Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Monday, March 17, 2008 10:08 AM
To: Foley, Trip
Subject: DealBook: The Bear Stearns Bailout

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

DealBook

Edited by Andrew Ross Sorkin

The New York Times

TODAY'S TOP HEADLINES | Monday, March 17, 2008

M & A: WL Ross to Buy Option One Arm for $1.1 Billion
BANKING: Paulson Defends Fed Bailout of Bear Stearns
PRIVATE EQUITY: Suit Over Clear Channel TV Deal Is Settled
HEDGE FUNDS: Hedge Funds Said to Sever Ties With Bear
OFFERINGS: Will Bear Deal Delay Visa Offering?
VENTURE CAPITAL: Open-Source Troubles in Wiki World
LEGAL: Prominent Trial Lawyer Pleads Guilty to Bribery

TOP STORY

The Bear Stearns Bailout

Bear Stearns's shocking deal to sell itself to **JPMorgan Chase** for a mere $2 per share -- less than one-tenth the firm's market price on Friday -- underscored how few options remained for Bear, which was driven to the brink of bankruptcy by what amounted to a run on the bank.

JPMorgan agreed to pay only about $270 million in stock for the firm, a third the price at which Bear went public in 1985. Only a year ago, Bear's shares sold for $170 apiece. The sale price includes Bear Stearns's soaring Madison Avenue headquarters.

As part of Sunday's watershed deal, JPMorgan and the Federal Reserve will guarantee the huge trading obligations of the trou bled firm.

Alan Schwartz, Bear's chief executive, called the transaction "the best outcome for all of our constituencies based upon the current circumstances."

Go to Article from The New York Times»
Go to Press Release from JPMorgan»

More coverage of the Bear Stearns bailout:

-- Investors wonder who is next
Go to Article from The New York Times»

-- The fallout for Bear's employees
Go to Item from DealBook»
Go to Article from Reuters»

SEARCH DEALBOOK SITE

NYU STERN

Go

DealBook | E-mail Preferences
Help | Advertising Opportunities

The Deal for Bear Stearns

Full coverage of the proposed takeover of the troubled investment bank -- and how the crisis that led to the sale. More»

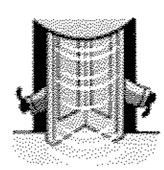
Hostility in Tech-Land

Larry Ellison may deserve much of the credit for breaking down Silicon Valley's stigma on hostile bids. More»

Spitzer Schadenfreude

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

Revolving Door



The latest hires, promotions and departures at Goldman, Bear, Cowen and more. More»

-- How the deal may proceed
Go to Item from The Deal Professor»

-- JPMorgan's expanding New York footprint
Go to Item from DealBook»

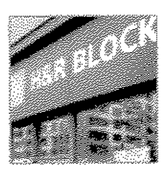
-- Blogging Sunday's conference call
Go to Item from DealBook»
Go to Webcast from JPMorgan»

-- Did the Fed's bailout cross a line?
Go to Article from The New York Times»

Go to Full Coverage of the Bear Deal from DealBook»

Read More Add a comment

MERGERS & ACQUISITIONS Back to Top



H&R Block said it would sell the servicing arm of its troubled Option One Mortgage unit to **WL Ross & Company**, billionaire Wilbur L. Ross' private equity firm, for $1.1 billion.

Go to H&R Block Press Release via Business Wire»

Read More Add a comment

The parent company of the **Chicago Mercantile Exchange** said on Monday that it will buy **Nymex Holdings** for $9.4 billion, creating a behemoth in the energy and commodities markets.

Go to CME Group Press Release via PR Newswire»
Go to Article from Bloomberg News»
Go to Article from The New York Post»

Read More Add a comment

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

Live From Super Return 2008
Some of the biggest names in private equity gathered in Munich to share strategies for weathering the industry's recent downturn. More»

DealBook Talks Yahoo
DealBook's Andrew Ross Sorkin discussed Microsoft's offer for the Internet giant on "Charlie Rose." Watch here. More»

Microsoft's Yahoo Bid
Full coverage of Microsoft's unsolicited $44.6 billion offer for Yahoo, what it means and how it might play out. More»

DealBook for BlackBerry
For readers who are BlackBerry addicts, we now offer DealBook for BlackBerry. With one-click access to DealBook -- formatted for your device -- it's easy to check the latest deal news throughout the day.

You can install the DealBook shortcut by visiting mobile.nytimes.com/bbinstall directly from your BlackBerry or by sending the text message "bb install"

Barry Diller's **IAC/InterActiveCorp** , the enterprise the media mogul cobbled together from a group of shopping services and Internet concerns, is floundering badly, The New York Times wrote Sunday.

Go to Article from The New York Times»
Go to Related Article from The New York Times»

Read More **Add a comment**

The board of **Alitalia**, the money-losing Italian airline, accepted a 747 million-euro takeover offer from **Air France-KLM** on Sunday, seizing a financial lifeline at the 11th hour after months of political indecision and labor resistance.

Go to Article from The New York Times»

Read More **Add a comment**

U.S. drugmaker **Bristol-Myers Squibb** is sounding out potential buyers for a possible sale of its Mead Johnson baby formula food business, which is valued at between $7 billion and $9 billion, according to The Financial Times.

Go to Article from The Financial Times»
Go to Article from Reuters via The New York Times»

Read More **Add a comment**

International Paper has agreed to pay $6 billion in cash to buy the packaging and recycling unit of **Weyerhaeuser**, the timber and forest products company, the companies said on Monday.

Go to Article from Reuters via The New York Times»

Read More **Add a comment**

German bank **WestLB** and Christopher Flowers, the U.S. investor with a taste for distressed financial assets, are considering bidding for **IKB Deutsche Industriebank**, The Financial Times Deutschland reported.

Go to Article from Bloomberg News»
Go to Article from Reuters»

Read More **Add a comment**

Microsoft plans to buy **Rapt**, plugging a hole in its suite of tools for Web publishers and advertisers, the software giant said Friday. Microsoft did not say what it will pay for the privately held San Francisco company.

Go to Article from The Associated Press via The New York Times»

Read More **Add a comment**

to 698698.

More information on DealBook for BlackBerry.

News By Industry

- Airlines / Autos
- Basic Industries
- Consumer Goods
- Energy / Utilities
- Financial Services
- Food & Beverage
- Healthcare
- Media
- Real Estate
- Retail / Leisure
- Technology
- Telecom

Tools & Resources

GET QUOTES

Go

Look Up Symbol

RESEARCH SUITE

- Portfolio
- Company Research
- U.S. Markets
- International Markets
- Mutual Funds

SEND A TIP OR FEEDBACK

E-mail us at dealbook@nytimes.com

Dealboard

For its $5 billion acquisition of **Cognos**, which closed in February, to go well, **I.B.M.** must communicate effectively with a wide variety of constituencies, all having different agendas and all wanting to know -- quickly -- what the transaction means for them, according to The Deal.com.

Go to Article from The Deal.com»

Read More   Add a comment

INVESTMENT BANKING

Back to Top

The Bush administration will "do what its takes" to stabilize chaotic markets and minimize the economic damage, Treasury Secretary Henry M. Paulson Jr. said Sunday after a tumultuous week capped by the government rescue of teetering investment bank **Bear Stearns**.

Go to Article from The Associated Press via The New York Times»

Read More   Add a comment

Bear Stearns's fire sale to **JPMorgan Chase** could lead to a "major negative revaluation" of financial stocks, Meredith Whitney, an analyst at Oppenheimer & Company, wrote in a research note Monday.

Go to Article from Bloomberg News»

Read More   Add a comment

In a sign of how much fear for investment banks' health has pervaded the markets, **Lehman Brothers** said on Friday that it has secured $2 billion in financing from a consortium of 40 banks.

Go to Item from DealBook»
Go to Lehman Brothers Press Release (PDF)»

Read More   Add a comment

The Swiss bank **UBS** is considering cutting as many as 8,000 jobs to save costs, and will not rule out a possible split of its wealth management and investment banking business, a Swiss newspaper reported Sunday.

Go to Article from Dow Jones via The New York Times»

Read More   Add a comment

Spreads have been rising on credit default swaps covering debt issued by some of Wall Street's leading names, such as **Bear Stearns**, **Lehman Brothers** and **Merrill Lynch**.

Go to Article from Investment Dealers' Digest»

Read More Add a comment

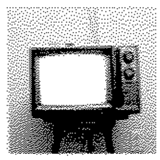
Allianz, Europe's largest insurer, said that it plans to sell off **Dresdner Kleinwort**, unwinding a seven-year-old, $36.8 billion marriage with **Dresdner Bank** few thought wise in the first place.

Go to Article from Reuters»
Go to Article from Bloomberg News»

Read More Add a comment

PRIVATE EQUITY

Back to Top



Providence Equity Partners reached a settlement Friday with **Wachovia**, one of the banks financing its purchase of the television unit of **Clear Channel Communication**.

Go to Article from The New York Times»

Read More Add a comment

It's official: **Carlyle Capital**, the publicly traded affiliate of the **Carlyle Group**, has gone bust as its lenders took possession of its securities.

Go to Article from MarketWatch»

Read More Add a comment

Times are tough for private equity. But The Financial Times suggests that if they are smart and patient, buyout firms could emerge from the turmoil in better shape than many of their financial peers.

Go to Article from The Financial Times»

Read More Add a comment

British private equity group **Sovereign Capital** has won the auction to buy **World Class Learning Schools**, an educational firm that owns the British Schools in America chain, for around $75 million, The Guardian reported.

Go to Article from The Guardian»

Read More Add a comment

HEDGE FUNDS

Back to Top

Several high-profile hedge funds have moved to sever ties with **Bear Stearns** since Friday's rescue, inflicting further damage on its once market-leading and lucrative prime brokerage business, The

Financial Times reported.

Go to Article from The Financial Times»

Read More   Add a comment

Shares in British hedge fund manager **RAB Capital** climbed over 7 percent Friday as broadly steady earnings indicated it's weathering weak markets relatively well, though the firm cautioned it's also facing a tough start to 2008.

Go to Article from MarketWatch»
Go to Article from The Telegraph»

Read More   Add a comment

I.P.O. / OFFERING

Back to Top

Will **JPMorgan Chase**'s deal to buy **Bear Stearns** delay **Visa**'s giant initial public offering? Some blogs were speculating as much, but The Wall Street Journal suggests the offering remains on track for this week.

Go to Item from The Financial Times's Alphaville»
Go to Item from The Disciplined Investor»
Go to Article from The Wall Street Journal (Subscription Required)»

Read More   Add a comment

Want Want China Holdings, China's largest maker of rice cakes and flavored milk, priced its $1.05 billion Hong Kong share sale at the bottom of a proposed range, according to a sale document.

Go to Article from Bloomberg News»

Read More   Add a comment

National Security Solutions, a blank-check company with a stockpile of high-profile former politicians and bureaucrats as advisers, filed on Friday for an initial public offering, seeking to raise as much as $200 million.

Go to National Security Solutions Filing with the Securities and Exchange Commission»
Go to Article from Reuters»

Read More   Add a comment

VENTURE CAPITAL

Back to Top

Wikipedia co-founder, Jimmy Wales, has been getting the royal treatment from the news media recently over his love life, his expense account and his ties to venture capital firm **Elevation Partners**.

Go to Article from The New York Times»

Read More   Add a comment

Range Fuels, which says it can produce cellulosic ethanol out of wood scraps, has raised $100 million to build a 100-million-gallon-a-year plant in Georgia, according to VentureWire.

Go to Article from CNet News.com»
Go to Article from the Red Herring»

Read More   Add a comment

WebVisible, a company that focuses on interactive advertising in local markets, said it has received $12 million in a second round of funding.

Go to Article from VentureBeat»

Read More   Add a comment

LEGAL

Back to Top

Richard F. Scruggs, the Mississippi lawyer who built a fortune off asbestos litigation and went on to wring billions from cigarette makers, on Friday pleaded guilty Friday to conspiring to bribe a Mississippi state judge.

Go to Article from The New York Times»

Read More   Add a comment

Former New York Stock Exchange Chairman Richard Grasso's "outlandish" compensation may have led him to be lax in regulating brokers and member firms, state Attorney General Andrew Cuomo said in an appeals court filing.

Go to Article from Blomberg News via The New York Post»

Read More   Add a comment

Selected deals in play. Spreads are calculated according to the latest stock figures available as of recent market close.

Target	Acquirer	Spread	Change
Huntsman Corp.	Hexion Specialt ...	6.08	-0.29
Nationwide Fi ...	Nationwide Mutu ...	-3.33	-0.27
Navteq Corp.	Nokia Oyj	1.93	-0.07
Northwest Air ...	Delta Air Lines ...	0.84	0.06
Nymex Holding ...	CME Group Inc.	2.46	-0.68
Penn National ...	Fortress Invest ...	22.50	1.07
Performance F ...	Wellspring Capi ...	0.47	-0.09
Post Properti ...	Cadim and Willi ...	7.54	-0.25
Puget Energy ...	Macquarie Infra ...	2.05	0.07
Rio Tinto plc	BHP Billiton pl ...	95.10	-9.15

"Change" indicates a change from previous day. Data provided by:

The Deal

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

ABOUT THIS E-MAIL

DealBook is a joint production of The New York Times and NYTimes.com, published daily, Monday-Friday, except on U.S. Market holidays and during the last week of the year. Editorial staff: Andrew Ross Sorkin, Peter Edmonston, Michael de la Merced and Liza Klaussmann.

Steel, Robert

From: Davis, Michele
Sent: Monday, March 17, 2008 10:13 AM
To: Zuccarelli, Jennifer; Steel, Robert; Ryan, Tony; McLaughlin, Brookly
Subject: RE: NYT Q on Jamie Dimon

It was a Friday morning conference call that Geithner organized with broker dealers.

-----Original Message-----
From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 10:04 AM
To: Davis, Michele; Steel, Robert; Ryan, Tony; McLaughlin, Brookly
Subject: Re: NYT Q on Jamie Dimon

They actually weren't sure of Thursday or Friday. They said "last week, i think Thursday"

----- Original Message -----
From: Davis, Michele
To: Zuccarelli, Jennifer; Steel, Robert; Ryan, Tony; McLaughlin, Brookly
Sent: Mon Mar 17 10:01:08 2008
Subject: RE: NYT Q on Jamie Dimon

Wasn't that conference call Friday, not Thursday?

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 9:58 AM
To: Davis, Michele; Steel, Robert; Ryan, Tony; McLaughlin, Brookly
Subject: NYT Q on Jamie Dimon

We've been working with the NYT for a profile piece on Jamie Dimon.

They're running the piece tomorrow and have a couple of outstanding tic-toc Qs.

1. They understand there was a conference call with a group of investment banks and Treasury Thursday. Can we give deep background insight as to who was on the call and what Jamie's role was on the call?
2. They understand that the Secretary and Jamie spoke Thursday. Can we give any insight into that conversation on deep background or background?

Once we figure out what, if anything, we want to say, I'm going to let Kristen, Jamie's spokewoman, know.

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

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Monday, March 17, 2008 10:53 AM
To: _DL_FYI
Subject: AP- Concern about credit crisis leads Fed to make rare weekend move

Concern about credit crisis leads Fed to make rare weekend move
By JEANNINE AVERSA
AP Economics Writer
1039 words
17 March 2008
09:45
Associated Press Newswires
English

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.

President Bush rushed to strike a note of calm to the turbulent situation on Monday morning, hailing the Fed's action and saying: "We've taken strong decisive action." The president spoke after meeting at the White House with Treasury Secretary **Henry Paulson** and other members of his economic team.

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 million 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. The Bank of England moved Monday to inject an extra $10.1 billion into its financial system to provide relief.

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.

Bush had a Monday afternoon meeting scheduled at the White House 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."

Democratic presidential candidate Hillary Rodham Clinton said "I'm not going to second guess the fed," either on its steps to consummate the sale of Bear Stearns, on its decision to assume the risk of some of mortgage loans now assumed by JP Morgan Chase or on a decision to cut a key interest rate.

But she criticized Bush, saying he has failed to exercise leadership to address economic problems.

"Now we are in the soup and we better get ourselves out of it before the consequences get drastic," she told reporters in Washington.

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. AP Business Writer Jane Wardell contributed from London.

5

image

Document APRS000020080317e43h0003v

Stoltzfoos, Jeffrey

From: Norton, Jeremiah
Sent: Monday, March 17, 2008 11:12 PM
To: Ugoletti, Mario; Stoltzfoos, Jeffrey
Subject: Fw: Wsj -- second regulation

----- Original Message -----
From: Norton, Jeremiah
To: Nason, David
Sent: Mon Mar 17 23:08:44 2008
Subject: Wsj -- second regulation

Crisis Highlights SEC's Limits Agency's Lack of Tools To Stem Financial Woes May Rekindle Debate

By KARA SCANNELL

March 18, 2008

As Bear Stearns Cos. unraveled over the past several days, its primary regulator, the Securities and Exchange Commission, had few tools at its disposal to stem the crisis, a reality that could reignite the debate over how U.S. financial markets should be regulated. As a brokerage firm, Bear is overseen by the SEC, which looks through the holding company to review the firm's risk management, cash reserves, size and types of positions held on the firm's balance sheet, and how those assets are being valued. But, unlike the Federal Reserve, the SEC and other regulators don't have a checkbook to help inject money into an investment bank or market when it hits trouble. "They don't have a whole lot of tools available to them, like the Fed does," says Larry Bergmann, a special counsel at Willkie Farr & Gallagher LLP, who worked in the SEC division overseeing the markets from 1984 to 2005. "Their main concern is that the capital of the firm is there so that if the firm has to liquidate the customers are taken care of." The Federal Reserve is charged with maintaining the safety of the markets and ensuring no systemic risk undermines the capital system, which it does through its oversight of bank-holding companies. The Fed's emergency move to open up its financing directly to 20 securities firms, through its discount window, signals that the lines between investment banks and commercial banks has blurred. This will likely fuel the debate over the best way to regulate increasingly complex business models that trade in unregulated instruments. The Federal Reserve's bailout of Bear Stearns may add weight to continuing reviews of financial regulation, say former regulators. "What makes more sense is to have a unified system of financial-services regulation," says Harvey Pitt, a former SEC Chairman. "These various players are all doing the same thing even if they're called different things. It doesn't allow for the effective measurement of risk, the effective development of national policy. It's just a patchwork quilt that needs to be revised." Yesterday, Senate Banking Committee Chairman Christopher Dodd (D., Conn.) said the Fed should be given some supervisory powers over the investment banks if it is going to lend to them directly through the discount window. The SEC set up a consolidated supervising program in 2004 to give it comparable oversight of the five largest securities firms as the Federal Reserve has on bank-holding companies. Under the so-called CSE review program, the SEC monitors the funding, risk management and soundness of the investment banks and shares that information with other regulators. It has prodded Bear and other investment banks to increase their reserve levels over the past 12 months. But the agency's powers are more limited when customers and lenders lose confidence, as was the case with Bear Stearns. The SEC can't inject funds into the market; it can facilitate how a brokerage firm is unwound, help transfer customer accounts elsewhere, and make sure the holding company doesn't siphon funds away from customer accounts. When Drexel Burnham Lambert ran into trouble from financing junk bonds in the late 1980s, the SEC helped unwind the fund and transfer customer accounts. Last Tuesday, Bear Stearns had $17 billion in cash and cash equivalents. SEC Chairman Christopher Cox said that day: "We have a good deal of comfort" about capital adequacy at bank-holding companies based on "constant," sometimes daily, reviews. Yet, as confidence eroded, Bear's liquid assets had fallen to $2 billion by the end of the day on Thursday, triggering calls to the Federal Reserve for assistance. As the issues at Bear deteriorated over the past week, questions began to surface as to whether the SEC should have seen the problems coming. "Should the regulators have figured that out? There's a limit to how much you can reserve for and prevent," said a former SEC official. Hans Stoll, a finance professor at Vanderbilt University's school of management said, "We may want to revisit the structure of regulation." But he added, "You don't want to lose sight of the fact that this is more liquidity crunch than a problem with regulation." Write to Kara Scannell at kara.scannell@wsj.com

Foley, Trip

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 11:59 AM
To: _DL_FYI
Subject: NRO- Kudlow Blog on JP, Bear Arrangement

JP Morgan Chase + Bear Stearns

National Review Online

[Larry Kudlow]

A great old firm got bought out today for peanuts. I was a partner before and after the Reagan administration. A sub-prime credit casualty.

Paulson and Bernanke have done exactly the right thing. It was a run on the bank. The Fed stopped it right there. No banking crisis.

The big Wall Street banks are in good shape, even with earnings losses they're still well capitalized, profitable and solvent. Fed stopped it from spreading on Friday; JPMorgan takes them over tomorrow.

The Fed cut the discount rate today by a quarter point. It will reduce target the fed-funds rate on Tuesday. The banking system will function fine. That's the key.

Paulson was good on the talkies today, emphasizing confidence in the banking system. He's a capable guy who is working the phones and is in touch with everyone This is how to stop a crisis. Bush was right to put on an optimistic face on Friday in my interview and later in his speech to the N.Y. Economics Club.

Senator Schumer is calling Bush "Herbert Hoover." But Hoover signed protectionist Smoot-Hawley, just as Hillary and Obama are today trying to break up NAFTA. Hoover signed a huge tax increase, just as Hill-Bama are preaching. The Dems are emulating Hoover. Bush is trying to stop it.

But the administration should be pushing for a strong dollar. That would help.

03/16 10:27 PM

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

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 12:20 PM
To: Abbott, Matthew; Appleton, Jesse; Bieger, Peter; Butler, John; Davis, Michele; Foley, Trip; Forsell, Courtney; Foster, Robert; Garibay, Marisol; Jaconi, Kristen; Kane, Lauren; Kashkari, Neel; Mason, Jeb; McLaughlin, Brookly; Nason, David; Norton, Jeremiah; Overlock, Garret; Reyes, Samuel; Robertson, William; Ryan, Tony; Scogin, Matthew; Steel, Robert; Stoltzfoos, Jeffrey; Ugoletti, Mario; Wheeler, Seth
Subject: AP- Shares of Fannie Mae, Freddie Mac fall after questions raised about need for fresh capital

Shares of Fannie Mae, Freddie Mac fall after questions raised about need for fresh capital
By DAN CATERINICCHIA AP Business Writer
17 March 2008
Associated Press Newswires

WASHINGTON (AP) - Shares of Fannie Mae and Freddie Mac fell Monday after an analyst said each of the government-sponsored mortgage-finance companies need to raise about $20 billion.

The financial markets remain in turmoil despite another rate cut and emergency lending action announced Sunday by the Federal Reserve.

Analysts say both Fannie and Freddie need to raise new cash in order to play a bigger role in a housing market that has been stung by slumping home prices and rising foreclosures.

They each need to raise about $20 billion and the banking system needs up to $250 billion, according to a note from Friedman Billings Ramsey analyst Paul J. Miller Jr. The financial system is up $1.2 trillion undercapitalized, depending on the amount of exposure reduction that already has occurred.

"Fresh capital will help to stabilize pricing and eventually stop the destruction of capital from continued securities write-downs," Miller wrote.

Shares of Freddie Mac dropped 68 cents, or 3.2 percent, to $20.50 in midday trading, while Fannie Mae slipped $1.55, or 6.9 percent, to $20.81 after earlier falling to a 52-week low of $18.25.

"Fannie and Freddie Mac are part of the solution to this problem and always have been," Fox-Pitt Kelton analyst Howard Shapiro said in an interview. "Part of that solution is getting mortgages into the strongest possible hands as soon as possible, (to those) who can manage the credit risk over the long term, and the two strongest players to do that are Fannie Mae and Freddie Mac."

On March 6, shares of Fannie and Freddie fell after the Treasury Department denied rumors that the government would formally back the companies. The Treasury is not obligated to assist either one in a financial emergency, but many on Wall Street believe the government would bail them out if there is a collapse.

Elsewhere, JPMorgan on Sunday said it would buy Bear Stearns Cos. for $236.2 million, or $2 per share. The federal government fast-tracked the deal to avoid a bankruptcy after bad bets in the troubled mortgage market helped Bear Stearns' shares to plummet near $4 Monday from $62.30 a week ago.

Sunday also saw the Federal Reserve become a lender of last resort for Wall Street investment firms to begin securing short-term emergency loans. The central bank, in a rare weekend move, also approved a cut in its emergency lending rate to financial institutions to 3.25 percent from 3.50 percent.

"The government, through either the Fed or Capitol Hill, will find a solution to fix the many problems facing financials today, but it will take time and it will be painful, and we would expect normalcy in the markets not to return until sometime in late 2009 or early 2010," Miller wrote.

Jennifer Zuccarelli
Director, Office of Public Affairs
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW

Washington, DC 20220
Phone: 202-622-8657
Fax: 202-622-1999

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 12:51 PM
To: _DL_FYI
Subject: (BN) Bush Says Ready for More Action on Markets If Needed (U

Bush Says Ready for More Action on Markets If Needed (Update3)
2008-03-17 12:40 (New York)

By Roger Runningen and Catherine Dodge

March 17 (Bloomberg) -- President George W. Bush sought to reassure Americans as stocks and the dollar tumbled after the Federal Reserve struggled to prevent a meltdown in financial markets, saying he's prepared to act ``decisively'' if needed.

``One thing for certain is we're in challenging times,'' Bush told reporters today at the White House. ``The U.S. is on top of the situation.''

The government is monitoring all financial markets ``and when need be, we will act decisively, in a way that continues to bring order to the financial markets,'' Bush said. He spoke after meeting with Treasury Secretary Henry Paulson; Budget Director Jim Nussle; Ed Lazear, chairman of his Council of Economic Advisers; and Keith Hennessey, director of the National Economic Council.

In emergency action yesterday, the Fed reduced the rate on direct loans to banks by a quarter of a percentage point to 3.25 percent and extended borrowing authority to the 20 firms that buy Treasury securities directly from the central bank.

``The aim of the actions of the Fed taken yesterday were to minimize broader market disruptions,'' White House Press Secretary Dana Perino told reporters this morning. ``The actions the Fed took yesterday do not amount to a bailout.''

Bush spoke with Paulson late yesterday afternoon and was given an update on the actions the Fed would take, Perino said.

The president meets this afternoon with a working group that includes Paulson, Fed Chairman Ben S. Bernanke, Securities and Exchange Commission Chairman Christopher Cox and Walter Lukken, acting chairman of the Commodity Futures Trading Commission.

Weighing Future

The administration will look ``at any possible future actions that might need to take place in terms of addressing the economy,'' Perino said.

The Fed also yesterday said it would provide as much as $30 billion to JPMorgan Chase & Co., the second-biggest U.S. bank, to help it finance the purchase of rival Bear Stearns Cos. after a run on Wall Street's fifth-largest securities firm.

Senator Charles Schumer, a New York Democrat, praised the Fed's move as smart and timely.

``Hopefully Bear's problems will wake this administration out of its torpor,'' Schumer said in a statement. ``If they fail to act to deal with the bull's eye of this crisis, which is housing, the likelihood of more Bears is too great.''

Democratic presidential candidate Hillary Clinton said she is monitoring the markets and spoke with Paulson and New York Federal Reserve President Tim Geithner this morning.

`More Urgency'

``In these times of stress and uncertainty, we need to be vigilant, to do everything in our power to maintain confidence in our financial system,'' Clinton, a New York senator, said in a statement. ``We've got to have more urgency to continue the action that was started yesterday.''

Clinton's rival, Barack Obama, campaigning in Monaca, Pennsylvania, said the U.S. economy is ``heading towards recession'' and called for ``fundamental change'' that isn't ``just about representing Wall Street.''

Obama cited an end to tax breaks to companies that ``ship jobs overseas,'' rolling back tax cuts to the wealthiest and giving them to ``ordinary, hard-working Americans,'' and closing loopholes and tax havens.

The Bush administration has resisted the use of government funds or guarantees to stem the surge in mortgage 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.

Frank Legislation

House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, and Senate Banking Committee Chairman Christopher Dodd, a Connecticut Democrat, offered a plan March 13 to let the Federal Housing Administration insure refinanced mortgages after lenders reduce principal to help struggling borrowers.

The Bush administration yesterday withheld any endorsement.

``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 an ABC interview March 16.

Bush said today that U.S. capital markets are functioning efficiently and in the long run, the ``economy is going to be fine.''

Bush said March 15 that there is danger in the government overreacting to the credit crisis in the housing markets.

--With reporting by Scott Lanman and Craig Torres in Washington and Heidi Przybyla in Monaca. Editors: Robin Meszoly, Laurie Asseo.

To contact the reporters on this story:
Roger Runningen in Washington at +1-202-624-1884 or rrunningen@bloomberg.net; Catherine Dodge in Washington, at +1-202-624-1828 or Cdodge1@bloomberg.net

To contact the editor responsible for this story:
Mike Forsythe at +1-202-624-1940 or mforsythe@bloomberg.net

[TAGINFO]

NI EXE
NI FED
NI GOV
NI ECO
NI US
NI REL
NI MOR
NI HOM
NI FX
NI INF
NI LABOR
NI USECO

#<610771.1204164.1.0.69.26862.25>#
-0- Mar/17/2008 16:40 GMT

Stoltzfoos, Jeffrey

From: Jaconi, Kristen
Sent: Monday, March 17, 2008 1:00 PM
To: Nason, David; Norton, Jeremiah; Stoltzfoos, Jeffrey
Subject: WSJ Deal Journal

http://files.shareholder.com/downloads/ONE/261289696x0x180609/8cbd90fb-0f16-4238-a908-e0a07a904682/JPM_Bear%20FINAL.pdf

http://online.wsj.com/public/resources/documents/JPMCALL.pdf

March 17, 2008, 9:42 am

What Was J.P. Morgan Thinking?

Posted by Heidi Moore

What is J.P. Morgan getting out of its Bear deal?

A great steal? Or a great pile of liabilities?

To answer the question, Deal Journal brings you the highlights from last night's conference call, which included J.P. Morgan CFO Mike Cavanagh and co-CEOs of investment banking Bill Winters and Steve Black. In their own words, they explain what they saw in Bear. You can also see the full transcript of the call if you click here, courtesy of Thomson StreetEvents. You can also find the investor presentation here.

Bear's business wasn't so bad after all

Guy Moszkowski of Merrill Lynch said: Okay, so then just to cap it off, it certainly doesn't sound as if when you went in there you found a massive problem with respect to risk management or hedging. It sounds like given that you're saying that it's very similar to your own, it sounds like you found something that you're fundamentally comfortable with. Is that fair?
Bill Winters: That's right. In fact what we've — we were very pleasantly surprised to see that it was a very well run, tight operation with good risk controls and a risk discipline that was very similar to our own.

What J.P. Morgan is getting

Cavanagh explained, "Strategically you really get some nice add-ons to the JPMorgan Chase, particularly the Investment Banking franchise.... we pick up strong prime brokerage and global clearing business where Bear Stearns is a leader. And we look forward to bringing that capability into J.P. Morgan Chase. Of course the strong equities platform at Bear also enhances our businesses here. There's an extension of our energy business and then across the other areas of fixed income and investment banking, we get obviously to add the strength of Bear Stearns to JPMorgan Chase."

Black later added about Bear's mortgage business: Needless to say, a very, very good strong business and one that in the long run will be very additive and as you know and from the conversations we had on Investor Day, it's a business that we are looking to pick up market share in. And it's a great environment to be able to do that.

Why so cheap? To protect against trouble ahead

Cavanagh, Black and Winters talked about the considerable risk of expensive litigation facing bear, as well as the chance of further writedowns. (Some analysts have predicted upcoming writedowns of nearly $2 billion at Bear).
Cavanagh: Obviously looking at our duties to J.P. Morgan shareholders the deal we laid out didn't result in the ability to pay more than the modest amount that was paid over to the Bear Stearns shareholders.
Black: And is the most significant element of the difference between book value and what we're paying other than the litigation and the cost of de-leveraging, just essentially marks on mortgage assets?
Bill Winters: It's all the items that Mike laid out in the slides. It's also obviously a cushion to protect J.P. Morgan shareholders in — during particular turbulent times in the market.

Cavanagh also clarified that J.P. Morgan is taking on $33b worth of gross exposures because of Bear, including about $9b or so in leveraged lending exposures.

What role did the Fed play?

Bill Winters: Part of the reason we structured the transaction the way we did with the $30b of non-recourse financing from the Fed was to avoid the need for any kind of a fire sale of assets...over time in a very orderly way we'll look to rebalance our balance sheet, as we were doing in any case inside J.P. Morgan, and as Bear was doing in any case. But with the benefit of the combination and the liquidity and financing support from the Fed, that can be a very orderly process that we don't expect to have any material impact on the market.

Can Bear still do deals?

Bill Winters: Bear Stearns is absolutely open for business.

Bear probably won't be able to do better

Bill Winters: We have every expectation that Bear Stearns shareholders will approve this deal. I think we're offering the best alternative that they've got at this point and...we'd be surprised if a better alternative came along.

The deal was struck quickly, but diligence and integration will take up to another two years

Steve Black: [In response to a question about Bear's mortgage business] We've actually had a chance to be in there for exactly a day and a half. So I'd say it's probably too early to tell, but clearly they've got an outstanding platform for an extended period of time. We've been growing and building ours and we'll do what we always do, which is go in and figure out where it is complementary, where there might be some overlap, what the — what we think the normalized business looks like over the next 12 to — 18 to 24 months, and then make the appropriate alterations that need to be made at that time. But it's way too early for us to tell at this stage.

Comments (60) | Permalink
Save & Share: Share on Facebook | Del.icio.us | Digg this | Email This | Print
Read more: J.P. Morgan Chase, Bear Stearns, Investment Banks, Global

Appleton, Jesse

From: Susan Estes (b) (6) [redacted]nail.com]
Sent: Monday, March 17, 2008 1:47 PM
To: Ryan, Tony; Ramanathan, Karthik
Subject: A case for 50bps tomorrow, thoughts from the sideline.

Here you go.

---------- Forwarded message ----------
From: **Susan Estes** (b) (6) [redacted]nail.com>
Date: Mar 17, 2008 [redacted]
Subject: A case for 50bps tomorrow, thoughts from the sideline.
To:

This is not Greenspan's Fed. Bernanke might have been behind the curve, but by moving to unconventional measures, and I repeat measure(s), in their attempt to avert crisis they stand a far better chance for success than a Fed that follows the mkt. One girl's opinion:

- The move to unconventional measures should be applauded. Criticism is misplaced. Saving Bear averted a much larger crisis, but the press needs to be managed better. Several weeks ago, Mohamed El-Erian (former Harvard Asset Mgmt, now co-CEO and co-CIO of Pimco), articulated on CNBC that the downside of fearing a moral hazard backlash could be much worse than the backlash itself. Kudos for Mohamed. Kudos for Bernanke.
- The mkt is pricing for an aggressive move by the Fed tomorrow. ***IF*** they were to go 100bps, the front FF contract should trade 97.45. In my humble opinion, too large of a cut tomorrow will signal panic, and move the dollar closer to the world's carry currency. It makes more sense to move 50bps, maximum 75bps (although I believe 50 sends a better signal) and get the mkt focused on the fact that the Fed might have already vetted out more unconventional measures b/c they recognise that moving the FF's target is no longer the healing mechanism that transmits liquidity to the market that it once was. The market is as bearish on the economy today as they were convinced last May that sub-prime was contained.
- With Bear trading above JP Morgan's bid, might we consider buyers waiting on the sideline for prices to bottom might actually think Bear's toxic portfolio might have value? A bidding war for Bear, if it ensues, could signal the bottom bringing in buyers of paper, causing spreads to begin narrowing?

Again, just one girl's opinion. Welcome any and all feedback.Please be warned my email blocks obscenities (smile).

Susan

--
Susan M. Estes
(b) (6) [redacted]

--

Susan M. Estes
(b) (6) [redacted]

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 1:55 PM
To: _DL_FYI
Subject: AP- Fed's guarantee of $30B in troubled Bear Stearns assets raises questions about risks

Fed's guarantee of $30B in troubled Bear Stearns assets raises questions about risks
By ALAN ZIBEL
17 March 2008
Associated Press Newswires

WASHINGTON (AP) - The federal government's financial assistance in JPMorgan Chase & Co.'s purchase of a crumbling Bear Stearns Cos. raises many questions for investors and the public at large -- not least, whether it amounts to a taxpayer-funded bailout of an investment bank.

Here are some basic questions and answers about the $263.2 million acquisition, which was negotiated over the weekend with help from the Federal Reserve and Treasury Department:

Q. What exactly is the government contributing?

A. To protect JPMorgan from the greatest risks on Bear Stearns' books, the Federal Reserve agreed to guarantee up to $30 billion of Bear's most troubled assets -- primarily mortgage securities that have plummeted in value and have become tough to sell.

Q: Why would the Fed do that?

A: Experts say the risks of inaction were far greater. With investors backing away from anything linked to the U.S. mortgage market, the Fed aims to prevent the value of those investments from plunging even further, which could cause widespread fallout among big banks. "The problem is that unless the major financial (companies) are kept solvent, the economy will suffer (so much) that everybody's livelihood will be affected," said Peter Walliston, a senior fellow at the American Enterprise Institute.

Q. Does this mean my tax dollars are being used to bail out Wall Street?

A. Not exactly. The Fed has vast resources on its own, thanks to its ability to sell Treasury securities that investors consider extremely safe. Still, some fear the mortgage crisis that engulfed Bear Stearns will soon spread to other companies and ultimately test the Fed's resources, especially after the central bank last week said it would lend up to $200 billion in exchange for mortgage investments.

Q. Might taxpayers ultimately be on the hook?

A. Potentially. The Federal Reserve's actions could augur much broader government action to stabilize the mortgage market. Calls are growing in Congress for government-funded efforts to help borrowers refinance out of troubled loans.

Q. Didn't the Bear Stearns CEO say his company was fine on Wednesday?

A. Yes. Alan Schwartz said on CNBC that Bear was not having any trouble funding its business. He may have been correct -- at the time. But confidence matters at least as much as reality, and his statement wasn't enough to reassure investors.

Q. So what happened between Wednesday and Friday?

A. There appears to have been a classic bank run: Jittery clients sought to take their money out of Bear Stearns, but Bear said Friday it did not have enough money on hand to meet all payments. When word of that got out, more clients demanded their money.

Q. How could Bear not have enough money? Doesn't it have $33 billion in assets?

A. Yes, but those assets are not all "liquid" -- which means they aren't easily convertible to cash that can be paid to investors.

Q. What about the Bear Stearns shares I own?

A. Bad news: They are worth at least 95 percent less than they were at the start of January.

7

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

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 3:25 PM
To: _DL_FYI
Subject: (BN) Dodd Says Bush Administration Receptive to His Foreclos

Dodd Says Bush Administration Receptive to His Foreclosure Plan
2008-03-17 15:20 (New York)

By Alison Vekshin

March 17 (Bloomberg) -- U.S. Senate Banking Committee Chairman Christopher Dodd said Federal Reserve Chairman Ben S. Bernanke and Secretary Henry Paulson are more receptive to his plan to allow the government to insure ``distressed'' mortgages as they look for ways to revive credit markets and the economy.

``I think there's a greater receptivity to this idea than there was 48 hours ago,'' Dodd said today in a conference call with reporters from Brussels. The Connecticut Democrat said weekend talks with the policy makers on JPMorgan Chase & Co's acquisition of Bear Stearns Cos. left him with the impression they are more willing to consider the proposal he floated last week.

--Editors: Gregory Mott, Jeff Plungis.

To contact the reporter on this story:
Alison Vekshin in Washington at +1-202-654-4307 or avekshin@bloomberg.net.

To contact the editor responsible for this story:
Otis Bilodeau at +1-212-617-3921 or
obilodeau@bloomberg.net.

[TAGINFO]

BSC US <EQUITY> CN
JPM US <EQUITY> CN

NI BNK
NI FIN
NI US
NI COS
NI GOV
NI CNG
NI SUBPRIME
NI MOR
NI REL

#<610522.4371757.1.0.69.26862.25>#
-0- Mar/17/2008 19:20 GMT

Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Monday, March 17, 2008 3:32 PM
To: _DL_FYI
Subject: Reuters: Paulson says orderly markets essential

Paulson says orderly markets essential

148 words

17 March 2008

15:13

Reuters News

English

WASHINGTON, March 17 (Reuters) - U.S. Treasury Secretary Henry Paulson on Monday defended government moves to rescue investment bank Bear Stearns from bankruptcy, saying it was important to ensure orderly function of financial markets.

Speaking to reporters following a White House meeting between President George W. Bush and his economic advisers, Paulson said those worried about the government rescue creating a "moral hazard" should keep in mind that Bear Stearns' shareholders face considerable losses with the sale of the investment firm to JPMorgan Chase.

Paulson declined to answer a question about whether the United States might intervene in currency markets to support the weakening dollar. Instead he simply repeated that the Bush administration supported a strong dollar policy.

Valentic, Marsha

From: Foley, Trip
Sent: Monday, March 17, 2008 3:32 PM
To: Valentic, Marsha
Subject: do you know if Bacchus was even at the office given the break?

Trip Foley
Special Assistant to the
Under Secretary for Domestic Finance

U.S. Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220
(T): 202-622-1258 | (F): 202-622-2362
Email: trip.foley@do.treas.gov

From: Forsell, Courtney
Sent: Monday, March 17, 2008 3:33 PM
To: _DL_FYI
Subject: AP: Bush: US Is on Top of Financial Crisis

Bush: US Is on Top of Financial Crisis

By BEN FELLER

Associated Press Writer

555 words

17 March 2008

15:11

Associated Press Newswires

English

WASHINGTON (AP) - President Bush, trying to calm turmoil in financial markets, said Monday that his administration is "on top of the situation" in dealing with the slumping economy.

"One thing is for certain, we're in challenging times," the president said after meeting with Treasury Secretary Henry Paulson and other senior economic advisers. "But another thing is for certain: We've taken strong, decisive action."

The president commended the Federal Reserve for its urgent actions over the weekend. He praised Paulson for working with the Fed and showing "the country and the world that the United States is on top of the situation."

Bush spoke on a day of turmoil and plunging prices on global financial markets. Oil prices hit a record in Asian trading, U.S. stock index futures fell sharply and the dollar hit record lows.

The White House moved quickly to raise Bush's public profile Monday, and he continued to send an upbeat message, even in acknowledging a downturn that keeps roiling the economy and the country's people as well.

Bush said "our financial institutions are strong" and "our capital markets are functioning efficiently and effectively."

Still, Bush said his administration is monitoring economic developments closely.

"When need be, we'll act decisively in a way that continues to bring order to financial markets," Bush said.

He did not indicate any other steps his government might take, or when.

"In the long run, our economy is going to be fine," Bush said. "Right now we're dealing with a difficult situation."

The Federal Reserve, in an extraordinarily rare weekend move, became a lender of last resort for Wall Street investment houses to begin securing short-term emergency loans. The central bank also approved a cut in its emergency lending rate to financial institutions to 3.25 percent from 3.50 percent.

White House press secretary Dana Perino said later that Bush had been kept informed of the Fed's intended actions through a variety of people, but that he was not personally involved in making or approving the decision.

She defended the dramatic intervention on behalf of the financial markets as necessary, even as Bush himself warned only on Friday against excessive government intervention in the housing markets. "The concern about possible future market disruptions is real, and a concern not only just to the president but also to world markets," Perino said.

She also said the administration was taking action to help individual homeowners suffering from higher mortgage defaults, and that there is "a responsibility on the part of the media to really explain" that assistance.

Later Monday, Bush met with his Working Group on Financial Markets, which includes Paulson, Federal Reserve Chairman Ben Bernanke and Securities and Exchange Commission Chairman Christopher Cox.

Afterward, Paulson rejected the notion that the government had bailed out Bear Stearns with a $30 billion line of credit for a takeover by JPMorgan Chase. "If you would ask the Bear Stears shareholder in what has happened in terms of their value, I don't think any of them would think this is a good outcome for them," Paulson told reporters in the White House driveway.

"This was an easy decision," he said. "It was the right outcome."

Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Monday, March 17, 2008 3:34 PM
To: _DL_FYI
Subject: DJ: Paulson: Admin "Quite Pleased" With Moves To Stabilize Mket

Paulson: Admin "Quite Pleased" With Moves To Stabilize Mket

239 words

17 March 2008

14:57

Dow Jones International News

English

WASHINGTON (Dow Jones)--U.S. Treasury Secretary Henry Paulson said the Bush administration is "quite pleased" with moves the Federal Reserve has made to bolster the financial system.

Paulson repeated the White House's "strong dollar" policy and declined to discuss a potential intervention in markets to drive up the sagging dollar.

"I'm not going to speculate on hypotheticals on intervention; I will just say to you again what you've heard me say before. We have a strong dollar policy, it's very much in our nation's interest," Paulson told reporters after a meeting of the President's Working Group on Financial Markets.

Paulson said the working group briefed President George W. Bush on what is happening in financial markets in the wake of J.P. Morgan Chase & Co.'s (JPM) agreement to buy Bear Stearns Cos. (BSC), and the Federal Reserve's moves to boost liquidity in the capital markets.

"He was generally quite pleased with the actions that were taken, as are we," Paulson said.

The working group includes Paulson, Fed Chairman Ben Bernanke, Securities and Exchange Commission Chairman Christopher Cox, and Commodity Futures Trading Commission head Walter Lukken.

Bush didn't address the media after the meeting, sitting silently through a brief photo opportunity.

-By Henry J. Pulizzi, Dow Jones Newswires; 202-862-9256; henry.pulizzi@dowjones.com [17-03-08 1924GMT]

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 3:35 PM
To: _DL_FYI
Subject: TRANSCRIPT - Secretary Paulson's Comments to reporters following PWG Meeting

Secretary Of Treasury Henry M. Paulson Jr. Holds A.., sked FINA
2008-03-17 15:18 (New York)

TRANSCRIPT

March 17, 2008

MEDIA AVAILABILITY

SECRETARY OF TREASURY HENRY M. PAULSON JR.

WASHINGTON, D.C.

SECRETARY OF TREASURY HENRY M. PAULSON JR. HOLDS A MEDIA AVAILABILITY FOLLOWING A WHITE HOUSE MEETING

CQ Transcriptions, LLC
1255 22nd Street N.W.
Washington, D.C. 20037
Transcript/Programming: Tel. 301-731-1728
Sales: Tel. 202-419-8500 ext 599
sales@cq.com
www.cq.com

SECRETARY PAULSON HOLDS A MEDIA AVAILABILITY FOLLOWING A WHITE HOUSE MEETING

MARCH 17, 2008

SPEAKER: SECRETARY OF TREASURY HENRY M. PAULSON JR.

PAULSON: Good afternoon, everyone.

We had a good meeting of the President's Working Group on Financial Markets with the president. We gave him an update on what's happening in the markets this morning. He was well aware of the actions that took place over the weekend because I had a couple conversations with him and (inaudible) as we went along here.

We talked about the markets, emphasized the priority of the orderly function of our capital markets, talked about the strength of our financial institutions. And he was, I think, generally quite pleased with the actions that were taken, as are we, given the way the markets are preforming today.

So I will take your -- take a couple of comments or questions.

QUESTION: Mr. Secretary, can I ask you to just respond to the idea that what was done over the weekend in behalf of Bear Stearns and the general financial community there is considerably more aggressive than action taken on behalf of homeowners facing foreclosure?

PAULSON: Which is the -- is your response that Bear Stearns was treated better than homeowners facing foreclosure?

QUESTION: No, my question is, for people out there wondering about the little guy...

PAULSON: Right.

QUESTION: ... and the help available to them from the government, they're looking at this...

(CROSSTALK)

PAULSON: Oh, I got your point.

What I would say is, if you would ask the Bear Stearns shareholder in terms of what has happened to their value, that I don't think any of them would think that this has been a good outcome for them.

And when we talk about moral hazard, I would say look at the Bear Stearns shareholder.

This was -- this is what happens when there is a liquidity problem. And there was a liquidity problem. This outcome was much better than a filing by them; that, again, when we -- when policy- makers think through these issues, there's the moral hazard on the one hand, and on the other there is the importance of orderly markets, stability in our financial system.

PAULSON: And this was an easy decision. This has the right outcome.

And, again, in terms of the moral hazard, what happened to the Bear Stearns shareholders.

QUESTION: Can you talk about whether or not you're rethinking the idea of helping out the housing industry? I'm thinking of Dodd's legislation or Barney Frank's legislation.

And also a second, would you consider or would you rule out intervening in the foreign exchange markets to stop the slide of the dollar?

QUESTION: Would you address the cameras, sir?

PAULSON: Yes, I'm sorry.

Let me address both of those questions. First of all, what's going on in the housing market.

One of the things I did today was spent 45 minutes with members of the Hope Now Alliance, again, talking about initiatives there to avoid preventable foreclosures.

But to get more specifically to the question, what I'm really focused on are things that can be done quickly that make a difference.
And so, although there's some interesting ideas up on the Hill, we still don't have FHA modernization.

We sent the legislation up there a long time ago. It's been passed by the House and by the Senate. We still don't have legislation on the president's desk which would help 300,000 homeowners. And that's a big number of the subprime homeowners facing foreclosure -- a big percentage, number one.

The next thing I would emphasize are Fannie Mae and Freddie Mac.

PAULSON: These organizations are very, very important to what's going on in mortgage finance in this country. And they've played a vital role. And it's important that they continue to play a vital role and continue to raise capital.

And I would say the same thing about a number of financial institutions.

So, again, the idea of getting legislation where there's strong oversight is very important. And that's been up there for a long time.

And these are two tangible, very specific things, that will make a difference, that haven't been done.

Now, I had a question about -- what was it?

QUESTION: Foreign exchange, intervening?

PAULSON: Oh, intervening.

Listen, I'm not going to speculate on hypotheticals on intervention. I will just, again, say to you what you've heard me say before.

We have a strong dollar policy. It's very much in our nation's interests.

Our economy has ups and downs. The long-term fundamentals -- and I'm very confident about this. When we look at our long-term fundamentals compared with other major countries around the world, we have strong long-term fundamentals. That will be reflected in our currency markets.

And so our whole focus here is on policies that are going to -- going to increase the confidence in our economy. And this is open trade, open investment, working through this capital market's turmoil in a way so that we minimize the impact on our economy.

I've got time for one more.

QUESTION: Mr. Secretary, I wonder if you can help us understand how it is that, on Friday the Fed was prepared to make a multibillion dollar line of credit available to Bear Stearns, and a day and a half later forced the sale of the company for a quarter billion dollars.

PAULSON: Well, this, again, when you look at this -- and again, I very much support the Fed's action. I was working there right beside them, helping them execute this strategy.

Again, to step back, we place a high priority on the orderliness of our financial markets -- this is very, very important -- and the stability in our financial markets.

Bear Stearns had a liquidity crisis. And so, we felt it was very important that this be resolved as a way to minimize impact on our economy.

And so, these actions were all consistent. And it was important that this be resolved before the markets opened in Asia on Sunday afternoon.

Now, to say something even a little bit more broadly, to me the fact that has not got the attention it deserves to get is the second action that the Fed has taken. There's been a lot of focus on Bear Stearns, but the Fed took, I believe, dramatic and very important, powerful action, to make liquidity available to the broker-dealers, to the investment banks.

And the banks have long had that source of liquidity, but to be able to make that liquidity available for a broad range of investment- grade products -- asset-backed securities, mortgage-backed securities, corporate debt agencies -- and to make that available and make that available for six months or longer, if market conditions warrant it, I think was very important.

And so, the liquidity that's there for our financial institutions is very important.

And the thing that I am emphasizing as I talk in the markets is that we have capital markets that are the envy of the world, that they're competitive, that they're efficient, that they -- that we move quickly when we need to address issues, and we have financial institutions that are strong financial institutions, recognized as such around the world, that will be strong institutions for a long time to come.

And it's the job of regulators to come together during times of stress and address situations that help us protect our capital markets.

(CROSSTALK)
END

Mar 17, 2008 15:17 ET
.EOF

Provider ID: 00120986
-0- Mar/17/2008 19:18 GMT

Valentic, Marsha

From: Foley, Trip
Sent: Monday, March 17, 2008 3:37 PM
To: Valentic, Marsha
Subject: RE: do you know if Bacchus was even at the office given the break?

Ok - email me and I'll come listen!

From: Valentic, Marsha
Sent: Monday, March 17, 2008 3:34 PM
To: Foley, Trip
Subject: RE: do you know if Bacchus was even at the office given the break?

Bob is with Stuart Kaswell (b) (6) [redacted] and when he leaves I will give Bauchus office a call. If they aren't there, then I will schedule a call with Russ Sullivan.
Marsha

From: Foley, Trip
Sent: Monday, March 17, 2008 3:32 PM
To: Valentic, Marsha
Subject: do you know if Bacchus was even at the office given the break?

Trip Foley
Special Assistant to the
Under Secretary for Domestic Finance

U.S. Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220
(T): 202-622-1258 | (F): 202-622-2362
Email: trip.foley@do.treas.gov

Stoltzfoos, Jeffrey

From: Stoltzfoos, Jeffrey
Sent: Monday, March 17, 2008 3:42 PM
To: Steel, Robert; Nason, David; Norton, Jeremiah; Kashkari, Neel
Cc: Foley, Trip
Subject: Dodd comments on market events

http://www.cnbc.com/id/15840232?video=687413656&play=1

Summary:

-Dodd said he spoke to Bernanke and Paulson throughout the weekend

-He is aware of the efforts and supportive

-He said he told HMP we need to understand and address the underlying problem. There is no floor on the mortgage market... We need to allow distressed borrowers to stay in their homes (pitch for the Dodd / Frank approach).

-He said Paulson and Bernanke are far more open to the idea than they were 48 hours ago. He declined to comment on Paulson's and Bernanke's responses more specifically because the conversations where private.

-----Original Message-----
From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 3:25 PM
To: _DL_FYI
Subject: (BN) Dodd Says Bush Administration Receptive to His Foreclos

Dodd Says Bush Administration Receptive to His Foreclosure Plan
2008-03-17 15:20 (New York)

By Alison Vekshin
March 17 (Bloomberg) -- U.S. Senate Banking Committee Chairman Christopher Dodd said Federal Reserve Chairman Ben S.
Bernanke and Secretary Henry Paulson are more receptive to his plan to allow the government to insure ``distressed'' mortgages as they look for ways to revive credit markets and the economy.
``I think there's a greater receptivity to this idea than there was 48 hours ago,'' Dodd said today in a conference call with reporters from Brussels. The Connecticut Democrat said weekend talks with the policy makers on JPMorgan Chase & Co's acquisition of Bear Stearns Cos. left him with the impression they are more willing to consider the proposal he floated last week.

--Editors: Gregory Mott, Jeff Plungis.

To contact the reporter on this story:
Alison Vekshin in Washington at +1-202-654-4307 or avekshin@bloomberg.net.

To contact the editor responsible for this story:
Otis Bilodeau at +1-212-617-3921 or
obilodeau@bloomberg.net.

[TAGINFO]

BSC US <EQUITY> CN
JPM US <EQUITY> CN

NI BNK
NI FIN
NI US
NI COS

NI GOV
NI CNG
NI SUBPRIME
NI MOR
NI REL

#<610522.4371757.1.0.69.26862.25>#
-0- Mar/17/2008 19:20 GMT

From: Peer Pedersen [peer@blueorchidcap.com]
Sent: Monday, March 17, 2008 3:43 PM
To: Steel, Robert
Subject: Re: Well done

Genius truly. Sad for some of the quality senior long-timers. Good luck with the next few months and then we'll eat!
Peer T. Pedersen Jr.
Blue Orchid Capital
203-869-[redacted]

----- Original Message -----
From: Robert.Steel@do.treas.gov <Robert.Steel@do.treas.gov>
To: Peer Pedersen
Sent: Mon Mar 17 15:29:54 2008
Subject: Re: Well done

Thx... No really easy choices but hopefully this is the best... Feel a bit sorry for Alan Schwartz.

----- Original Message -----
From: Peer Pedersen <peer@blueorchidcap.com>
To: [redacted]; Steel, Robert
Sent: Mon Mar 17 15:19:03 2008
Subject: Well done

Great result. People will look back on this as genius, and a turning point i believe. More pain but light at end of tunnel is aglow again. Hope to see you when dust settles...best, Peer Peer T. Pedersen Jr. Blue Orchid Capital 203-869-[redacted]

Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Monday, March 17, 2008 3:55 PM
To: _DL_FYI
Subject: AFX: US Treasury's Paulson defends move to help Bear Stearns, repeats dollar mantra

US Treasury's Paulson defends move to help Bear Stearns, repeats dollar mantra

234 words

17 March 2008

15:45

AFX International Focus

English

WASHINGTON (Thomson Financial) - Treasury Secretary Henry Paulson defended the government's decision to provide 30 bln usd line of credit to prevent Bear Stearns from going bankrupt as he declined to speculate on possible intervention in the currency markets to prop up the floundering dollar.

' Bear Stearns had a liquidity crisis. And so we felt it was very important that this be resolved as a way to minimize impact on our economy,' Paulson told reporters at the White House after meeting with President George Bush and his economic advisers.

'This was an easy decision,' he said.

Asked about possible intervention in the currency markets, Paulson said he would not 'speculate on hypotheticals on intervention.'

He repeated his consistent statements that the US has a 'strong dollar policy.'

'It's very much in our nation's interest. Our economy has ups and downs. The long term fundamentals, and I'm very confident about this... we have strong long-term fundamentals. That will be reflected in our currency markets,' he said.

tfn.newsdesk@thomson.com+corbett.daly@thomson.com

Foley, Trip

From: Foley, Trip
Sent: Monday, March 17, 2008 4:24 PM
To: 'aaron.shumaker@frontpointsecurity.com'
Subject: Re: Happy

Dow closed up 21 points, sir.

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

----- Original Message -----
From: Shumaker, Aaron C. <aaron.shumaker@frontpointsecurity.com>
To: Foley, Trip
Sent: Mon Mar 17 16:22:29 2008
Subject: RE: Happy

happy "Bear" Market day

From: Trip.Foley@do.treas.gov [mailto:Trip.Foley@do.treas.gov]
Sent: Monday, March 17, 2008 3:55 PM
To: Shumaker, Aaron C.
Subject: Happy

St. Patty's Day

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

Appleton, Jesse

From: John Siciliano [jsiciliano@grailpartners.com]
Sent: Monday, March 17, 2008 4:29 PM
To: Ryan, Tony
Subject: Musings
Attachments: Musings Mar 15 08.pdf

Dear Anthony:

Last Friday, Don Putnam penned the attached "Musings" which is a powerful and compelling commentary, particularly when considered in the context of yesterday's sale of Bear Stearns to JPMorgan. We hope you find it of interest.

All the best.

John C. Siciliano
Managing Partner
Grail Partners LLC
767 Third Avenue, 21st Floor
New York, NY 10017-9003
212 676 5547 *NY direct*
626 437 2238 *mobile*
JSiciliano@GrailPartners.com

Grail We invest and advise.

Donald H. Putnam
Managing Partner

Musings

March 15, 2008

Dark Times and Mournings After

These are dark times indeed, but times of our own making. In the opening act of Macbeth the three Weird Sisters predict success beyond all expectation, but as each prescient vision comes true it brings with it consequences that make for tragedy. By the closing curtain, hardly a soul is left alive, and those who live, live wounded.

Shakespeare's Weird Sisters are based on the three daughters of Zeus who indirectly ruled the lives of Greek gods and men alike: Clotho spins life into being, Lachesis sets its pattern and Atropos brings death with a snip of the scissors. I propose that the arc of our current crisis is ruled by the modern emulation of these Fates: *Efficiency* (of Markets) is our Clotho, the subtle *VAR* has set our pattern Lachesis-like, and the youngest, the terror, *Transparency*, has hold of the scissors of Atropos and lays waste without remorse. Like all tortured analogies, this one comes with a moral and a quandary. I offer apologies in advance.

We who are of a certain age found it tough to accept the idea that securities markets are the most efficient arbiter of value. The efficiency of markets was postulated in Chicago and seemed well-proven by big computers and ever more granular data. As a young girl, *Efficiency* had a lovely elegance. She seduced us with simplicity: she explained all manner of complex things by asserting that if we could only know all that the markets know, the confusing would become simple, algorithmic, and sensible.

Efficiency's central proposition was that market mechanisms are so infinitely elastic as to embrace without cavil or complaint all divergent contexts for company operation or liquidation, all divergent methods of valuation, and all divergent motives for transacting. This view was supported by reams of analysis and much consultant-speak. Those who resisted *Efficiency* were branded outcasts. As Efficiency matured, the atavistic non-believers gathered into two groups: the fundamentalist value grumps who insist that the market comes to the value, not the other way around; and the traders who insist that efficiency has its limits and all the money is made in the wilderness beyond.

(Interestingly, quants ended up implementing their theories in one or the other context: factor based investing and mean-regression investing exploit through intermediate term arbitrage the tensions between a paradigmatic model and the observed reality. Traders seeking the darkness must first define the light, then navigate with less information to establish a short term arbitrage.)

Efficiency set the agenda – perhaps as essential to her detractors as her followers. For thirty years we have taken it for granted that whatever the right or wrong, it is "useful" to think of the market as the best arbiter of value. As she grew in power and influence, *Efficiency* seemed to be everywhere – her influence was seen from Stevie Cohen's gold watch to a failure of watchfulness at Long Term Capital; the universal reach of *Efficiency* was accepted.

VAR came on the scene next; where *Efficiency* defined value, *VAR* defined the likelihood that the value would change. This was important when considering the relative strength of the institutions whose activity made up the market – the banks and brokers. If we could only know how fragile our "value" is, the strength of our financial institutions could better be measured. Capital – the comparable measure of strength that is most important when facing the unknowable future – must no longer be evaluated based upon a supply of the ready (shoebox accounting as practiced pre-World War II), nor based upon the presumptive coverage of assets over liabilities (as practiced post-war). In pursuit of greater confidence, we invented VAR-based Capital wherein statistically yesterday is deemed the best guide for tomorrow. In VAR-based Capital every asset and every exposure must be accreted or ablated based on its expected behavior in a likely future.

We needed VAR-based Capital to be more "reliable" and comparable than the multiple separate regimes around the world. Why did we care so much? Because increasingly we found ourselves dealing with financial crises that were not derived from industrial crisis, but instead in turn precipitated industrial crisis. Again and again we see the "real world" react to the "financial world" to move into crisis and to recover from crisis. Victors write the history, so we have come through recent decades with an irrational faith in the ability of financial engineers to douse the fire and far too little recognition that ingenuous financial tricks were the original match in the tinderbox. This cycle has been accelerating as a result of the unintended consequences of changes in the financial world, where perception is reality.

In our pretension, we humans seem always to get the nature/man interface wrong. From Malthus to Gore, we have cried "wolf!" only to be confounded by good outcomes. We tend to ignore ourselves or overcredit ourselves when contemplating the future. The crucial lesson of the Heisenberg Uncertainty Principle when applied to finance is "perceptions change reality." Put another way: the past will not help predict the future if our perceptions have changed system-wide. VAR is only useful if you don't know everyone is using it. Since you do (we do) the statistical basis for its utility is fragile indeed, resting as it does on false continuity.

Faced with crises of increasing frequency, increasing severity and shortening duration, we naturally assume that the problem lies not in Efficiency theory, nor in our VAR tools, but in the raw material – reality itself. If only we could know more, faster, we could make sense of it and act to restore and sustain stability.

Welcome the Terror: *Transparency*. To the delight of the press, "populist accounting" has taken over: first, option comp costs, then off-balance sheet vehicles and now asset and liability "fair" valuation. In a very short time these concepts have taken hold worldwide – the differences between IFRS and GAAP are hardly greater than the policy differences between Clinton and Obama, but the difference between the prior valuation regime and "Fair Value" is huge (Putin versus McCain?). IFRS and GAAP embolden the pretense that market value is king, and that anything that does not have a market value must have a "Fair Value" that is as volatile and as "transparent" as a market value would be. Of course Fair Value is too important to be left in the hands of those who know an asset or liability well, for they may have evil motives. Instead, we must rely on an uninformed, dispassionate committee decision. The witless and the weak in the counting professions are rightly terrified: their charge is not to be useful or to achieve a good outcome – it is to find Fair Value IMMEDIATELY so that it may IMMEDIATELY be communicated.

As with all ideas that sound good, the unintended consequences can be very, very bad. Suddenly every asset can and must be revalued daily, heedless of our intended – or contractual – holding period; every liability can and must be revalued daily regardless of its uncertain nature and distant day of reckoning. Transparency also dictates that the aggregate effects of these committee valuations be communicated to shareholders, counterparties and clients. In the main, these three groups are parts of the same entity. Naturally, changes in perception formed in one context swiftly transform behavior in another. It is too soon to call the demise of Bear Stearns, but it is not too soon to see the range of possibilities that arise from a crisis in a product causing a crisis in a business causing a crisis in the financial sector causing – coming 'round the far turn now – a liquidity crisis among counterparties causing a collapse of shareholder confidence causing a healthy business to leap into the arms of a larger savior. BofA/Countrywide, reprised? You betcha!

Transparency kills because it provokes faster valuation that is – and must be – false valuation. Because it is the nature of financial institutions to hold financial instruments, VAR wrongly reshapes financial institutions because it cannot discount the escalating impact of perception on reality caused by the Heisenberg Uncertainty Principle feedback loop. The mechanism that should be our salvation – *Efficiency* should see how little has changed – has failed. Instead of resisting the onslaught of mis-information, the markets give themselves over to panic. Attempting to get ahead of the rush of "events" markets try to outrace Fair Value, not heeding the whisper of reason ("'You lie!' he cried, and ran on.").

So back to our metaphor: *Efficiency*, *VAR* and *Transparency* are three evil sisters who have promised great triumphs, but their predictions were laced with danger. As in all Tragedy, hubris brings all involved to a sorry end.

Are markets efficient? It is useful to assume so. Is riskiness an aspect of value? It is useful to think so. Is transparency a good thing? It is useful to hope so. Do all three combine to make the future better? It is folly to believe so.

Clotho, Lachesis and *Atropos* were implacable in their control. They yield only to their father Zeus. Is Zeus a central banker? I think not, based upon the battling demi-gods contending. Central bankers are the very embodiment of hubris. In this US election year the political and social costs of the crisis must be countered, and every tool must be used, heedless of the consequences in terms of inflation, a rock-bottom-dollar policy, the rerating of America, and such moral hazard.

The only power great enough to ease the long term impact of *Efficiency, VAR* and *Transparency* is the Zeus of Accounting. The Fates spinning our lives must be subjected to a sensible, measured, outcome-oriented regime that replaces Fair Value. GAAP and IFRS are flawed but both are ultimately workable regimes which in the main place the responsibility for reporting on the shoulders of the managers closest to the scene. Once upon a time the role of audit was to assure a second look, common standards, and thorough review of the control environment. Litigation – another lethal American gift to the world – has elevated the accountant to the role of intermediary, underwriter, guarantor. This must end – by legislation, regulatory mandate, or otherwise.

Management must set value with due regard to the current business strategy (hold to maturity, match book, trading, capital intermediation, facilitation, etc.). Disclosure must be more complete as to context and intention, and disclosure must be more measured and – yes, let's risk all and say it – translucent as to valuation. Management must be allowed – urged, required – to establish and to publish a view of value in contrast to the rigid, stupid calculations of Fair Value. The Zeus of accountancy must step back from rule – he (they) must renounce the sovereign's heavy crown. It is simply too much to expect a profession trained to respect numbers and facts to be the final arbiter of mercurial Truth.

So how will this play out? I predict the fall of two dealers, more REITS, and perhaps a bank, insurer or reinsurer, or two of each, all in the US. Elsewhere the carnage will be as great, but the Europeans are so much better at lying that we will know only much later, by rumor or merger. The US global brokers will be badly wounded. Without financing there will be less of the lucrative buyout trade, and less M&A generally. More important, they have sold billions of bad paper to foreign accounts worldwide. What the Iraq War has done for American diplomacy the subprime crisis will do to American finance.

Meanwhile, there are many more threads to snip in the private world of finance. The arc of this crisis is only half complete: the first phase crushed the relatively more public forms of debt finance – mortgages, financial stocks, REITS, repos, European commercial paper – while the second phase of the infection involved widely distributed niche markets – auction reset bonds, total return swaps, credit default swaps, etc.

What is the next phase? Will it be the final phase? I will not hazard a guess. If, however, this crisis is indeed defined by the evil interaction of Efficiency, *VAR* and *Transparency* there is a long way to go. Wherever an accountant is found – public finance, private equity, insurance reserves, deposit guarantees, and many more – we can expect each downward valuation to be followed by collapse of confidence leading to seizure in the markets leading to GAAP/IFRS remarking resulting in public disclosure of the downward valuation, ...

DHP

Foley, Trip

From: Foley, Trip
Sent: Monday, March 17, 2008 4:37 PM
To: Steel, Robert; Ryan, Tony
Cc: Appleton, Jesse
Subject: Geithner

On a plane now - he lands about 6 and going to a dinner. We might be able to catch him on his cell.

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

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 5:22 PM
To: _DL_FYI
Subject: Reuters- U.S. Regulator lifts JPMorgan's lending limit

UPDATE 1-U.S. Regulator lifts JPMorgan's lending limit
17 March 2008
Reuters News

(Adds background, details, recasts headline)

WASHINGTON, March 17 (Reuters) - JPMorgan Chase & Co's regulator, in an unusual move, temporarily lifted the lending limit for the bank to keep Bear Stearns Co Inc afloat, an agency spokesman said on Monday.

"In general, national banks can only lend up to 15 percent of their capital to one borrower," Robert Garsson, a spokesman for the Office of the Comptroller of the Currency said. "If it's a secured loan, they can lend up to 25 percent."

"We made a commitment that we would allow the bank to go above that lending limit...until the transaction is consummated," he said, referring to JPMorgan's planned acquisition of Bear Stearns.

JPMorgan plans to buy Bear Stearns for $2 a share in a deal valued at about $236 million, which is more than 90 percent below the company's Friday closing share price of $30.85.

Garsson, did not specify how much above the regulatory limit JPMorgan might go.

The deal, which was engineered by the Federal Reserve and the Treasury Department, is expected to close by the end of June. (Reporting by John Poirier; editing by Carol Bishopric)

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

Appleton, Jesse

From: Davis, Michele
Sent: Monday, March 17, 2008 5:44 PM
To: Zuccarelli, Jennifer; Ryan, Tony; McLaughlin, Brookly
Cc: Schetzel, Michael
Subject: Re: On deadline- NY TIMES Q on Jamie Dimon

Let's not go there. It was a call for dimon to announce the agreement with bear, I don't want to characterize it beyond that.

Sent from my BlackBerry Wireless Handheld (www.treasury.gov)

----- Original Message -----
From: Zuccarelli, Jennifer
To: Davis, Michele; Ryan, Tony; McLaughlin, Brookly
Cc: Schetzel, Michael
Sent: Mon Mar 17 17:36:08 2008
Subject: On deadline- NY TIMES Q on Jamie Dimon

Any background insight as to Jamie Dimon's leadership role on that conference call Friday or now the one yesterday afternoon with primary dealers? The reporter heard that he said "We are saving the financial system today"

Is that true? Any other memorable quotes?

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

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 5:52 PM
To: _DL_FYI
Subject: AP- Paulson, the hard-nosed Wall Street insider, winning praise for handling of credit crisis

Paulson, the hard-nosed Wall Street insider, winning praise for handling of credit crisis

By MARTIN CRUTSINGER

WASHINGTON (AP) - Treasury Secretary Henry Paulson, the consummate Wall Street baron who amassed a fortune at investment giant Goldman Sachs, is applying his insider knowledge to help manage a credit-market meltdown.

Known as "Hank the Hammer" when he led Goldman Sachs, Paulson is winning praise for using hard-nosed bargaining tactics to strike deals seen as critical to coping with the worst crisis to face financial markets since the savings and loan crisis of the early 1990s.

Paulson heads the President's Working Group on Capital Markets, which briefed President Bush at the White House on Monday. He said the president was "quite pleased" with the results of the marathon negotiations over the weekend that resulted in a deal for the sale of troubled investment house Bear Stearns Cos. to JPMorgan Chase & Co.

The hurry-up sale was seen as a way of keeping the impending collapse of Bear Stearns from dragging down other big Wall Street firms and perhaps plunging the country into a deep recession.

The sales agreement, announced late Sunday, occurred after Paulson and another former Goldman Sachs executive, Treasury Undersecretary Robert Steel, combined forces with Federal Reserve Chairman Ben Bernanke and other Fed officials. Under the deal, JPMorgan would take over Bear Stearns with financial backing from the Fed.

Paulson kept Bush informed through the weekend of the discussions including the Fed's increased efforts to bolster credit markets. Paulson and Bernanke have continued the practice of past Treasury and Fed leaders of holding weekly breakfast meetings and conferring more often during times of crises.

While the administration still insists it is adhering to its free-market principles, those principles did not stop Paulson from getting actively involved when it looked like the collapse of Bear Stearns was imminent.

That pragmatic approach is winning kudos for Paulson, who is seen as a vast improvement from Bush's first two Treasury secretaries. Paul O'Neill, the former head of Alcoa, and John Snow, the former head of railroad giant CSX Corp., lacked the depth of Wall Street expertise that Paulson brought to the job and had little sway on policy matters inside the administration.

Paulson insisted as a condition of joining the Cabinet that he would have a much bigger say in policy development. The administration agreed, believing that Paulson's financial background could come in handy if there were any periods of market turmoil in the administration's final two years.

"He turned out to be the right man at the right moment," said David Jones of DMJ Advisors. "It is like being an airplane pilot. When a crisis hits, there is no time for on-the-job training. If Bear Stearns had been allowed to fail, it could have led to a major market meltdown."

When he left Goldman Sachs after more than three decades to join the administration, Paulson's net worth was estimated at more than $700 million. He owned 3.23 million shares of Goldman Sachs stock, which was valued at the time at around $480 million.

Under ethics rules, he was required to sell off his Goldman Sachs stock as well as agree to divest any other financial company stock or asset that would present a conflict of interest as Treasury secretary.

Paulson has had some missteps in his handling of the credit crisis, which first surfaced a year ago with rising defaults on subprime mortgages, loans made to borrowers with weak credit histories.

Before global financial markets were roiled last August when fears arose over multibillion-dollar losses on subprime mortgages, Paulson kept insisting that "the strongest global economy that I have seen in my lifetime" would help cushion the shocks from the slowdown in housing.

Paulson also initially resisted an idea that the administration ended up endorsing in December: Encouraging the mortgage industry to freeze for up to five years the rates on certain subprime mortgages.

Even with the rapid conclusion of the Bear Stearns sale, the administration and Paulson are continuing to be criticized for failing to do enough to protect millions of homeowners still in danger of defaulting on their mortgages.

Paulson insisted again on Monday that he believed the voluntary industry initiatives that the administration is supporting will help address the problem, but he said lawmakers were offering some "interesting ideas."

Senate Banking Committee Chairman Chris Dodd, D-Conn., and House Banking Committee Chairman Barney Frank, D-Mass., are pushing an effort to avert foreclosures by having the Federal Housing Administration insure more home loans.

Paulson has also won praise for being able to quickly strike a deal with the Democratic-controlled Congress on a $168 billion economic stimulus package. The Internal Revenue Service announced Monday that the first checks will be mailed on May 2 with the goal of having 34 million payments made within the first three weeks.

"Paulson has done a pretty good job," said David Wyss, chief economist at Standard & Poor's in New York. "They are trying to calm markets down, but markets are still worried about whether there are more problems out there."

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

Ridgway, Diana

From: Foley, Trip
Sent: Monday, March 17, 2008 5:50 PM
To: Ridgway, Diana; Valentic, Marsha
Subject: Accepted: Phone call w/Senator Baucus (DEM-Montana) Re: Bear Stearns