Foley, Trip

From: Shumaker, Aaron C. [aaron.shumaker@frontpointsecurity.com]
Sent: Monday, March 17, 2008 6:02 PM
To: [redacted] Robert_J_Caravella@KeyBank.com; [redacted]@gmail.com; Foley, Trip
Subject: FW: $2
Attachments: $2.jpg

think [redacted] captures the essence of this photo best

From: [redacted]
Sent: Monday, March 17, 2008 5:32 PM
To: Shumaker, Aaron C.
Subject: FW: $2

wow

From: [redacted]@gmail.com]
Sent: Monday, March 17, 2008 2:47 PM
To: [redacted]
Subject: FW: $2

a photo that is being emailed around jp morgan today...

And...

did you know the LA Glaxy paid more for Beckham than JP did for Bear??

Stoltzfoos, Jeffrey

From: Market Room
Sent: Monday, March 17, 2008 6:21 PM
Subject: PM Markets Briefing | March 17

DJIA	11972.25	+0.18	%
S&P	1276.60	-0.90	%
NASDAQ	2177.01	-1.60	%
DJIA (fut)	11991.00	+0.00	%
S&P (fut)	1280.40	+0.07	%
NASDAQ (fut)	1695.25	-1.70	%
FTSE	5414.40	-3.86	%
DAX	6182.30	-4.18	%
Nikkei	11787.51	-3.71	%
Kospi	1574.44	-1.61	%
Hang Seng	21084.61	-5.18	%
1-Month Tsy	0.44	-73.28	bps
3-Month Tsy	1.00	-16.35	bps
3-month LIBOR	2.57875	-18.50	bps
2-yr Tsy	1.349	-13.02	bps
10-yrTsy	3.302	-16.54	bps
2-yr SwSpr	82.00	-8.50	bps
10-yr SwSpr	62.50	-8.30	bps
30-yr Conf Mtge	109.552	-26.50	bps
10-yr Gilt	4.3	-2.80	bps
10-yr Bund	3.688	-4.40	bps
10-yr JGB	1.295	2.00	bps
Oil NMX WTI	$106.20	-$4.01	
Gold Spot	$1,004.00	$0.85	
$/Euro	$1.5728	+0.34	%
Yen/$	97.445	-1.70	%
Yen/Euro	153.2625	-1.34	%
CHF/$	0.9845	-1.40	%
JPM	40.31	+10.32	%
Citi	18.62	-5.86	%
GS	151.02	-3.72	%
MER	41.18	-5.36	%
LEH	31.75	-19.13	%
MS	36.38	-8.02	%
FNMA	22.21	-0.67	%
FRE	20.62	-2.64	%
BOA	35.96	+0.76	%

Amid clear evidence of continued risk aversion and flight to quality, the Fed's weekend announcements of increased liquidity provisions resulted in improved funding conditions in some markets. The Fed lowered the discount rate by 25 basis points to 3.25 percent and established a Primary Dealer Credit Facility to extend credit to primary dealers against a broad range of investment-grade collateral. Also, it approved the financing arrangement announced by JP Morgan Chase and Bear Stearns.

The unexpected low price of JP Morgan's acquisition of Bear Stearns prompted further concern about the health of other large investment bank balance sheets. Market participants were surprised at the speed with which Bear Stearns's liquidity deteriorated and led to insolvency concerns, and many speculated that Bear Stearns might not be the only bank to be hit by declining asset values and credit deterioration. However, Lehman's stock closed down by "only" 19 percent today at $31.75, after having traded as low as $20.25; the stock prices of other investment banks closed about 4-8 percent lower.

Expectations for the magnitude of near-term policy easing increased further today, ahead of the FOMC meeting tomorrow. Implied rates on Fed funds futures contracts closed as much as 20 basis points lower, suggesting about 105 basis points of cumulative easing between now and the April 30 FOMC meeting. However, such projections are complicated by expectations that the Primary Dealer Credit Facility will boost reserves and lower the effective Fed funds rate and the possibility of an intermeeting rate cut before the April 30 FOMC meeting. Market participants anticipate that the FOMC statement will emphasize downside risks to growth, softening in the labor market, and the Fed's commitment to financial market stability.

The five-year CDX index closed almost unchanged today 190 basis points. Liquidity was described as "thin" or "very thin," and there were anecdotal reports that some customers and dealers are avoiding certain dealers for credit derivative transactions. Of note, Lehman's 5-year CDS was 20 basis points narrower, currently trading around 450 basis points, down significantly from its level just after the open of 575 basis points. Market participants will look to Lehman's and Goldman's 2008 Q1 earnings reports at 8:00 and 8:30 a.m., respectively, tomorrow for more insight on their financial positions.

Mortgage and swap market participants expressed relatively more confidence than participants in other markets. However, liquidity in the MBS market remained poor. Bid-ask spreads for a $100 million trade today were around 2-3 ticks, less elevated than the 4-8 ticks from a week and a half ago, but still very elevated compared to the typical levels of 1/4 to 1/2 tick. Dealers also note that prices in the MBS market are very gappy and can move sharply on almost no volume. Swap spreads narrowed by up to 9 basis points, as participants viewed the recent opening up of the Discount Window to dealers as a positive for financial markets that should limit systemic credit risk.

However, a flight to quality was evident in a number of other asset classes. Overnight Treasury general collateral rates have been quite volatile, opening up at around 2.45 before declining sharply, and trading in a wide range for much of the day. Treasury bill rates remain well-bid at the front-end of the curve, with one-month bills about 80 basis points lower today. Liquidity in the bill market remained impaired on account of the flight-to-quality flows, increased volatility in the market, and reduced appetite for dealers to take on risk ahead of quarter-end. Treasury yields are down as much as 20 basis points at the short-end of the curve, and the spread between 2- and 10-year coupon yields has increased 4 basis points to 201 basis points. Liquidity was reported to be limited, and it was difficult to complete trades in size.

Five-, 10-, and 20-year TIPS breakevens experienced an extreme one-day move today, with breakevens between 11 and 18 basis points narrower between the 5- and 20-year sectors of the curve. TIPS trading was characterized by price gapping and widening bid/ask spreads.

The euro-dollar and dollar-yen exchange rates fluctuated in modest ranges on light flows and limited positioning. However, implied volatility for both currency pairs rose sharply in the wake of the Federal Reserve and Bear Stearns announcements. Increased market caution about possible official intervention in the foreign exchange market was highlighted by a dip in euro-dollar when an ECB source expressed concern about euro appreciation.

Valentic, Marsha

Subject:	Phone call w/Senator Baucus (DEM-Montana) Re: Bear Stearns
Location:	He will call us
Start:	Mon 3/17/2008 6:45 PM
End:	Mon 3/17/2008 7:00 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Required Attendees:	Foley, Trip

Valentic, Marsha

From: Valentic, Marsha
Sent: Monday, March 17, 2008 6:35 PM
To: Valdeon, Lindsay
Subject: RE: HMP to Geithner ltr 03-17-08 (5).doc

Okay - will do.

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 6:33 PM
To: Valentic, Marsha
Subject: FW: HMP to Geithner ltr 03-17-08 (5).doc

Marsha – can you make sure Bob gives this the okay before he leaves? Hank wants this to be transmitted tonight.

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 6:23 PM
To: Nason, David; Steel, Robert; Ryan, Tony
Subject: HMP to Geithner ltr 03-17-08 (5).doc

Gentlemen: I understand you have all been in the loop on this letter, but I wanted to make sure that you have all had the chance to see and approve the language. Let me know at your convenience as Hank would like the letter to go out tonight.

<< File: HMP to Geithner ltr 03-17-08 (5).doc >>

Many thanks,
Lindsay

Valentic, Marsha

From: Valentic, Marsha

Sent: Monday, March 17, 2008 6:36 PM

To: Foley, Trip

Subject: Lindsey needs okay from Steel on Geithner ltr. before he leaves - they want to transmit it tonight. It is in his box

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

Valentic, Marsha

From: Foley, Trip
Sent: Monday, March 17, 2008 6:37 PM
To: Valentic, Marsha
Subject: Re: Lindsey needs okay from Steel on Geithner ltr. before he leaves - they want to transmit it tonight. It is in his box

Gotya. Just talked about it in here.

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

----- Original Message -----
From: Valentic, Marsha
To: Foley, Trip
Sent: Mon Mar 17 18:36:04 2008
Subject: Lindsey needs okay from Steel on Geithner ltr. before he leaves - they want to transmit it tonight. It is in his box

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

Valentic, Marsha

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 7:13 PM
To: Valentic, Marsha
Subject: RE: HMP to Geithner ltr 03-17-08 (5).doc

Any word?

From: Valentic, Marsha
Sent: Monday, March 17, 2008 6:35 PM
To: Valdeon, Lindsay
Subject: RE: HMP to Geithner ltr 03-17-08 (5).doc

Okay - will do.

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 6:33 PM
To: Valentic, Marsha
Subject: FW: HMP to Geithner ltr 03-17-08 (5).doc

Marsha – can you make sure Bob gives this the okay before he leaves? Hank wants this to be transmitted tonight.

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 6:23 PM
To: Nason, David; Steel, Robert; Ryan, Tony
Subject: HMP to Geithner ltr 03-17-08 (5).doc

Gentlemen: I understand you have all been in the loop on this letter, but I wanted to make sure that you have all had the chance to see and approve the language. Let me know at your convenience as Hank would like the letter to go out tonight.

<< File: HMP to Geithner ltr 03-17-08 (5).doc >>

Many thanks,
Lindsay

Scogin, Matthew

From: Scogin, Matthew
Sent: Monday, March 17, 2008 7:27 PM
To: Appleton, Jesse
Subject: Fw: HMP to Geithner ltr 03-17-08 (5).doc

Attachments: HMP to Geithner ltr 03-17-08 (5).doc

Nevermind. I got it...

----- Original Message -----
From: Valdeon, Lindsay
To: Stoltzfoos, Jeffrey; Appleton, Jesse; Scogin, Matthew; Foley, Trip
Sent: Mon Mar 17 18:24:08 2008
Subject: FW: HMP to Geithner ltr 03-17-08 (5).doc

Looping in the senior advisors…

From: Valdeon, Lindsay
Sent: Monday, March 17, 2008 6:23 PM
To: Nason, David; Steel, Robert; Ryan, Tony
Subject: HMP to Geithner ltr 03-17-08 (5).doc

Gentlemen: I understand you have all been in the loop on this letter, but I wanted to make sure that you have all had the chance to see and approve the language. Let me know at your convenience as Hank would like the letter to go out tonight.

HMP to Geithner ltr 03-17-08 (...

<<HMP to Geithner ltr 03-17-08 (5).doc>>

Many thanks,
Lindsay

(b) (2) [redacted]

Scogin, Matthew

From: Scogin, Matthew
Sent: Monday, March 17, 2008 8:40 PM
To: Foley, Trip

Hey. How did everything go today? What's the background on this Geithner letter?

Scogin, Matthew

From: Foley, Trip
Sent: Monday, March 17, 2008 8:52 PM
To: Scogin, Matthew
Subject: RE:

went ok - Dow finished up 21!

Did I mention that letter last night? Probably easiest to give detail over the phone, but letter recognizes that consistent with standard policies of the FRB, if they have a loss then that reduces the amount they can deliver to the Treasury at the end of the year.

-----Original Message-----
From: Scogin, Matthew
Sent: Monday, March 17, 2008 8:40 PM
To: Foley, Trip
Subject:

Hey. How did everything go today? What's the background on this Geithner letter?

2008-SE-001465

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 17, 2008

Mr. Timothy F. Geithner
President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Geithner:

Yesterday, I expressed to you and to the public my appreciation for the additional actions taken by the Federal Reserve to enhance the stability, liquidity and orderliness of our credit markets. This letter underscores that public statement of support.

The Federal Reserve Bank of New York ("FRBNY") has arranged a special credit facility with J.P. Morgan Chase Bank ("JPMCB") to assist with the acquisition of The Bear Stearns Companies. On behalf of the Department of the Treasury, I support this action as appropriate and in the government's interest, and acknowledge that if any loss arises out of the special facility extended by the FRBNY to JPMCB, the loss will be treated by the FRBNY as an expense that may reduce the net earnings transferred by the FRBNY to the Treasury general fund.

Sincerely,

Henry M. Paulson, Jr.

Henry M. Paulson, Jr.

cc: Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Monday, March 17, 2008 6:50 PM
To: _DL_FYI
Subject: MSNBC.com - Unelected Bernanke, Paulson key in crisis

MSNBC.com - Unelected Bernanke, Paulson key in crisis
For a few days, at least, Bernanke eclipses Clinton, Obama and McCain
By Tom Curry
National affairs writer
updated 6:22 p.m. ET, Mon., March. 17, 2008

WASHINGTON - Step aside Clinton, Obama, and McCain. Make way for Bernanke, Paulson, and Geithner.

In an election year in which the public and the news media have been focused on the presidential contenders, the crisis playing out in the financial markets is a reminder that for the time being, the most consequential decision-makers are unelected officials.

Despite the hoopla about the November election, the next president's limited options will be determined largely by three unelected men: Federal Reserve Board chairman Ben Bernanke, Treasury Secretary Henry Paulson, and Timothy Geithner.

Not a household name, Geithner is a central player in this drama in his role as president of the Federal Reserve Bank of New York, the clearinghouse for the investment houses and banks that lubricate the economy.

Presidential contenders Hillary Clinton, John McCain, and Barack Obama can't make you any richer or poorer, at least not yet. But Bernanke, Paulson, and Geithner can by the decisions they make in the next several weeks.

For richer or for poorer?

If they succeed in stabilizing the financial markets, then your 401-k and paycheck may be more secure; if not, then you could find yourself poorer by the time the new president takes the oath of office.

Bernanke, by the way, serves a 14-year term as a Federal Reserve Board governor and a four-year term as Fed chairman, so he'll likely be around next year no matter who the new president is.

Despite the partisan divide, the running of the U.S. financial system is bipartisan in its staffing. Geithner served in the Clinton administration's Treasury Department under secretaries Robert Rubin and Larry Summers. And he got his job with support from former Nixon administration Commerce Secretary Peter Peterson and the eminent Wall Street veteran John Whitehead, who served in the Reagan administration.

Paulson, while head of Goldman Sachs, contributed both to Democrats such as Bill Bradley, and to Republicans such as George W. Bush.

The major presidential contenders themselves were notably wary and even bland Monday in their written statements on the turmoil in the markets.

Obama and Clinton were sticking to the relatively familiar territory of urging President Bush to help prevent more home foreclosures, but neither one addressed the bigger issue of systemic risk to the entire financial system.

Dollar dwindling in value

Also absent from their statements: a concern about the effects on consumers of a dollar that is dwindling in value (more costly food and fuel), and whether the Federal Reserve's actions will further weaken the dollar.

McCain said through his economic adviser Doug Holtz-Eakin that he had "complete confidence in Chairman Bernanke and the actions of the Federal Reserve.... John McCain understands the federal government's responsibility to ensure the stability of the U.S. financial system...."

Obama's statement predicted that "Many other steps will be required to reverse this downturn in the weeks to come." But he didn't specify what those steps might be.

Neither Clinton nor Obama said they approved of what Bernanke did — in effect, bailing out Bear Stearns indirectly through JPMorgan Chase — but neither did they say they disapproved of it.

It's worth noting that if economic expertise or, at least, experience with legislating on financial matters is now a more valued commodity in the next president, none of the major contenders serves on the committees with jurisdiction over Bernanke: Banking and Finance.

Paul denounces 'bailout'

One presidential contender who does serve on the House Financial Services Committee and regularly gets to grill Bernanke, is out of the running and out of the mainstream: Rep. Ron Paul, R-Texas.

The Texan warned last month that "if the federal government bails out banks, investors, or homeowners, the lessons of sound investment and fiscal discipline will not take hold...." He complained that "the Fed never allows a complete shakeout, so that before a return to a sound market can occur, the Fed has already bailed out numerous market participants by undertaking another bout of loose money ...."

Clinton supporter Sen. Charles Schumer, D-N.Y., who does serve on both the Banking and Finance committees, was more forthright than Obama or Clinton in a CNBC interview Monday morning.

"What's just as important as standing behind Bear Stearns is the idea that they will stand behind other institutions," Schumer said. "What we're in here is the closest thing we've seen to a bank panic since the Depression." He said the Fed would "run the risk of a full-fledged panic" if it let Bear Stearns go bankrupt.

Banking Committee chairman Sen. Chris Dodd, D-Conn., praised Bernanke in a conference call with reporters Monday afternoon. "I'm grateful we have a chairman of the Federal Reserve who's exercising his power and authority to step up and move aggressively."

He said, "I hope it's not too late, I believe it's not," adding that "there's no reason to be racing for the exits here. This problem, I think, is going to get contained" by the decisions made by the Fed.

But supplying a note of dissenting populism was famed investor Jimmy Rogers who put it bluntly in an interview with Bloomberg News Monday, calling it "outrageous that the Federal Reserve is just throwing the dollar out of the window.... They are driving the dollar down. They are printing money as fast as they can."

He added, acerbically, "This man Bernanke was never elected by anybody. I don't know where he gets the audacity to spend $230 billion of our money to bail out a few friends on Wall Street. This is totally outrageous.... Who gave him the authority to do that, to destroy the dollar ....? And nobody ever voted for the man."

Who voted for Bernanke?

That is not quite true. In January of 2006 the Senate did vote unanimously by voice vote to hand the Fed chairman's job to Bernanke.

Former Federal Reserve vice chairman Alan Blinder noted in a column in the New York Times on the day after Bernanke's confirmation hearing in November of 2005 that "these are pretty placid times for the nation's central bank."

Blinder noted how different the situation was 1979 when Paul Volcker was up for Senate confirmation as Fed chairman. "High inflation had plagued the country for years and was about to get worse.... So the Federal Reserve's monetary policy claimed the public's and the news media's attention," Blinder said.

But in 2005, he explained, "The happy truth is that monetary policy is not very controversial — and is certainly not very political — these days."

There was, however, one harsh dissenter at the Bernanke love feast in 2005, a senator whose criticism now seems almost prophetic.

Bunning foresaw trouble in 2005

Sen. Jim Bunning, R-Ky., a member of both the Banking and Finance committees, said "I oppose Dr. Bernanke because he says he will continue the policies of Chairman Greenspan. That does not sit well with me."

Bunning blamed Greenspan for allowing "creation of a fat market bubble that ultimately popped. Then there was a housing bubble. It led to an unbalanced economic recovery fueled by cash raised from soaring home prices. This resulted in record household debt and negative consumer savings rates."

Bunning also denounced "the endless bailouts of Chairman Greenspan. There was the 1997 Fed bailout of the Asian crisis. There was the Long Term Capital Management bailout in 1998. We had a financial crisis and the Fed got involved with Mexico and all this led to a huge trade and Federal budget deficits."

He concluded gloomily, "Chairman Greenspan leaves knowing that his mess will fall to his apprentice, Ben Bernanke. I hope there is no damaging recession or financial crisis looming. If so, I hope Ben Bernanke does not live up to his nickname of 'Helicopter Ben,' and throw the U.S. mint's printing presses into overdrive."

If you believe Rogers, Bunning's prophecy is coming true.

But if you believe Dodd, Schumer and McCain, Bernanke may well be the hero of the moment.

Scogin, Matthew

From: Foley, Trip
Sent: Monday, March 17, 2008 8:02 PM
To: Foster, Robert
Cc: Scogin, Matthew
Subject: Sen. Baccus Call

Hi Bob -

Just wanted to post you that Steel spoke with Sen. Baccus tonight to catch-up on recent events (at the Senator's request). His office may reach out to us for some follow-up meetings (although unsure exactly what), so just wanted to give you a heads up.

I think if there are others who are interested to speak to someone here Bob is happy to do it - just let us know.

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

Scogin, Matthew

From: Foster, Robert
Sent: Monday, March 17, 2008 8:03 PM
To: Foley, Trip
Cc: Scogin, Matthew; Fromer, Kevin; Warren, Mark
Subject: Re: Sen. Baucus Call

Thanks. Looping in Kevin and Mark.

----- Original Message -----
From: Foley, Trip
To: Foster, Robert
Cc: Scogin, Matthew
Sent: Mon Mar 17 20:01:35 2008
Subject: Sen. Baccus Call

Hi Bob -

Just wanted to post you that Steel spoke with Sen. Baccus tonight to catch-up on recent events (at the Senator's request). His office may reach out to us for some follow-up meetings (although unsure exactly what), so just wanted to give you a heads up.

I think if there are others who are interested to speak to someone here Bob is happy to do it - just let us know.

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

Appleton, Jesse

From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 7:17 PM
To: Ryan, Tony; Steel, Robert
Cc: Appleton, Jesse; Foley, Trip
Subject: Bear Talking Points

Attachments: 03-17-08 Bear Stearns.doc

03-17-08 Bear
Stearns.doc (36 ...

These were Hank's talkers today.

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: Jaconi, Kristen
Sent: Tuesday, March 18, 2008 7:38 AM
To: Nason, David; Norton, Jeremiah; Stoltzfoos, Jeffrey; Ugoletti, Mario
Subject: Crisis Highlights SEC's Limits (WSJ 03.18.08)

Crisis Highlights SEC's Limits

Agency's Lack of Tools To Stem Financial Woes May Rekindle Debate

By KARA SCANNELL
March 18, 2008; WSJ Page A19

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[1]

URL for this article:
http://online.wsj.com/article/SB120580201721743861.html
Hyperlinks in this Article:
(1) mailto:kara.scannell@wsj.com

Scogin, Matthew

From: Foley, Trip
Sent: Tuesday, March 18, 2008 8:09 AM
To: Fromer, Kevin; Foster, Robert
Cc: Scogin, Matthew; Warren, Mark
Subject: RE: Sen. Baucus Call

he wasn't on the box so I couldn't hear every word, but I think it was more focused on the events of the weekend with a general statement that Treasury and the Administration were monitoring the markets and doing all that we can, etc.

-----Original Message-----
From: Fromer, Kevin
Sent: Tuesday, March 18, 2008 7:55 AM
To: Foster, Robert; Foley, Trip
Cc: Scogin, Matthew; Warren, Mark
Subject: RE: Sen. Baucus Call

Was there discussion of supplemental financing?

-----Original Message-----
From: Foster, Robert
Sent: Monday, March 17, 2008 8:03 PM
To: Foley, Trip
Cc: Scogin, Matthew; Fromer, Kevin; Warren, Mark
Subject: Re: Sen. Baucus Call

Thanks. Looping in Kevin and Mark.

----- Original Message -----
From: Foley, Trip
To: Foster, Robert
Cc: Scogin, Matthew
Sent: Mon Mar 17 20:01:35 2008
Subject: Sen. Baccus Call

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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

Scogin, Matthew

From: Fromer, Kevin
Sent: Tuesday, March 18, 2008 8:08 AM
To: Foley, Trip; Foster, Robert
Cc: Scogin, Matthew; Warren, Mark
Subject: RE: Sen. Baucus Call

Thanks

-----Original Message-----
From: Foley, Trip
Sent: Tuesday, March 18, 2008 8:09 AM
To: Fromer, Kevin; Foster, Robert
Cc: Scogin, Matthew; Warren, Mark
Subject: RE: Sen. Baucus Call

he wasn't on the box so I couldn't hear every word, but I think it was more focused on the events of the weekend with a general statement that Treasury and the Administration were monitoring the markets and doing all that we can, etc.

-----Original Message-----
From: Fromer, Kevin
Sent: Tuesday, March 18, 2008 7:55 AM
To: Foster, Robert; Foley, Trip
Cc: Scogin, Matthew; Warren, Mark
Subject: RE: Sen. Baucus Call

Was there discussion of supplemental financing?

-----Original Message-----
From: Foster, Robert
Sent: Monday, March 17, 2008 8:03 PM
To: Foley, Trip
Cc: Scogin, Matthew; Fromer, Kevin; Warren, Mark
Subject: Re: Sen. Baucus Call

Thanks. Looping in Kevin and Mark.

----- Original Message -----
From: Foley, Trip
To: Foster, Robert
Cc: Scogin, Matthew
Sent: Mon Mar 17 20:01:35 2008
Subject: Sen. Baccus Call

Hi Bob -

Just wanted to post you that Steel spoke with Sen. Baccus tonight to catch-up on recent events (at the Senator's request). His office may reach out to us for some follow-up meetings (although unsure exactly what), so just wanted to give you a heads up.

I think if there are others who are interested to speak to someone here Bob is happy to do it - just let us know.

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

Foley, Trip

From: Foley, Trip
Sent: Monday, March 17, 2008 8:17 PM
To: Nemirovsky, Julian; Linnemann, Patrick
Subject: FW: AP- Paulson, the hard-nosed Wall Street insider, winning praise for handling of credit crisis

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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
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Phone: 202-622-8657
Fax: 202-622-1999

Foley, Trip

From: Foley, Trip
Sent: Monday, March 17, 2008 8:30 PM
To: Warren, Jeff (IB, 1NYP/48); Demirel, Emre; Drapkin, Nicole; Holben, Courtney; Marino, Mark; Perdue, David
Subject: FW: AP- Paulson, the hard-nosed Wall Street insider, winning praise for handling of credit crisis

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From: Zuccarelli, Jennifer
Sent: Monday, March 17, 2008 5:52 PM
To: _DL_FYI
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Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Tuesday, March 18, 2008 8:06 AM
To: _DL_FYI
Subject: AP - Fed poised to cut rates aggressively as it combats weak economy and severe credit crisis

Fed poised to cut rates aggressively as it combats weak economy and severe credit crisis
By MARTIN CRUTSINGER
AP Economics Writer
988 words
18 March 2008
06:50
Associated Press Newswires
English

WASHINGTON (AP) - The Federal Reserve is expected to aggressively lower interest rates in its intensified battle against the credit crisis and spreading economic weakness. The question is whether all of the effort will turn the tide.

Federal Reserve Chairman Ben Bernanke and his colleagues have already been working overtime, employing a variety of novel approaches to keep the economy out of a recession or at least moderate the impact of any downturn.

Treasury Secretary **Henry Paulson** made the rounds of the morning TV shows Tuesday to underscore the administration's commitment to keeping turmoil in the financial markets from worsening a struggling economy.

"The priority we have is a stable, orderly financial markets," he said on CBS' "The Early Show. "This is very important to the health of our economy and it's very important to the American people because access to credit is key to businesses that need to invest to create jobs, its key to families that need to borrow to finance a home or for college education."

He said the focus of policymakers "is reducing the spillover into the real economy from the turbulence and disruptions in our financial markets."

To those who would complain that the administration is more interested in bailing out Wall Street than struggling homeowners, Paulson said the thousands of Bear Stearns employees likely to lose their jobs and life savings, and thousands of shareholders who have lost billions because of the company's collapse, probably do not feel like they have been bailed out.
More relief is expected Tuesday when the central bank is expected to cut a key interest rate by between one-half and a full percentage point.
"There is no reason for the Fed not to be aggressive," said Mark Zandi, chief economist at Moody's Economy.com. "The economy is in a recession, the financial system is in disarray and inflation is low."
The Fed's target for the federal funds rate, the interest that banks charge each other on overnight loans, currently stands at 3 percent, down from 4.25 percent at the beginning of this year. That was before global market turmoil in January prompted an emergency three-quarter-point cut on Jan. 22 and a half-point move eight days later, the biggest reductions in a single month in more than a quarter-century.
Many economists believe the Fed will deliver another three-quarter-point cut or perhaps even a full one-point reduction at Tuesday's meetings because Fed officials will not want to disappoint fragile financial markets, which have been on a rollercoaster ride in recent days as they have watched Bear Stearns Cos., the nation's fifth largest investment house, suddenly be brought down by the equivalent of a run on the bank.
JPMorgan Chase & Co. stepped in to announce it was purchasing Bear Stearns at a fire-sale price on Sunday in a deal helped along with a pledge that the Fed would supply a $30 billion (euro19 billion) line of credit to back up Bear Stearns' assets.
That offer over the weekend was the latest move by a central bank that has been pulling out all of the stops, including using Depression-era procedures, to pump cash into the financial system. Analysts, who faulted Bernanke for being slow to recognize the gravity of the situation last year, now give him high praise for bringing all the Fed's powers to bear.
"The Fed is doing what it can to come to rescue an economy that faces potentially a huge meltdown in financial markets," said Lyle Gramley, a former Fed governor and now an analyst with Stanford Financial Group. "The Fed is acting as a lender of last resort and being very aggressive and innovative."
In addition to providing support for the Bear Stearns sale, the Fed also announced Sunday one of the broadest expansions of its lending authority since the 1930s, saying it would allow securities dealers for at least the next six months to borrow directly from the Fed. That privilege, until now, had been confined to commercial banks.
At the same time, the Fed announced it was cutting the interest rate on those direct loans from the Fed, through a facility known as the Fed's discount window, by a quarter-point to 3.25 percent.
In other moves, the Fed last week announced that it would lend up to $200 billion (euro126.82 billion) of Treasury securities that it owns to investment banks starting March 27 for a period of up to 28 days in return for a like amount of the investment banks' shunned mortgage-backed securities. The Fed also announced recently that it was boosting the size of special loans it has been making since December to commercial banks.
The scale of these actions underscored the threat facing the economy from a severe credit squeeze that began with a wave

of defaults on subprime mortgages last year but has now spread to other parts of the credit markets, triggering multibillion-dollar losses by some of the country's largest financial institutions.
Analysts said it will take some time to determine whether the Fed has done enough to stem the wave of panic among investors.
The rapid decline of Bear Stearns stock -- which had a market value of about $20 billion (euro12.7 billion) in January, only to collapse to a sales price of $2 per share, or about $236 million (euro149.65 million), this past weekend -- has given investors the chills.
"The Fed is trying very hard to figure out how to calm the markets down, but so far it hasn't been very successful," said David Wyss, chief economist at Standard & Poor's in New York. "Markets are worried that there might be another Bear Stearns out there."
7
Document APRS000020080318e43i000xd

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Tuesday, March 18, 2008 8:07 AM
To: _DL_FYI
Subject: Dow Jones - Paulson Says He Has 'Great Confidence' In US Capital Markets

Paulson Says He Has 'Great Confidence' In US Capital Markets
282 words
18 March 2008
06:17
Dow Jones International News
English

NEW YORK (Dow Jones)--While acknowledging the U.S. economy is "in a sharp decline," Treasury Secretary **Henry Paulson** said Tuesday he has "great confidence" in the resilience of the country's capital markets.

Speaking in a interview with NBC television's "Today" show, Paulson said it's less important to label what the economy is going through and more important what is done about it.

"There's turbulence in our capital markets," Paulson said, "and it's been going on since August. We're all over it, we're looking for ways to work our way through it.

"I've got great confidence in our markets. They're resilient, they're flexible, but this has taken some time and we're focused on it," Paulson said.

Paulson also took issue with the Federal Reserve's aid in JPMorgan Chase and Co.'s (JPM) firesale purchase of Bear Stearns Cos. (BSC) over the weekend being labeled a bailout.
"Let me say that the Bear Stearns situation has been very painful for the Bear Stearns shareholders," Paulson said. "So I don't think that they think that they've been bailed out here."
He added, "All of our focus is on what's best for the American people and how to minimize the impact of the disruption in the capital markets."
The Treasury Secretary said, "We need to keep the capital markets orderly. I've got great confidence in our markets. I know we're going to work through this, but again, the focus has got to be on orderliness in the markets and in keeping our economy healthy." [18-03-08 1151GMT]
Document DJI0000020080318e43i000qd

From: Robertson, William
Sent: Tuesday, March 18, 2008 8:22 AM
To: _DL_FYI
Subject: AFP - World markets attempt rebound before Fed decision

World markets attempt rebound before Fed decision
BURS
833 words
18 March 2008
07:18
Agence France Presse
English

LONDON, March 18, 2008 (AFP) -

World stock markets rallied sharply on Tuesday before a widely expected sharp cut in US interest rates by the Federal Reserve to fight the global credit crisis which sank Bear Stearns, dealers said.
But there were growing fears that even a hefty rate cut of up to one percentage point might not be enough to ease the gridlock in the US financial system and ward off the spectre of a US recession, they said.
US Treasury Secretary **Henry Paulson** acknowledged in remarks before Wall Street reopened at 1330 GMT that the US economy was facing a sharp downturn.
"What's important is we know we're in a sharp down-decline, and there's no doubt that the American people know that the economy has turned down sharply," Paulson told NBC television when asked if the United States was in a recession.
"There's turbulence in our capital markets and it's been going on since August. We're all over it," Paulson added.
"We're looking for ways to work our way through it. I've got great confidence in our markets. They're resilient. They're flexible. But this has taken some time and we're focused on it."
Later on Tuesday, all eyes will be on Fed for its scheduled monetary policy decision.
In early afternoon trading in Europe, London shares were showing a sharp gain of 1.96 percent, Frankfurt was up 2.25 percent and Paris won back 2.05 percent.
All three markets had plunged on Monday by about 3.5-4.0 percent as investors dumped equities on fears of a ballooning credit crisis following the emergency sale of troubled US investment bank Bear Stearns, dealers said.
In Asia on Tuesday, many markets rallied after the Dow Jones Industrial Average ended slightly higher in New York in volatile overnight trading.
Tokyo gained 1.5 percent as bargain hunters emerged a day after the index plunged by 3.7 percent. Hong Kong added 1.42 percent, Seoul rebounded 0.9 percent and Mumbai ended a marginal 0.16 percent higher.
In commodities markets, oil prices retreated from record high points of almost 112 dollars and gold also traded down amid worries that demand for raw materials could be hit if financial market turbulence results in slower economic growth.
"It's got the potential to be another choppy day," said CMC Markets trader Claire Collingwood in London on Tuesday.
"There's likely to be a lot of caution in the market but (the) Fed verdict is also going to be worth watching as a significant (cut) in rates is expected."
Investors however are concerned that the Fed might be running out of ammunition to ease the market turmoil that brought Wall Street's fifth-biggest investment bank, Bear Stearns, to its knees.
The Fed has already slashed its key federal funds interest rate by 225 basis points to 3.00 percent since September to try to bolster the economy in the face of a US housing slump and related credit crunch.
The near collapse of Bear Stearns, which is being sold to JPMorgan Chase for a rock-bottom price, has sent shivers through global markets.
Persistent concerns remain over the true exposure of the global banking sector to the slumping subprime housing market in the United States.
US President George W. Bush said on Monday that he expected the American economy to ride out the financial storm that is roiling markets.
"The question is how the Fed is going to react on the backdrop of a looming recession and the danger of a systemic crisis," said Commerzbank analyst Gavin Friend.
"Our economists expect the Fed to cut rates by a minimum of 75 basis points today but see the risk that monetary policy could be loosened even by 100 basis points."
Other analysts warned that a steep cut of one percentage point could send a fresh wave of panic across Wall Street as investors could take such a move as a sign that the banking sector needs all the help it can get.
"A 100 basis points cut today could reinforce the perception that US monetary policy is in the hands of financial markets and give the impression of panic," said Barclays Capital's David Forrester, who is predicting a 75 basis point reduction.
"At the same time, it is becoming clear that cutting policy rates aggressively is unlikely to be sufficient to stem the sell-off in markets."
Major currencies took a breather ahead of the Fed decision, although sentiment toward the dollar remained negative, dealers said.
The European single currency stood at 1.5821 dollars, which was not far off Monday's record high 1.5905.
Markets were also waiting nervously for earnings results from US investment banks Lehman Brothers and Goldman Sachs

later Tuesday, followed by Morgan Stanley on Wednesday, amid fears of fresh fallout from the credit crunch.
burs/rfj/hd
Document AFPR000020080318e43i003ep

Stoltzfoos, Jeffrey

From: Market Room
Sent: Tuesday, March 18, 2008 8:24 AM
Subject: UPDATE: Lehman beats estimates

Please see below

Key Points:

- Lehman beat estimates, posting Q1 earnings $0.81/sh vs est $0.72/sh
- 'Holding company has unencumbered assets of $64bn' and 'a liquidity pool of $34bn'
- Lehman's ABS CDO portfolio is $900million
- Shares of Lehman are up 12% in premarket trading, shares of Goldman are up 5.1% in premarket trading, U.S. equity futures are higher, S&P up 1.39%
-

DJIA (fut)	12128.00	1.09%
S&P (fut)	1297.50	1.34%
NASDAQ(fut)	1714.50	1.09%
FTSE	5550.00	2.52%
DAX	6341.62	2.62%
Nikkei	11964.16	1.50%
Kospi	1588.75	0.91%
Hang Seng	21384.61	1.42%

1-Month Tsy	0.45	1.02bps
3-Month Tsy	1.04	4.10bps
3-month LIBOR	2.54188	-3.69bps
2-yr Tsy	1.445	10.43bps
10-yrTsy	3.378	7.03bps
2-yr SwSpr	75.28	-6.73bps
10-yr SwSpr	58.50	-4.00bps
30-yr Conf Mtge	100.7	-8.77bps
10-yr Gilt	4.331	3.20bps
10-yr Bund	3.726	4.20bps
10-yr JGB	1.338	4.30bps

Oil NMX WTI	$107.27	$1.59
Gold Spot	$1,007.08	$4.38
$/Euro	$1.5771	0.28%
Yen/$	97.85	0.52%
Yen/Euro	154.2675	0.76%
CHF/$	0.9891	0.46%

Lehman Posts Smallest Quarterly Profit Since '03 After Markdown
2008-03-18 08:18 (New York)

By Yalman Onaran

March 18 (Bloomberg) -- Lehman Brothers Holdings Inc. reported its smallest quarterly profit since 2003, a day after the fourth-largest U.S. securities firm lost 19 percent of market value following the fire sale of Bear Stearns Cos.

First-quarter net income declined to $489 million, or 81 cents a share, from $1.15

billion, or $1.96, a year earlier, the New York-based firm said in statement today. That beat the 72- cent average estimate of 16 analysts surveyed by Bloomberg.
Earnings were depressed by a $1.8 billion writedown caused by the slump in the mortgage market.

Chief Executive Officer Richard Fuld was forced yesterday to reassure shareholders when he said steps taken by the Federal Reserve to support brokerages eliminated the danger of a liquidity crisis. Bear Stearns ran out of cash as clients withdrew funds, forcing CEO Alan Schwartz to sell the fifth- largest U.S. securities firm to JPMorgan Chase & Co. for $2 a share, 90 percent less than the market value two days earlier.

``The game here is confidence,'' said James Hardesty, president of Baltimore-based Hardesty Capital Management LLC, which oversees $700 million for clients. ``The profit figures depend on how illiquid assets are marked to market, and investors don't trust those numbers.''

The collapse of Bear Stearns ranks along with Drexel Burnham Lambert Inc. as the biggest in Wall Street history. Fuld said in today's statement that the firm is operating in a ``challenging operating environment.''

Equities, M&A

While Lehman's fixed-income revenue declined in the first quarter, mostly due to the mortgage-related writedowns, the firm saw other business grew. Equities revenue rose 6 percent to $1.4 billion. Merger advisory fees climbed 34 percent to $330 million and investment-management revenue jumped 39 percent to $968 million.

Fuld, 61, has announced plans to cut 5,300 jobs, or 19 percent of the workforce, and closed mortgage units during the past seven months, initiatives designed to help Lehman grow faster than its peers once the markets recover. He also has expanded in Europe and Asia to gain market share in stock trading.

The firm now ranks as the largest trader on the London Stock Exchange and Euronext. Lehman has risen to fourth from sixth on the New York Stock Exchange and Nasdaq. Its share of U.S. bond trading has increased by 1 percentage point to 12 percent.

``Lehman is not Bear,'' Deutsche Bank AG analyst Mike Mayo said in a report yesterday. ``It has more liquidity. It has support among its major counterparties. Its franchise is more diversified.''

Discount Window

Fed officials were instrumental in pushing through the JPMorgan deal for Bear Stearns as part of an effort to halt the erosion of confidence in financial firms. The central bank simultaneously announced that it would allow brokers to borrow from its so-called discount window, typically open only to commercial banks, and would accept securities as collateral.

The Fed's action ``takes the liquidity issue for the entire industry off the table,'' Fuld said in yesterday's statement.
Neither his comments nor the central bank policy bolstered financial stocks.

Lehman tumbled $7.51, or 19 percent, to $31.75 in New York Stock Exchange composite trading, a record one-day decline, after sinking as low as $20.25. The shares traded above $50 as recently as March 3.

Goldman Sachs Group Inc., the biggest and most profitable securities firm, fell 3.7 percent yesterday to $151.02. Morgan Stanley retreated 8 percent to $36.38. Merrill Lynch & Co., the third-largest securities firm, dropped 5.4 percent to $41.18, and Citigroup Inc., the biggest U.S. bank by assets, lost 5.9 percent to $18.62.

Cash Stockpile

Lehman's stockpile of cash, money-market instruments, corporate bonds and equities available for sale is the largest among the five biggest brokers, according to Sanford C. Bernstein & Co. analyst Brad Hintz. The so-called liquidity pool amounts to $98 billion, compared with $61 billion at Goldman.

Lehman, the biggest underwriter of mortgage-backed bonds last year, owned $80 billion of the assets at the end of November. Half were tied to commercial mortgages. Prices on those securities have declined from 2 percent to as much as 19 percent in the past three months. About $5.3 billion of the holdings were backed by loans to subprime borrowers at greatest risk of default. Lehman limited its writedowns to $1.5 billion last year by using financial hedges.

When the leveraged loan market recovered briefly in the fourth quarter, Lehman sold almost two-thirds of its holdings, reducing the risk of losses when prices retreated again this year.

`Consistent Management'

``Lehman has had consistent management,'' said Wachovia Corp. analyst Douglas Sipkin in a report yesterday. ``A crisis in confidence is plaguing Lehman, not a fundamental crisis at the company.''

Investors may pay less attention to earnings prospects and focus instead on any signs customers and trading counterparties are sticking with the firm, or moving elsewhere, analysts said.

``After what happened to Bear, I don't think you can say with absolute certainty that it can't continue to happen,'' said Peter Sorrentino, a Cincinnati-based money manager at Huntington Asset Advisors, which oversees $15 billion and owns shares of JPMorgan and Goldman. ``Could Lehman go the same way as Bear? I hate to think of it.''

--With reporting by Edgar Ortega in New York. Editor: Steve Dickson, Otis Bilodeau.

Stoltzfoos, Jeffrey

From: Foley, Trip
Sent: Tuesday, March 18, 2008 8:26 AM
To: Steel, Robert; Nason, David; Ryan, Tony; Stoltzfoos, Jeffrey; Appleton, Jesse; Kashkari, Neel; Wilkinson, Jim
Subject: Bear Merger Agmt Summary

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

1) The "Effective Time" of the merger is not specified, nor is a date yet set for shareholder vote. However, the JPM press release expects the merger to close by July 1, 2008.

2) Exchange Ratio is fixed at 0.05473 shares of JPM stock for each BSC share

3) Stock options, RSUs, etc. at BSC all continue and are converted at the Exchange Ratio

4) All directors of BSC must submit their resignations upon the Effective Time of the merger

5) Reps and Warranties seem fairly standard (i.e. truthful reporting, financials, organization, charters, licensing, etc.) and are usually accompanied by a MAC qualifier

6) The Agmt states that the Board of BSC "has determined that this Agreement is advisable and in the best interest of the Company and its stockholders and has directed that this agreement be submitted to BSC's stockholders....Except for the approval and adoption of this Agreement...no other corporate proceedings on the part of BSC are necessary to approve this Agreement."

7) The MAC seems pretty solid and does not have outs for i) changes in global politics or market conditions affecting "other companies in the industries in which such part and its Subsidiaries operate," ii) changes in credit markets or downgrades, iii) failure to meet earnings projections, "including any underlying causes thereof," iv) any outbreak of war or terrorism

8) BSC's board approves the transaction and Lazard provides a fairness opinion

9) BSC covenants to operate under normal circumstances, to not take any action to adversely affect the deal, and agrees to operate within its risk limits (which can be changed by JPM). BSC also agrees to not hire or fire any employees at the VP level or above

10) No date for the shareholder vote is set but the S-4 must be filed "promptly". BSC agrees to submit this agmt to a shareholder vote even if the Board shall withdraw its recommendation. BSC may also not take any action to lead to an Alternate transaction or participate in any alternate transaction unless necessary for the Board's fiduciary duty. If BSC prepares to support an Alternate Transaction, they must negotiate in good faith to alter the JPM agmt so it is an equal offer. Any switch to an Alternate Transaction must also take into account the likelihood to receive legal & regulatory approval. If shareholders don't approve the vote, the parties must negotiate in good faith to fix, although its not necessary to increase the Merger Consideration.

11) There breakup fee is the ability for JPM to purchase BSC's headquarters for $1.1bn less any outstanding debt (and to require BSC to buyout the other parties of the JV that currently hold the building)

12) The deal may be terminated by mutual consent. Otherwise, by either party A) after the 1yr anniversary, B) if government approvals are not received and there is no appeal available, C) if there is any breach (after a 30-day cure), D) and by JPM if BSC's board goes with an Alternate Transaction.

http://www.bearstearns.com/includes/pdfs/investor relations/merger.pdf

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Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Tuesday, March 18, 2008 8:26 AM
To: _DL_FYI
Subject: (BN) Treasury's Paulson Says U.S. Economy Has `Turned Down S

Treasury's Paulson Says U.S. Economy Has `Turned Down Sharply'
2008-03-18 07:34 (New York)

By John Brinsley

March 18 (Bloomberg) -- Treasury Secretary Henry Paulson comments on the economy, capital markets and the Federal Reserve-orchestrated rescue of Bear Sterns Co.

He spoke in an interview on NBC's ``Today Show.''

``We know we're in a sharp downclimb. There's no doubt that the American people know that the economy has turned down sharply.

``There's turbulence in our capital markets, and it's been going on since August. We're all over it, we're looking for ways to work our way through it. I've got great confidence in our markets; they're resilient, they're flexible, but this is taking some time.

On Bear Sterns and the impact on the financial markets

``The Bear Stearns situation has been very painful for the Bear Stearns shareholders. I don't think that they think that they've been bailed out. The big focus on the part of all policymakers is to minimize the spillover into the real economy.
We need to keep our capital markets stable, functioning well.

On how much the Fed may cut interest rates at its meeting today

``I've got great confidence in the Federal Reserve, and that they're going to do what they need to do.''

--Editor: Moss

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Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Tuesday, March 18, 2008 8:31 AM
To: _DL_FYI
Subject: WSJ- Lehman Finds Itself In Center Of a Storm

Lehman Finds Itself In Center Of a Storm
By Susanne Craig
18 March 2008
The Wall Street Journal
A1

Lehman Brothers Holdings Inc., buffeted by the credit turmoil sweeping Wall Street, is going on the offensive.

At 4 p.m. Friday, just as markets closed in New York, Chief Financial Officer Erin Callan's phone rang with a worried call from a top Lehman bond trader.

"Rumor has it ING is pulling all its lines to all the Street firms," Ms. Callan was told. Without credit from firms such as ING Groep NV, the Netherlands-based financial-services company, Lehman and other investment banks could face a severe crimp in short-term funding vital to their day-to-day survival.

Ms. Callan, 42 years old, didn't know if the rumor was true. But Lehman's shares already had tumbled 15% Friday on worries that the company, founded in 1850 as an Alabama cotton trader, could face the same kind of liquidity squeeze as Bear Stearns Cos.

Yesterday, fears touched off by Bear Stearns's meltdown sent Lehman shares plunging by as much as 48%. At 4 p.m., they were down 19%, or $7.51, to $31.75 -- a 4 1/2-year low -- in New York Stock Exchange Composite trading. The stock prices of Goldman Sachs Group Inc., Merrill Lynch & Co. and Morgan Stanley also fell.

A cascade of bad news -- more than $150 billion in write-downs on securities tied to subprime mortgages, wounded banks seeking capital infusions and emergency interventions by the Fed -- is feeding a chaotic environment of rumors and speculation on Wall Street where many traders and investors have begun to believe the worst even in the absence of hard facts.

Richard Fuld, Lehman's chairman and chief executive, knows what it's like to be at the center of the storm. In 1998, Mr. Fuld had to fend off speculation triggered by the collapse of hedge fund Long-Term Capital Management that the company was close to insolvency. His success in steering the firm to safety is widely seen as the defining moment in Mr. Fuld's 39-year career at Lehman, the only firm for which he has worked. Of the major Wall Street CEOs who dealt with the LTCM affair, Mr. Fuld is the only one still on the job.

When rumors about Lehman's financial strength intensified late last week, Mr. Fuld, now 61 years old, and many of the same executives who fought to save the firm nearly a decade ago started a fierce counterattack.

"In 1998, we learned we need a lot of liquidity and we also know we need to deal with rumors as they arise, not long after," Mr. Fuld said in an interview yesterday.

Starting last Friday, any time a jittery trader at another firm refused to do a trade with Lehman, a top Lehman official immediately called the trader's supervisor with assurances of Lehman's strength -- and a prod to accept the trade.

The firm also is circulating an internal memo of "talking points" that compare Lehman's capital and liquidity levels with those of Bear, Goldman, Morgan Stanley and Merrill Lynch. Overall, Lehman has $34 billion in cash on hand and another $63 billion in assets that could be used as collateral to generate cash.

"We knew any small event could trigger something more, so we made sure nothing got out of control," Ms. Callan says.

Bear Stearns is a classic example of how events can turn against a firm in a matter of hours. It failed to stem an exodus by customers and was forced to sell itself to J.P. Morgan Chase & Co. for a mere $236 million on Sunday night.

Some of Bear Stearns's brokerage customers feared their assets weren't safe in Bear's hands and rushed to withdraw them. Making matters worse, Bear Stearns lost its ability to get short-term funds from fellow financial institutions. A spokeswoman at ING, the Dutch bank that was the subject of the rumor at Lehman, said ING is still offering funds but is looking "more carefully at risk and collateral."

Yesterday, brokerage firm MF Global Ltd. saw its shares plummet as much as 79% on concerns that some customers were yanking money out of their accounts. There were also rumors that British billionaire Joseph Lewis, who invested $1.1 billion in Bear Stearns and stands to lose almost all of it, was either a big customer or major shareholder of MF.

The stock rebounded slightly after MF said it is "very well capitalized," and has "strong support" from customers. MF said Mr. Lewis "is not a client."

As recently as last Wednesday, there were few signs of an impending Wall Street hurricane. While rumors circulated about a cash crunch at Bear Stearns, the firm's chief executive, Alan Schwartz, told CNBC that the firm's "balance sheet has not weakened at all."

The next day at Lehman's headquarters in midtown Manhattan, five blocks from Bear Stearns's headquarters, Mr. Fuld recorded an internal message for employees to hear when Lehman reports fiscal first-quarter results today. Then he drove to Westchester County, N.Y., where a private jet was waiting to take him on a scheduled trip to India to meet Lehman clients. Tom Russo, the firm's chief legal officer, was at an industry conference in Boca Raton, Fla.

By the time Mr. Fuld's plane touched down in New Delhi 16 hours later, the financial world was about to receive some devastating news. On Friday, the Federal Reserve and J.P. Morgan stepped in to keep Bear Stearns afloat. The move set shock waves throughout Wall Street, driving financial stocks down. Except for Bear Stearns, Lehman was the hardest-hit, falling 15%.

Ms. Callan's phone began ringing Friday afternoon. Lehman is not only smaller than rivals like Morgan Stanley and Goldman Sachs, it was long a big player in packaging and selling mortgages. And while it has recently branched out into stock trading and investment banking, for years it was known, like Bear Stearns, primarily as a bond house.

Lehman, said Ms. Callan, was waging "hand-to-hand combat" as it worked to extinguish rumors and ease concerns about its liquidity.

Around 8 a.m. Saturday morning, some Lehman executives began trickling in to work. Lehman was bracing for the worst when the markets opened Monday. President Joe Gregory, a 36-year Lehman veteran, canceled weekend plans in Roanoke, Va., where his son was playing lacrosse. Ms. Callan, a relative newcomer to her post, had already planned to work that day because of the firm's pending earnings announcement.

Mr. Russo, at the Florida conference, was set to leave for a week in Brazil with his family, but returned home to New York instead. Both Messrs. Russo and Gregory began talking to regulators, reassuring them that Lehman's financial position was sound and giving information about market conditions.

Nearby, Ms. Callan and her team were in a conference room on the firm's 31st floor, meeting with officials from the Securities and Exchange Commission, who on Saturday visited almost every Wall Street firm to get an update on each firm's liquidity position. Ms. Callan ran regulators through Lehman's numbers in the two-hour meeting.

In New Delhi, Mr. Fuld fielded a call from Treasury Secretary Henry Paulson, himself a former Goldman Sachs executive. The two talked about Bear Stearns and the potential for further fallout, according to people familiar with the matter. "I think it's best given what is going on that you come home," Mr. Paulson advised, these people say.

In New York, as Mr. Fuld was preparing to fly home, discussion centered on whether Lehman should release its earnings Monday, a day early. "Given we don't have liquidity issues I think we should just wait until Tuesday," Mr. Russo advised on the earnings. The team put off the timing decision until Sunday.

At the same time, Paolo R. Tonucci, the firm's treasurer, was compiling lists of all of Lehman's counterparties, along with phone numbers of contact people at those firms. These lists would be at the ready if certain trading desks Monday decided not to accept Lehman trades.

Another big focus: access to short-term funding. Bear Stearns had difficulty getting access to a key market that it and firms like Lehman rely on to finance themselves day-to-day. This $4.7 trillion market, known as the securities repurchase, or "repo," market, enables financial institutions to obtain short-term, often overnight, cash loans by selling securities -- either theirs or clients' -- and agreeing to repurchase them a day or so later when the loan matures.

Lehman executives began pulling together data on the firm's funding alternatives, including untapped bank lines, in case it faced difficulties in the repo market. The data were fed into an internal memo that was sent to hundreds of top Lehman managers, who were fielding calls from clients concerned about the firm's liquidity.

The two pages of "talking points" reviewed in detail the firm's current financial situation, comparing it with rivals, including the rapidly deteriorating Bear Stearns. "Funding philosophy shaped by Lehman's liquidity framework developed after 1998," reads one bullet point. The firm, the memo said, has diversified and deepened funding sources.

The memo was sent on Sunday, hours before J.P. Morgan announced it was buying Bear. Along with that announcement, the Federal Reserve did something extraordinary: It said that for the first time brokerage firms like Lehman would be allowed to borrow from the Fed on much the same terms as banks. This move instantly gave Lehman and other brokerages access to funds that had been out of reach.

Mr. Fuld's unscheduled trip back from India took 26 hours, including stops in Istanbul and Oslo for refueling. While in the air Mr. Fuld participated in a conference call with Wall Street chiefs hosted by Mr. Paulson about the funding decision. When the call ended, Mr. Fuld immediately called Messrs. Russo and Gregory. "They have done the right thing," he told the pair. "This is great news."

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Sent: Tuesday, March 18, 2008 8:33 AM
To: _DL_FYI
Subject: WSJ- Bailout May Provide Fed A Chance to Turn Profit

Bailout May Provide Fed A Chance to Turn Profit
By Greg Ip and Michael M. Phillips
18 March 2008
The Wall Street Journal
A18

There is a silver lining for the Federal Reserve in the unprecedented $30 billion loan it has made to Bear Stearns Cos.: The central bank might make money on it.

As part of Sunday's agreement by J.P. Morgan Chase & Co. to buy Bear, the Fed agreed to "fund up to $30 billion of Bear Stearns's less-liquid assets," J.P. Morgan said Sunday. The funding facilitated the takeover of Bear while eliminating the risk that a different buyer would quickly dump the assets, straining markets that are already in disarray.

Officials told reporters at a briefing Sunday that the Fed was assuming responsibility for the management of the assets. Several people familiar with the matter said the funding is structured so the Fed assumes both the risk of those assets declining in value and the profit if they rise in value.

The composition of those assets hasn't been disclosed, but they are likely to include some of the riskiest of the firm's holdings. Bear Stearns was a major player in the market for risky types of mortgage-backed securities and held large volumes of them, one reason lenders and investors became so skittish about dealing with the firm. As such, the Fed's risk of loss is real.

On the other hand, the assets were valued at Friday's depressed levels, and the funding is overcollateralized, meaning Bear provided more than a dollar's worth of assets for each dollar the Fed lent.

The Fed can choose either to sell the assets on the open market or hold them to maturity. In either case, if the market proves to have been overly pessimistic, the Fed should realize a gain. If the market wasn't pessimistic enough or if the cost of administering and liquidating the loans proves high, it will cost the Fed money.

Any profit or loss ultimately ends up with the taxpayer. That is because the Fed earns interest on its $800 billion portfolio of Treasurys and short-term loans. After covering its expenses it remits the surplus to the Treasury. Last year, that came to $34.4 billion.

While most economists and politicians loathe public bailouts, it isn't uncommon for the federal government to ultimately make money on them.

During the 1995 peso crisis, the Clinton administration offered Mexico $20 billion in loans, with the country's oil revenues as security. The International Monetary Fund offered another $18 billion. Critics condemned the loans as a bailout. In the end, Mexico didn't require the entire amount, and the country's finances recovered. The U.S. ended up making a profit on the interest payments.

The government also turned a profit from the Air Transportation Stabilization Board, an entity set up after the Sept. 11 attacks to support the airline industry. The board ultimately provided a total of $1.56 billion in loan guarantees to six carriers. The government earned just under $350 million from fees and stock sales, according to the Treasury Department.

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From: Zuccarelli, Jennifer
Sent: Tuesday, March 18, 2008 8:35 AM
To: Abbott, Matthew; Appleton, Jesse; Butler, John; Davis, Michele; Foley, Trip; Forsell, Courtney; Foster, Robert; Garibay, Marisol; Hill, Rob; Jaconi, Kristen; Kane, Lauren; Kertz, Mary; Mason, Jeb; McLaughlin, Brookly; Nason, David; Norton, Jeremiah; Papagianis, Christopher C.; Ryan, Tony; Schetzel, Michael; Schultheiss, Heidilynne; Scogin, Matthew; Steel, Robert; Stoltzfoos, Jeffrey; Ugoletti, Mario; Wheeler, Seth
Subject: AB- I-Banks at The Window, Congress at The Door

I-Banks at The Window, Congress at The Door
By Barbara A. Rehm And Rob Blackwell
18 March 2008
American Banker

WASHINGTON -- The privilege of borrowing cash from the discount window is likely to carry the burden of stricter supervision for investment banks.

At a minimum, the Securities and Exchange Commission's relatively cursory oversight is likely to be replaced with the Federal Reserve Board's fine-tooth-comb approach.

"Now that large investment banks are allowed to step up to the window, some greater degree of regulation should be examined," Sen. Charles Schumer, the chairman of the Joint Economic Committee and a member of the Senate Banking Committee, said on a conference call with reporters Monday.

The New York Democrat raised doubts about the entire structure of the financial services system.

"Regulation is fractured and based on a financial system that doesn't work any longer," Sen. Schumer said. "There should be some combination of regulators or they should at least act in greater harmony."

He was seconded by Senate Banking Committee Chairman Chris Dodd, who said increased Fed oversight should "absolutely" be part of any deal that gives investment banks access to the discount window.

"Look, that's got to come with this," he said.

A source at a large banking company said such a change is a matter of fairness. "It's bad enough that banks are 'too big to fail' - at least they are paying something for that status. The investment banks literally have a free ride. They have all of the benefits and none of the burden."

The source, who did not want to be identified for fear of angering more senior executives or the company's regulators, predicted that the congressional reaction would rival the fallout from the savings and loan crisis, when major laws were enacted in 1989 and 1991. "I assume this is going to be every bit as big."

Sens. Schumer and Dodd, along with Senate Majority Leader Harry Reid, D-Nev., said Monday that the Fed's move was more proof that a housing rescue plan was necessary.

Sen. Dodd said the plan he is drafting with House Financial Services Committee Chairman Barney Frank, D-Mass., to expand the Federal Housing Administration's guarantee on loans is gaining traction with the Bush administration.

"There is a greater receptivity to this idea than there was 48 hours ago," the Connecticut Democrat said. "So we are going to continue pushing it."

Treasury Secretary Henry Paulson appeared defensive of the Fed's actions Monday, saying they did not constitute a bailout, because shareholders took a substantial loss.

"In terms of moral hazard - look at what happened to Bear Stearns' shareholders," he told reporters on the White House lawn.

When asked about the Dodd-Frank plan, Mr. Paulson said he was paying more attention to efforts by the Hope Now alliance to streamline modifications.

"What I'm really focused on are things that can be done quickly that make a difference," he said. "While there are some interesting ideas up on the Hill, we still don't have FHA modernization."

The FHA bill has passed both houses of Congress, but lawmakers have not settled differences between the House and Senate versions.

Other Republicans said they continued to oppose a broad government expansion into mortgages.

"What we are seeing is that the rules and the options that are in place for the Fed and elsewhere to act when there are challenges in the economy, and they're proceeding accordingly," Rep. Tom Price, R-Ga., said in an interview. "What this underscores is that the last thing that needs to occur is continued threats by Congress to act to intervene further, which only would destabilize and prolong the financial challenge that we are in."

Rep. Price said he was unsure whether the Fed should have more oversight of investment banks.

"From my standpoint, I need more information with what the SEC did vis a vis Bear Stearns and whether or not there was appropriate oversight of the risk that Bear Stearns took on and whether that agency should have taken on a greater role there," he said. "I don't have that information."

Whether a regulatory restructuring bill would be grafted on to the housing recovery measure is unclear. It might slow the housing piece, but that urgent business could provide the momentum needed to finally dislodge long-held stances against change.

Some industry observers argued Monday that a massive overhaul to the system is not necessary.

Coincidentally, the Treasury Department is overdue to deliver a report on recommendations for revamping financial market supervision. Mr. Paulson announced that plan in June, and the report was expected to be made public early last month. The department could unveil it at any time.

The Treasury was widely expected to propose combining the Office of the Comptroller of the Currency and the Office of Thrift Supervision. But in light of the tremendous upheaval that led Bear Stearns Cos. to sell itself to JPMorgan Chase & Co. for $2 a share, with a $30 billion backstop provided by the Fed, the administration may come out with something bolder.

OCC and Fed officials were not doing interviews on this topic Monday, but recent comments indicate bank regulators would back tighter oversight of investment banks.

Fed Vice Chairman Donald Kohn argued this month that the central bank should not open its discount window to investment banks without the intimate knowledge gathered by examining an institution. Such a move "could carry some very major costs," he said.

Commercial banks "have access to the discount window, but the quid pro quo" is regulation, Mr. Kohn testified before the Senate Banking Committee on March 4. "You have constricted their activities in a number of ways relative to investment banks."

Comptroller of the Currency John Dugan agreed with that assessment. "You have to be very careful about giving out the government's credit, except to institutions that you really pay very close supervisory attention to," he testified the same day. "And so I would maybe even be more cautious than Don."

Most outside observers said the odds of a regulatory overhaul have improved significantly as a result of the Bear Stearns rescue and the Fed's decision to let investment banks borrow from the discount window. On Sunday the central bank lowered the window rate by 25 basis points, to 3.25%, narrowing its premium to federal funds borrowing to a quarter of a percentage point.

"There is no question that investment banks will be better regulated in the future," said Chris Low, chief economist for First Horizon National Corp.'s FTN Financial. "We will see a significant overhaul of the entire regulatory process."

Karen Shaw Petrou, the managing director of Federal Financial Analytics Inc., agreed that "the regulators themselves are going to be significantly hammered" over how this happened. "There will be a rewrite of the regulator and the regulated."

Former House Banking Committee Chairman James A. Leach, now the director of Harvard University's Institute of Politics, said in an interview Monday that both the Fed and Congress "erred by not being on top of the regulatory side" of this matter. "You need some sort of regulatory oversight to rein in the leverage. ... You've got to know what you are dealing with. Investment banks have to come under credible rules and credible regulation."

One option often mentioned is the model adopted in 2000 in the United Kingdom, in which the central bank was given oversight of monetary policy and supervision of financial companies was bundled under a new agency, the Financial Services Authority.

In the U.S. the Fed would keep its monetary policy but shift its supervisory role to a new agency that could also take on duties from the OCC, the OTS, the SEC, the National Credit Union Administration, the Federal Housing Finance Board, and the Federal Deposit Insurance Corp., though the FDIC would retain its insurance function.

"We need to have a regulatory climate that creates a level playing field so that all financial services firms of any size are regulated and supervised. Currently some are regulated heavily - e.g. banks - and some hardly at all," said former Comptroller of the Currency Eugene Ludwig, now the chief executive of Promontory Financial Group.

"We also need to streamline our regulatory alphabet soup of regulatory agencies," he said. "A version of the FSA - a streamlined, comprehensive, active, prudential supervisor that puts all financial firms on a level playing field. This can be done in a way that maintains the dual banking system. But clearly one financial services organization does not need five or more regulators while others have not even one serious regulator."

Mr. Roberts suggested a middle ground, one that reflects his long tenure with the Fed. Supervisory responsibility for all large institutions, including Fannie Mae and Freddie Mac, could be handed to the Fed.

"Is there is any real evidence that an FSA works better than separate regulators?" he asked rhetorically. "But an umbrella regulator over any entity that is systematically important" could work.

Stacy Kaper and Steven Sloan contributed to this story.

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From: Robertson, William
Sent: Tuesday, March 18, 2008 8:38 AM
To: _DL_FYI
Subject: Reuters- Fed begins policy meeting, sharp rate cut seen

Fed begins policy meeting, sharp rate cut seen
216 words
18 March 2008
07:33
Reuters News
English

WASHINGTON, March 18 (Reuters) - U.S. Federal Reserve policy-makers began a meeting on Tuesday amid global market unease, and were widely expected to slash interest rates as much as a full percentage point to try to rally a flagging U.S. economy.

The Fed's policy-setting Federal Open Market Committee began deliberations at 8:30 a.m. (1230 GMT), according to a Fed spokesperson, and was expected to announce a decision at around 2:15 p.m. (1815 GMT).

The U.S. central bank has lowered its trend-setting federal funds rate by 2.25 percentage points to 3 percent since mid-September as a soaring rate of home mortgage defaults spiraled into a full-blown credit crisis that claimed Wall Street investment bank Bear Stearns as a victim last weekend.
Treasury Secretary **Henry Paulson**, on NBC's Today show early on Tuesday morning, acknowledged the U.S. economy was in "a sharp downclimb" -- his strongest language to date to describe the economy's weakness -- but he avoided labeling it an outright recession. (Reporting by Glenn Somerville; Editing by Neil Stempleman)
USA-FED/MEETING (URGENT)|LANGEN|ABN|C|D|E|M|O|U|MTL|GRO|SOF|OIL|G|RBN|ABX|BNX|RNP|PGE
Document LBA0000020080318e43i000wy

Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Tuesday, March 18, 2008 9:53 AM
To: _DL_FYI
Subject: ABC - Paulson

Here is the transcript from Secretary Paulson's ABC interview this morning

ABC – Paulson

http://www.shadowtv.com/redirect/notification.jsp?vid=9264b9f1a981bb823cbd27a34f8b3a23

HOST: change the equation? I had a chance it to ask treasury secretary henry paulson when he believe this will turn around.

PAULSON: It's take a way to work through the stresses and capital markets. I don't think any single option is going to be a silver bullet but i'm optimistic we're making progress.

HOST: Making progress, taking a while, what does taking a while mean? Give people a general sense when they might start looking for some type of upturn?

PAULSON: Well, diane, in terms of the economy, the president and congress move very quickly with the stimulus package and checks are going to begin going to the person people very early in may, electronic payments first then checks early in may. Largely by the end of june, first part of july, there will be a lot of money that goes out into the economy, getting to 130 million tax payers and there are also incentives for business to start investing. I think it will start making a difference here in the second and third quarter, maybe adding 500,000 or more jobs.

HOST: And would you ever issue a second stimulus check if it's not working?

PAULSON: Diane, i'll never say never, but we're focused on making this work.

HOST: We have heard, mr. Secretary, from so many people who have questioned, these are ordinary americans, who questioned the fact that the federal government has guaranteed the purchase of bear stearns, and we see that the total tal fiscal assistance so far to banks has been 230 billion. Homeowners, they say zero. I would like to play, if i can, a sound byte from a family, a family sighting in their own house. They want to ask you the This is not me, i want you to listen to them.

UNIDENTIFIED PERSON: You're helping out all these big corporations but if it wasn't for the common people, you know, who are helping build these big corporations, that they wouldn't be there.

PAULSON: Diane, first of all, i listened very closely to what they've said, and we're focused on people like this. We're focused on the american people. We also, diane, are working very hard on dealing with this mortgage foreclosure problem. To avoid foreclosures that are avoidable. That this hope now alliance, this interest group put together has helped more than a million american families since its inception. And there's a big focus on avoiding those foreclosures that are avoidable here.

HOST: One more question for you, if i can. As you know, the former fed chairman alan greenspan has predicted this financial crisis will be judged by history, these are his words, as one of the most wrenching since the end of world war ii and there's a poll on the front page of usa today. 76% Of those polled now say, the economy is in a recession. This morning, are you willing to say that? The economy is in a recession?

PAULSON: Diane, listen. Economists are going to argue about the tech colts here for There's no doubt the economy is in a sharp decline. I know it. The american people know it. I think it's much less important to them, the label that economists put on this, much more important is what we do to address it. And we're working very hard to address it, to get those stimulus payments out. We're working hard to limit the turbulence in the financial markets so there won't be -- to minimize a pillover into the real economy and to deal with, and help homeowners who want to stay in their homes and have capabilities to do that. So we're working hard --

HOST: the fact you won't use the word, is it that you don't want to use the word or do not believe this is a recession?

PAULSON: I -- diane, i know the economy is turned down sharply. I know it, i feel it. We're working to deal with it. I don't think it's particularly helpful to, right now, be debating what term to use this. We're all over this, diane.

HOST: Do you not feel it's a recession?

PAULSON: Who knows. Let the economists decide that. The label they put on it is much less important to me than what we do about it.

HOST: Well, again, mr. Secretary, thank you for being with us this morning. Good of you to get up and be with us.

PAULSON: Diane good to be here, thank you.