

Valentic, Marsha

Subject: Conference call
Location: 202-927-2255 | PIN (b) (2)
Start: Sun 3/16/2008 4:30 PM
End: Sun 3/16/2008 5:00 PM
Show Time As: Tentative
Recurrence: (none)
Meeting Status: Not yet responded
Required Attendees: Steel, Robert; Nason, David; Ryan, Tony; Kashkari, Neel; Stoltzfoos, Jeffrey; Appleton, Jesse; Norton, Jeremiah; Hoyt, Robert

Steel, Robert

From: Steel, Robert
Sent: Sunday, March 16, 2008 6:44 PM
To: Ryan, Tony
Subject: Fw: DF cut of HMP's statement

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

From: Ryan, Tony
To: Davis, Michele; McLaughlin, Brookly; Zuccarelli, Jennifer
Cc: Steel, Robert; Foley, Trip; Nason, David; Norton, Jeremiah; Stoltzfoos, Jeffrey; Appleton, Jesse
Sent: Sun Mar 16 17:13:38 2008
Subject: DF cut of HMP's statement

Here's a draft..

Last Friday, I said that market participants are addressing challenges and I am pleased with recent developments. I appreciate the additional actions taken this evening by the Federal Reserve to enhance the stability, liquidity and orderliness of our markets.

Thanks..

Tony Ryan

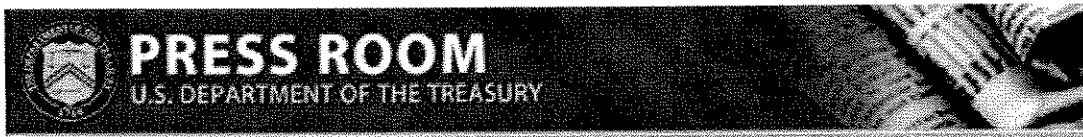
Assistant Secretary for Financial Markets

U.S. Department of the Treasury

1500 Pennsylvania Avenue NW

Washington, DC 20220

202-622-6081



March 16, 2008
HP-876

Statement by Treasury Secretary Paulson

Treasury Secretary Henry M. Paulson, Jr. released the following statement today:

"Last Friday, I said that market participants are addressing challenges and I am pleased with recent developments. I appreciate the additional actions taken this evening by the Federal Reserve to enhance the stability, liquidity and orderliness of our markets."

-30-

Scogin, Matthew

From: Market Room
Sent: Sunday, March 16, 2008 7:15 PM
Subject: JP Morgan buys Bear for \$2/share - Fed cuts Discount Rate and Opens Window to Primary Dealers

- JP Morgan agreed to buy Bear Stearns for \$2/share or roughly \$236.18 million.
- The deal will close in the second quarter and JPMorgan will guarantee the trading obligations of Bear Stearns
- Bear shareholders will get roughly 0.05 JPM shares for each Bear share
- The Fed will 'fund up to \$30billion of Bear's less liquid assets'
- Fed effectively allowed investment banks to borrow from the Discount Window while cutting the Discount Rate to 3.25% from 3.50% (or 25bps over the current Fed Funds target rate)
- In addition, the Fed increased the maximum term for discount window borrowing to 90 days from 30-days - this change will be in effect for at least the next 6-months

U.S. Fed Statement on Initiatives to Bolster 'Liquidity:' Text
2008-03-16 19:14 (New York)

March 16 (Bloomberg) -- The following is a reformatted version of a statement the Federal Reserve released today.

``The Federal Reserve on Sunday announced two initiatives designed to bolster market liquidity and promote orderly market functioning. Liquid, well-functioning markets are essential for the promotion of economic growth.

First, the Federal Reserve Board voted unanimously to authorize the Federal Reserve Bank of New York to create a lending facility to improve the ability of primary dealers to provide financing to participants in securitization markets. This facility will be available for business on Monday, March 17. It will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment-grade debt securities. The interest rate charged on such credit will be the same as the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

Second, the Federal Reserve Board unanimously approved a request by the Federal Reserve Bank of New York to decrease the primary credit rate from 3-1/2 percent to 3 1/4 percent, effective immediately. This step lowers the spread of the primary credit rate over the Federal Open Market Committee's target federal funds rate to 1/4 percentage point. The Board also approved an increase in the maximum maturity of primary credit loans to 90 days from 30 days.

The Board also approved the financing arrangement announced by JPMorgan Chase & Co. and The Bear Stearns Companies Inc.''

--Washington newsroom. Editor: Brendan Murray

Stoltzfoos, Jeffrey

From: Stoltzfoos, Jeffrey
Sent: Sunday, March 16, 2008 7:27 PM
To: Steel, Robert; Nason, David; Ryan, Tony; Norton, Jeremiah; Appleton, Jesse; Abbott, Matthew; Foley, Trip
Subject: Blitzer / Paulson Transcript (five questions about Bear Stearns bailout)

BLITZER: Mr. Secretary, thanks very much for joining us. Welcome back to "Late Edition."

PAULSON: Wolf, it's good to be here.

BLITZER: These are tough economic times right now. The last time we spoke, on January 27th, you insisted the country was not yet in recession, was not in recession. Are you still convinced of that?

PAULSON: Wolf, the last time I said the growth had slowed down. I thought we were going to grow slowly. The risks are to the downside. I'm not focused, right now, on what you call it. Economists will argue about this for months and months.

We know the economy has slowed down. The American people knows it has slowed down. So the important thing is, what do we do about it?

And we have an economic stimulus plan. It was passed early, very early, right after a third quarter when we...

BLITZER: Is that enough to get the job done?

PAULSON: Well, it is going to make a real difference.

BLITZER: The checks aren't even going to be mailed out until mid-May, right?

PAULSON: Well, let me just say, the -- we are going to be beginning pumping money into the economy the beginning of May, you know, in terms of electronic payments and checks by mid-May.

And I will tell you, that is doing something, because it is going to be largely out by the end of the summer, the checks.

BLITZER: Will that be enough?

That is the question. Is there any addition stimulus that you need to do?

PAULSON: Well, that plan was sized so as to make a difference, but not go so far we're going to jeopardize the long-term priorities, the budget issues and so on.

But there are a number of things we are working on. We are working hard to prevent avoidable foreclosures. Housing is the biggest risk to the downside.

We are working hard to minimize the spillover from the financial market's turbulence into the real economy.

So we have got a lot of things we are working on. And I think that's...

BLITZER: All right. I'm going to go through those specific points with you, because they are critical.

I just want to point out, Warren Buffett said, on March 3rd: "I would say, by any common sense definition, we are in a recession."

And in this poll that The Wall Street Journal released the other day, asking 51 economic experts whether or not the United States economy is in a recession, 71 percent of them said yes; 29 percent say no.

But, at this point, I just want to be precise, while the technical definition that economists use for recession has not been met, two successive quarters, six months, in other words, of negative economic growth, at this point you are not saying the country is or is not in recession?

PAULSON: I'm not focused on that. I'm -- we know that the economy has slowed down. We know it. Everyone knows it. Warren Buffett knows it. The American people know it.

The critical issue is, what are we going to do about it? And we have been on this one early, Wolf.

BLITZER: Let's talk about jobs, because jobs are not going in the right direction. So far, in January and February this year, 63,000 jobs lost in February. That brings it up to 85,000 jobs lost for the first two months of this year, no job creation.

How worried are you about that specific aspect of the economy?

PAULSON: Well, it's not welcome news, but remember, we had 52 months where we added jobs to the economy. Unemployment is 4.8 percent today, well below any kind of historical average. So jobs are important and the stimulus package is aimed at that.

If the stimulus package works the way economists are projecting it's going to work, it will add 500,000 to 600,000 additional jobs this year.

BLITZER: On foreclosures -- home foreclosures, people losing their homes, February 2007, under 140,000 foreclosures; February 2008, 223,651. And there is enormous fear, as you know, that those numbers are only going to go up in the coming months.

PAULSON: Wolf, again, we have been focused on that early. And I'd just take a little bit longer on this answer, because we had a number of years where there was unsustainable appreciation in home prices: California, Florida, Arizona, Nevada.

And we're seeing a correction right now. But even in those good years, where the markets were going up, there were 650,000 foreclosures a year.

Last year, roughly 1.5 million foreclosures; some people, this year, projecting 2 million foreclosures. We're all over this.

But I want to say to you that most Americans, 92 percent of the homeowners are making their mortgage payment every month on time. Foreclosures are 2 percent.

BLITZER: Is there anything else the Treasury Department should be doing right now to deal with this enormous problem of people losing their homes?

PAULSON: Well, what we are doing is, first of all, we are working with Congress to get them to pass legislation that's up there that is going to be critical.

We have asked for FHA modernization legislation which will help provide financing to 300,000 subprime borrowers who are struggling making a mortgage payment.

The House has passed it. The Senate has passed it. But so far, they have been unable to get together and give the president legislation to sign.

We're -- I would say, GSE oversight legislation is important. Fannie Mae and Freddie Mac are critical. They...

BLITZER: But let me just interrupt, because, I mean, you say 300,000, but if you say they're going to be 2 million foreclosures this year, that's not necessarily going to deal with the whole problem.

PAULSON: Well, let me mention -- I'm going to say something about Freddie and Fannie, but let me come back to your question.

The issue that we're all focused on is the subprime area. Forty percent of the foreclosures that we have had so

far, in the third and fourth quarter, were in adjustable rate subprime mortgages.

That's 6.5 percent of the mortgage total, but 40 percent of the foreclosures. We have a wave of mortgage resets coming, mortgage -- borrowers who are going to have their interest rate go up.

We have a program designed to deal with that. And we have the industry come together. And if you are a mortgage -- a subprime mortgage holder, and you can make your initial payment, and you can't afford the reset, and you want to stay in your home, you are going to get a modification or a refinancing. That's the way the program works.

BLITZER: Once it's passed by Congress.

PAULSON: Well, no. This -- no, I'm talking about a program that the administration put in place, working with the industry. It took no legislation from Congress. We've had -- a million people so far have help as a result of this program, since July. Modifications...

BLITZER: So you think that there is some light at the end of this foreclosure... PAULSON: I'm telling you that there is no silver bullet to keep home prices from going down or to prevent all foreclosures. But we've got programs in place that are working, that are making a difference, and are going to continue to make a difference.

BLITZER: What about the value of the U.S. dollar?

I'll give you some statistics right now. It's hit an all-time low against the euro. It sank below 99 yen. That's the weakest since 1995. It's plunged below 1 Swiss franc for the first time ever.

What, if anything, are you doing about the value of the U.S. dollar, which seems to be falling rather rapidly?

PAULSON: Wolf, you've heard me before, I believe very strongly that this -- that the strong dollar is in our nation's interests. We have a strong dollar policy. I make the points repeatedly that every economy goes through some ups and downs.

We're going through a tough patch right now in our economy.

PAULSON: Our long-term fundamentals, I think, are strong. And they compare favorably throughout the world. When you look at the long-term economic fundamentals, those will be reflected in the value of our currency.

And what are we doing?

We have policies in place, and we're advocating policies to enhance confidence in the U.S. economy. And what are those policies?

They're pro-growth tax policies. They're being open to foreign investment. We welcome foreign investment. We welcome trade. We want to pass trade agreements like the Colombia Free Trade Agreement.

And so I have great confidence in our economy, in the long-term fundamentals.

There's a lot of discussion about what's going on in the short term. But trust me. Our economy is structurally sound, and our long-term economic fundamentals compare favorably with other major nations around the world.

BLITZER: So, a year from now, you think the dollar will be stronger, versus the euro, for example?

PAULSON: I've said what I'm going to say on that. I have said that we advocate policies that are pro-growth policies, that enhance confidence in our economy. And we believe a strong dollar is in our nation's interest.

BLITZER: Tell the taxpayers who are watching right now why you decided to bail out, in effect, Bear Stearns, the fifth-largest investment house in the United States, which, only a couple of days ago, seemed to be on the verge of collapse, primarily because of its investments in these mortgages, which are obviously a disaster.

PAULSON: Well, to -- again, to step back, I have great, great confidence in our capital markets and in our financial institutions. Our financial institutions, banks and investment banks, are strong. Our capital markets are resilient. They're efficient. They're flexible.

Foley, Trip

From: McLaughlin, Brookly
Sent: Sunday, March 16, 2008 8:14 PM
To: _DL_FYI
Subject: AP - JPMorgan says it will buy ailing Bear Stearns for \$2 a share, or \$236.2 million

JPMorgan says it will buy ailing Bear Stearns for \$2 a share, or \$236.2 million
APRS000020080317e43h0001r By JOE BEL BRUNO and MADLEN READ AP Business Writers
1048 Words
17 March 2008
00:09 GMT
Associated Press Newswires
English
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NEW YORK (AP) - JPMorgan Chase said Sunday it will acquire rival Bear Stearns in a deal valued at \$236.2 million (euro151.79 million) -- or \$2 a share -- a stunning collapse for one of the world's largest and most venerable investment banks.

The last-minute buyout was aimed at averting a Bear Stearns bankruptcy and a spreading crisis of confidence in the global financial system.

The Federal Reserve and the U.S. government swiftly approved the all-stock deal, showing the urgency of completing the deal before world markets opened.

Bear Stearns shares close Friday at \$30 a share. At their peak, the shares traded at \$159.36.

The Fed will provide special financing to JPMorgan Chase for the deal, JPMorgan Chase said. The central bank has agreed to fund up to \$30 billion (euro19.28 billion) of Bear Stearns' less liquid assets. Risky bets on securities tied to subprime mortgages -- loans given to customers with poor credit history -- crippled Bear Stearns, the nations' fifth-largest investment bank.

At almost the same time as the deal for control of Bear Stearns was announced, the Federal Reserve said it approved a cut in its lending rate to banks to 3.25 percent from 3.50 percent and created another lending facility for big investment banks. The central bank's official meeting is on Tuesday. Before the emergency move to lower the discount rate, which is the rate at which banks lend each other money, the Fed was widely expected to again cut its headline rate by as much as a full point to 2 percent.

The announcements from both the Fed and JPMorgan come ahead of what some analysts expected to be a brutal day for global stocks. Already, before the announcements, New Zealand's markets opened drastically lower -- then began to recover after the deal was unveiled.

"This is going to go down in very historic terms," said Peter Dunay, chief investment strategist for New York-based Meridian Equity Partners. "This is about credit being overextended, and how bad it is for major financial institutions and for individuals. This is why we're probably heading into a recession."

A collapse of Bear Stearns could have created a further crisis of confidence in world financial markets amid a deepening credit crunch. JPMorgan's acquisition of Bear Stearns represents roughly 1 percent of what the investment bank was worth just 16 days ago.

The deal marked a 93.3 percent discount to Bear Stearns' market capitalization as of Friday, and roughly a 98.8 percent discount to its book value as of Feb. 29.

"The past week has been an incredibly difficult time for Bear Stearns," said Bear Stearns Chief Executive Alan Schwartz in a statement. "This represents the best outcome for all of our constituencies based upon the current circumstances."

Wall Street analysts say the bid to rescue Bear Stearns was more than just saving one of the world's largest investments bank -- it was a prop for the U.S. economy and the global

financial system. An outright collapse could cause huge losses for banks, hedge funds and other investors to which Bear Stearns is connected.

The government, led by the Treasury Department and the Fed, was reported to have closely monitored the talks between JPMorgan and Bear Stearns. Treasury Secretary Henry Paulson, former chief executive of Goldman Sachs Group Inc., "has been in nearly continuous consultations all weekend," said Brookly McLaughlin, a Treasury Department spokeswoman.

After days of denials that it had liquidity problems, Bear was forced into a JPMorgan-led, government-backed bailout on Friday. The arrangement, the first of its kind since the 1930s, resulted in Bear getting a 28-day loan from JPMorgan with the government's guarantee that JPMorgan would not suffer any losses on the deal.

This is not the first time Bear Stearns has earned a place in Wall Street history. A decade ago, Bear Stearns refused to help bail out a hedge fund that was deemed "too big to fail." On Friday, the tables had turned, with the now-struggling investment bank in need of the same kind of aid.

Bear Stearns was founded in 1923 and in recent years was best known for its aggressive investing in mortgage-backed securities -- and what was once a cash cow turned into the investment bank's undoing.

In June, two Bear-managed hedge funds worth billions of dollars collapsed. The funds were heavily invested in securities backed by subprime mortgages. Until that point, subprime mortgage-backed securities were immensely popular with investors because of their profitability.

The funds' collapse and subsequent problems in the credit markets called into question Bear Stearns' ability to manage its own risk and the leadership ability of then-Chief Executive James Cayne. Critics of the company said Cayne spent too much time away from the office last year playing golf and bridge as the problems unfolded.

Cayne is the same executive who refused to let Bear Stearns provide support as part of a Federal Reserve-led plan to rescue Long-Term Capital Management in 1998. His reticence was said to deeply anger some of his fellow Wall Street CEOs, and the episode came up every time Bear was reported to be in trouble in recent months.

Cayne took over from the legendary Alan "Ace" Greenberg in 1993. Greenberg joined Bear Stearns as a clerk, working his way up through the ranks to eventually take over as CEO in 1978. Greenberg was known for his irreverent style, and his regular memos to employees were turned into a book called "Memos from the Chairman."

Before Greenberg's ascendancy to CEO, Bear Stearns began to expand from its New York roots throughout the 1950s and 1960s, opening international offices and expanding its U.S. operations.

The company was opened in 1923 as an equity trading shop. Today, it has subsidiaries providing a wide array of financial services products for individuals, corporations, institutions and governments. Generally, it provides capital markets, wealth management and global clearing services to its customers.

AP Business Writers Jeannine Aversa in Washington and Stephen Bernard contributed to this story.

Sent from my BlackBerry Wireless Handheld

Foley, Trip

From: McLaughlin, Brookly
Sent: Sunday, March 16, 2008 8:17 PM
To: DL FYI
Subject: Fw: NYT - JPMorgan Acts to Buy Ailing Bear Stearns at Huge Discount

Sent from my BlackBerry Wireless Handheld

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

From: Brookly <brooklymc@yahoo.com>
To: McLaughlin, Brookly
Sent: Sun Mar 16 20:14:48 2008
Subject: NYT - JPMorgan Acts to Buy Ailing Bear Stearns at Huge Discount

March 16, 2008

NYT - JPMorgan Acts to Buy Ailing Bear Stearns at Huge Discount By ANDREW ROSS SORKIN and LANDON THOMAS Jr.

Bear Stearns, facing collapse because of the mortgage crisis, agreed Sunday evening to be bought by JPMorgan Chase for a bargain-basement price of less than \$250 million, the two companies announced.

The all-stock deal values Bear Stearns at about \$2 a share, based on JPMorgan's closing stock price on Friday, the companies said. In contrast, shares of Bear Stearns, which fell \$27 on Friday, closed at \$30.

A deal for Bear Stearns will end the independence of one of Wall Street's most storied firms and help halt a sweeping panic that set in at the end of last week, causing Bear Stearns's stock to swoon 47 percent on Friday.

JPMorgan said it was guaranteeing the trading obligations of Bear Stearns and its subsidiaries, effective immediately. "JPMorgan Chase stands behind Bear Stearns," Jamie Dimon, JPMorgan's chief executive, said in a statement. "Bear Stearns's clients and counterparties should feel secure that JPMorgan is guaranteeing Bear Stearns's counterparty risk."

The talks between the companies, which were overseen by the Federal Reserve and the Treasury Department because of their potential effect on financial markets, were rushed in an effort to reach a deal before stock markets open in Asia at 8 p.m. Eastern time.

The companies' announcement said that the Federal Reserve would provide special financing in connection with the transaction and that the Fed had agreed to fund up to \$30 billion of Bear Stearns's "less-liquid assets."

The announcement of a deal came after Bear Stearns's chief executive, Alan D. Schwartz, and other top Bear executives huddled in all-day meetings at the firm's Madison Avenue headquarters, trying desperately to persuade skeptical potential suitors that the firm was worth buying — even at a price that represents a huge discount to its book value, considered the truest measure of the financial health of a banking institution.

"The past week has been an incredibly difficult time for Bear Stearns," Mr. Schwartz said in the companies' statement. " This transaction represents the best outcome for all of our constituencies based upon the current circumstances."

On Friday, JPMorgan, with the backing of the Federal Reserve Bank of New York, said it would provide financing in order to keep Bear Stearns solvent as lenders and clients rushed to pull their money out.

JPMorgan's bid of \$2 a share for Bear Stearns represents a gigantic 97.5 percent discount

to the \$80 book value that Bear Stearns has reported, reflecting the broad view that the fallout from the credit crunch has permanently devastated Bear's core mortgage operations.

JPMorgan appears to have concluded that the business of one of Wall Street's oldest investment banks is worth far less than the value of the firm's Midtown Manhattan skyscraper, which is probably worth at least \$1 billion.

Wall Street analysts say the sudden collapse of Bear Stearns is not likely to set off a wave of consolidation in the beleaguered financial services industry. That is because the same fear that has paralyzed the markets has paralyzed buyers.

There is little faith in the assigned or "marked" value of so many assets, including but not limited to mortgage-related securities. In fact, the experience of Bear Stearns proves that it is confidence, not capital, that topples even the savviest financial institutions.

"Once you have a run on the bank you are in a death spiral and your assets become worthless," said David Trone, a brokerage analyst at Fox Pitt Kelton. "If JPMorgan can pull off a rescue, the assets can be saved," he argued. But if not, the assets may lose their value.

Bear Stearns's hedge fund servicing business and its clearing operations have traditionally been profitable operations, though they have suffered in recent months as investors and lenders have lost confidence in Bear.

JPMorgan, the private equity investor J.C. Flowers and others have been poring through Bear Stearns's books since Friday, with the assistance of Samuel Molinaro, Bear's chief financial officer, and senior members from the firm's bond and mortgage operations.

Throughout much of its history, Bear Stearns has masterfully persuaded the market that its business — narrowly focused on mortgage finance — was worth more than it actually was. To some degree this trick has been a testament to the coy gamesmanship of two of its past leaders, Alan "Ace" Greenberg and James E. Cayne.

Both men are devout bridge players, and Mr. Greenberg is an amateur magician to boot, so they are well schooled in the art of not showing their hand. Mr. Cayne's hint eight years back — that he would sell the firm only for four times its book value — was even then a flight of financial fancy.

Wall Street investment banks rarely command such a premium to their book value, given the inherent and unpredictable risks of their business. Nevertheless, Mr. Cayne and Mr. Greenberg were adept at spreading the view that Bear Stearns was constantly being pursued by buyers as varied as European commercial banks and even banks like JPMorgan, though it was never clear that any of these talks reached a serious level.

But Bear Stearns's quirky culture and the high pay it awarded its senior executives made it a difficult fit for larger, more staid institutions, and it always seemed that Mr. Greenberg and Mr. Cayne were having too much fun running their business to sell it to an outsider.

Mr. Schwartz, a longtime investment banker whose approach to deal-making is more pragmatic and results-oriented than his predecessor, was forced to race against the clock to seal a deal that salvages any value for shellshocked Bear Stearns employees, who own more than 30 percent of the firm, and its shareholders.

"Banks and brokerages are a house of cards built on the confidence of clients, creditors and counterparties," Mr. Trone said. "If you take chunks out of that confidence, things can go awry pretty quickly. It could happen to any one of the brokers."

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Foley, Trip

From: McLaughlin, Brookly
Sent: Sunday, March 16, 2008 8:20 PM
To: _DL_FYI
Subject: Fw: FT - Paulson ready for further stability measures

Sent from my BlackBerry Wireless Handheld

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

From: Brookly <brooklymc@yahoo.com>
To: McLaughlin, Brookly
Sent: Sun Mar 16 20:19:31 2008
Subject: FT - Paulson ready for further stability measures

FT - Paulson ready for further stability measures By Demetri Sevastopulo in Washington
Published: March 16 2008 21:42 | Last updated: March
16 2008 21:42

The US Treasury secretary on Sunday defended the Federal Reserve's decision to rescue Bear Stearns and said the government would take whatever action was necessary to ensure the stability of the financial system.

Hank Paulson said he was convinced the Fed's move to provide emergency funding to Bear Stearns last week was the "right decision" even though he recognised the risk of moral hazard.

"You need to balance these two considerations," he told Fox News. "At this time, given where we are and given how important it is to minimise disruptions in our capital markets and how important it is to protect the economy??.?.?this was the right decision."

Mr Paulson declined to say whether the government would be prepared to rescue other investment banks that ran into similar difficulties.

"The government is prepared to do what it takes to maintain the stability of our financial system," he said. "That's our priority."

Mr Paulson acknowledged the US economy had slowed but declined to say whether he thought it was in a recession. While stressing the government was taking steps to help the economy, there were limits to what the administration could do.

"Where there are excesses [as] we've seen in the housing market, a correction??.?.?is inevitable," he said.

Mr Paulson said the administration had been working hard to create programmes, such as the \$170bn (£84bn) stimulus package, to help the economy.

"Are they going to prevent the inevitable correction in housing prices? No. But we're working hard on that," Mr Paulson said.

He rejected calls for a second stimulus package and expressed opposition to a Democratic proposal to allocate public money for intervention in the housing market. "All the [proposals] I've seen, which call for much more government intervention, raise more problems and do more harm than they would do good," Mr Paulson told ABC News.

George W. Bush, the US president, said last week the stimulus package should be given a chance to work before Congress considered further action, saying:
"It's important not to overcorrect because when you overcorrect you end up in a ditch."

Pressed on several networks about the weakness of the US dollar, Mr Paulson said the administration maintained a "strong dollar" policy, and stressed that efforts to shore up

the economy would support the currency in the long term.

"Our economy, like any other, has got its ups and downs. We've repeatedly said that our long-term economic fundamentals are strong. And I know they are, and that they're going to be reflected in the value of our currency."

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[_ylt=Ahu06i62sR8HDtDypao8Wcj9tAcJ](http://mobile.yahoo.com/;_ylt=Ahu06i62sR8HDtDypao8Wcj9tAcJ)

We've been going through turmoil in the capital markets for a while.

BLITZER: Because nobody saw Bear Stearns... PAULSON: We -- I'll say this, that, from the beginning, I have said, as we work through this period, if this was like other times in the past, there are going to be bumps in the road. There are going to be unpleasant surprises. You are going to find that an institution or so has problems. And when they do have problems, you work to deal with it.

BLITZER: Why did you bail out Bear Stearns?

PAULSON: OK. Now, I -- first of all, there are ongoing discussions right now. I've been on the phone for a couple of days straight, throughout the weekend. But people are going to need to look and see what -- and I'm not going to project right now what that outcome of that situation is.

But, to talk about it more generally, I'm as aware as anyone is of moral hazard. I'm also aware of the importance of keeping our economy strong, of orderly capital markets, of the stability of the financial system doing things that promote that orderliness and minimize the disruption. And we made -- to me, this was not a difficult decision...

BLITZER: To help Bear Stearns?

PAULSON: I really support the Fed's work here. To me, this was not difficult because the priority, at a time like this, has got to be the stability of our financial system and minimizing the likelihood that this disruption spills over into the real economy.

BLITZER: Let me rephrase the question then. If you wouldn't have bailed out Bear Stearns, would there have been a problem with Goldman Sachs, your former company, or J.P. Morgan, or some of the other huge investment houses?

PAULSON: I will repeat what I've said. Our financial institutions are strong. Our investment banks are strong. Our banks are strong. They are going to be strong for many, many years. I believe our capital markets are the envy of the world. They are flexible. They're innovative. They put capital behind people and ideas. They promote growth.

And I believe it's also -- the way in which, in our country, we respond to deal with issues when they come up, I think, is also commendable. So...

BLITZER: And -- because we're almost out of time, but very quickly, if you wouldn't have bailed out Bear Stearns, what would have happened?

PAULSON: Wolf, I'm not going to speculate about what-ifs. I'm just going to say our clear priority, right now, our number one priority, with everything we are doing in the economic arena, is to minimize instability, minimize spillover into the real economy. And I think that is pretty clear from the actions you have seen the government take.

BLITZER: Secretary Paulson, you have got a huge problem on your shoulders right now. Good luck.

PAULSON: Thank you.

Foley, Trip

From: Market Room
Sent: Sunday, March 16, 2008 8:26 PM
Subject: Market Update - Dollar weakness, yields and equities lower

FYI – please see update below

- Dollar weakened early in the Asian session, came off its weakest levels on the Bear/JPM and Fed announcements but is now trading down 1.27% against the yen to ¥ 97.80 and down 0.52% against the euro to \$1.5755.
- Asian equities opened lower with the Nikkei down 3.23% led by exporters and financial firms. U.S. equity futures are broadly lower, with S&P futures down 1.x08%
- Sovereign yields are broadly lower with 10-yr JGBs down 4bps to 1.235%. The U.S. Treasury curve is steeper with 2-year notes 9bps lower and 10-yr notes 5bps lower.
- In a conference call, JPMorgan's CFO noted the Bear deal will take approximately 90 days to close and will add \$1bn in revenue after 12-18months with strong prime brokerage and clearing businesses

Nikkei	11838.07	-3.43	%
2-yr Tsy	1.357	-12.21	bps
10-yrTsy	3.395	-7.65	bps
2-yr SwSpr	81.50	-9.88	bps
10-yr SwSpr	65.60	-5.30	bps
30-yr Conf Mtge	136.845	-6.44	bps
10-yr Gilt	4.328	-3.60	bps
10-yr Bund	3.732	-2.80	bps
10-yr JGB	1.22	-5.50	bps
Oil NMX WTI	\$110.18	-\$0.03	
Gold Spot	\$1,017.25	\$14.53	
\$/Euro	\$1.5762	0.57	%
Yen/\$	97.9	-1.36	%
Yen/Euro	154.305	-0.73	%

Foley, Trip

From: McLaughlin, Brookly
Sent: Sunday, March 16, 2008 8:28 PM
To: _DL_FYI
Subject: Fw: Wash Post - Paulson Warns of Limits to Propping Up Economy

Sent from my BlackBerry Wireless Handheld

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

From: Brookly <brooklymc@yahoo.com>
To: McLaughlin, Brookly
Sent: Sun Mar 16 20:26:53 2008
Subject: Wash Post - Paulson Warns of Limits to Propping Up Economy

Wash Post - Paulson Warns of Limits to Propping Up Economy By Zachary A. Goldfarb

Treasury Secretary Henry M. Paulson Jr. said today that there are limits to what the government can do to contain the unfolding economic downturn, but he defended the steps taken to stimulate the economy and stabilize the financial markets.

"When there are excesses, excesses we've seen in the housing market, a correction there is inevitable.

You're going to see a correction. Can we outlaw the forces of gravity? You know, how much can government do?" Paulson said on "Fox News Sunday. "But this administration has been focused on this."

Paulson stood by the decision last week by the Federal Reserve to help bail out investment bank Bear Stearns.

"I think we made the right decision. I think the Federal Reserve made the right decision here," Paulson said.

Paulson added that the financial markets remain strong but that the government "is prepared to do what it takes to maintain the stability of our financial system."

The treasury secretary appeared on three Sunday talk shows after another brutal week for the stock market and a growing consensus among economists that the nation is in a recession. The Bush administration has taken steps to prop up the economy, but President Bush has warned against the government intervening too much in the private economy.

Critics say the administration has done too little, too late, and some have asked why the government is spending billions to prop up banks instead of to do more to help Americans whose homes are going into foreclosure. Paulson responded to such views by saying the administration is "at the right spot" in offering assistance to these homeowners. On ABC's "This Week,"

he cited statistics indicating that 92 percent of homeowners are making their mortgage payments on time each month.

House Speaker Nancy Pelosi (D) disagreed with Paulson, saying "I think that much of what the administration has done has been too late."

The debate over the state of the U.S. economy spilled into discussions among advisers to the presidential candidates.

On CNN's "Late Edition," Gene Sperling, of the Clinton campaign, and Douglas Holtz-Eakin, of the McCain campaign, agreed the economy was facing serious threats.

Sterling said the economy probably is in recession.

Holtz-Eakin would not go that far, but acknowledged, "it's really tough out there."

Holtz-Eakin criticized the plans of the Democratic

contenders: "We need more capital into our banking systems, so that these firms have a good foundation.

At exactly that moment when we put capital in, if you do the right thing economically, Senators Clinton and Obama would say thank you by hitting them as hard as they can with the tax code."

Trying to knock down arguments that Clinton was a tax raiser, Sperling argued that Clinton is not in favor of tax rates going up during a recession. But he added that the Bush tax cuts should be allowed to expire in 2011. "So the only real difference between Senator Clinton and Senator McCain is a big one. It is, after 2011 and beyond, should we spend another \$100 billion just for tax cuts for the well off?" he said.

Amid the economic discussions, some guests were quizzed about potential risk to the Democratic Party as its presidential nomination campaign drags onto into the spring and possible summer.

Pelosi said she thinks "the tone could be improved. I definitely do." Clinton and Obama's "people are going at each other," she added. "And I think that that's wearing out. I mean, I don't think people are interested in that."

Pelosi predicted, however, "Before we go to the convention, we will have a nominee. We're going to that convention unified."

She repeated her warning that if superdelegates at the convention overturn what happened in the state-by-state elections, "it would be harmful to the Democratic Party."

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_ylt=Ahu06i62sR8HDtDypao8Wcj9tAcJ

Smith, Bernetta

From: Kashkari, Neel
Sent: Sunday, March 16, 2008 8:57 PM
To: Steel, Robert
Subject: Re:

Yup that's it

----- Original Message -----
From: Steel, Robert
To: Kashkari, Neel
Sent: Sun Mar 16 20:55:48 2008
Subject: Re:

Steve Black..

----- Original Message -----
From: Kashkari, Neel
To: Steel, Robert
Sent: Sun Mar 16 20:54:46 2008
Subject:

JPM IBD head said hello to you. Forgot his name...

Foley, Trip

From: Foley, Trip
Sent: Sunday, March 16, 2008 9:07 PM
To: (b) (6) @gmail.com'
Subject: Fw: GS Skinny:Headline

Attachments: ATT4351020.gif; ATT4351019.gif; ATT4351018.gif

Trip Foley
Department of the Treasury
202-622-1258
trip.foley@do.treas.gov

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

From: GS US Economics Research <GSUSEconomicsResearch@ny.email.gs.com>
Sent: Sun Mar 16 20:01:37 2008
Subject: GS Skinny:Headline



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(371 B)

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ATT4351019.gif (2
KB)

ma

Sachs US Economic Research



ATT4351018.gif
(773 B)

S Skinny:Headline

March 16, 2008

BOTTOM LINE: Federal Reserve continues efforts to shore up liquidity in the financial markets, cutting discount rate by 25bp to 3.25%, giving primary dealers access to an overnight lending facility patterned after the discount window, and extending loan terms on primary discount credit to as much as 90 days from 30 days previously.

MAIN POINTS:

1. Tonight the Federal Reserve announced changes to its discount rate policies and related lending issues. Specifically, the Board approved a 25-basis-point cut in the discount rate on primary credit on application from the Federal Reserve Bank of New York. More importantly, the Board also authorized the New York Bank to "create a facility," termed the Primary Dealer Credit Facility, patterned after the discount window for the purpose of making overnight loans to primary dealers against a "broad range of investment-grade" collateral. The Board also approved an extension of the maximum maturity of loans extended under the primary credit program of the discount window to 90 days from the current maximum of 30 days. These measures will all take effect tomorrow morning.

2. These steps are the latest in an ongoing effort by the Federal Reserve, acting in its capacity of lender of last resort, to shore up liquidity in the financial markets. In essence, they generalize to the primary dealer community the extraordinary use of the discount window made available on Friday to Bear Stearns, which has since arranged a sale

to JP Morgan Chase, and they make credit available at lower cost and for longer terms to borrowers at the discount window. We interpret these measures as an effort to get "ahead of the curve" on the stresses and dislocations currently afflicting markets. Note in this respect that the announcement preceded the open of trading in the Tokyo Stock Exchange, signifying that Fed officials see these problems as global in nature.

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Disclosures applicable to research with respect to issuers, if any, mentioned herein, are available through your Goldman Sachs representative or at
<http://www.gs.com/research/hedge.html>

Scogin, Matthew

From: Market Room
Sent: Sunday, March 16, 2008 9:58 PM
Subject: Update - Dollar and global equities weaker on the back of BearStearns/Fed announcements

Initial interpretations are fairly negative on JP's purchase of Bear Stearns, with the general sentiment noting that if there was no "smoking gun" on Bear's balance sheet and JP only paid \$2 dollar per share, then what are other US investment banks worth? This has led the dollar to decline broadly, but most sharply against the yen and swiss franc, which have tended to be used as funding currencies given their low nominal interest rates and have outperformed in times of sharp deleveraging.

Trading conditions in currency and fixed income markets are thin and a bit choppy with bid/ask spreads modestly wider than normal.

In terms of market reaction to the Fed's policy actions, so far not that much with most citing that action signals the Fed realizes how severe the problem is. Implied rates on Eurodollar interest rate futures are down sharply and there is greater speculation that the FOMC could cut as much as 100 bps at its meeting on Tuesday. Currently 75 basis points is fully priced in with about a 50% chance of a 100 bps rate cut on Tuesday.

Nikkei	11857.72	-3.14	%
Kospi	1565.37	-2.18	%
S&P Futures	1263.70	-2.27	%
2-yr Tsy	1.316	-15.44	bps
10-yrTsy	3.352	-11.55	bps
2-yr SwSpr	80.75	-9.75	bps
10-yr SwSpr	64.10	-6.70	bps
10-yr Gilt	4.328	-3.60	bps
10-yr Bund	3.732	-2.80	bps
10-yr JGB	1.255	-2.00	bps

Oil NMX WTI	\$110.07	-\$0.12	
Gold Spot	\$1,028.45	\$25.15	
\$/Euro	\$1.5833	1.02	%
Yen/\$	97.025	-2.12	%
Yen/Euro	153.61	-1.09	%
CHF/\$	0.9763	-2.20	%

*PAULSON SAYS FED MOVES 'ENHANCE' MARKET STABILITY, LIQUIDITY
*PAULSON COMMENTS IN E-MAILED STATEMENT RELEASED BY TREASURY
*PAULSON SAYS HE'S 'PLEASED' WITH RECENT MARKET DEVELOPMENTS
*FED OFFICIALS SAY TIMING OF FED ACTION DRIVEN BY BEAR STEARNS
*FED OFFICIALS SAY BEAR FINANCING HELPED FACILITATE TRANSACTION
*FED WANTED TO HELP JPM-BEAR AGREE BEFORE ASIAN MARKETS OPENED
*FED OFFICIALS SAY \$30 BLN BEAR LOAN SIMILAR TO TSLF FACILITY
*BERNANKE SAYS WORKING TO PROMOTE LIQUID, WELL-FUNCTIONING MKTS
*BERNANKE, GEITHNER SPEAK ON CONFERENCE CALL WITH REPORTERS
*BERNANKE SAYS 'IN CLOSE CONSULTATION WITH TREASURY'
*BERNANKE SAYS MOVE WILL GIVE MORE ASSURANCE OF ACCESS TO FUNDS

Foley, Trip

From: Foley, Trip
Sent: Sunday, March 16, 2008 10:32 PM
To: Scogin, Matthew
Subject: Re: Hi

Sounds good sir. Will let you know. Dow futures down 270 now and Hong Kong off 5%, so looks rough tomorrow.....

Trip Foley
Department of the Treasury
202-622-1258
trip.foley@do.treas.gov

----- Original Message -----
From: Scogin, Matthew
To: Foley, Trip
Sent: Sun Mar 16 21:43:25 2008
Subject: Re: Hi

Thanks for the posting. I'll stick with original plan but be on hold to come in earlier if I can be helpful.

----- Original Message -----
From: Foley, Trip
To: Scogin, Matthew
Sent: Sun Mar 16 21:05:41 2008
Subject: Re: Hi

Totally up to you but I think that for now the big fireworks might be over - now that this has happened I think its wait and see and kinda biz as usual.

Call my cell if you want to talk live. (b) (6)

Trip Foley
Department of the Treasury
202-622-1258
trip.foley@do.treas.gov

----- Original Message -----
From: Scogin, Matthew
To: Foley, Trip
Sent: Sun Mar 16 21:03:23 2008
Subject: Re: Hi

I wasn't planning to come into work until Wed, but I can be there earlier if things are crazy. What do you think?

----- Original Message -----
From: Scogin, Matthew
To: Foley, Trip
Sent: Sun Mar 16 20:24:19 2008
Subject: Hi

Hey. How's it going? Was work crazy this weekend? This Bear and Fed stuff is pretty interesting.

Appleton, Jesse

From: Market Room
Sent: Monday, March 17, 2008 2:53 AM
Subject: Update - Upcoming Dealer earnings announcements

Bear Stearns cancelled its earnings announcement set for today given its agreement with JPMorgan Chase.

Tomorrow (3.18)

Lehman Brothers reports at 8:00 a.m. and
Goldman Sachs reports at 8:30 a.m.

Wednesday (3.19)

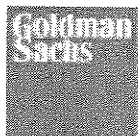
Morgan Stanley reports before the market opens

Foley, Trip

From: GS US Economics Research [GSUSEconomicsResearch@ny.email.gs.com]

Sent: Monday, March 17, 2008 6:30 AM

Subject: GS Skinny: Expect a 100bp Rate Cut Tomorrow



Goldman Sachs US Economic Research

**GS Skinny: Expect a 100bp Rate Cut Tomorrow**

March 17, 2008

BOTTOM LINE: We now expect the Federal Open Market Committee to cut its federal funds rate target by 100bp, to 2%, at Tuesday's FOMC meeting. The discount rate is likely to decline in lock-step, to 2-1/4%.

MAIN POINTS:

1. In the current fragile financial environment, interest-rate policy has taken a back seat to the objective of preventing systemic risks to financial markets. Over the past ten days, Fed officials have taken several major steps in an attempt to address this and other stresses in the financial markets, culminating in Sunday's 25-basis-point discount rate cut, as well as the introduction of the Primary Dealer Credit Facility (PDCF) alongside the \$30 billion loan to facilitate JP Morgan Chase's takeover of Bear Stearns.

2. However, interest-rate policy still plays an important subsidiary role in re-establishing orderly market conditions and cushioning the economic downturn. Hence, we now expect the FOMC to cut its federal funds rate by 100bp to 2% on Tuesday. We see at least four reasons to expect such a move:

A) A 100bp rate cut would be a clear sign that Fed officials see urgency in the current situation and a need to bolster confidence, both in the financial markets and in the public at large. Anything less than the almost 100bp that is now discounted will risk an adverse market response that could aggravate the fragility Fed officials are trying to repair.

B) Although widening spreads in credit markets and distrust between counterparties have made reductions in short-term interest rates less effective than they otherwise would be, they are not completely ineffective. In particular, low short-term interest rates can help liquefy a badly damaged financial system and help reduce the resets on adjustable rate loans that are partly responsible for rising loan delinquencies.

C) By lowering its federal funds rate substantially, the Fed will gradually increase the size of its balance sheet as it provides reserves more generously to the banking system. Over time, this bolsters the Fed's ability to provide the kind of targeted assistance that it has creatively set up in recent days, which has committed to exchange several hundreds of billions of dollars of Treasury securities for assets of lesser credit quality.

D) The recent inflation data – Friday's February CPI as well as the slight drop in survey and market measures of expected inflation in recent days – will make it easier for Fed officials to decide on a larger cut than seemed likely just a few days ago.

3. A 100bp rate cut obviously raises the question of where we see the funds rate going next, as 2% is currently the low point in our call for the Fed easing cycle. The risks are strongly tilted to the downside, and we will provide a more explicit update once we see what the FOMC does Tuesday and what its statement implies about the likelihood of future actions.

4. Although we believe firmly that this is both the likely and the right move for Fed officials to make, a smaller rate cut cannot be ruled out. However, should they decide to do less, we think the statement that accompanies

such a decision will imply strongly that more easing would occur quickly if conditions warranted.

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Stoltzfoos, Jeffrey

From: Market Room
Sent: Monday, March 17, 2008 7:11 AM
Subject: Markets Briefing | March 17

Attachments: Morning 2008-03-17.doc

7:10am

DJIA (fut)	11778.00	-1.72	%
S&P (fut)	1266.30	-2.06	%
NASDAQ(fut)	1689.75	-2.03	%
FTSE	5493.50	-2.45	%
Nikkei	11787.51	-3.71	%
Kospi	1574.44	-1.61	%
Hang Seng	21084.61	-5.18	%

1-Month Tsy	1.16	-1.02	bps
3-Month Tsy	1.15	-1.03	bps
2-yr Tsy	1.292	-18.66	bps
10-yrTsy	3.338	-12.85	bps
2-yr SwSpr	83.50	-7.00	bps
10-yr SwSpr	65.25	-5.55	bps
10-yr Gilt	4.295	-3.20	bps
10-yr Bund	3.673	-5.90	bps
10-yr JGB	1.295	2.00	bps

Oil NMX WTIS	\$110.49	\$0.28	
Gold Spot	\$1,023.28	\$20.01	
\$/Euro	\$1.5777	0.65	%
Yen/\$	96.42	-2.71	%
Yen/Euro	152.115	-2.05	%
CHF/\$	0.9812	-1.71	%

Global equity indices were broadly lower overnight following the Bear Stearns/JP Morgan deal and the Federal Reserve announcement of both a 25 basis point reduction in the Discount Rate and new a Primary Dealer Credit Facility. Asian indices were 3-5 percent lower and European indices were off by 2-3 percent. In Asia, trading was dominated by the strength of carry currencies against the dollar while shares of exporters along with financials led the Nikkei down 3.71 percent, the Kospi down 1.61 percent, the Shanghai composite down 3.60 percent and the Hang Seng down 5.18 percent. European equities moved broadly lower on the open with the German Dax down 3.18 percent and the FTSE down 2.25 percent on the session. Market participant reaction to the Bear/JPMorgan agreement has been decidedly negative, leading to increased pressure on financial sector share prices more broadly. Particularly, many were surprised with the low sales price against expectations that the company would be worth significantly more given Bear's significantly higher stated book value as of just last week. Moreover, market participants also noted the rapid deterioration in Bear's financial position cast significant doubt over financial sector positions of other firms, despite the Federal Reserve's actions to address liquidity concerns among dealers as well as banks.

Consistent with broad risk aversion, sovereign debt yields moved broadly lower across Asia and Europe. In overnight U.S. Treasury trading, the 2s/10s curve was nearly 10 basis points steeper with yields on the 2-year note down 20 basis points. In Europe, credit concern pushed ten-year Bund yields 6 basis points lower to yield 3.670 percent. Credit spreads widened overnight, pushing through recent wides with the iTraxx investment grade index 9 basis points wider to 165.50. The higher-yielding crossover index moved 14 basis points wider to 631 basis points.

Price action in currency markets was volatile overnight and the dollar traded at recent lows against major currencies. Consistent with the flight from risky assets, the dollar weakness was most prevalent against funding currencies with the yen 2.52 percent stronger and the swiss franc 1.58 percent stronger against the dollar. Implied volatility in FX markets rose to new highs for the euro dollar and dollar yen as the dollar depreciated. Trading was, at times, described as “gappy” and traders noted that strained liquidity conditions earlier in the session may have exaggerated price action.

As part of today’s announcements, the Federal Reserve announced a 25 basis point cut in the discount rate to 3.25 percent, and that it would offer a new lending facility open to primary dealers. Additionally, the Federal Reserve announced an increase in the maximum maturity of discount window loans from 28 days to 90 days and approved its financing agreement with Bear Stearns and JPMorgan Chase. While market participants were optimistic that the combined actions would further address liquidity and solvency concerns in the financial sector, some also expressed the view that the moves would not aid market participants ability to establish a clearing price for difficult to value securities that underlie much of current financial sector concerns

In the New York session, market participants will be watching the U.S. dollar inter-bank rates, specifically the LIBOR fixings at 7:45am Eastern. Although Bear Stearns cancelled its earnings announcement in light of its deal with JP Morgan, market participants will also be focused on earnings announcements from four major investment banks beginning with Goldman Sachs and Lehman Brothers tomorrow morning and Morgan Stanley on Wednesday.

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

Robert Hill
Markets Room
202.622.3665
For 24-hr updates, ping mkt@do.treas.gov



Morning
18-03-17.doc (70 KE)

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 7:53 AM
To: DL_FYI
Subject: (BN) Top Stories: Business and Finance

Top Stories: Business and Finance
2008-03-17 07:50 (New York)

March 17 (Bloomberg) -- The following are the day's top business stories:

Fed Cuts Discount Rate at Emergency Meeting, Lends More to Primary Dealers

The Federal Reserve, struggling to prevent a meltdown in financial markets, cut the rate on direct loans to banks and became lender of last resort to the biggest dealers in U.S.

government bonds. In its first weekend emergency action in almost three decades, the central bank lowered the so-called discount rate by a quarter of a percentage point to 3.25 percent. The Fed also will lend to the 20 firms that buy Treasury securities directly from it. In a further step, the Fed will provide up to \$30 billion to JPMorgan Chase & Co. to help it finance the purchase of Bear Stearns Cos. after a run on Wall Street's fifth-largest securities firm. "It is a serious extension of putting the Federal Reserve's balance sheet in harm's way," said Vincent Reinhart, former director of the Division of Monetary Affairs at the Fed and now a scholar at the American Enterprise Institute in Washington.

"That's got to tell you the economy is in a pretty precarious state." The move is Chairman Ben S. Bernanke's latest step to alleviate a seven-month credit squeeze that's probably pushed the U.S. into a recession. The dollar tumbled to a 12-year low against the yen and Treasury notes rallied as traders increased bets that officials will reduce their main rate by 1 percentage point when they meet tomorrow.

JPMorgan Agrees to Buy Bear Stearns for \$240 Million; Fed to Fund Takeover

JPMorgan Chase & Co. agreed to buy Bear Stearns Cos. for \$240 million, about 90 percent less than its value last week, after a run on the company ended 85 years of independence for Wall Street's fifth-largest securities firm. Shareholders of Bear Stearns will get stock in JPMorgan equivalent to about \$2 a share, compared with \$30 at the close on March 14, the New York-based companies said in a statement late yesterday. The Federal Reserve is providing financial backing to JPMorgan, the second-biggest U.S. bank, and also cut the rate on direct loans to banks in its first emergency weekend action in almost three decades to stave off a broader market panic. JPMorgan Chief Executive Officer Jamie Dimon bought Bear Stearns, once the biggest underwriter of U.S. mortgage bonds, for less than the value of its real estate after clients, alarmed by speculation about a cash shortage, withdrew \$17 billion in two days. Faced with the prospect of bankruptcy, Bear Stearns CEO Alan Schwartz was forced to accept the deal less than five days after he assured investors that the company's "liquidity cushion" was sufficient to weather credit-market losses. "Bear Stearns shareholders are at the short end of the stick," said David Hendler, an analyst at New York-based CreditSights Inc. "This was done in the market's best interests. They had to get this done or they would risk runs on other companies."

U.S. Futures, Europe, Asia Stocks Drop on Fed, Bear Stearns; Dollar Falls

U.S. stock-index futures, Asian and European equities and the dollar tumbled after the Federal Reserve cut its discount interest rate at an emergency meeting and JPMorgan Chase & Co.

agreed to buy Bear Stearns Cos. for \$2 a share. Bonds, gold and crude oil climbed. Indexes in Europe and Asia slid, as UBS AG posted its biggest drop in more than nine years in Zurich and Japan's Mitsubishi UFJ Financial Group Inc. fell to the lowest in four years. Europe's regional benchmark lost 2.9 percent and Hong Kong's slumped 5.2 percent on mounting concern that other financial companies will run short of cash. The dollar sank to a record low against the euro and the Swiss franc and fell to the weakest in 12 years against the yen, helping push gold and crude oil to highs. "This is a serious crisis," said David Goldman, senior portfolio strategist at Asteri Capital in New York and former head of debt research at Banc of America Securities LLC. "Something

is systemically very wrong and we're at a very dangerous moment.'

Brokerage Stocks May Drop 50% After Bear Sale, Oppenheimer's Whitney Says

Banks and brokerages may fall by half because Bear Stearns Cos.'s sale to JPMorgan Chase & Co. for \$2 a share will create a ``major negative revaluation'' of financial shares, Oppenheimer & Co.'s Meredith Whitney said. ``Financial stocks have further downside of as much as 50 percent based upon

1990/1991 multiples of tangible book values,'' Whitney, the analyst who correctly predicted Citigroup Inc. would reduce its dividend, wrote in a report today. The \$2-a-share offer is about 2 percent of Bear Stearns's book value at the end of the fourth quarter, she said. The fifth-largest U.S. securities firm's net worth was \$84.03 a share at the end of November, according to Bloomberg data. ``As we believe we will begin to see goodwill writedowns during the first half of this year, we believe investors will focus more on tangible book value and stocks will quickly revalue to far lower levels,'' the New York-based analyst said.

Company Bond Risk Soars to Record on Emergency Fed Cut, Bear Stearns Sale

The cost to protect corporate debt from default surged after the Federal Reserve made its first emergency weekend rate cut in three decades and a run on Bear Stearns Cos. triggered a takeover by JPMorgan Chase & Co. Credit-default swaps on the Markit CDX North America Investment-Grade Index rose 2 basis points to 192 at 7:22 a.m. in New York, according to Phoenix Partners Group. Contracts on the Markit iTraxx Europe index, UBS AG and HSBC Holdings Plc all rose to records. The Fed cut the rate on direct loans to banks and became lender of last resort to the biggest dealers in U.S. government bonds in an attempt yesterday to prevent a meltdown in financial markets.

It also agreed to provide as much as \$30 billion to JPMorgan to help it finance the purchase of Wall Street's fifth-largest securities firm. ``The fear that there could be other banks in similar positions is definitely there,'' said Puneet Sharma, Barclays Capital's head of investment-grade credit strategy in London. ``It's a very, very unnerving situation.''

Auction-Rate Bond Failures Deplete New Hampshire Universities Reserve Fund

The fallout from the collapse of the auction-rate bond market has infected New Hampshire, where the state college and university system was forced to tap its reserves to cover more than \$1 million in extra borrowing costs. ``It hurts,'' Ken Cody, associate vice chancellor of finance for New Hampshire's state college and university system, said in a phone interview.

``We have very limited resources.'' Yields on the system's bonds rose to as high as 7.8 percent last month from 3.9 percent in January after auctions run by Wall Street firms failed, depleting funds for campus maintenance, Cody said. The system converted \$84.3 million of the debt to bonds with fixed payments and plans to bid at an auction of its remaining \$63.6 million of securities this week to reduce rates, he said. New Hampshire is among municipal borrowers that are likely to offer to buy their own securities after the U.S. Securities and Exchange Commission said March 14 that the bids wouldn't run afoul of laws against market manipulation. Lehman Brothers Holdings Inc., which managed the auctions, prevented the system from bidding last month, Cody said.

Cobalt Shows Signs of Peaking as Congo Mines Poised to Increase Supply 85%

Cobalt, the best metal investment of the past two years, may plunge as producers in central Africa plan to almost double world supplies. The commodity that's critical to making iPod batteries and jet engine parts will probably decline 41 percent within a year to \$30 a pound from \$51.25, forecasts Standard Chartered Plc analyst Daniel Smith, who has tracked metals markets for more than a decade. Credit Suisse Group's Jeremy Gray says the bottom may be \$18.50 a pound next year. World cobalt supplies will increase about 85 percent during the next 20 months as mines in the Democratic Republic of Congo begin operations in response to surging prices, according to First Quantum Minerals Ltd., the developer of African cobalt and copper deposits. Cobalt gained 74 percent in a year, increasing profit at Glencore International AG, the commodity trader that controls 40 percent of supply, and producers OM Group Inc. and London-based Xstrata Plc. ``Next year the market is expected to start to turn as new mine projects come on stream,'' Standard Chartered's Smith said in an interview from London. ``The Congo is likely to be at the forefront of this growth.''

Touradji Says Commodities 'Buying Orgy' Increases Risks of Prices Plunging

Paul Touradji, founder of the \$3.5 billion hedge fund Touradji Capital Management LP, told clients a ``buying orgy''

in commodities had inflated prices and increased risks of a collapse. Commodities ``have

all gone parabolically higher on frenzied money flow," New York-based Touradji, 36, wrote March 10. "Unless that money flow continues ad infinitum, in which case prices would go to infinity, then the fundamentals had better be improving as quickly as prices have been, otherwise there is nothing else to keep the markets at these levels."

Crude oil and gold rose to records today as the dollar tumbled after the Federal Reserve cut its discount rate at an emergency meeting and JPMorgan Chase & Co. agreed to buy Bear Stearns Cos. Commodities have rallied for more than six years as pension and hedge funds poured money into raw materials to protect them from the declining value of U.S. assets.

Touradji's flagship fund lost about 10.9 percent in the first two months of 2008, according to two investors who declined to be identified because the information was private. Touradji said he stopped making bets commodities will rise or fall as price swings grew. Wheat is recording implied volatility of about 60 percent, the highest in more than a decade.

Alitalia Tumbles After Air France Bids Under 20% of Airline's Market Value

Alitalia SpA, the state-controlled Italian airline, plunged the most in 13 years in Milan trading after Air France-KLM Group agreed to buy the unprofitable carrier for less than one-fifth of its previous market value. Rome-based Alitalia's shares declined as much as 20 cents, or 38 percent, to 33 cents, the biggest drop since May 10, 1994. Air France's offer values Alitalia at 139 million euros (\$218 million), or 10 cents a share. That's 81 percent less than the record low closing price on March 14. Alitalia's board voted unanimously to accept the offer as it seeks to avoid bankruptcy.

Paris-based Air France, the world's largest airline by sales, will also buy 608 million euros of Alitalia bonds. "It's not surprising that the shares are falling with the bid at this level, but I still think the deal will go through," said Nick van den Brul, an analyst at Exane BNP Paribas in London who rates Air France "outperform" and has ceased coverage of Alitalia. "The only other option is liquidation."

Fuld's Mantra of 'Never Again' in '98 Makes Lehman Tougher to Beat in '08

Richard Fuld forever rues the day in July 1998 when, faced with daily rumors that his beloved Lehman Brothers Holdings Inc. was on the verge of insolvency, he decided to say nothing and do nothing knowing Lehman was fine. "I kept my head down and just worked harder, and it was a big mistake," Fuld has told colleagues many times since then. Lehman dropped 63 percent in New York trading in the ensuing four months and Fuld belatedly devoted his entire work week to reassuring lenders.

Today, the 61-year-old Fuld can't hesitate to show that Lehman is equipped to weather a credit crisis that drove smaller Bear Stearns Cos. to the brink of collapse and a takeover by JPMorgan Chase & Co. Speculation that Bear Stearns was running short of cash led clients and creditors to withdraw \$17 billion in two days last week, wiping out the New York-based company's reserves and forcing it to turn to the U.S. Federal Reserve for emergency funding. As Bear Stearns shares plummeted a record 47 percent on March 14, investors showed their doubts about Lehman, pushing the stock down 15 percent. Lehman fell a further 16 percent today to \$33.04 in German trading.

Bear's 'Reluctant CEO' Schwartz Fought Off Collapse as Cayne Played Bridge

Alan Schwartz wasn't supposed to be running Bear Stearns Cos., and now he is presiding over the 85-year-old securities firm's sale. As far back as 1999 analysts predicted the top job would go to Warren Spector, the former bond chief who calculated complex securities trades by hand and shared a passion for bridge with Bear's chairman and chief executive officer, Jimmy Cayne. Both men lost their jobs after bets on subprime mortgage bonds soured. They were at a bridge tournament in Detroit last week as Schwartz, the CEO for two months, fought a run on Bear's cash brought on by widening subprime losses and negotiated the largest government bailout ever of a U.S. securities firm. An investment banker for much of his 32 years at Bear Stearns, Schwartz is ending it with a last deal: The purchase of the firm by JPMorgan Chase & Co. for less than 7 percent of its March 14 value. "The people who did this are Jimmy Cayne and Warren Spector," said Richard Bove, an analyst at Punk, Ziegel & Co. in Lutz, Florida.

Bernanke, Fed Play 'Whac-A-Mole' With Turmoil in Housing, Credit Markets

Federal Reserve Chairman Ben S. Bernanke may be facing something worse than a loss of personal credibility on Wall Street and in Washington: waning faith in the ability of the institution he leads to turn around the economy and the financial markets anytime soon. Bernanke has reached deep into the Fed's toolkit to come up with innovative ways to head off a recession and restore some calm in credit markets. While many have initially been greeted with rallies in stocks, cumulatively they haven't yet had lasting impact on bringing down credit costs and setting the stage for economic recovery.

"The Fed has been playing the equivalent of Whac-A-Mole as financial turmoil keeps

cropping up in new and unexpected places," says former Fed Vice Chairman Alan Blinder, referring to the arcade game where players try to hammer down plastic critters that randomly pop out of holes. "Yet many of the problems facing us are beyond its reach." Home buyers are unlikely to put down offers on houses that they think will lose value -- no matter how much the Fed does to lower mortgage costs. Banks with mounting loan losses will shy away from lending to borrowers they think might go bust -- no matter how much money the Fed pumps into the financial system. And investors will remain jittery -- even after the Fed throws a lifeline to struggling financial institutions, as it did last week with Bear Stearns Cos.

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

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Stoltzfoos, Jeffrey

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Subject: Paulson Praises Fed 'Liquidity' Moves, Market 'Developments'; Paulson Says He'll 'Do What It Takes' to Calm Markets (Update5)

Paulson Praises Fed 'Liquidity' Moves, Market 'Developments'
2008-03-16 20:13 (New York)

By Brendan Murray

March 16 (Bloomberg) -- Treasury Secretary Henry Paulson signaled support for JPMorgan Chase & Co.'s planned purchase of Bear Stearns Cos. and praised Federal Reserve decisions today aimed at boosting liquidity in capital markets.

"Last Friday, I said that market participants are addressing challenges and I am pleased with recent developments," Paulson said in a statement released in Washington. "I appreciate the additional actions taken this evening by the Federal Reserve to enhance the stability, liquidity and orderliness of our markets."

JPMorgan Chase announced today it has agreed to buy Bear Stearns for about \$2 a share after a run on the company ended 85 years of independence for Wall Street's fifth-largest securities firm and prompted a bailout by the Federal Reserve.

The Fed will fund as much as \$30 billion of Bear Stearns's "less-liquid assets," the two companies said in a statement.

The deal values New York-based Bear Stearns, with 14,000 employees, about \$270 million, far less than the \$4 billion market value on March 14. The stock had fallen 80 percent in the past 12 months.

The Fed also reduced the rate on direct loans to commercial banks by a quarter-point and said it will allow primary dealers to borrow at the rate in exchange for a "broad range" of investment-grade collateral.

--With reporting by Yalman Onaran in New York. Editor: Daniel Moss, Christopher Wellisz

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Paulson Says He'll 'Do What It Takes' to Calm Markets (Update5)
2008-03-16 20:17 (New York)

By Brendan Murray

March 16 (Bloomberg) -- Treasury Secretary Henry Paulson, defending the bailout of Bear Stearns Cos., said policy makers will do whatever is needed to prevent disruptions in financial markets from hurting the economy.

"The government is prepared to do what it takes to maintain the stability of our financial system," Paulson told the "Fox News Sunday" television program in Washington today. "Our focus, our No. 1 priority, is the stability of our financial system."

Paulson, 61, spoke just hours before JPMorgan Chase & Co.

announced it had agreed to buy Bear Stearns Cos. for about \$2 a share after a run on the company ended 85 years of independence for Wall Street's fifth-largest securities firm and prompted a bailout by the Federal Reserve.

The Fed today issued a statement in which it approved the Bear Stearns sale and also reduced the rate on direct loans to commercial banks by a quarter point, saying it will allow primary dealers to borrow at the rate in exchange for a "broad range" of investment-grade collateral.

The central bank, in a statement in Washington, also extended the maximum term of discount-window loans to 90 days from 30 days.

In three appearances today, Paulson, the former chairman of Goldman Sachs Group Inc., several times said the Fed made "the right decision" and expressed "great confidence" in its chairman, Ben S. Bernanke. Paulson said that in the case of Bear Stearns, the risk to financial stability outweighed his concern about so-called moral hazard, in which investors come to expect government rescues.

'Moral Hazard'

'I'm as aware as anyone is of moral hazard,' he said in a CNN interview. 'I'm also aware of the importance of keeping our economy strong, of orderly capital markets, of the stability of the financial system doing things that promote orderliness and minimize the disruption.'

Paulson said 'conversations are going on over the weekend' about Bear Stearns. 'I'm very involved in those conversations.' He declined to be specific about the future of the 85-year-old firm, the second-biggest underwriter of U.S. mortgage bonds, or to say whether any additional government steps were planned.

'There's always a decision to be made to say what's best for the stability of the marketplace, the orderliness of the marketplace,' Paulson said. 'I think we made the right decision.'

The Treasury chief refused to say what a growing number of economists have concluded -- that the economy has entered a recession.

Economic Debate

'Economists are going to be debating that for months and months,' he said. 'It's much less important what you call it than what you're doing about it.'

The Standard & Poor's 500 Index is down 12.3 percent this year, while the dollar is down 5 percent against a basket of currencies of major U.S. trading partners. Home foreclosures in January and February were up 58 percent from the first two months of 2007.

'I've got great confidence in our financial markets and our financial institutions,' Paulson said. 'Our markets are resilient, are flexible. Our institutions -- our banks and investment banks -- are strong.'

Paulson repeated his support for a 'strong dollar,' and said the long-term strength of the U.S. economy would be reflected in the country's currency.

President George W. Bush is scheduled to meet tomorrow with his Working Group on Financial Markets. Paulson chairs the group, which includes Bernanke and Securities and Exchange Commission Chairman Christopher Cox.

Plans in Congress

The Bush administration has resisted the use of government funds or guarantees to stem the surge in foreclosures. Paulson has brokered a series of voluntary accords among lenders to freeze interest rates on subprime loans and negotiated a one-month moratorium on foreclosures.

A credit crisis that began in August has left markets 'more fragile than we would like right now,' Paulson said in a separate interview on ABC News's 'This Week' program. 'My concern is to minimize the impact on the broader economy.'

Paulson said the administration doesn't support measures in Congress to help struggling homeowners.

House Financial Services Committee Chairman Barney Frank and Senate Banking Committee Chairman Christopher Dodd offered a plan last week to let the Federal Housing Administration insure refinanced mortgages after lenders reduce principal to help struggling borrowers.

Weighing Response

The two lawmakers are leading congressional efforts to tackle the surge in foreclosures, which reached record levels in the fourth quarter of 2007. Their plan goes beyond the Bush administration's approach that relies on voluntary agreements between lenders and loan servicers to modify mortgages for borrowers who can't make their monthly payments.

'I'm looking very carefully at any proposal, but all the ones I've seen call for much more government intervention, raise more problems, do more harm than do good,' Paulson said in the ABC interview.

In an interview on CNN, Paulson said there's 'no silver bullet' to prevent home prices from falling and foreclosures from rising.

Paulson last week proposed that U.S. regulators heighten their scrutiny of lenders, mortgage brokers and debt-rating firms to prevent a reoccurrence of the credit crisis roiling capital markets.

Writedowns from subprime securities will probably rise to \$285 billion, Standard & Poor's said in a report on March 13.

Schumer Attacks

``This has become the Bush recession,'' Senator Charles Schumer, a New York Democrat, said on the Fox News program. ``The president's hands-off attitude is reminiscent of Herbert Hoover,'' who led the country from 1929 to 1933.

Bush yesterday said he won't be stampeded into ``bad policy decisions'' that might harm the economy.

``The market now is in the process of correcting itself, and delaying that correction would only prolong the problem,'' he said in his weekly radio address. ``I believe the government can take sensible, focused action to help responsible homeowners weather this rough patch.''

--With reporting by Nick Baker in New York and Roger Runningen in Washington. Editors: Daniel Moss, John McCluskey

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Foley, Trip

From: Zuccarelli, Jennifer
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Subject: NYT, WSJ, USAT, WP- Markets Opinion Clips

The B Word

The New York Times

By PAUL KRUGMAN

O.K., here it comes: The unthinkable is about to become the inevitable.

Last week, Robert Rubin, the former Treasury secretary, and John Lipsky, a top official at the International Monetary Fund, both suggested that public funds might be needed to rescue the U.S. financial system. Mr. Lipsky insisted that he wasn't talking about a bailout. But he was.

It's true that Henry Paulson, the current Treasury secretary, still says that any proposal to use taxpayers' money to help resolve the crisis is a "non-starter." But that's about as credible as all of his previous pronouncements on the financial situation.

So here's the question we really should be asking: When the feds do bail out the financial system, what will they do to ensure that they aren't also bailing out the people who got us into this mess?

Let's talk about why a bailout is inevitable.

Between 2002 and 2007, false beliefs in the private sector — the belief that home prices only go up, that financial innovation had made risk go away, that a triple-A rating really meant that an investment was safe — led to an epidemic of bad lending. Meanwhile, false beliefs in the political arena — the belief of Alan Greenspan and his friends in the Bush administration that the market is always right and regulation always a bad thing — led Washington to ignore the warning signs.

By the way, Mr. Greenspan is still at it: accepting no blame, he continues to insist that "market flexibility and open competition" are the "most reliable safeguards against cumulative economic failure."

The result of all that bad lending was an unholy financial mess that will cause trillions of dollars in losses. A large chunk of these losses will fall on financial institutions: commercial banks, investment banks, hedge funds and so on.

Many people say that the government should let the chips fall where they may — that those who made bad loans should simply be left to suffer the consequences. But it's not going to happen. When push comes to shove, financial officials — rightly — aren't willing to run the risk that losses on bad loans will cripple the financial system and take the real economy down with it.

Consider what happened last Friday, when the Federal Reserve rushed to the aid of Bear Stearns.

Nobody expects an investment bank to be a charitable institution, but Bear has a particularly nasty reputation. As Gretchen Morgenson of The New York Times reminds us, Bear "has often operated in the gray areas of Wall

Street and with an aggressive, brass-knuckles approach.”

Bear was a major promoter of the most questionable subprime lenders. It lured customers into two of its own hedge funds that were among the first to go bust in the current crisis. And it's a bad financial citizen: the last time the Fed tried to contain a financial crisis, after the collapse of Long-Term Capital Management in 1998, Bear refused to participate in the rescue operation.

Bear, in other words, deserved to be allowed to fail — both on the merits and to teach Wall Street not to expect someone else to clean up its messes.

But the Fed rode to Bear's rescue anyway, fearing that the collapse of a major investment bank would cause panic in the markets and wreak havoc with the wider economy. Fed officials knew that they were doing a bad thing, but believed that the alternative would be even worse.

As Bear goes, so will go the rest of the financial system. And if history is any guide, the coming taxpayer-financed bailout will end up costing a lot of money.

The U.S. savings and loan crisis of the 1980s ended up costing taxpayers 3.2 percent of G.D.P., the equivalent of \$450 billion today. Some estimates put the fiscal cost of Japan's post-bubble cleanup at more than 20 percent of G.D.P. — the equivalent of \$3 trillion for the United States.

If these numbers shock you, they should. But the big bailout is coming. The only question is how well it will be managed.

As I said, the important thing is to bail out the system, not the people who got us into this mess. That means cleaning out the shareholders in failed institutions, making bondholders take a haircut, and canceling the stock options of executives who got rich playing heads I win, tails you lose.

According to late reports on Sunday, JPMorgan Chase will buy Bear for a pittance. That's an O.K. resolution for this case — but not a model for the much bigger bailout to come. Looking ahead, we probably need something similar to the Resolution Trust Corporation, which took over bankrupt savings and loan institutions and sold off their assets to reimburse taxpayers. And we need it quickly: things are falling apart as you read this.

The Buck Stops Where?

Wall Street Journal Editorial

In the credit market panic that began in August, we have now reached the point of maximum danger: A global run on the dollar that could become a rout. As the Federal Reserve's Open Market Committee prepares to meet tomorrow, this should be its major concern.

Yet the conventional wisdom -- on Wall Street and in Washington -- continues to be precisely the opposite. In this view, the Fed is "behind the curve" and needs to cut interest rates even faster and further than it has. Never mind that this is precisely the path the Fed has followed since August, yet the crisis has grown worse and now bids to tank the larger economy. Does it make sense to do more of what isn't working?

* * *

The Fed's main achievement so far has been to stir a global lack of confidence in the greenback. By every available indicator, investors are fleeing the dollar for other currencies and such traditional safe havens as gold and commodities. Oil has surged to \$110 a barrel, up from under \$70 as recently as September. Gold is above \$1,000 an ounce, up from \$700 in September, and food prices are soaring across the board. The euro has hit record heights against the buck, and for the first time the dollar has fallen below the level of the Swiss franc.

Speculators are adding to this commodity boom, betting that the Fed has thrown price stability to the wind in order to ease U.S. housing and credit woes. The problem is that dollar weakness is making both of these problems worse. The flight from the dollar has made U.S.-based investments less attractive, at a time when the U.S. financial system urgently needs to raise capital. And the commodity boom is translating into higher food and energy prices that are robbing American consumers of discretionary income. In the name of avoiding a recession, reckless monetary policy has made one more likely.

Meanwhile, and disconcertingly, we keep hearing new explanations for the virtues of dollar weakness. One of the most popular is that the increase in commodity prices has nothing to do with the dollar but is merely a change in "relative prices" -- commodities compared to other goods -- caused by surging global demand.

No doubt strong world growth explains part of the commodity price rise this decade. But the dollar price of oil has surged by some 60% since September, even as U.S. growth has slowed sharply. If the dollar had merely retained its value against the euro, oil would be in the neighborhood of \$70 a barrel. Dollar weakness explains a large part of the oil price surge.

We are also told that the U.S. is merely importing inflation from the rest of the world, such as China. Import prices have surged nearly 14% in the last year, but that is mainly recycling the inflation that the Federal Reserve has inspired. Like other countries that have linked their monetary policies to the U.S., China has been importing inflation due to dollar weakness. Its official price level has tripled in a year, and it is now letting the yuan rise more rapidly against the dollar to slow that domestic inflation.

Kuwait has already dropped its dollar peg to stem its inflation, and other Persian Gulf countries may follow suit. These are all signs that the world is losing confidence in the Fed's commitment to price stability.

Another excuse is that a weak dollar is useful because it helps to boost exports, and thus reduces the U.S. trade deficit. Exports have certainly been strong, but exports in goods are being more than offset by the rising cost of oil imports. In January, the U.S. trade gap actually widened thanks to oil imports. In any case, rising exports won't comfort Americans whose standard of living falls due to rising import prices.

Then there is the "just deserts" school, which claims that dollar weakness is the inevitable result of America living beyond its means for so long. This road-to-perdition view is especially popular in Europe and the U.S. media. To believe it, however, you have to conclude that the world was willing to ignore the U.S. trade deficit for decades only to awaken in horror now.

The truth is that, as ever, the fate of the dollar is in our own hands. Inflation is always a monetary phenomenon, determined by the supply and demand for a currency. The supply of dollars is controlled by a monopoly known as the Federal Reserve, and at any moment the Fed can produce more or fewer dollars. The Fed can also influence the demand for dollars by maintaining a commitment to price stability, or it can reduce that global demand by squandering its anti-inflation credibility the way it is now. Once squandered, it is difficult to regain -- as we learned the hard way in the 1970s and 1980s.

The Bush Administration is also not helping confidence in the dollar. While President Bush is doing well to fight protectionism and higher taxes, his Administration continues to give the impression that it quietly favors a weak dollar. Yes, the official Treasury mantra is that it prefers a "strong dollar." But that mantra was the same when the dollar was strong and oil was \$20 a barrel in the 1990s as it is now when oil is \$110 and the dollar is weaker than at any time since the 1970s.

Last week Mr. Bush dared to wander from this script and told the Nightly Business Report that a strong dollar "helps deal with inflation" and rued its weakness against the euro. He was quickly reeled in by his advisers, and in his Friday speech at the New York Economic Club Mr. Bush reverted to the boilerplate language that investors now interpret as favoring a weak currency.

* * *

Which brings us to tomorrow's Fed meeting. The markets are expecting another cut of 50-75 points in the benchmark fed funds rate, and if recent history is a guide will immediately price into futures another 50-point cut down the road. The stock market may rally, until it once again decides that easier money can't remedy what is fundamentally a problem of bank solvency. That problem can only be resolved by financial institutions and regulators coming to grips with the losses, raising more capital to cushion the blow, and closing or selling those banks that can never recover. That will require a more aggressive, and pre-emptive, regulatory role for the Fed -- and that we would applaud.

What the U.S. and world economy don't need is a Fed that continues to insist that inflation expectations are "well-anchored" when everyone else knows they aren't. The Fed needs to restore its monetary credibility, or today's panic could become tomorrow's crash.

Facing up to debt contagion

USA Today Editorial

These days must be humbling for Wall Street financiers, high government officials and others who not long ago were preaching the virtues of leaving debt markets alone to heal themselves.

They've plainly failed, and at potentially enormous cost to everyone else.

Facing the possibility of a serious financial meltdown, Federal Reserve Chairman Ben Bernanke on Friday engineered a temporary federal bailout for Bear Stearns & Co., a Wall Street investment bank battered by its heavy involvement in mortgage-backed debt, while the troubled firm rushed to sell itself to a more stable suitor.

This action came on top of a broader assistance package unveiled Tuesday that included the Fed taking \$200 billion in toxic mortgage-backed securities off the books of major firms in return for U.S. Treasuries — a terrible trade-off for taxpayers but apparently necessary to keep the financial system functioning.

Both moves are extraordinary and a measure of just how worried the Fed is that the nation's steadily worsening debt crisis will spin out of control.

Given the consequences of a financial meltdown, it's hard to fault the Federal Reserve for acting aggressively. But it's also important not to provide too much comfort to those who caused so much harm in the first place. Bear Stearns shareholders have paid a price. The company's stock has lost more than 80% in a year. But its senior executives are not lining up to give back their bonuses, ones that came from ignoring risk to pump up returns.

Bear Stearns bet too heavily in the mortgage debt market, putting itself behind too many mortgage-backed portfolios and failing to understand the risks involved in them. In so doing, it helped inflate a housing bubble, driven in part by the proliferation of wildly inappropriate subprime mortgages.

Under normal circumstances, the company would be left to pay for its sins. But its debts to other institutions are big enough that defaulting could cause them to have problems with their own finances. That is the type of contagion the Fed is trying to avert. Even without defaults, the harm done by Bear Stearns and others has generated a general lending skittishness that is spreading to investments as safe as municipal bonds. That is hardly good for a stuttering economy.

If nothing else, it is time to realize that if government is going to help financial institutions get out of trouble, it must assume a greater role in keeping them from getting into trouble in the first place. Treasury Secretary Henry Paulson acknowledged as much in a speech last week calling for greater government oversight of mortgage

lenders and brokers, and higher standards among the major firms that bundle these loans into mortgage-backed securities.

His speech sounded like a litany of all the things government and industry should have been doing years ago and resolutely rejected. A plan for the future perhaps, and a large helping of humble pie for now.

A Bear Stearns Market

Washington Post

By James Grant

Sunday, March 16, 2008; B07

Panic is old hat on Wall Street. Rarely before, however, has there been a crisis so comprehensive as this one. It first materialized last summer in the shape of a disturbance in the low-rated, or subprime, mortgage market. "Contained," the regulatory establishment hopefully pronounced. But it has blazed across markets and time zones, with central bankers, politicians and Treasury functionaries in hot and, to date, futile pursuit.

What makes these proceedings so frightening is that not only is credit in crisis but so, too, is money. There are well-founded doubts about the promises to pay money and about the nature and integrity of the dollar itself. So it was on Friday that the Federal Reserve committed to lend undisclosed billions to bail out Bear Stearns, a top Wall Street purveyor of mortgage-backed securities and a leading lender to hedge funds. Where will the Fed find these dollars? Where it always, ultimately, does. It will have to print them, despite abundant evidence from the currency and gold markets that the world has just about all the dollar bills it cares to hold.

By the looks of things, America's surfeited creditors must make room for many billions more. The markets are in "uncharted waters," Robert Rubin, chairman of the Citigroup Executive Committee, said in a speech Friday. He urged the government to exert itself on behalf of the mortgage market and the American homeowner.

And who are these bankers who went sailing off the end of the Earth and thereby find it necessary to pass the cup to the government? The company of errant, if lavishly compensated, navigators includes none other than Rubin himself. Last fall, the former Treasury secretary confessed to Fortune magazine that until the mortgage storms broke over his head in the summer of 2007, he was unfamiliar with the kinds of complex mortgage structures with which Citi's own balance sheet was packed. Almost certainly, the gulf between competence and compensation on Wall Street has never been wider.

These lapses in mortgage underwriting are justly called "the biggest failure of ratings and risk management ever." But mortgages are far from the only blighted department of credit. The same carefree lending standards that led to record-high home foreclosures have brought deepening troubles in the market for loans to highly indebted companies. The "no-doc," interest-only, no-money-down mortgage turns out to have been a kind of universal American business model.

It wouldn't be so bad if the United States were not the issuer of the world's reserve currency. The dollar is not only America's scrip but also a store of value and a medium of exchange in Asia, South America and the Middle East. Yet -- and here is the rub -- the Federal Reserve makes monetary policy for one country only.

Back in 2002-03, Ben S. Bernanke, then a Fed governor serving under Alan Greenspan, got it into his head to scotch "deflation." Low, and lower, everyday prices were a clear and present danger, he claimed. Concurring, Greenspan led a campaign to reinstitute a decent rate of inflation by slashing the federal funds rate to 1 percent. Wall Street did not need to be told twice what glorious vistas for moneymaking such rock-bottom borrowing costs opened up, and it set to work creating junk bonds, mortgage-backed securities, leveraged bank loans and the rest. Naturally, real estate prices took flight.

Lenders and borrowers are forever prone to overdo it, then to underdo it. One day, anybody can get a loan. Next thing you know, the chairman of Countrywide Financial is explaining himself before a hostile congressional committee and the formerly carefree credit markets are in tears. The tears are all the more bitter today because the world is losing faith in the paper dollar.

Americans enjoy the inestimable privilege of consuming much more than they produce and financing the difference with the currency they alone can lawfully print. The reports about the record-high euro or the post-1995-high yen mean that we privileged ones will soon have to start spending less and working more.

The crux of the problem is that the Fed sets its interest rate for this economy and none other. Inflation is rampant in the countries that lash their currencies to ours. The last thing that China or Saudi Arabia or Qatar needs is a still easier, more inflationary, monetary policy. But the Fed -- its eye not on the worldwide inflation rate but on the Bear Stearns share price -- is about to turn still easier. It's a pickle for the ages but not one without its compensations. For one thing, the falling prices on Wall Street are at last beginning to restore a semblance of value to stocks and bonds. For another, the plunging dollar may prompt a serious reexamination of worldwide monetary arrangements. There must be a better way.

James Grant, the author of "Money of the Mind," is editor of Grant's Interest Rate Observer.

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Stoltzfoos, Jeffrey

From: Norton, Jeremiah
Sent: Monday, March 17, 2008 9:15 AM
To: Stoltzfoos, Jeffrey; Appleton, Jesse
Subject: Fw: Equity Strategy: Systemic Risk Is Here...Government Action Will Continue UPDATED

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

From: KBW <KBW@kbw.com>
To: Norton, Jeremiah
Sent: Mon Mar 17 09:14:41 2008
Subject: Equity Strategy: Systemic Risk Is Here...Government Action Will Continue UPDATED

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Equity Research

Industry Update

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Equity Strategy March 17, 2008

Systemic Risk Is Here...Government Action Will Continue UPDATED

Summary-- Years of warnings from Federal Reserve officials and academic economists about "systemic risk" in the world financial system came to a head last week. Given the recent developments surrounding Bear Stearns, we review the implications for the financial system, as well as our outlook for financial stocks by sector. This updated note adds P&C to the Outlook for Financial Stocks section.

Key Points--

* The risks to the financial system from the failure of a large investment bank have been well documented; a Bear Stearns failure could result in a loss of counterparty liquidity, prompting further insolvencies at major commercial and investment banks, thus constricting credit availability and lending, in turn creating economic weakness, adding to the depreciation in collateral values, and creating added insolvencies, in our view.

* Sunday evening marked further government action to support Bear Stearns, with JPMorgan purchasing Bear Stearns for a de minimus \$2 per share and the Federal Reserve willing to fund \$30 billion of Bear Stearns assets. In addition, the Fed announced a further extension of its lending to prime brokers, allowing broker access to the Fed Discount window, which traditionally has been only open to depositories. The Fed extended the type of collateral available for loans to "a broad range of investment-grade debt securities." Further, the Fed cut the discount rate (now called the "primary credit rate" for brokers) to 3.25% from 3.50%.

* We believe this coming week will be especially critical as the Federal Reserve will implement the extension of the discount window to brokers and meet and decide on interest rate policy. Further, financial markets will be watching whether or not a coordination of U.S. and European monetary policy will take place. Our full note reviews our expectations

for government action.

* In our view, policies that allow interest rates to fall, the dollar to strengthen, and GSE bond spreads to narrow, if successful, should restore market confidence in the coming weeks.

* Our full note reviews our outlook for financial stocks by sector.

Please refer to important disclosures and analyst certification information at the end of this report.

Systemic Risk Is Here... Government Action Will Continue

Years of warnings from Federal Reserve officials and academic economists about "systemic risk" in the world financial system came to a head last week. The potential insolvency at Bear Stearns Thursday evening forced the Federal Reserve to supply liquidity to a specific investment bank through a rarely used approach that required the participation of JPMorgan. The risks to the financial system from the failure of a large investment bank have been well documented; a Bear Stearns failure could result in a loss of counterparty liquidity, prompting further insolvencies at major commercial and investment banks, thus constricting credit availability and lending, in turn creating economic weakness, adding to the depreciation in collateral values, and creating added insolvencies, in our view.

Sunday evening marked further government action to support Bear Stearns, with JPMorgan purchasing Bear Stearns for a de minimus \$2 per share and the Federal Reserve willing to fund \$30 billion of Bear Stearns assets. In addition, the Fed announced a further extension of its lending to prime brokers, allowing broker access to the Fed Discount window, which traditionally has been only open to depositories. The Fed extended the type of collateral available for loans to "a broad range of investment-grade debt securities." Further, the Fed cut the discount rate (now called the "primary credit rate" for brokers) to 3.25% from 3.50%.

While the Fed action for near-term support for Bear Stearns prevented a crisis of multiple failures, so far the actions have done little to stem the overall tide of deleveraging by financial firms, and in our view the financial system remains fragile. We believe that market trends that accelerated last week—financial deleveraging and government action—will remain in force for some time, defining the market for financial equities throughout the spring and into the summer:

* Deleveraging: As U.S. home prices continue their descent and mortgage credit losses accelerate, the value of mortgage-backed securities has become unknown and the bid for the securities deeply discounted. The result is that financial institutions with leveraged mortgage-related securities are seeing the current market value of their collateral evaporate. This in turn has made lenders require greater equity cushions from borrowers. This liquidity crisis has spread to most asset classes as the deepening mortgage crisis extends into the general economy, which in turn adds to the demand for greater equity levels (the "negative feedback loop"). Although government action to date has increased the borrowing capacity of banks and brokers for asset-backed securities, it has not yet diminished the risk to capital of owning the securities, as defaulting on loans provided as collateral to the government would result in insolvency. Important, the Treasury and Fed appear to be willing to lend, but not buy financial assets. As a result, there continue to be strong market signals and government jawboning toward requiring greater capital levels, or lower asset levels, from many financial institutions.

* Government Action: Government policy in the U.S. through the Federal Reserve and Treasury has focused on providing liquidity to banks and brokers and on reducing interest rates. In addition, administration policies have been put in place to reduce home foreclosures and stimulate the economy through tax rebates. European monetary authorities have also been active providing liquidity, but have been much more cautious on reducing the cost of credit and on providing fiscal stimulus. The weakening U.S. economy and the differing monetary and fiscal policies have led to a weakening of the U.S. dollar, making further monetary easing in the U.S. contentious. Nevertheless, the expanding financial crisis and weakening U.S. economy suggests further U.S. fiscal and monetary stimulus and greater pressure on Europeans to coordinate policies with the U.S.

Given these trends, what do we expect to be the key events defining the financial markets in the coming weeks? We believe this coming week will be especially critical as the Federal Reserve will implement the extension of the discount window to brokers and meet and decide on interest rate policy. Further, financial markets will watch whether or not a coordination of U.S. and European monetary policy will take place. Below are our expectations for government action:

* U.S. Monetary Policy Easing: The Federal Reserve is widely expected to reduce the Fed Funds rate by 50 to 100 basis points early next week to between 2.5% and 2.0%. Low U.S. inflation numbers released Friday support a rate reduction at the higher end of expectations. However, European inflation numbers released Friday were higher than expected, suggesting the likelihood of a coordinated U.S./European rate cut is very low. The risk the Federal Reserve faces, therefore, is a significant rate cut will push the dollar down further and U.S. denominated oil prices up, fueling higher inflationary expectations and higher long-term interest rates. We believe that a rate cut of 50 basis points is most likely unless there is central bank intervention on the dollar.

* Dollar Intervention Possible: One policy option that has not yet been adopted, but which we think is increasingly likely, is global central bank intervention to strengthen the dollar. A coordinated focus to limit dollar depreciation would support more aggressive monetary easing in the U.S. and allow the ECB to maintain the current level of interest rates. In addition, as the price of oil appears increasingly inversely correlated to the value of the dollar, dollar intervention would likely result in lower oil prices and reduce inflationary expectations.

* Liquidity Infusions, but Security Purchases by the Treasury Unlikely: The Federal Reserve and Treasury appear intent on expanding their roles as lenders of last resort, including most recently opening the discount window to prime brokers and last week's unveiling of the Term Securities Lending Facility (TSLF). We expect the Fed and Treasury to continue to provide lending arrangements to banks and brokers in terms of dollars and types of collateral. Sunday evening's actions suggest the Fed's willingness to allow borrowers to use a very broad range of assets. However, we do not expect the Fed and Treasury to move toward actual purchases of securities as this would imply price setting and bailouts, both of which the current administration has been at pains to avoid, in our view.

* Homeowner Support, but No Home Purchases or Homeowner Bailouts: The Bush Administration has been supportive of voluntary efforts to restructure mortgage loans through the Hope Now program, primarily implemented through the FHA. However, President Bush and Treasury Secretary Paulson have rejected calls for home purchases by governmental agencies, including the states. In addition, the administration does not appear supportive of proposals to reduce the level of existing debt for homeowners (the Frank bill). In our view, proposals for an expansive Federal program to aid homeowners through the reduction of loan principal are unlikely to be put into effect in 2008 for three reasons: 1) passage of a bill takes time, especially without strong administration support; 2) forgiveness of debt is a controversial subject, especially in an election year; 3) the FHA, the implementing agency, has limited staff and infrastructure.

* Expansion of the Role of the GSEs: In our view, market participants and government officials are recognizing that spread widening on all types of non-treasury bonds, especially mortgage bonds, is having a negative impact on lending, which has negative economic consequences. As spreads widen for securities, lenders have less incentive to make new loans and more incentive to purchase existing loans at deep discounts. In our view, the most effective way to reduce bond spreads in the marketplace, outside of the Treasury purchasing securities, is for Fannie Mae and Freddie Mac to expand their retained portfolios of their own securities.

In our view, policies that allow interest rates to fall, the dollar to strengthen, and GSE bond spreads to narrow, if successful, should restore market confidence in the coming weeks. However, we remain cautious on equity investments in the bank and brokerage space in the near term for four reasons:

* Economic Weakness Is Accelerating: Consumer confidence is eroding as bank lending standards tighten and home equity lines of credit are cut. KBW called for a mild economic recession on December 10 primarily due to our concerns of credit constraint by banks on consumers; indications are now that the recession will be more severe than our December estimate.

* Credit Trumps Rates: In a period of economic weakening, the deterioration of credit quality overwhelms the positive impact of lower interest rates for most financial firms. We note that three large homebuilders with extensive banks lines defaulted on Las Vegas development projects over the weekend.

* Capital Raising Will Expand/Regulatory Encouraged Sales Likely: U.S. banks and brokers entered the current downturn with limited levels of loss reserves and with high leverage when off balance sheet instruments are added to balance sheet assets. We expect continued extensive capital raising and more sales of companies out of weakness rather than strength, such as the JPM/BSC and BAC/CFC deals. In particular, the very low price for BSC suggests that equity investors will receive very little compensation in a forced sale situation.

* More Crises Can Be Expected: In part due to the unregulated nature of hedge funds and other market participants, there is a lack of transparency of the balance sheet strength of many financial institutions. As a result, more crises can be expected. Bear Stearns' situation last week reduced the credibility of management statements of financial strength as Bear management made strong statements on its liquidity situation early in the week, only to backtrack a few days later.

The key indicator of the strength of the financial markets will be credit spreads, in our view. Equity investors should have an eye toward the bond markets in the coming weeks. A narrowing of spreads would be a key bullish indicator for the sector. Exhibit 1 shows the option-adjusted spread, which has climbed substantially over the past several weeks, although it showed positive movements at the end of last week.

Exhibit 1: Option-Adjusted Spread

<https://kbw.bluematrix.com/images/image_upload/41739_1.png>

Source: Bloomberg.

Exhibit 2, the TED spread, shows the spread between three-month LIBOR and three-month Treasury rates, which has shown marked volatility since the seizing of the secondary market last August.

Exhibit 2: TED Spread

<https://kbw.bluematrix.com/images/image_upload/41739_4.png>

Source: Federal Reserve and KBW Research.

Exhibit 3 shows the spread between 30-year fixed mortgage rates and the 10-year treasury rate. The metric has been increasing more rapidly in recent weeks.

Exhibit 3: 30-Year Fixed Rate Mortgage vs. 10-Year Treasury

<https://kbw.bluematrix.com/images/image_upload/41739_5.png>

Source: Federal Reserve and KBW Research.

Outlook for Financial Stocks by Sector

In terms of investments in shares of financial stocks, our outlook remains cautious and selective on the premise that the "systematic risk" is not realized but government intervention avoids it:

* We Remain Underweight on the Large-Cap and Regional Banks: Although share prices for large-cap and regional banks have been under pressure, we remain cautious in front of broadly deteriorating credit conditions, increasing capital raising, and the potential for regulatory encouraged sales.

* We Are Cautious on the Brokers: Large brokerage shares were weak on Friday despite the support for Bear Stearns, and we expect the low purchase price for Bear to put further downward prices on broker share prices. We note that the stronger investment banks should be able to pick up market share from the weaker firms in the current environment, which should be a long-term positive development for the largest brokers. However, we believe that there are likely more lurking hedge fund failures that could spur more concerns over systemic risk in the system.

* We Are Cautions on the Asset Managers: Difficult markets should continue to pressure asset values and increasing investor anxiety is likely to continue to weigh on flows from

retail investors, although institutional flows should be more modestly impacted and we expect to see additional capital deployed to opportunistic strategies over the coming weeks and months. To the extent some hedge fund managers have avoided the problems in the credit markets and protected asset levels, the current environment is validating their business models, in our view.

* **We Are Constructive on Exchanges:** For the exchange and order execution sector, the current market volatility is driving double-digit trading volume. Increased speculation about interest rate changes, asset valuations, and equity market repositioning helps push earnings revisions higher. The exchanges' standardized products offer liquidity, transparency and importantly, central counterparty clearing. We believe that exchanges could benefit from this challenging market environment that is driving the revaluation of risk and greater shift toward reducing counterparty exposure in the bi-lateral, over-the-counter derivatives products. Key customer constituents should benefit as professional trading firms and large brokers' trading desks are likely to benefit from this market volatility. To date we have seen little evidence of significant deleveraging or reduction in open interest positions at the exchange-traded derivatives. We expect that the majority of this deleveraging is impacting the over-the-counter markets focused on more structured products that do not trade on exchanges. We believe that derivatives exchanges are well-positioned to benefit from strong earnings in addition to liquidity aggregators such as MF Global (MF, Outperform, \$17.35).

* **We Are Constructive on Life Insurance:** We have viewed life insurers as a relative safe haven among financials, due to the limited recession-sensitivity of their businesses, their strong capital positions, and the generally high quality of their investment portfolios. These positive attributes remain intact, but as new shocks to the wobbly financial sector continue to emerge, the near-term appeal of such a "relative" safe haven is diminishing. While life insurers have generally avoided aggressive leverage and exotic balance sheet exposures, weakness among Wall Street counterparties introduces a new, if modest, element of risk around even benign activities such as variable annuity hedging. We would identify the most durable safe-havens as those life insurers with the very strongest balance sheets and little or no earnings leverage to the equity market--namely AFLAC (AFL, Outperform/Best Idea, \$61.21) and Assurant (AIZ, Outperform/Best Idea, \$59.68).

* **Stable ROE Outlook for P&C:** We view that the P&C sector is relatively well-positioned in a period of economic downturn as profitability appears to be relatively independent of the macro environment. While pricing is softening and large bond portfolios are subject to pressures, the industry's balance sheets and earnings power remain strong with sufficient reserves, stable loss trends and excess capital. The group is trading near book value, but with double-digit expected ROEs in 2008, we see several attractive opportunities in the sector. Our favorite names have particularly low risk balance sheets, but also opportunities to continue to grow earnings including The Hanover Group (THG, Outperform, \$40.30), Travelers (TRV, Outperform, \$44.92) and Castlepoint Holdings (CPHL, Outperform, \$9.98).

* **We Are Becoming More Positive on the Agency MBS REITs, but Very Mindful that Liquidity Remains a Concern:** We became cautious on the Agency MBS REITs earlier this month as spreads on Agency MBS widened and dealers started increasing minimum capital requirements (haircuts) to cope with the increased price volatility in this asset class. Over the last two weeks, the average share price for the four Agency MBS REITs, Annaly (NLY, Outperform, \$14.59), MFA (MFA, Market Perform, \$5.86), Capstead (CMO, Outperform, \$9.52), and Anworth (ANH, Market Perform, \$4.85), has fallen by an average of 40% with the lowest decline of 29% for Annaly and the highest decline of almost 50% for Anworth. Now MFA, Capstead, and Anworth are trading below our current estimate for book value and Annaly is trading at about 1.3x our book value estimate. We note that while spreads on Agency MBS have widened, dollar prices have deteriorated only modestly in 2008 because market rates are down sharply. Because the Agency MBS REITs hedge only a part of their portfolios with swaps, the important metric to gauge book value is the dollar price of Agency MBS, not the spread versus swaps. This suggests that book values are down only

modestly in 2008, which reinforces our view that the companies remain well capitalized. While we believe that these companies will have to hold materially higher levels of capital than they did in the past, we believe that the share prices are suggesting a more dire scenario in which these companies might have to deliver sharply by selling assets. At the moment, we believe that is unlikely as the companies generally hold equity of 10-11%, which compares to minimum capital requirements of roughly 5% (up from closer to 3% two weeks ago). Any market action to support the prices of Agency MBS, such as the GSEs buying these assets to grow their retained portfolios, would be a significant benefit to these companies. Conversely, if liquidity problems persist at the broker/dealers, we believe the market will remain concerned about these companies' access to repo funding.

* The Best Way to Play Increased Government Intervention Could Be the GSEs: As we discussed in our note on Freddie Mac last week following its investor day, we believe that the GSEs are in a position to raise capital for accretive portfolio investments that will strengthen their balance sheets (please see Credit Leverage Too Great; A Win-Win Case for FRE Capital Add, published March 12, 2008, for further detail). Assuming the GSEs do raise capital, which they are being encouraged to do by government officials, we believe that they may be solid investments. There remains considerable risk that they do not raise capital and are not allowed to expand their investment portfolios, however, which is the reason we maintain our Market Perform recommendations on Fannie Mae (FNM, \$22.36) and Freddie Mac (FRE, \$21.18).

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Rating	Count	Percent	Count	Percent
Outperform [BUY]	108	25.71	29	26.85
Market Perform [HOLD]	261	62.14	19	7.28
Underperform [SELL]	26	6.19	2	7.69
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	25	5.95	6	24.00

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We, Frederick Cannon, KBW Research Team, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and its securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

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Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Monday, March 17, 2008 9:30 AM
To: _DL_FYI
Subject: Reuters - UPDATE 1-Bush to make statement on economy on Monday

UPDATE 1-Bush to make statement on economy on Monday

191 words

17 March 2008

08:00

Reuters News

English

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(Adds details)

WASHINGTON, March 17 (Reuters) - U.S. President George W. Bush will make a statement on the economy on Monday following a morning meeting with top economic advisers, the White House said.

The meeting, due to begin at 9 a.m. EDT (1300 GMT), was a regular scheduled policy session, White House spokesman Tony Fratto said. It comes after the Federal Reserve on Sunday announced emergency measures to stem a fast-spreading global financial crisis and U.S. stock index futures plunged after JPMorgan Chase bought Bear Stearns at a fire sale price.

Bush will be meeting with a group that includes U.S. Treasury Secretary **Henry Paulson** and White House senior economic adviser Edward Lazear, Fratto said.

The president, who has been struggling to bolster faith in the economy amid fears of a recession, plans to meet later on Monday with his Working Group on Financial Markets for a status report on volatile markets. (Reporting by Matt Spetalnick, editing by Lori Santos)

USA-ECONOMY/BUSH (UPDATE 1)|LANGEN|AFA|CSA|LBY|RWSA|RWS|REULB|GNS|SXNA

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Stoltzfoos, Jeffrey

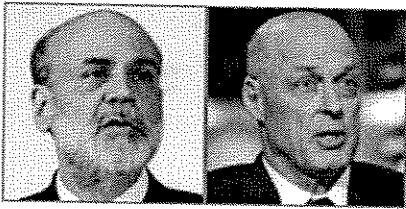
From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 9:55 AM
To: _DL_FYI
Subject: USA Today – Editorial - Facing up to debt contagion

USA Today – Editorial - Facing up to debt contagion

These days must be humbling for Wall Street financiers, high government officials and others who not long ago were preaching the virtues of leaving debt markets alone to heal themselves.

They've plainly failed, and at potentially enormous cost to everyone else.

(Photos - Bernanke: Fed organizes rescue for Bear Stearns. / By Pablo Martinez Monsivais, AP; Paulson: Rescue was "the right decision." / By Lauren Victoria Burke, ABC News, via AP)



Facing the possibility of a serious financial meltdown, Federal Reserve Chairman Ben Bernanke on Friday engineered a temporary federal bailout for Bear Stearns & Co., a Wall Street investment bank battered by its heavy involvement in mortgage-backed debt, while the troubled firm rushed to sell itself to a more stable suitor.

This action came on top of a broader assistance package unveiled Tuesday that included the Fed taking \$200 billion in toxic mortgage-backed securities off the books of major firms in return for U.S. Treasuries — a terrible trade-off for taxpayers but apparently necessary to keep the financial system functioning.

Both moves are extraordinary and a measure of just how worried the Fed is that the nation's steadily worsening debt crisis will spin out of control.

Given the consequences of a financial meltdown, it's hard to fault the Federal Reserve for acting aggressively. But it's also important not to provide too much comfort to those who caused so much harm in the first place. Bear Stearns shareholders have paid a price. The company's stock has lost more than 80% in a year. But its senior executives are not lining up to give back their bonuses, ones that came from ignoring risk to pump up returns.

Bear Stearns bet too heavily in the mortgage debt market, putting itself behind too many mortgage-backed portfolios and failing to understand the risks involved in them. In so doing, it helped inflate a housing bubble, driven in part by the proliferation of wildly inappropriate subprime mortgages.

Under normal circumstances, the company would be left to pay for its sins. But its debts to other institutions are big enough that defaulting could cause them to have problems with their own finances. That is the type of contagion the Fed is trying to avert. Even without defaults, the harm done by Bear Stearns and others has generated a general lending skittishness that is spreading to investments as safe as municipal bonds. That is hardly good for a stuttering economy.

If nothing else, it is time to realize that if government is going to help financial institutions get out of trouble, it must assume a greater role in keeping them from getting into trouble in the first place. Treasury Secretary Henry Paulson acknowledged as much in a speech last week calling for greater government oversight of mortgage lenders and brokers, and higher standards among the major firms that bundle these loans into mortgage-backed securities.

His speech sounded like a litany of all the things government and industry should have been doing years ago and resolutely rejected. A plan for the future perhaps, and a large helping of humble pie for now.

Posted at 12:21 AM/ET, March 17, 2008 in Business issues - Editorial, People - Editorial, Politics, Government - Editorial, USA TODAY editorial | Permalink

Stoltzfoos, Jeffrey

From: Reyes, Samuel
Sent: Monday, March 17, 2008 9:56 AM
To: _DL_FYI
Subject: Dow Jones: Bush To Discuss Economy Early Monday - White House

Bush To Discuss Economy Early Monday - White House

181 words

17 March 2008

08:27

Dow Jones Capital Markets Report

English

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WASHINGTON (Dow Jones)--U.S. President George W. Bush will discuss the economy with top advisers early Monday, then make remarks to reporters, the White House said.

The White House said Bush will have "policy time" on the economy at 9:00 a.m. At the end of that session, he will address a small pool of reporters.

The meeting is separate from this afternoon's gathering of the **President's Working Group on Financial Markets**, which is set for 2:10 p.m. Bush is scheduled to make remarks after that meeting as well.

The focus on the economy comes amid escalating worries about the U.S. economy and the soundness of the world financial system. The Federal Reserve took action late Sunday to shore up the system, but overseas stock markets and the dollar continued to plunge early Monday, following J.P. Morgan Chase's (JPM) purchase of Bear Stearns Cos. (BSC)..

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Monday, March 17, 2008 9:59 AM
To: _DL_FYI
Subject: AP - Fed Takes Bold Steps to Ease Crisis

Fed Takes Bold Steps to Ease Crisis

By JEANNINE AVERSA
AP Economics Writer
862 words
17 March 2008
08:42
Associated Press Newswires
English
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WASHINGTON (AP) - Urgently moving to contain a deepening credit crisis, the Federal Reserve is trying to restore confidence in panicked financial markets by becoming a lender of last resort for Wall Street investment houses that on Monday can begin securing short-term emergency loans.

However, on Wall Street skittish investors drove stocks down by more than 180 points in the first few minutes of trading. Trading on world markets also was down sharply.

The central bank, in an extraordinarily rare weekend move, took the bold action Sunday in an attempt to calm the markets. It also approved a cut in its emergency lending rate to financial institutions to 3.25 percent from 3.50 percent, effective immediately.

"These steps will provide financial institutions with greater assurance of access to funds," Federal Reserve Chairman Ben Bernanke told reporters in a brief conference call Sunday evening.

The Fed acted just after JPMorgan Chase & Co. agreed to buy rival Bear Stearns Cos. for \$236.2 billion in a deal that represents a stunning collapse for one of the world's largest and most venerable investment houses. Just on Friday the Fed had raced to provide emergency financing to cash-strapped Bear Stearns through JPMorgan. Days earlier the Fed announced a set of other unconventional steps to thaw out a credit market in danger of freezing shut.

The Fed's actions come as fears have spread that other financial houses could also be on shaky ground.

"It seems as if Bernanke & Co. are pulling out all the stops to avoid a serious financial market meltdown," Richard Yamarone, an economist at Argus Research, said Sunday evening.

Yet anxiety persisted. On world financial markets, Asian stocks plunged Monday after the JPMorgan and Fed announcements. Markets in Australia and New Zealand were also off and European stocks fell in early trading.

Oil prices hit a record in Asian trading as the value of the dollar continued its free fall and U.S. stock index futures were down sharply, suggesting Wall Street would open lower after sinking Friday.

"There is persistent credit uncertainty. Market players have been repeatedly let down which shows the subprime mortgage problems are so deep-rooted," said Atsuji Ohara, global strategist of Shinko Securities in Tokyo.

President Bush has scheduled a White House meeting Monday afternoon with his Working Group on Financial Markets, which includes Bernanke, Treasury Secretary **Henry Paulson** and Securities and Exchange Commission Chairman Christopher Cox. Paulson said Sunday, "I appreciate the additional actions taken this evening by the Federal Reserve to enhance the stability, liquidity and orderliness of our markets."

The new lending facility -- described as a cousin to the Fed's emergency lending "discount window" for banks -- is geared to give major investment houses a source of short-term cash on a regular basis -- if they need it.

That's important because those big investment houses have key roles in the financial system and if one fails or is having difficulty it could put the whole financial system in jeopardy, said Mark Zandi, chief economist at Moody's Economy.com.

These big investment houses have complex relationships with many players in the system, including hedge funds, commercial banks and others.

The lending facility will be in place for at least six months and "may be extended as conditions warrant," the Fed said. The interest rate will be 3.25 percent and a range of collateral -- including investment-grade mortgage backed securities -- will be accepted to back the overnight loans.

The "discount" rate cut announced Sunday applies only to the short-term loans that financial institutions get directly from the Federal Reserve. It doesn't apply to individual borrowers.

The Fed's actions are the latest in a recent string of innovative steps to deal with a worsening credit crisis that has unhinged Wall Street.

The action comes just two days before the central bank's scheduled meeting on Tuesday, where another big cut to a key interest rate that affects millions of people and businesses is expected to be ordered. That key rate is now at 3 percent and is expected to be cut by at least three-quarters of a percentage point on Tuesday.

The Fed said in a statement that the steps are "designed to bolster market liquidity and promote orderly market functioning ... essential for the promotion of economic growth."

Even with the Fed's aggressive moves, economic and financial conditions keep deteriorating. An increasing number of

economists believe the country already has slipped into its first recession since 2001. Many economists think that the economy is shrinking now in the January-to-March quarter. The first government figures on first-quarter economic activity will be released in late April.

The Fed on Sunday also approved the financing arrangement through which JPMorgan will acquire Bear Stearns. JPMorgan said the Fed will provide special financing for the deal. The central bank has agreed to fund up to \$30 billion of Bear Stearns' less liquid assets, according to JPMorgan.

AP Business writers Joe Bel Bruno and Madlen Read contributed to this report from New York.

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