on the **ten-year Treasury note** is projected to rise gradually to 3.9 percent by the end of 2008 and reach 4.5 percent by 2009Q4. The unemployment rate is projected to peak at 5.5 percent in 2008Q4 and remain there in the first half of 2009.





THE WEEK AHEAD

Economic Data to be Released March 17 – March 21, 2008

<u>Date</u>	<u>Statistic</u>	<u>Previous</u>	<u>Consensus Forecast *</u>
Mar 17	Monday		
8:30 a.m.	Summary of International Transactions, Q4 The current account deficit decreased by \$42 billion in 2007Q3 to -5.1% of GDP, the smallest share since 2004, due in part to an increase in the surplus on income.	Current Account Balance -\$178.5 B -\$184.4 B	
9:15 a.m.	Industrial Production and Capacity Utilization, February Production of motor vehicles and parts fell 1.2% in January, and output excluding autos rose 0.1%. Capacity utilization was unchanged in January.	Production 0.1% -0.1%	
		Capacity Utilization 81.5% 81.3%	
1:00 p.m.	NAHB Housing Market Index, March Index readings have fluctuated between 18 and 20 for the last six months, which may signal homebuilders' confidence is stabilizing.	20	
Mar 18	Tuesday		
8:30 a.m.	Housing Starts, February Single-family housing starts declined 5% in January and are now 60% below their peak in January 2006. Single-family permits fell 4%.	Starts 1.012 M .995 M	
		Permits 1.061 M 1.023 M	
8:30 a.m.	Producer Price Index, February The PPI rose more than expected in January, fueled by increases in food and energy prices. Over the past 12 months, core PPI rose 2.4%, above the 1.7% gain during the prior 12 months. Crude oil prices were up 2.6% in February.	Total Index 1.0% 0.4%	
		Core 0.4% 0.2%	
2:00 p.m.	FOMC Meeting The Cleveland Fed calculates there is greater than a 50% chance of a reduction in the federal funds rate target of 75 basis points or more at this meeting.	Federal Funds Target 3.0% --	
Mar 20	Thursday		
8:30 a.m.	Initial Claims, Week ending March 15 Initial claims were unchanged in the latest week, but continued claims rose to the highest level in two and a half years.	353,000 357,000	
10:00 a.m.	Leading Indicators, February, Conference Board The leading index decreased for the fourth consecutive month, and is at the lowest level since September 2005. Over the last 6 months, the leading index fell 2%.	-0.1% -0.3%	

* Median forecast based on Bloomberg compilation as of Friday afternoon, March 14. May change with additional forecasts.

Appleton, Jesse

From: McLaughlin, Brookly
Sent: Friday, March 14, 2008 2:31 PM
To: Steel, Robert; Ryan, Tony; Davis, Michele
Cc: Zuccarelli, Jennifer
Subject: SEC FYI

The SEC press guy just called and told me that after a previously scheduled mtg with Sen. Dodd today, when Cox walked out there were a gaggle of reporters standing outside asking about Bear. Cox didn't want to walk by without saying something so he stopped and told them they'd have more to say later today. So now the SEC is working on another statement to issue on the Bear situation. They say it will be benign. (Then he hung up on me to take another call.)

Brookly McLaughlin
Deputy Assistant Secretary for Public Affairs
U.S. Treasury Department
1500 Pennsylvania Avenue, NW
Washington, D.C.
(202) 622-2920-office

Stoltzfoos, Jeffrey

From: Market Room
Sent: Friday, March 14, 2008 2:56 PM
Subject: Update: Lehman locks in \$2billion credit facility

- Following rumors of liquidity concerns at Lehman, the firm locked in a \$2billion 3-year unsecured revolving credit facility with 40 banks in the syndicate
- Lehman shares are still down 11.3% on the day though they have pared earlier losses of up to 13%
- About one hour ago, Bear Stearn's Long term counterparty rating was cut 3 levels to BBB from A by S&P S&P also cut their short term rating to A-3 from A-1 Bear had \$18 billion in excess cash at the beginning of the week but liquidity deteriorated significantly yesterday (March 13)
- The ratings announcement has had little additional impact on Bear's share price which remains down 38.8%. Bear's CDS are an additional 5bps wider to 765bps.
- The investment grade CDX is 4.75 bps wider to 192.5bps while the high-yield crossover is 9.25bps wider to 451.75bps
- Financial stocks are broadly lower with shares of Citi off 6.25%, Goldman is down 5.5%, and JPMorgan is down 4.15%.

DJIA	11855.59	-2.39 %
S&P	1278.29	-2.84 %
NASDAQ	2197.73	-2.92 %
FTSE	5631.70	-1.07 %
Nikkei	12241.60	-1.54 %
1-Month Tsy	1.16	-39.74 bps
3-Month Tsy	1.15	-20.47 bps
3-month LIBOR	2.76375	-3.63 bps
2-yr Tsy	1.398	-22.02 bps
10-yrTsy	3.416	-11.05 bps
2-yr SwSpr	91.18	1.43 bps
10-yr SwSpr	71.50	0.50 bps
30-yr Conf Mtge	137.485	-5.80 bps
10-yr Gilt	4.335	-2.90 bps
10-yr Bund	3.733	-2.70 bps
10-yr JGB	1.275	-1.50 bps
Oil NMX WTI	\$109.36	-\$0.99
Gold Spot	\$999.15	\$4.07
\$/Euro	\$1.5661	0.18 %
Yen/\$	99.14	-1.50 %
Yen/Euro	155.28	-1.31 %

Stoltzfoos, Jeffrey

From: Woodall III, Samuel R. [WoodallS@sullcrom.com]

Sent: Friday, March 14, 2008 3:16 PM

To: Stoltzfoos, Jeffrey

Dodd Statement on JP Morgan, NY Fed Move to Help Bear Stearns
March 14, 2008

Senator Chris Dodd (D-CT), Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, today issued the following statement on reports that JP Morgan Chase and the New York Federal Reserve Bank will help Bear Stearns meet its financial obligations:

“This morning’s announcement of steps taken by the New York Fed to assist one of America’s largest investment banks is yet the latest example of the challenges facing our economy, our markets, and hard-working American citizens. While the impact of today’s and other recent steps of intervention taken by the Fed will not immediately be known, I firmly believe that additional, equally aggressive measures should be taken to provide liquidity to the markets and stability to the millions of homeowners and families facing the threat of foreclosure. Instead of cheerleading, and reacting with tepid measures, the Administration should act boldly, and decisively, to prevent the looming foreclosure crisis from having catastrophic consequences for our economy and our markets. Yesterday, I announced legislation that will provide real assistance to distressed homeowners, help stabilize our markets, and be a source of much-needed liquidity. The legislation, supported by leading economists on all sides of the ideological divide, would provide government insurance to refinance mortgage loans and create a floor for the price of securities in order to unfreeze the markets.”

This e-mail is sent by a law firm and contains information that may be privileged and confidential. If you are not the intended recipient, please delete the e-mail and notify us immediately.

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Friday, March 14, 2008 4:25 PM
To: DL_FYI
Subject: (BN) Fed Invokes Little-Used Authority to Aid Bear Stearns (

Fed Invokes Little-Used Authority to Aid Bear Stearns (Update3)
2008-03-14 15:38 (New York)

(Adds odds of interest-rate cut in 13th paragraph.)

By Scott Lanman

March 14 (Bloomberg) -- Federal Reserve Chairman Ben S. Bernanke invoked a law last used four decades ago to keep Bear Stearns Cos. from collapsing after the securities firm sought emergency funding from the central bank.

The loan to Bear Stearns required a vote today by the Fed's Board of Governors because the company isn't a bank, Fed staff officials said. The central bank is taking on the credit risk from Bear Stearns collateral, lending the funds through JPMorgan Chase & Co. because it's operationally simpler to accomplish than a direct loan, the staff said on condition of anonymity.

Bernanke took advantage of little-used parts of Fed law, added in the 1930s and last utilized in the 1960s, that allows it to lend to corporations and private partnerships with a special board vote. The Fed chief probably sought to stave off a deeper blow to the financial system from a Bear Stearns collapse, former Fed researcher Keith Hembre said.

"The Fed really doesn't have any obligation to help a non-bank aside from its role or responsibility to keep the financial markets functioning," said Hembre, who helps oversee \$107 billion as chief economist at FAF Advisors Inc. in Minneapolis.

"They made a judgment, probably an accurate one, that they're not going to function very well if you've got a full-blown crisis with a major Wall Street firm."

Liquidity Pledge

The Fed said in a statement that it will "continue to provide liquidity as necessary to promote the orderly functioning of the financial system," repeating reassurances the central bank has made often since credit strains arrived in August. The statement said the Fed Board unanimously approved the arrangement with JPMorgan and Bear Stearns.

The Fed Board, which met today at 9:15 a.m. Washington time, typically delegates such discount-window lending authority to its regional reserve banks when it comes to loans to banks.

"There's a clear realization among people both in the official sector and the financial markets that some of the institutions we have built over the last 100 years are not well adapted to the modern 21st century financial system," said former New York Fed research director Stephen Cecchetti. "A lot of what we've been seeing have been creative innovations to deal with problems that the institutions were not built to handle."

The senior staffers declined to describe how large the loan to Bear Stearns is, and whether a private-sector bailout was attempted first before the Fed extended credit through JPMorgan.

The staff officials said the Fed used its authorization under the law several times in the 1960s though didn't immediately have further details.

Market 'Challenges'

Treasury Secretary Henry Paulson, in a separate statement, said "there are challenges in our financial markets, and we continue to address them." Treasury is "working closely" with the Fed and the Securities and Exchange Commission.

"I appreciate the leadership of the Federal Reserve in enhancing the stability and orderliness of our markets," Paulson said. "Our financial system is flexible and resilient and I am confident that the efforts of regulators and market participants will minimize disruption to the system."

Robert Rubin, the former Treasury secretary who is now chairman of Citigroup Inc.'s executive committee, said at a conference today that the "risks have reached a point that the right thing is to act and act in a very serious way."

Bear Stearns shares plummeted as much as a record 53 percent on news of the bailout. The announcement, coupled with a report showing U.S. consumer prices were unchanged in February, led traders to place 50 percent odds that Fed policy makers will lower their benchmark interest rate by a full percentage point at their March 18 meeting, to 2 percent.

Unprecedented Reduction

A reduction of that size would be unprecedented since the overnight lending rate became the Fed's main policy tool around 1990, trumping the Jan. 22 emergency cut of 0.75 percentage point.

It's the first time since the financial turmoil intensified in August that Bernanke, 54, has publicly announced Fed assistance to a specific company instead of measures open to broader sets of banks or other financial institutions.

Most recently, the Fed on March 11 announced plans to lend \$200 billion in Treasuries to primary dealers in exchange for debt that includes mortgage-backed securities. Last week, the Fed increased funds available through its so-called Term Auction Facility, set up in December to lend funds to banks in exchange for a wide variety of collateral, including mortgage debt.

``What they're doing now is going to help, but I don't know that it will solve all the problems out there,'' said Thomas Garcia, managing director of Thornburg Investment Management in Santa Fe, New Mexico, which oversees \$50 billion.

Bear Stearns's liquidity problem ``definitely gives some doubt as to whether other firms are releasing all available information, and whether this credit crunch is really over,'' Garcia said.

Northern Rock

Bear Stearns isn't alone among financial institutions stung by the credit squeeze to be bailed out. The U.K. government was forced to nationalize Northern Rock Plc last month after the first run on a British bank in more than a century and take on 100 billion pounds (\$203 billion) in liabilities. Two German banks have also received emergency aid.

While U.S. authorities have been faster than their U.K. counterparts in announcing the rescue package for Bear Stearns, former Bank of England policy maker Willem Buiter says that doesn't make their course of action was the correct one.

``This creates the same moral hazard issues that we saw with Northern Rock,'' said Buiter, now a professor at the London School of Economics. ``This bank is being given access to public money, and we don't know what the terms are.''

--With reporting by Craig Torres, Vincent del Giudice, Matthew Benjamin and John Brinsley in Washington, Vivien Lou Chen in San Francisco and John Fraher in London. Editor: Daniel Moss, Christopher Wellisz.

To contact the reporter on this story:
Scott Lanman in Washington at +1-202-624-1934 or slanman@bloomberg.net;

To contact the editor responsible for this story:
Chris Anstey at +1-202-624-1972 or canstey@bloomberg.net

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Appleton, Jesse

From: McLaughlin, Brookly
Sent: Friday, March 14, 2008 4:32 PM
To: Steel, Robert; Ryan, Tony; Davis, Michele
Cc: Zuccarelli, Jennifer
Subject: FW: Heads up
Importance: High

From: Nester, John J. [mailto:NesterJ@sec.gov]
Sent: Friday, March 14, 2008 4:32 PM
To: Zuccarelli, Jennifer; David.W.Skidmore@frb.gov; Michelle.A.Smith@frb.gov; Garsson Jr, Robert; izabel@CFTC.gov; Calvin.Mitchell@ny.frb.org; andrew.williams@ny.frb.org
Cc: McLaughlin, Brookly; Davis, Michele
Subject: Heads up
Importance: High

SEC staff is will shortly issue the following statement in response to questions.

Statement of U.S. Securities and Exchange Commission Division of Trading and Markets Regarding The Bear Stearns Companies

FOR IMMEDIATE RELEASE
2008-xx

The decision by the Federal Reserve Bank of New York to provide The Bear Stearns Companies temporary funding through J.P. Morgan Chase today followed a significant deterioration in Bear Stearns' liquidity on Thursday. The Division of Trading and Markets has monitored both the capital and the liquidity of the firm on a daily basis in recent weeks. The purpose in doing so on a firm-wide basis has been to consider all potential impacts on the financial health of the two major U.S. registered broker-dealers and the other regulated entities in the Bear Stearns consolidated group.

As of its most recent capital calculation as of the end of February 2008, Bear Stearns' holding company capital exceeded relevant regulatory standards. According to the information supplied to the SEC by Bear Stearns as of Tuesday, March 11, the holding company had a substantial capital cushion. In addition, as of March 11, the firm had over \$17 billion in cash and unencumbered liquid assets.

Beginning on that day, however, and increasingly throughout the week, lenders and customers of Bear Stearns began to remove funds from the firm, despite its stable capital position. As a result, Bear Stearns' excess liquidity rapidly eroded.

The Division is continuing to monitor Bear Stearns' condition with a view to the safety of its regulated entities including its registered broker-dealers. The Division believes that Bear Stearns' registered broker-dealers remain in compliance with Commission capital rules.

The SEC also is working closely with the Department of the Treasury, the Federal Reserve, and the Federal Reserve Bank of New York to ensure that our regulatory

actions contribute to orderly and liquid markets.

Appleton, Jesse

From: Nason, David
Sent: Friday, March 14, 2008 5:40 PM
To: Steel, Robert; Ryan, Tony
Subject: FW: Bear Stearns

FYI - I reached out to the president of SIPC to get an update - I think it bears mentioning at the PWG meeting that there customer accounts appear to be appropriately segregated and their property does not appear to be threatened.

-----Original Message-----
From: Stephen P. Harbeck [mailto:sharbeck@sipc.org]
Sent: Friday, March 14, 2008 5:34 PM
To: Nason, David
Cc: Josephine Wang; Philip W. Carduck
Subject: Re: Bear Stearns

We are. In continuous contact with the SEC. The SEC has told us that customer assets are in a separate corporate entity from the firm's problem assets. The Trading and Markets people are at the firm now and will be there all weekend. It is the strong feeling that the customer accounts are a valuable asst which could be transferred proir to a need for SIPC.

As0to contingenct plans, we cannot commit to a law firm that SIPC will begin a case and without such a commitment no firm would agree to serve in the face of other possibly conflicting representatios. Fortunately, because he firm is in New York we have a number of options.

The bottom line is that we are confident no customer assets0 are missing. Even if the firm were to collapse, the model here, based upon history, is Drexel Birnham, which unwound under a Chapter 11 with SEC and SIPC permission, after demonstrating that all customer assts were intact.

I have briefed the Chairman on the case earlier today.

I can be reached over the weekend via email; my home phone is (b) (6). I can answer any other questions you may have.
Steve

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----- Original Message -----
From: David.Nason@do.treas.gov <David.Nason@do.treas.gov>
To: Stephen P. Harbeck
Sent: Fri Mar 14 17:08:49 2008
Subject:

Hi -

What are SIPC's contingency plans re Bear Sterns?

David G. Nason
Department of the Treasury
202.622.2610

Valentic, Marsha

From: Valentic, Marsha

Sent: Friday, March 14, 2008 6:12 PM

To: West, Christal

Subject: He is on the phone with Alan Schwartz - said he needs to take this call

***Marsha Valentic
Office of the Under Secretary
for Domestic Finance
Department of the Treasury
622-1703***

Valentic, Marsha

From: West, Christal
Sent: Friday, March 14, 2008 6:13 PM
To: Valentic, Marsha
Subject: RE: He is on the phone with Alan Schwartz - said he needs to take this call

of course

From: Valentic, Marsha
Sent: Friday, March 14, 2008 6:12 PM
To: West, Christal
Subject: He is on the phone with Alan Schwartz - said he needs to take this call

*Marsha Valentic
Office of the Under Secretary
for Domestic Finance
Department of the Treasury
622-1703*

Steel, Robert

From: Ryan, Tony
Sent: Friday, March 14, 2008 6:30 PM
To: 'patrick.m.parkinson@frb.gov'
Cc: 'sirrie@sec.gov'; Steel, Robert
Subject: Re: Money Funds Reduce Exposures to Bear Stearns

Thanks Pat. I will update and send next version after I get some feedback from Erik.

----- Original Message -----

From: Patrick.M.Parkinson@frb.gov <Patrick.M.Parkinson@frb.gov>
To: Ryan, Tony; Steel, Robert; SirriE@sec.gov <SirriE@sec.gov>
Sent: Fri Mar 14 18:23:42 2008
Subject: Fw: Money Funds Reduce Exposures to Bear Stearns

FYI.

----- Forwarded by Patrick M Parkinson/BOARD/FRS on 03/14/2008 06:22 PM

Referred to Federal Reserve Board

