

Stoltzfoos, Jeffrey

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

NBC this morning

NBC – Paulson

<http://www.shadowtv.com/redirect/notification.jsp?vid=6adeec76c24ce71ddad0980260bc301f>

HOST: Henry paulson is the secretary of the treasury. Secretary paulson, good morning. Let me welcome also the viewers of cnbc's "squawk box" who are joining us as well. Good morning to you.

PAULSON: Matt, good morning.

HOST: Let me start with the obvious question. Mr. Secretary, are we in a recession?

PAULSON: Matt, economists are going to be arguing about the technicalities for a number of months. 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. So, to me, much less important is the label that's placed on it today. What's more important is what we do about it.

HOST: Then i don't want to make too much of words but i would like to talk about the pre aelction words he used on monday. After meeting with you he said secretary paulson gave me an update and said it's clear we're in challenging times. I want to contrast to what former federal reserve chairman alan greenspan wrote. He wrote, the current financial crisis in the u.S. Is likely to be judged in retrospect as the most wrenching since the end of the second world war. Hearing that we're in challenging times sound like the understatement of the year?

PAULSON: Matt, 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 has taken some time and we're focused on it.

HOST: The fed took some extraordinary stems over the weekend to deal with the bear stearns situation, the sale of bear stearns to jpmorgan chase. I have two questions about that. It has some people asking, does the fed react more strongly to what's happening on wall street than they do what's happening to people in pain across the country, the so-called people who live on main street?

PAULSON: Matt, the -- first of all, let me say that the bear stearns situation has been very painful for the bear stearns So i don't think that they think that they've been bailed out here. But the focus here, the big focus on the part of all policymakers is to minimize the spillover to the real economy. We need to keep our capital markets stable, functioning well and, again, that is important to the health of the u.S. Economy, because access to credit is very important to businesses that need to invest in great jobs. It's very important to the american people that want to borrow, to send their kids to college or to finance a home.

HOST: Well, when you talk about the business, that leads me to the second question. This is one posed on the front page of "the wall street journal" in an article about the steps taken over the weekend. It says this, quote, has the got set a precedent for propping up failing financial institutions at a time when its more traditional tools don't appear to be working? In other words, they're saying is this now the wave of the future, mr. Secretary, that financial institutions that get in trouble in the future turn to the government to be bailed out?

PAULSON: Again, as i said, i don't believe the bear stearns shareholders feel they've been bailed out right now. The focus is clearly -- 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. 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 keeping our economy -- keeping our economy healthy.

HOST: And the fed's going to meet today. Expected to cut this interest rate by up to a point. Is anything less than a point a drp in the bucket, in your opinion?

PAULSON: Matt, you know i can't get into that. The federal reserve is independent. They're going to do what they think is best. I've got great confidence in the federal reserve and that they're going to do what they need to do.

HOST: Finally an issue brought up in maria bartiromo's setup She said this could be a double-edged sword. If the interest rates are cut again, it could weaken the u.S. Dollar, which will make it harder for those on main street to put food on the table, gas in the cars and heat their homes. What's your reaction to that?

PAULSON: We're very focused on those people who live on main street. That's why we've worked so hard to get this economic stimulus package ready. We're going to have checks going out to the american people beginning early may. And this program will be largely done -- the economic stimulus program -- by the end of june or early july and we think that will make a real difference to the average american and it will create up to 500,000 or 600,000 new jobs.

HOST: Henry paulson is the secretary of the treasury. Secretary paulson, thanks very much for your time. I want to thank everyone watching on cnbc as well.

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Subject: CBS - Paulson

CBS this morning

CBS – Paulson

<http://www.shadowtv.com/redirect/notification.jsp?vid=fe808e1db3a0ab970489351e19e0d4ac>

HOST: economy, but the underlying fundamentals are strong. Joining us from the white house this morning is treasury secretary henry paulson. Good morning, mr. So. I want to talk about -- we're expecting a rate cut later today, but there's a limit to how many times you can cut interest rates and bail out companies trouble and lend money directly to investment banks. What do you say to the consumer who's at home watching, thinking that these are just band-aids on a gaping wound?

PAULSON: Well, what i would say to people who are watching is that the priority we have is a stable, orderly financial markets, and 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, it's key to families that need to borrow to finance a home or for college education. So it's very important. And our focus, the focus of policy makers is on reducing the spillover into the real economy.

HOST: It would be held on june 3rd, privately funded, and run.

PAULSON: The bear stearns shareholders who have been largely wiped out would think they have been bailed out. And we're aware of the moral hazard. Our priority right now is to do what's in the best interests for the american people, and that is to minimize the impact of this business, short business slowdown, this sharp slowdown in our economy, and again, to keep our capital markets functioning the way they need to function.

HOST: Yesterday you mentioned the importance of things that can be done quickly to ease the housing crisis, but you didn't give a deadline. Wouldn't it be worth it, given the gravity of the situation, to sit down with the agencies involved and have a cram session, like you did this week at the bailout bear stearns? Isn't it just as important to bail out homeowners in trouble as it is to bail out an investment giant in trouble?

PAULSON: Maggie, it's very important, and the initiatives we've had that haven't required congressional action -- getting the industry together to help homeowners that are in trouble -- has made a difference so far. Our hope now alliances helped a million homeowners since we started it up, and we're working hard with congress to get legislation. And, for instance, we have legislation that's been passed by both the house and the senate, but they still haven't come together and given a bill to the president to sign that would let the fha help 300,000 subprime borrowers who are having trouble making their mortgage payments.

HOST: So henry paulson, appreciate the time, thank you.

PAULSON: Thank you, maggie.

Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Tuesday, March 18, 2008 10:01 AM
To: Foley, Trip
Subject: DealBook: Lehman, Goldman Profits Fall, but Beat Estimates

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 | Tuesday, March 18, 2008

- M & A:** Aftershocks of Bear's Collapse
- BANKING:** Rallying the House of Morgan
- PRIVATE EQUITY:** Blackstone Accused of Breaching ADS Deal
- HEDGE FUNDS:** Activists Gain 2 Seats on Times Board
- OFFERINGS:** Renewable Energy Pulls Plug on I.P.O.
- VENTURE CAPITAL:** Tesla Begins Rolling 'Em Out
- LEGAL:** New Trial Ordered for Former Qwest Chief

TOP STORY

Lehman, Goldman Profits Fall, but Beat Estimates

Two of Wall Street's top investment banks reported earnings well below the heights of last year, yet still beating analyst expectations at a time when the financial sector is on edge following the collapse of **Bear Stearns**.



Lehman Brothers, whose stock fell 19 percent Monday following the announcement of Bear Stearns' sale, reported \$489 million in profit for its first quarter this year. The earnings, which amount to 89 cents a share on \$3.5 billion in revenue, are down 57 percent over the same time last year. Analysts surveyed by Bloomberg News had expected profit of 72 cents a share.

Meanwhile, **Goldman Sachs** reported \$1.51 billion in profit for its first quarter of 2008. Goldman's earnings of \$3.23 per share on \$8.34 billion in revenue is less than half of the \$6.67 per share it earned in 2007. Analysts had expected \$2.57 a share on \$7.3 billion, according to Reuters.

Go to Lehman Brothers Press Release via PRNewswire
 Go to Goldman Sachs Press Release
 Go to Item from DealBook»

Correction: Monday's DealBook newsletter incorrectly reported that Allianz had announced plans to sell off Dresdner Kleinwort. Allianz's Dresdner Bank said it plans to divide itself into two legally separate units.

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The Bear Stearns Deal

Full coverage of the proposed takeover of the troubled investment bank -- and the crisis that led to the sale. [More»](#)



JPMorgan's Growing Footprint

In buying Bear, JPMorgan adds a Madison Avenue tower to its collection of New York address. [More»](#)



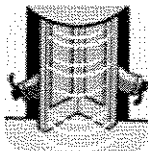
Spitzer Schadenfreude

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



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The latest hires, promotions and departures at Goldman, Bear, Cowen and more. [More»](#)



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MERGERS & ACQUISITIONS

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Bear Stearns' stunning fall and even more astounding \$2-a-share takeout by **JPMorgan Chase** will go down either as a heroic rescue of the financial system or grand theft, Wall Street style -- or maybe a bit of both, Andrew Ross Sorkin writes in his latest DealBook column. Separately, DealBook looked at the advisers who put the transaction together.



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For the Bear Stearns employees who have spent most of their professional lives at the firm, its sudden collapse was unfathomable. The future of Bear chief executive Alan Schwartz is uncertain, as JPMorgan considers whether and how it might keep him on board.

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Could Bear strike a better deal? Many investors seem to think so, judging from Bear's closing stock price Monday.

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Separately, **Citic Securities** of China said it would terminate its previously announced plan to buy a stake in Bear Stearns.

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BMC Software, a systems management company, said Monday it would buy **BladeLogic** for \$28 per share, or about \$800 million net of cash acquired. The 451 Group said the deal makes BMC a newly credible competitor in managing increasingly virtual infrastructures.

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»](#)

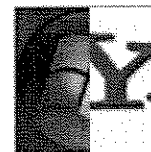


DealBook Talks Yahoo

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»](#)



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Deutsche Telekom took a step Monday toward gaining control of the former government-owned telecommunications company in Greece, in what would be a rare case of two former European telephone monopolies getting together.

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Iomega said Monday it is prepared to begin acquisition talks with **EMC** after EMC raised its proposed buyout offer for the storage technology company to \$3.75 a share.

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The meltdown of **Bear Stearns**, which has been handling prospective buyers for the **Tropicana Casino & Resort**, will not affect the Atlantic City casino's sale, according to The Associated Press.

[Go to Article from The Associated Press via The Philadelphia Inquirer»](#)
[Go to Article from The Press of Atlantic City»](#)

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INVESTMENT BANKING

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James Dimon, who as master of the modern Morgan empire, **JPMorgan Chase**, has suddenly become the most talked about -- and arguably the most powerful -- banker in the world today. The New York Times offers a tick-tock of his firm's purchase of **Bear Stearns**.



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Critics of the Federal Reserve's role in the sale of **Bear Stearns** have raised the specter of moral hazard. But what is moral hazard?

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The outlook for New York City's economy and its main engine, the financial services industry, had already taken a bleak turn before the sudden failure of **Bear Stearns**, the fifth-largest firm on Wall Street.

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More information on DealBook for BlackBerry.

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Dealboard

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A French appeals court ruled Tuesday that Jerome Kerviel, the former trader that **Société Générale** has blamed for nearly \$7.7 billion in losses, should be released from jail while the investigation into his alleged fraud continued.



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

The news comes one day after the French bank said that it was reorganizing its senior management team. The bank promoted its chief financial officer, Frédéric Oudea, to deputy chief executive -- a move that some said could pave the way for the chairman and chief executive, Daniel Bouton, to step down.

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Shares of **UBS**, the biggest Swiss bank, fell the most in almost a decade on Monday amid concern that the lender might have to take further write-downs and after media reports suggested that it might cut as many as 8,000 jobs, raise more capital and sell its American brokerage business.



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PRIVATE EQUITY

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Alliance Data Systems said on Monday that the **Blackstone Group** was in breach of contract on its agreement to buy the credit-card transaction company.



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While turmoil in the financial sector has caused worries about the health of pending merger and acquisition deals, the Ontario Teachers' Pension Plan says there has been no change in process regarding its 34.8 billion Canadian dollar (\$35 billion) takeover of Canadian telecom **BCE Inc.**



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British private equity firm **Permira** said on Monday that it has

hired Daniel M. Healy, **North Fork's** former chief financial officer as a senior adviser with a focus on the financial services sector.

[Go to Permira Press Release via Business Wire»](#)

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Renaissance Group, the Moscow-based investment bank, will announce Tuesday that it has raised \$660 million for its debut private equity fund, highlighting the rising demand from investors to put money into buyouts of Russian companies.

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HEDGE FUNDS

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An agreement struck by **The New York Times Company** with a pair of hedge funds that want to shake up the company, marks the first time since the Times Company went public in 1967 that it has accepted directors nominated by outsiders.



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CNet Networks said Monday afternoon that it would appeal a Delaware court ruling allowing a hedge fund to nominate seven directors to its board. The decision has already caused a kerfluffle in New York legal circles.



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[Go to CNet Press Release via BusinessWire»](#)

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U.S. railroad **CSX** is striking back against two hedge funds that it says are more interested in controlling the company than in good corporate governance.

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I.P.O. / OFFERING

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Renewable Energy Group on Monday filed with U.S. regulators to withdraw a planned initial public offering of its common stock, citing current market conditions.

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[Go to Article from peHUB»](#)

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Visa, which plans to float shares on the New York Stock Exchange on Wednesday in the biggest U.S. initial public offering ever, will not be deterred by market turmoil that has taken a severe toll in recent days, analysts told Reuters on Monday.

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Pogo Jet, a start-up aiming to provide private jet charter service, said Monday it has postponed its planned initial public offering, citing unfavorable market conditions.

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VENTURE CAPITAL

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In what is good news for the likes of George Clooney, Dustin Hoffman, and Arnold Schwarzenegger, **Tesla Motors** on Monday moved into commercial production with the Tesla Roadster, an all-electric sports car.

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Luminus Devices, a company that wants to change the lighting systems in digital TVs and in buildings, has raised \$72 million in its latest round of funding.

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SendMe Mobile, a provider of direct-to-consumer mobile entertainment has raised more funding to extend its market share for its core brands and to expand upon them.

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LEGAL

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A federal appeals court panel reversed the insider-trading conviction of Joseph P. Nacchio, the former chief executive of **Qwest Communications International**, and ordered a new trial in front of a



different judge.

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The Supreme Court handed **Microsoft** a defeat on Monday by refusing to rule on its request to halt an antitrust suit against it by **Novell**.

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A \$32 billion segment of Canada's debt market was placed under bankruptcy protection on Monday after a committee established to restructure the troubled debt missed a settlement deadline.



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 Change: 1.07

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 Spread: 0.47
 Change: -0.09

Target: Post Properti ...
 Acquirer: Cadim and Willi ...
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 Change: -0.25

Target: Puget Energy ...
 Acquirer: Macquarie Infra ...
 Spread: 2.05
 Change: 0.07

Target: Rio Tinto plc
 Acquirer: BHP Billiton pl ...
 Spread: 95.10
 Change: -0.15

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

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From: Reyes, Samuel
Sent: Tuesday, March 18, 2008 10:56 AM
To: DL FYI
Subject: BBC: US admits economy is in downturn

BBC NEWS

US admits economy is in downturn

US Treasury Secretary Hank Paulson has admitted that the US economy is facing a "sharp decline" at the moment but hoped for a recovery later in the year.

The news comes after the US central bank, the Federal Reserve intervened to rescue troubled bank Bear Stearns, providing \$30bn in emergency support.

Mr Paulson said that he did not believe investors saw the move as a bail-out.

The Fed is expected to slash interest rates later on Tuesday to help boost confidence in financial markets.

Meanwhile, two other leading Wall Street banks reported sharply reduced profits for the first three months of the year.

Goldman Sachs posted earnings of \$1.5bn, while Lehman Brothers, whose shares had fallen sharply on Monday, earned \$489m, or 60% less than in the same period last year.

But the numbers were not as bad as expected, lifting Wall Street shares.

The benchmark Dow Jones stock index jumped more than 230 points, or almost 2%, to 12, 209.3. The wider Standard & Poor's index and technology-dominated Nasdaq also rose.

More rate cuts

We know we're in a sharp downclimb and there's no doubt that the American people know that the economy has turned down

Hank Paulson, US Treasury Secretary

Economists are forecasting that the benchmark US interest rate will be cut by up to one percentage point from 3% to 2%. The decision will be announced at 1815 GMT (1415 EST).

It would be the fifth rate cut since the credit crunch started.

Mr Paulson has been touring the US breakfast television studios in an attempt to reassure markets and consumers about the economic situation.

"We know we're in a sharp downclimb and there's no doubt that the American people know that the economy has turned down," he said.

He said that policy was focused on calming the financial markets.

"The big focus on the part of all policy makers is to minimise the spillover to the real economy," he added.

Slowing economy

Mr Paulson declined to use the word recession to characterise the US economy, but recent polls of both economists and the public have revealed that they disagree.

The latest economic figures to suggest a sharp slowdown were the industrial production figures, published on Monday, which fell by 0.5% in February.

US job growth was also negative in February, but Mr Paulson said he expected the economic package and further rate cuts to lead to 500,000 more jobs this year.

But the Fed also faces worrying pressures over inflation.

US producer prices, released on Tuesday, rose by 0.3% in February compared to the month before, but a key measure of core inflation at the fastest pace in well over a year.

MAIN SUB-PRIME LOSSES SO FAR

Citigroup: \$18bn
Merrill Lynch: \$14.1bn
UBS: \$13.5bn
Morgan Stanley \$9.4bn
HSBC: \$3.4bn
Bear Stearns: \$3.2bn
Deutsche Bank: \$3.2bn
Bank of America: \$3bn
Barclays: \$2.6bn
Royal Bank of Scotland: \$2.6bn
Freddie Mac: \$2bn
JP Morgan Chase: \$3.2bn
Credit Suisse: \$1bn
Wachovia: \$1.1bn
IKB: \$2.6bn
Paribas: \$197m
Source: Company reports

The US Federal Reserve has been trying to restore confidence in the banking business.

It has already cut interest rates from 5.25% to 3% since mid-September in a bid to boost the economy.

Banks have been unwilling to lend to each other because they are worried about losses on investments backed by US mortgages.

Those investments have been hit by the slump in the US housing market.

New figures showed that housing starts and building permits fell, the latter to the lowest annual rate since 1991.

"The housing industry is in a recession," said Josh Stiles, bond strategist at IDEAGlobal.

"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," he added.

Stoltzfoos, Jeffrey

From: Robertson, William
Sent: Tuesday, March 18, 2008 11:23 AM
To: _DL_FYI
Subject: Reuters - FED WRAPUP 3-Fed poised to slash rates even as jitters ease

FED WRAPUP 3-Fed poised to slash rates even as jitters ease

By Mark Felsenthal and Christian Plumb

849 words

17 March 2008

23:00

Reuters News

English

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(Updates with market action, adds analyst comment)

WASHINGTON/NEW YORK, March 18 (Reuters) - U.S. Federal Reserve policy-makers opened a meeting on Tuesday that was expected to lead to the biggest one-day cut in interest rates since 1982, as two major Wall Street firms provided some relief to markets with better-than-expected earnings.

Goldman Sachs Group Inc and Lehman Brothers Holdings Inc reported that profits fell less sharply than feared, boosting U.S. stocks ahead of an expected one percentage point cut in the Fed's base interest rate.

The absence of shocks from two of the four biggest investment banks calmed nervous investors only two days after the fifth-biggest U.S. investment bank, Bear Stearns, was forced to sell itself to JPMorgan Chase & Co in a rescue deal engineered by the Fed.

U.S. stocks powered higher at the open and the Dow Jones industrial average <.DJI> and other major indices were up more than 2 percent by mid-morning. Interest-rate futures prices showed dealers were scaling back bets on a full-point rate cut, although it was still seen as the most likely outcome.

"Some of the relatively poor expectations for earnings in the financials have been exceeded," said Subodh Kumar, chief investment strategist at Subodh Kumar & Associates in Toronto.

He added that "there's more confidence about the Fed. Perceptions about how involved the Fed is and how successful it will be have changed for the better."

Goldman Sachs, which has largely avoided the mortgage-related losses that have plagued much of Wall Street, said first-quarter earnings fell by half after the largest U.S. investment bank recorded steep losses on corporate loans and other assets. Yet the results exceeded expectations, which had been lowered in recent weeks.

Lehman Brothers, whose shares have been pummeled in recent days on concern it is the most vulnerable to troubled mortgages and leveraged loans next to Bear Stearns, suffered a sharp fall in bond trading revenue but benefited from rising merger advisory revenue.

The Fed has taken a number of radical steps in recent days to stabilize the financial system and combat the risk of a severe recession. Many economists believe the U.S. economy is already in recession, and U.S. Treasury Secretary **Henry Paulson** on Tuesday conceded the economy was in "sharp decline."

The Fed is expected to announce its decision around 2:15 p.m. (1815 GMT). It has already cut overnight rates by 2.25 percentage points, to 3 percent, since mid-September as a rise in defaults on subprime mortgages has escalated into a financial crisis.

It is expected to add to its series of moves to contain the crisis with its biggest rate cut in 26 years.

Since credit market turmoil first erupted in August, the U.S. central bank has narrowed the gap between the discount rate -- the rate at which it lends directly to banks -- and the overnight federal funds rate, the Fed's main policy tool, from three-quarters of a percentage point to a quarter point.

It has also unleashed a barrage of other unorthodox steps to provide liquidity, including \$30 billion in financing to enable JPMorgan to buy Bear Stearns. In addition, it set up a new program to provide cash to a wider range of big financial firms through loans at the Fed's discount window.

INFLATION ON BACK BURNER

Against the market upheaval, fears that a seizing up of the financial system could plunge the U.S. economy into deep recession have overtaken worries about inflation fueled by high oil and commodity prices.

The latest troubling inflation sign came on Tuesday with a report that showed U.S. producer prices, excluding volatile food and energy costs, shot up 0.5 percent last month, the biggest jump since November 2006. A separate report, however, showed another drop in housing starts and a big slump in permits for future building.

"With the recent market turbulence, those inflation concerns are now taking a backseat, and the (Fed) has to think about the action that not only is appropriately aligned with the forecast, but that also supports financial markets at a time of extraordinary turbulence and systemic risk," Laurence Meyer, a former Fed governor now with forecasting firm

Macroeconomic Advisers, said in a note to clients.

The Fed has focused its efforts in recent days on making funds available to banks and Wall Street firms, offering hundreds of billions of dollars in auctions and credit to thaw frozen credit markets.

Policy-makers may have hoped that the recently announced emergency actions would remove the need for a deep interest rate cut. However, officials will have to take stock of gloomy data on hiring, factory output and retail sales. (Editing by Dan

Grebler)

FED-CREDIT/ (WRAPUP

3)|LANGEN|ABN|C|D|E|M|O|U|MTL|GRO|SOF|OIL|G|RBN|ABX|BNX|AFA|CSA|LBY|RWSA|RWS|REULB|GNS|RNP|PGE

Document LBA0000020080318e43i0006h

Stoltzfoos, Jeffrey

From: Forsell, Courtney
Sent: Tuesday, March 18, 2008 2:47 PM
To: _DL_FYI
Subject: AP: Fed Cuts Funds Rate 0.75 Point

Fed Cuts Funds Rate 0.75 Point

By MARTIN CRUTSINGER

AP Economics Writer

631 words

18 March 2008

14:43

Associated Press Newswires

English

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WASHINGTON (AP) - The Federal Reserve on Tuesday slashed a key interest rate by three-fourths of a percentage point, moving aggressively to contain a credit crisis threatening to push the country into a severe recession.

The latest action brought the federal funds rate -- the interest that banks charge each other -- down to 2.25 percent, the lowest point since late 2004. It marked the second back-to-back cuts of three-fourths of a percentage point.

Fed Chairman Ben Bernanke and his colleagues have now cut the funds rate six times since last September, with the reductions becoming more aggressive since January as the central bank has faced growing turmoil in global financial markets.

However, there has been opposition inside the Fed to the aggressive moves. The latest rate cut came on an 8-2 vote with two members of the Federal Open Market Committee dissenting. Both Richard Fisher, president of the Dallas regional Fed bank, and Charles Plosser, president of the Philadelphia regional Fed bank, voted against the rate cut, arguing they would have preferred less aggressive action.

In explaining its actions, the Fed said that it was having to navigate a difficult policy environment that included sluggish economic activity and rising inflation pressures.

The Fed statement said that "the outlook for economic activity has weakened further" but that "inflation has been elevated" with some signs that expectations of future inflation pressures are rising, a dangerous sign for the Fed.

But the Fed signaled that it stood ready to cut rates further if necessary, saying that "downside risks to growth remain." Bernanke and other Fed officials have said in recent comments that they view the threat of economic weakness as a bigger risk at the moment than inflation given the risks to financial markets.

"Financial markets remain under considerable stress and the tightening of credit conditions and the deepening of the housing contraction are likely to weigh on economic growth over the next few quarters," the Fed said in its

statement.

In Jacksonville, Fla., Tuesday, President Bush said the government will take further action -- if necessary -- to help the sagging economy.

The rate cut Tuesday caps an unprecedented period of Fed actions aimed at trying to stabilize financial markets and ward off a recession or at least keep it from being too severe.

While the cut was larger than the Fed's normal quarter-point moves, investors were initially disappointed that the central bank did not cut rates by a full percentage point.

The Dow Jones industrial average fell 100 points within two minutes of the Fed's mid-afternoon announcement but it then resumed climbing and was up nearly 200 points within the first half-hour after the announcement. It had been up 286 points just before the announcement as stocks had posted a strong rally after Lehman Brothers and Goldman Sachs reported better-than-expected results for the first quarter. That came as welcome news following the collapse over the weekend of Bear Stearns, which was forced into a fire-sale to JP Morgan Chase & Co.

The reduction in the funds rate was designed to lower borrowing costs and boost spending by consumers and businesses and thus increase economic activity. Economic growth slowed to a near standstill in the final three months of this year as the economy was hit by a series of blows including the credit crunch, a prolonged housing slump, rising unemployment and surging energy prices.

The funds rate cut quickly triggered announcements from commercial banks that they were cutting their prime lending rate to 5.25 percent from 6 percent, where it was before the Fed meeting. This rate is the benchmark for millions of business and consumer loans.

Foley, Trip

From: Newswire - Full Version [NEWSWIRE@LISTSERV.ND.EDU] on behalf of News and Information [newsinfo@ND.EDU]
Sent: Tuesday, March 18, 2008 2:52 PM
To: NEWSWIRE@LISTSERV.ND.EDU
Subject: Notre Dame News -- March 18, 2008

ENGLISH PROFESSOR EXAMINES LITURGICAL PERFORMANCE, LITERACY IN NEW BOOK

Katherine Zieman, assistant professor of English at the University of Notre Dame, is the author of a new book titled "Singing the New Song: Literacy and Liturgy in Late Medieval England."

<http://newsinfo.nd.edu/content.cfm?topicid=26986>

POPE-DAVIS RECOGNIZED FOR RESEARCH CONTRIBUTIONS

Don Pope-Davis, vice president and associate provost at the University of Notre Dame, has been recognized as one of the leading scholars of multicultural counseling in a paper analyzing the field over the past two decades.

<http://newsinfo.nd.edu/content.cfm?topicid=26987>

REP. DONNELLY TO SPEAK ON PRO-LIFE ISSUES

Rep. Joe Donnelly, D-Ind., will speak on "Pro-Life Issues in the 110th Congress," at 12:10 p.m. March 26 (Wednesday) in Room 121 of the University of Notre Dame's Law School.

<http://newsinfo.nd.edu/content.cfm?topicid=26988&seltopicid=3427>

ND EXPERT: FED NOW FINANCIAL MARKET'S "PAWN BROKER"

Though the Federal Reserve's bailout of Bear Stearns was meant to provide a safety net for the nation's economy and keep the credit crisis from destroying the financial industry, University of Notre Dame economist Christopher Waller is skeptical of the move.

<http://newsinfo.nd.edu/content.cfm?topicid=26989>

Visit <http://newsinfo.nd.edu> for all the latest Notre Dame news.

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Stoltzfoos, Jeffrey

From: Quinn, Philip
Sent: Tuesday, March 18, 2008 4:42 PM
To: Stoltzfoos, Jeffrey; Abbott, Matthew; Broome, Meredith; Scogin, Matthew
Cc: Farrell, Paula; Burner, Gary; Ugoletti, Mario
Subject: Student Loans_from today's Congress Daily PM

FYI,

I do not think the Fed will agree that this is a proper way to handle the current FEELP lenders' funding problem.

Two bothersome issues. First, it would expand access to the Fed discount window to "other nonbank lenders" for purposes other than stabilizing the financial market. Second, the Fed discount window is an inappropriate conduit to provide subsidies to finance a special government program. This permits smaller demands on the users (both FEELP borrows and lenders), who should be paying the full cost of the program that is not pay for by appropriations by Congress.

Kanjorski, McKeon, Asking Fed To Help Student Lenders

After the Federal Reserve took an unprecedented action to rescue Bear Stearns, 32 House members have written to Federal Reserve Chairman Bernanke asking him to extend his board's lending authority to securities firms and other nonbank lenders that participate in the student-loan market. The lawmakers want the Fed to use its emergency power to provide immediate assistance for nonbanks that participate in the federal government's public-private student loan program and issue AAA-rated asset-backed securities from such loans. The Fed lends to commercial banks under its purview, but can use its emergency power to extend those terms to other lenders, specifically investment banks and securities firms. It invoked that power last week to make available \$200 billion in Treasuries to lenders, including investment banks, which are struggling in the midst of a worldwide credit crunch. The Fed also provided a \$30 billion line of credit over the weekend to allow JPMorgan Chase to buy investment bank Bear Stearns, which neared collapse after it bet heavily on risky mortgage-backed securities that went bad. In exchange, the federal government will receive Bear investments as collateral.

The lawmakers wrote that the Fed should allow investment banks to avail themselves of the \$200 billion pool, using their student-loan backed securities as collateral for the government.

The Federal Family Education Loan Program has financed more than \$350 billion for 35 years without any problems, but the lawmakers wrote that, "During the past three months ... turmoil in the broader capital markets has caused severe liquidity problems for student lenders that rely on access to credit markets to raise capital." Those problems are emerging as 6.7 million families are expected to apply for such loans in the coming months.

The letter was spearheaded by House Financial Services Capital Markets Subcommittee Chairman Paul Kanjorski, D-Pa.; Education and Labor ranking member Howard (Buck) McKeon, R-Calif., and four other GOP members also signed the letter.

They noted that 19 lenders have exited the program or have suspended their lending within it because the loans have become unprofitable, even though they carry a 97 percent government guarantee. Spreads on federal loans taken out by needy students and those by parents of students have widened by more than 85 basis points since mid-2007. "If these current credit market conditions continue or if they were to deteriorate, the potential for a severe disruption of the student lending distribution system increases significantly, especially as more lenders seems likely to stop making unprofitable loans under such conditions," they wrote. -- by Bill Swindell

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Tuesday, March 18, 2008 5:07 PM
To: _DL_FYI
Subject: AP - Treasury could profit from \$30 billion support of Bear Stearns, though it's unlikely

Treasury could profit from \$30 billion support of Bear Stearns, though it's unlikely

By DAN CATERINICCHIA AP Business Writer

439 Words

18 March 2008

20:55 GMT

Associated Press Newswires

English

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WASHINGTON (AP) - While the Federal Reserve's pledge this week of \$30 billion to support a crumbling investment bank carries financial risks, it also could yield a profit for the government.

JPMorgan Chase & Co. on Sunday agreed to buy Bear Stearns Cos. Inc. for the fire-sale price of about \$260 million after the Fed stepped in with a \$30 billion line of credit to back up the least desirable assets of the firm, which had bet heavily on the mortgage market. The Fed's action was intended to stabilize the value of assets linked to the U.S. mortgage market and thus prevent further damage to big banks.

Since JPMorgan has said it is taking "reasonable risk" in acquiring Bear Stearns, the Fed's exposure is probably much higher and makes it "highly doubtful" that the government will turn a profit, said Joseph Mason, an associate professor of finance at Drexel University in Philadelphia.

If money can be made on the deal, a purely private-sector buyout could have been arranged, but "the markets right now are so opaque, and have been for so long, that investors don't know what to believe," Mason said.

Still, the last time the government provided a multibillion-dollar security blanket to corporate America it did make a profit. That was after the Sept. 11 terrorist attacks, when struggling airlines received loan guarantees.

The federal Air Transportation Stabilization Board, which was created after the attacks to aid the recovery of airlines, made just under \$350 million from its \$1.56 billion in loan guarantees to six carriers. The government's profit came from loan guarantee fees and stock warrants in the airlines, said Brookly McLaughlin, a spokeswoman for the Treasury, which oversaw the board before it completed operations last year.

A profit this time around would be a bonus, but the government's main goal is to stabilize the economy, said Bernard Baumohl, managing director of The Economic Outlook Group in Princeton, N.J.

"In truly extraordinary circumstances ... when there's a dramatic imbalance that could potentially trigger a recession, the government does have to get involved," Baumohl said.

The appropriateness of the \$2-per-share price was called into question on Tuesday after shares of Bear Stearns gained \$1.10, or 22.9 percent, to close at \$5.91 Tuesday following first-quarter results from Lehman Brothers and Goldman Sachs that beat Wall Street estimates and the Fed cutting a key interest by three-quarters of a percentage point.

Brookly McLaughlin

Deputy Assistant Secretary for Public Affairs

U.S. Treasury Department

1500 Pennsylvania Avenue, NW

Washington, D.C.

(202) 622-2920-office

Foley, Trip

From: Foley, Trip
Sent: Tuesday, March 18, 2008 5:24 PM
To: Davis, Michele
Subject: Fw: Bear Merger Agmt Summary

Sorry - I should have included you this morning.

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

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

From: Foley, Trip
To: Steel, Robert; Nason, David; Ryan, Tony; Stoltzfoos, Jeffrey; Appleton, Jesse; Kashkari, Neel; Wilkinson, Jim
Sent: Tue Mar 18 08:26:27 2008
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

Trip Foley
Special Assistant to the
Under Secretary for Domestic Finance

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Stoltzfoos, Jeffrey

From: Market Room
Sent: Tuesday, March 18, 2008 6:28 PM
Subject: PM Markets Briefing | March 18

Attachments: Mkts Briefing 03.18.2008pm.doc

DJIA	12392.66	3.51	%
S&P	1330.74	4.24	%
NASDAQ	2268.26	4.19	%

FTSE	5605.80	3.54	%
DAX	6393.39	3.41	%
Nikkei	11964.16	1.50	%
Kospi	1588.75	0.91	%
Hang Seng	21384.61	1.42	%

1-Month Tsy	0.46	2.03	bps
3-Month Tsy	0.88	-12.24	bps
3-month LIBOR	2.54188	-3.69	bps
2-yr Tsy	1.607	26.68	bps
10-yrTsy	3.487	17.86	bps
2-yr SwSpr	75.80	-6.2	bps
10-yr SwSpr	62.50	0.00	bps
30-yr Conf Mtge	117.238	7.77	bps
10-yr Gilt	4.355	5.50	bps
10-yr Bund	3.761	7.30	bps
10-yr JGB	1.338	4.30	bps

Oil NMX WTI	\$108.75	\$3.07	
Gold Spot	\$981.90	-\$0.34	
\$/Euro	\$1.5625	0.00	%
Yen/\$	98.63	+1.54	%
Yen/Euro	155.80	+2.05	%
CHF/\$	1.0087	-0.3%	%
\$/GBP	\$2.0252	+1.17	%
\$/AUD	\$0.9289	+1.69	%

JPM	42.71	5.95	%
Citi	20.71	11.22	%
GS	175.59	16.27	%
MER	46.63	13.23	%
LEH	46.49	46.43	%
MS	42.86	17.81	%
FNMA	28.22	27.06	%
FRE	26.02	26.19	%
BOA	38.93	8.26	%

Quotes provided by Reuters

The FOMC voted 8 to 2 to decrease the target policy rate by 75 basis points to 2.25 percent, with Dallas President

Fisher and Philadelphia President Plosser dissenting in favor of less aggressive action. In a related action, the Board of Governors lowered the discount rate by 75 basis points to 2.50 percent. While market participants observed that the statement's explicit acknowledgment of slowing economic growth left the door open to further rate cuts, they also noted that other elements of the statement tempered expectations for further easing. In particular, analysts interpreted the statement as indicating that the FOMC may be more focused on inflation risks going forward, noting the statement's admission that "uncertainty about the inflation outlook has increased" and particularly that two FOMC members had dissented in favor of less aggressive action. Some market participants expressed the view that the renewed emphasis on inflation may be misplaced in view of persistent credit market weakness, while others welcomed it.

The S&P 500 index rose 4.2 percent, with the S&P financial sector ETF raising 9 percent, following better-than-expected earnings from both Lehman Brothers and Goldman Sachs. Lehman reported first quarter net income of 81 cents a share, above analyst expectations of 72 cents per share, while Goldman's earnings of \$3.23 per share were above consensus expectations of \$2.59 a share. Share prices of Lehman and Goldman rose 46 percent and 16 percent, respectively. Following the statement, the S&P 500 extended its earlier gains, despite market expectations for a larger decrease in the target rate, as dealers reported significant short-covering by hedge funds.

Following the announcement, rates implied by near-term fed funds futures contracts rose up to 12 basis points, suggesting a more moderate amount of additional rate cuts. Market participants attributed the moves primarily to the smaller-than-expected 75 basis point rate cut, since fed funds futures had priced in about 97 basis points of expected easing just prior to the announcement. On the day, implied rates were as much as 25 basis points higher, though about half of this increase occurred earlier in the trading session in reaction to better-than-expected earnings from Lehman and Goldman. Currently, these contracts reflect about 43 basis points of average expected easing through the April FOMC meeting and a cumulative 55 basis points through the June meeting. Consistent with the repricing of expected near-term policy rates, implied rates on eurodollar futures contracts maturing through the end of 2008 increased by about 20 basis points on the day and now suggest a trough in the fed funds target rate of between 1.50 and 1.75 percent by the end of this year.

The investment grade CDX index narrowed 25 basis points to 160 basis points. Since yesterday, the index has narrowed 37 basis points from its intraday high of 197 basis points, as market participants covered short positions given the improved outlook for broker-dealer credit. Lehman and Merrill Lynch CDS spreads narrowed 120 and 100 basis points, respectively.

Agency debt spreads narrowed about 20 basis points versus Treasuries across the 2- to 10-year curve. Dealers attributed the narrowing to short covering as a result of improved sentiment in the financial markets and the subsequent narrowing across spread products. Dealers' views were mixed regarding the near-term benefit of a potential reduction or removal of Fannie Mae's and Freddie Mac's 30 percent OFHEO capital surcharge, since some believe additional capital would be required for the GSEs to have a material impact on the mortgage market. Still, Fannie's share price increased 27 percent and Freddie's share price increased 26 percent following a news article that the capital surcharge could be removed.

Treasury yields increased 20 to 13 basis points across the 2- to 10-year coupon curve, in moderately above average trading volumes. Dealers noted that liquidity remains impaired, although it was reported to improve modestly today, particularly when compared to recent sessions. The sharp underperformance of the 2-year note led to a major flattening of the coupon curve, with the spread between 2- and 10-year yields narrowing 7 basis points to 188 basis points.

TIPS real yields outperformed their nominal counterparts, prompting breakevens to widen as much as 14 basis points. The 5-year 5-year forward also rose 12 basis points to 2.73 percent, 11 basis points below the recent high of 2.84 percent observed on March 7. The widening of breakevens largely occurred early in the session, and price action was relatively muted following the FOMC statement. Dealers attributed the widening to buying interest from real money accounts, which viewed yesterday's roughly 20 basis point narrowing as overdone. Traders noted that liquidity in the TIPS market remains poor, as many participants have become more risk averse in light of the elevated realized volatility of TIPS breakevens.

Despite the improvements observed in some markets, Treasury bill yields declined as much as 40 basis points. Dealers noted strong buying interest from Treasury-only money market mutual funds, whose balances have risen sharply in recent weeks. According to iMoney data, Treasury-only fund balances have risen nearly \$20 billion since the beginning of the month. Flight-to-quality flows were also observed in the GC repo market, where overnight GC traded close to 0 percent at the end of the New York trading session.

The dollar appreciated sharply in reaction to the lower-than-expected cut in the target rate and the language in the FOMC statement, rising by 2.7 percent against the yen and 0.6 percent against the euro. Dealers also attributed the price action to the paring back of speculative short-dollar positions ahead of the pending Easter holidays. Dealers also noted comments from the ECB Governing Council Member Mersch that the "dollar has a special role" in international markets and that "excessive movements against the euro should be avoided." Market participants suggest that likelihood

of an imminent intervention remains low, although many anticipate that this could change quickly should the recent pace of dollar depreciation persist.

Dealers noted that liquidity conditions in spot foreign exchange markets are currently worse-than-normal, characterized by wider bid-ask spreads and occasionally variable liquidity. Still, they noted that conditions had improved since yesterday when liquidity worsened after the Bear Stearns and Federal Reserve weekend announcements. Reflecting, in part, the improvement in liquidity, 1-month euro-dollar implied volatility declined by 1 percent to 12 percent and 1-month dollar-yen implied volatility fell by 3.5 percent to 16.5 percent. However, other dealers attributed the decline in implied volatility to reduced demand for option protection ahead of the pending Easter holidays, as well as the passage of the FOMC meeting.

Crude-oil futures rose Tuesday to above \$109 a barrel as the dollar fell after the Fed's decision. Some analysts believe that if the Fed continues to lower interest rates, oil prices could touch \$115 a barrel.



Mkts Briefing
03.18.2008pm.doc..

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

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

Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Tuesday, March 18, 2008 8:36 PM
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: FW: SEC staff q&a

FYI- The SEC put out this FAW release on Bear today.

FOR IMMEDIATE RELEASE

2008-46

**ANSWERS TO FREQUENTLY ASKED INVESTOR QUESTIONS REGARDING THE BEAR
STEARNS COMPANIES, INC.**

Washington, D.C., March 18, 2008 – The staff of the Securities and Exchange Commission today issued the following answers to frequently asked questions from investors regarding The Bear Stearns Companies, Inc. (Bear Stearns).

* * *

What protects customer funds and securities at broker-dealers?

Bear Stearns' corporate structure includes several broker-dealers registered with the SEC. As a result, notwithstanding the loss in market value in Bear Stearns' stock, and independent of the transaction announced on March 17, many protections remain in place for customers of Bear Stearns' broker-dealers.

Under SEC rules, registered broker-dealers must maintain net capital to provide financial resources so that if the firm fails, customers will get their cash and securities back. Customer claims for their funds and securities are preferred over other claims on the broker-dealer. As a second level of protection, the Securities Investor Protection Corporation (SIPC) guarantees remaining customer securities claims up to \$500,000.

In addition to the protection provided by the net capital rule and SIPC, registered broker-dealers must segregate customer funds and fully paid securities from the brokers' own proprietary funds and securities. Thus, customer money and the firm's money are kept separate, protecting customers from trading losses of the firm.

Was Bear Stearns in compliance with applicable capital and liquidity requirements?

According to Bear Stearns' reports to the SEC, Bear Stearns' broker-dealers were in compliance with the SEC's capital and customer protection rules. The SEC also supervises the Bear Stearns parent company, whose capital also exceeded relevant regulatory standards, and whose liquidity position had

been relatively stable, ranging between \$15 and \$20 billion in the weeks preceding March 11. As of the morning of Tuesday, March 11, the parent company had over \$17 billion in cash and unencumbered liquid assets.

What is the difference between capital and liquidity pools?

It is important to realize capital is not synonymous with liquidity. A firm can be highly capitalized, that is, can have more assets than liabilities, but can have liquidity problems if the assets cannot quickly be sold for cash or alternative sources of liquidity, including credit, obtained to meet other demands. While the ability of a securities firm to withstand market, credit, and other types of stress events is linked to the amount of capital the firm possesses, the firm also needs sufficient liquid assets, such as cash and U.S. Treasury securities, to meet its financial obligations as they arise.

Accordingly, large securities firms must maintain a minimum level of liquidity in the holding company. This liquidity is intended to address pressing needs for funds across the firm. This liquidity consists of cash and highly liquid securities for the parent company to use without restriction.

Why was Bear Stearns' loss of credit so critical to its ongoing viability?

In accordance with customary industry practice, Bear Stearns relied day-to-day on its ability to obtain short-term financing through borrowing on a secured basis. Although Bear Stearns continued to have high quality collateral to provide as security for borrowings, as concerns grew late in the week, market counterparties became less willing to enter into collateralized funding arrangements with Bear Stearns.

Late Monday, March 10, rumors spread about liquidity problems at Bear Stearns, which eroded investor confidence in the firm. Bear Stearns' counterparties became concerned, and a crisis of confidence occurred late in the week. In particular, counterparties to Bear Stearns were unwilling to make secured funding available to Bear Stearns on customary terms.

This unwillingness to fund on a secured basis placed stress on the liquidity of the firm. On Tuesday, March 11, the holding company liquidity pool declined from \$18.1 billion to \$11.5 billion. On Wednesday, March 12, Bear Stearns' liquidity pool actually increased by \$900 million to a total of \$12.4 billion. On Thursday, March 13, however, Bear Stearns' liquidity pool fell sharply, and continued to fall on Friday.

Did the SEC staff play any role in the Bear Stearns/JPMorgan transaction?

During discussions of the possible transaction, SEC officials were in close contact with officials of the Board of Governors of the Federal Reserve System and the Department of the Treasury as well as representatives of JPMorgan Chase & Co. (JPMorgan) and Bear Stearns. To assist in advancing a possible transaction, the SEC staff was able to provide several letters clarifying the staff's position on certain matters connected with the merger.

The Division of Trading and Markets wrote a letter addressing the timing of JPMorgan's filing of a Form BD with the SEC. Form BD is required to be filed "promptly" after a registered broker-dealer is acquired by another firm. The staff's letter states that it would be acceptable if JPMorgan filed a completed Form BD a reasonable period after the merger closes.

The Division of Investment Management wrote two letters concerning issues under the Investment Company Act and Investment Advisers Act arising out of the change in control of investment advisers affiliated with Bear Stearns. One letter addresses approvals by the mutual funds advised by the Bear

Stearns advisers of new advisory contracts between the funds and the advisers. The other letter provides temporary, conditional relief from restrictions on principal transactions between the Bear Stearns advisers and clients of investment advisers affiliated with JP Morgan and transactions between the JP Morgan advisers and clients of the Bear Stearns advisers.

The Division of Enforcement wrote a letter concerning investigations and potential future inquiries into conduct and statements by Bear Stearns before the public announcement of the transaction with JPMorgan. The staff declined to provide assurances about possible future enforcement actions. The letter states that reaching conclusions about those inquiries would be premature. In the letter, the Division confirmed that, consistent with prior statements and guidance by the SEC, the staff would favorably take into account the circumstances of the JPMorgan acquisition of Bear Stearns when considering whether to recommend enforcement action against JPMorgan arising out of statements made by Bear Stearns in the 60 days before the public announcement of the merger.

The Division of Corporation Finance wrote a letter addressing sales by client accounts managed by JPMorgan and Bear Stearns of the other firm's securities, in view of the control relationship created by the merger agreement. The letter states that these sales may occur temporarily without registration under the Securities Act or compliance with Securities Act Rule 144 in certain limited circumstances.

Does the SEC bring enforcement actions in circumstances like these?

The Division of Enforcement investigates possible violations of the securities laws as appropriate. Among the things the Division looks for are potential indications of insider trading or manipulation of markets through the dissemination of false or misleading information to investors by companies or other market participants. The SEC brings enforcement actions when it concludes the securities laws have been violated.

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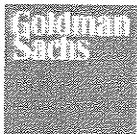
These answers to frequently asked questions were prepared by the SEC's Office of Investor Education and Advocacy, Division of Trading and Markets, Division of Investment Management, Division of Corporation Finance, and Office of the General Counsel.

Foley, Trip

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

Sent: Tuesday, March 18, 2008 7:00 PM

Subject: US Daily: Where Does the Fed Go From Here? (Hatzius/Tilton)



Goldman Sachs US Economic Research



US Daily: Where Does the Fed Go From Here? (Hatzius/Tilton)

March 18, 2008

- Following today's smaller-than-expected cut, we have decided to retain our baseline forecast that the federal funds rate will reach 2% in the near term, before the FOMC pauses to assess the effects of impending fiscal stimulus on the US economy.
- The Fed has done a lot over the past week, to put it mildly, with two separate actions to address liquidity issues in the markets and today's 75-basis-point cut in the funds rate. In fact, today's statement suggests that Fed officials have grown uncomfortable with the speed and degree of intervention, and will be reluctant to do much more unless absolutely necessary.
- Nonetheless, we still see the risks to our funds rate forecast as tilted to the downside. In the short term, either a particularly bad batch of economic data or a resumption of financial market stresses could push the FOMC to a 50-basis point cut when it meets on April 30, rather than the 25 we currently expect. With the economy likely to grow below trend for much of the next year, we see a possibility of further rate cuts in early 2009 as the fiscal boost wanes.

Following today's 75-basis point funds rate cut—less than the 100bp we and the market had expected—we still see the Federal Open Market Committee lowering its funds rate target to 2% in the near term before pausing to assess the effects of impending fiscal stimulus on the US economy.

The Fed has done a lot over the past week, to put it mildly:

1. Introduction of the Term Securities Lending Facility. The TSLF allows primary dealers to obtain Treasuries more easily. When the TSLF commences on March 27, primary dealers will be able to obtain a total of \$200 billion of Treasury securities in exchange for agencies, agency-backed MBS, and AAA/Aaa-rated private-label residential MBS that is not on review for a downgrade.
2. Announcement of the Primary Dealer Credit Facility (PDCF), a \$30 billion loan to facilitate the JP Morgan Chase/Bear Stearns transaction, and a 25 basis point discount rate cut. The PDCF announced on March 16 allows primary dealers to obtain cash from the Fed through a mechanism that is similar to the discount window available banks. However, the list of eligible collateral is shorter than that used for the discount window and includes only investment-grade Treasury, corporate, municipal, and mortgage, and asset-backed securities. Moreover, the loans are made on an overnight basis, whereas discount loans now have maturities of up to three months.
3. Today's 75-basis point rate cut. While somewhat less than expected, this cut nevertheless implies a cumulative cut in the federal funds rate target of 200 basis points so far in 2008, the largest 3-month move since 1984.

Following these actions, there are clear signs of discomfort with the idea of further easing in the committee, at least outside of New York and Washington, DC. Two of the voting regional Fed Bank president—Charles Plosser of Philadelphia and Richard Fisher of Dallas—dissented from today's rate cut decision in favor of "less

aggressive action." Moreover, only three out of all twelve Federal Reserve Banks (Boston, New York, and San Francisco) applied for the 75-basis-point discount rate cut, a number that signals considerable discomfort in the regions. Finally, while today's statement signaled that the committee will carefully watch for signs additional action may be needed, this was couched in a more two-handed way than in prior statements, noting that the committee will act as needed to promote "economic growth and price stability." All this suggests that the resistance against further monetary easing—or at least aggressive further easing—could be relatively high. Hence, we have decided to retain our baseline forecast for a 2% trough in the federal funds rate and now forecast a 25-basis-point cut at the April 29-30 meeting.

That said, the risks to this forecast remain on the downside, both in the near term and in the longer term. In the near term, we expect the economic data to be weak, consistent with our view that the economy is currently in recession. Moreover, credit loss estimates continue to grow, and the risk of further adverse news from the credit markets remains high. Hence, it is very possible that the committee will in fact decide to cut by 50 basis points at the April 29-30 meeting.

In the longer term—that is, after the fiscal stimulus has produced a temporary pickup in economic activity in Q3 and Q4—we expect a lull in growth with a significant risk of renewed economic weakness in early 2009. At that point, inflation is likely to be slowing in the wake of higher unemployment and lower capacity utilization, and standard monetary policy rules may well be suggesting a federal funds rate of less than 2%. Hence, at that point it would not be surprising if the committee decided to help stimulate growth and take out some insurance against a double-dip recession.

Jan Hatzius/Andrew Tilton

Goldman Sachs Financial Conditions IndexSM*(October 20, 2003=100)

*Revised as described in our April 8, 2005, *US Economics Analyst*.

Tuesday 03/18 (prel.)	Monday 03/17	Friday 03/14	Wk ending Wed 03/12	3 mos. earlier	6 mos. earlier
98.44	98.60	98.74	98.92	98.89	99.59

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From: Zuccarelli, Jennifer
Sent: Tuesday, March 18, 2008 9:13 PM
To: DL_FYI
Subject: FT- Paulson keeps his options open

Paulson keeps his options open

By James Politi, Krishna Guha and Andrew Ward
Published: March 18 2008 20:49 | Last updated: March 18 2008 20:49

 When Hank Paulson faced reporters on Monday to discuss the rescue of Bear Stearns, the US Treasury secretary was asked whether the administration was rethinking its opposition to aggressive use of public money to tackle the housing crisis.

Mr Paulson gave no indication that it was. He said that although there were some “interesting ideas” on Capitol Hill, lawmakers had still not moved forward with legislation to modernise the Federal Housing Administration and the more tightly regulated Fannie Mae and Freddie Mac, the government-sponsored mortgage companies.

“These are two tangible, very specific things, that will make a difference, that haven’t been done,” he said, turning the tables on Democratic lawmakers such as Barney Frank and Chris Dodd, who want the federal government step in to guarantee the refinancing of between \$300bn and \$400bn of mortgages.

The exchange highlights the extent to which the rescue of Bear Stearns has stirred the debate in Washington over whether the administration may be – at least in private – shifting towards more radical solutions to the crisis involving the use of public money.

In the case of Bear Stearns, US taxpayers could be left footing the bill if the Federal Reserve were to lose money on its \$30bn credit line to the US investment bank, although Treasury officials have pointed out that the government could also make a profit.

Jason Furman of Brookings, a liberal think-tank in Washington, says: “Once you’ve crossed that line, it’s hard to go back. It’s particularly hard to explain why you want to put money at risk for financial institutions but not ordinary families.”

Mr Paulson has been careful not to rule out intervention in all circumstances. Treasury officials have studied past cases of intervention, including the 1930s Home Owners Loan Corporation, for lessons applicable to the current crisis.

Following the Bear Stearns crisis, the administration appears to be signalling flexibility in general to support the orderly functioning of markets. Officials are keen to point out that the rescue of Bear Stearns should not be viewed as a bail-out of a single bank but as a necessary measure to preserve the stability of the entire financial system, including both big Wall Street firms and smaller “Main Street” banks. But they continue to draw a bright-line distinction between putting some public money at risk to support the private markets and direct intervention.

The Treasury’s relationship with the Fed has also come under scrutiny. In the weeks leading up to the Bear Stearns crisis a gap appeared to be opening up between the public positions of the Federal Reserve and the Treasury over how to manage the intensifying crisis.

Ben Bernanke, the chairman, and other Fed officials pressed openly for more action by policymakers as well as financial institutions to ease loan restructurings in cases of negative equity and shore up the supply of new mortgage finance.

Meanwhile the Fed’s unorthodox actions to provide \$436bn in liquidity support for the financial sector conveyed a sense

that the US central bank was willing to consider more radical measures to combat the crisis.

People close to both the Fed and the Treasury say Mr Bernanke and Mr Paulson are in constant contact and that – in private – top Treasury officials are willing to engage in unorthodox blue skies thinking with their Fed counterparts.

Some analysts suggest the difference in public signals may primarily reflect the different roles the two institutions play in Washington policymaking.

The Fed can stimulate a debate and throw ideas out without initiating a policy process. By contrast, if the Treasury gives an inch, Congress is likely to take a yard – pressing immediately for legislation to put a new policy into effect.

Mr Paulson and Mr Bernanke have certainly worked very closely together at key phases of the crisis so far. They worked hand-in-glove again in recent days to find a solution to the Bear crisis that minimised the risk that Bear's collapse would trigger a wider financial panic. As the crisis unfolds, however, any difference in their approaches to the use of US taxpayer money could become more apparent.

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Stoltzfoos, Jeffrey

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 7:08 AM
To: _DL_FYI; Kashkari, Neel; Wheeler, Seth
Subject: WSJ-White House Signals Openness on Mortgage Relief

White House Signals Openness on Mortgage Relief

Administration Talks
To Democrats on Ways
To Avoid Foreclosures

By MICHAEL M. PHILLIPS, DAMIAN PALETTA and SARAH LUECK March 19, 2008; Page A14

WASHINGTON -- The Bush administration and congressional Democrats have begun negotiations over a plan designed to stave off hundreds of thousands of home foreclosures.

After months of stalemate -- and a week of financial turmoil sparked in part by the housing crisis -- the White House signaled yesterday that President Bush is open to compromise with Democrats, who want more federal action. Rep. Barney Frank (D., Mass.) said his aides are holding discussions with Treasury Department officials.

Mr. Frank has proposed a federal program that would provide insurance for up to \$300 billion in refinanced, affordable-cost mortgages. It is far from clear whether the administration would be willing to embrace anything so ambitious. "I'm not the emperor," Mr. Frank said in an interview yesterday. "Nothing gets done without negotiations."

White House spokesman Tony Fratto said if Congress comes up with "some things we think are effective and won't cause greater problems down the road, then those are things that we'll consider and the president will be willing to consider." Mr. Fratto said the White House won't "get into public negotiating over what those items might be."

The White House's position represents a shift in tone. For weeks, the president and his economic team, led by Treasury Secretary Henry Paulson, have rejected proposals that would have further exposed the government to the housing market. As recently as the end of last month, Mr. Paulson said, "I don't think I've seen any scenario where the American taxpayer needs to be stepping in with more taxpayer dollars." He predicted at the time that the administration's approach, which centers on a voluntary program by the mortgage industry to ease terms for troubled borrowers, would be sufficient to address the crisis.

In another sign of how the federal government is bringing its weight to bear on the housing crisis, the top regulator for Fannie Mae <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FNM>> and Freddie Mac <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FRE>>, after being prodded by Treasury, plans to announce today a change to the rules under which the two mortgage companies operate that will allow them to fund more loans.

Democrats have pressed forward with multiple plans, most of them involving a larger government role and more public money than the administration has thus far been willing to endorse. Congress also is mulling a follow-up to its \$152 billion stimulus package, which could include unemployment benefits and more funding for food stamps.

Under the plan introduced by Mr. Frank, chairman of the Financial Services Committee, financial institutions would have to take a loss by forgiving some of the remaining principal on home loans in order to make them more affordable for distressed borrowers. In return, the lenders would get federal backing for hundreds of billions of dollars in new mortgages. Sen. Christopher Dodd (D., Conn.) is promoting a similar measure in the Senate, with federal mortgage guarantees valued at up to \$400 billion.

Both plans use federal funds to insure faltering home loans. While the government's total exposure is potentially hundreds of billions of dollars in the unlikely event all loans go sour, congressional aides estimate the likely insurance pool needed to cover those loans

will be somewhere between \$10 billion and \$20 billion.

Worsening economic and housing news has generated calls for the administration to move more aggressively. Analysts project that as many as two million homes will enter foreclosure this year. Yesterday, the Federal Reserve cut a key interest rate by three-quarters of a percentage point in an effort to prevent the country's economic slowdown from worsening. And over the weekend, the Fed, with Treasury backing, engineered the emergency takeover of Bear Stearns <<http://online.wsj.com/quotes/main.html?type=djn&symbol=bsc>> Cos. by J.P. Morgan Chase <<http://online.wsj.com/quotes/main.html?type=djn&symbol=jpm>> & Co.

A weakening economy "will create greater momentum in Congress for steps to reduce the number of foreclosures," said Brookings Institution economist Douglas Elmendorf, a former official in the Clinton Treasury Department. "I think ultimately the administration will go along with some of these proposals."

Mr. Frank already has spent several weeks hashing out details of his plan with federal bank regulators, including the Federal Reserve. Fed Chairman Ben Bernanke has encouraged banks to write down the principal of some loans to help borrowers avoid foreclosure.

Treasury spokeswoman Michele Davis said the department has "looked at a lot of ideas." She added: "We've yet to see one that would do more good than harm. If someone has an additional idea, we're happy to take a look."

Early next month, the Senate plans to take up a housing bill sponsored by Democratic leaders that includes tax relief for home builders and other struggling industries, and increased funding for mortgage counseling. Senate Republicans in February had blocked the bill, largely because of a provision that would give bankruptcy judges the ability to modify the terms of certain mortgages. President Bush also opposes the bankruptcy provision, arguing it would drive up interest rates just when home prices are falling and delinquencies are increasing.

Write to Sarah Lueck at sarah.lueck@wsj.com

Stoltzfoos, Jeffrey

From: Market Room
Sent: Wednesday, March 19, 2008 7:43 AM
Subject: UPDATE: Morgan Stanley beats earnings estimates

FYI - Morgan Stanley beat earnings estimates, please see below.

- Morgan Stanley beat earnings estimates, reporting \$1.45/sh vs est. \$1.01/sh
- \$1.1bn in mark-to-market losses. total fixed income trading revenue was \$2.9 billion but with mortgage proprietary trading net writedown of \$1.2 billion
- U.S. equity futures have trimmed some of their earlier losses but remain down about 0.44 percent

DJIA (fut)	12350.00	-0.38%
S&P (fut)	1328.30	-0.37%
NASDAQ (fut)	1763.50	-0.34%
FTSE	5540.90	-1.20%
DAX	6330.38	-0.99%
Nikkei	12260.44	2.48%
Kospi	1622.23	2.11%
Hang Seng	21866.94	2.26%

1-Month Tsy	0.39	-7.12bps
3-Month Tsy	0.75	-12.25bps
2-yr Tsy	1.55	-4.94bps
10-yr Tsy	3.425	-5.80bps
2-yr SwSpr	75.75	-0.05bps
10-yr SwSpr	61.85	0.15bps
30-yr Conf Mtge	117.238	7.77bps
10-yr Gilt	4.323	-3.20bps
10-yr Bund	3.736	-2.40bps
10-yr JGB	1.275	-6.30bps

Oil NMX WTIS	\$108.00	-\$1.42
Gold Spot	\$989.25	\$7.01
\$/Euro	\$1.5714	0.58%
Yen/\$	99.1135	-0.76%
Yen/Euro	155.7325	-0.16%
CHF/\$	0.996	-0.65%
\$/GBP	\$1.9989	-0.37%
\$/AUD	\$0.9322	0.58%

Morgan Stanley Earnings Drop 42%, Less Than Analysts Estimated
2008-03-19 07:36 (New York)

By Christine Harper

March 19 (Bloomberg) -- Morgan Stanley, which reported the first loss in its history three months ago, said earnings fell 42 percent, less than analysts estimated, as investment banking fees dwindled and loan values declined.

First-quarter net income dropped to \$1.55 billion, or \$1.45 a share, from \$2.67 billion, or \$2.51, a year earlier, the second-biggest U.S. securities firm said today in a statement.

The average estimate for the three-month period ended Feb. 29 was

\$1.01 a share, according to a Bloomberg survey of 17 analysts.

Chief Executive Officer John Mack, who called the fourth-quarter loss "embarrassing," follows his counterparts at New York-based rivals Goldman Sachs Group Inc. and Lehman Brothers Holdings Inc. in seeking to allay investors' concerns about a cash crunch on Wall Street. Bear Stearns Cos., the fifth-largest securities firm, sought emergency funds from the Federal Reserve last week before agreeing to a takeover by JPMorgan Chase & Co. for a fraction of its market value.

"Liquidity will be something that investors will look at closely," said Kenneth Crawford, a senior portfolio manager at St. Louis-based Argent Capital Management LLC, which oversees \$900 million and holds Morgan Stanley shares, before the earnings were announced.

Morgan Stanley staged its biggest gain in more than a decade yesterday, climbing 18 percent to \$42.86 in New York Stock Exchange composite trading, as financial shares rallied after Goldman and Lehman reported profits and the Fed cut its benchmark interest rate by 0.75 percentage point. The stock is still down 19 percent this year after dropping 21 percent in 2007.

Total Revenue

In the first quarter, Morgan Stanley's revenue fell 17 percent to \$8.3 billion. Return on equity, a measure of how effectively the firm reinvests earnings, dropped to 19.7 percent from 30.9 percent a year earlier.

Morgan Stanley said revenue at its fixed-income sales and trading group dropped 15 percent to \$2.9 billion, still its second-highest ever, after total asset writedowns of \$2.3 billion linked to the collapse of the subprime mortgage market and leveraged loans.

Investment-banking revenue rose 19 percent to \$980 million, and revenue from equity sales and trading climbed 51 percent to \$3.3 billion. Revenue at the global wealth-management unit increased 6 percent to \$1.6 billion.

"We have concerns about the capital-market sensitive businesses, a lot of the markets in which they operate are either severely depleted or shut down," said William Fitzpatrick, an analyst at Optique Capital Management Inc. in Racine, Wisconsin, which oversees \$1.6 billion and sold its Morgan Stanley stock two months ago. "We wanted out of the investment banks."

Cash Stockpile

Goldman, the world's biggest securities firm by market value, yesterday reported its steepest profit decline since 1999 as it took \$2 billion of writedowns on loans and mortgages, and as revenue from investment banking and trading dwindled. The 53 percent drop was less severe than analysts had estimated, and Chief Financial Officer David Viniar said the company's stockpile of cash and liquid assets was "stronger than it's ever been."

Lehman gained 46 percent in NYSE trading yesterday after the company said profit fell a less-than-predicted 57 percent. The stock tumbled 19 percent a day earlier on concern it might follow in the footsteps of Bear Stearns. Chief Financial Officer Erin Callan told investors the firm hasn't lost any access to the repo funding that Bear Stearns was denied by some counterparties, and has "minimal reliance" on commercial paper, a type of short-term financing that has dried up since the collapse of the mortgage-bond market.

Emergency Funding

Bear Stearns received emergency funding from the Fed on March 14 after a loss of confidence in the firm's assets led clients to withdraw assets and creditors to stop renewing short-term loans. Over the weekend, the Fed orchestrated and provided financing for a takeover by New York-based JPMorgan, the third-biggest U.S. bank by assets, for \$2 a share, compared with a closing price of \$57 on March 13.

The Fed said March 16 it would allow brokers to borrow directly from the central bank using a facility traditionally reserved only for deposit-taking institutions.

"The system now in place is significantly better suited to serve the needs of today's financial markets, especially in periods of impaired liquidity and widespread counterparty risk aversion," Goldman analyst William Tanona said in a note to investors yesterday, in which he added Morgan Stanley to his "conviction buy list" and told clients the stock could reach \$50 in six months.

Hedge Funds

As of Nov. 30, Morgan Stanley had \$118 billion in so-called liquidity reserves, which includes cash deposits with banks and high-quality securities that can be used as collateral, according to a regulatory filing. The reserve included \$62 billion at the parent company, \$22 billion at bank subsidiaries and \$34 billion in non-bank units.

Some of Morgan Stanley's trading businesses, including the prime brokerage unit that serves hedge funds, may win customers from Bear Stearns, Argent's Crawford said. Goldman said yesterday that revenue from prime brokerage climbed 38 percent from a year ago as the firm won business from new and existing clients.

"Any business that Bear Stearns had probably has gone to someone else," Crawford said. "To the degree that you're one of three competitors instead of four, that's a positive."

--Editors: Tim Quinson, Steve Dickson.

Stoltzfoos, Jeffrey

From: McLaughlin, Brookly
Sent: Wednesday, March 19, 2008 7:44 AM
To: DL_FYI
Subject: (BN) Top Stories: Business and Finance

Top Stories: Business and Finance
2008-03-19 07:41 (New York)

March 19 (Bloomberg) -- The following are the day's top business stories:

Morgan Stanley First-Quarter Net Drops 42%, Less Than Analysts Estimated
Morgan Stanley, which reported the first loss in its history three months ago, said earnings fell 42 percent, less than analysts estimated, as investment banking fees dwindled and loan values declined. First-quarter net income dropped to \$1.55 billion, or \$1.45 a share, from \$2.67 billion, or \$2.51, a year earlier, the second-biggest U.S. securities firm said today in a statement. The average estimate for the three-month period ended Feb. 29 was \$1.01 a share, according to a Bloomberg survey of 17 analysts. Chief Executive Officer John Mack, who called the fourth-quarter loss "embarrassing,"

follows his counterparts at New York-based rivals Goldman Sachs Group Inc. and Lehman Brothers Holdings Inc. in seeking to allay investors' concerns about a cash crunch on Wall Street.

Bear Stearns Cos., the fifth-largest securities firm, sought emergency funds from the Federal Reserve last week before agreeing to a takeover by JPMorgan Chase & Co. for a fraction of its market value. "Liquidity will be something that investors will look at closely," said Kenneth Crawford, a senior portfolio manager at St. Louis-based Argent Capital Management LLC, which oversees \$900 million and holds Morgan Stanley shares, before the earnings were announced.

Dollar Falls on Speculation Housing Slump Will Swell Credit-Market Losses
The dollar fell against the euro, erasing most of yesterday's gains, on speculation the worst U.S. housing slump in a quarter of a century will swell credit-market losses. The currency weakened against the Japanese yen and the Swiss franc after Bank of America Corp. predicted the Federal Reserve will lower its target rate by another 75 basis points this year following a reduction to 2.25 percent yesterday. Reports this week on U.S. mortgage demand and manufacturing will probably show the economy is slowing. "We're approaching a dollar low, but we probably haven't seen it yet," said Adrian Schmidt, senior currency strategist in London at Royal Bank of Scotland Group Plc, the fourth-biggest currency trader. "The market still expects the Fed to cut aggressively," he said, adding that the U.S. currency may fall to as low as \$1.65 before rebounding later this year. The U.S. currency fell to \$1.5757 per euro at 9:59 a.m. in London, from \$1.5625 yesterday, when it rose 0.7 percent, the most since Feb. 7. The dollar declined to 98.23 yen, from 99.85 yesterday, when it surged 2.7 percent, the biggest gain since January 1999. The yen traded at 154.76 per euro, compared with 155.95 yesterday.

European Stocks Fall, Led by HBOS, Ericsson, SocGen; U.S. Futures Decline
European stocks fell as investors speculated banks may have further writedowns and Ericsson AB's handset unit said earnings will decline. U.S. index futures retreated, while shares in Asia rose the most in a month. HBOS Plc, Britain's largest mortgage lender, said it had "ready access" to funding after the shares tumbled. Ericsson, the world's biggest maker of wireless networks, dropped the most in four months. Societe Generale SA fell after BNP Paribas SA, France's largest bank, said it's no longer considering a "potential tie-up." Sanford C. Bernstein & Co. said today Lehman Brothers Holdings Inc. may have more writedowns. "The fears about bad debts and counter-party risk in the financial sector are deep-seated," said Richard Scott, who helps oversee about \$2.4 billion at Iimia MitonOptimal Plc in Exeter, England. "Investors' confidence remains shaky and this is leading to periodic sharp sell-offs." The Dow Jones Stoxx 600 Index lost 1.5 percent to 294.97 at 11:15 a.m. in London, reversing an earlier gain of as much as 1.1 percent. Futures on the Standard & Poor's 500 Index slipped 0.8 percent, and the MSCI Asia Pacific

Index jumped 2.8 percent, its biggest advance since Feb. 14.

Bernanke Confounds Calls for Deeper Reduction Without Rattling Investors

Federal Reserve Chairman Ben S. Bernanke bucked investors'

bets on a deeper interest-rate cut without spoiling the biggest U.S. stock-market rally in five years. Policy makers yesterday lowered their benchmark rate by 0.75 percentage point, falling short of traders' bets for at least a full percentage point.

The Federal Open Market Committee, in its announcement, left the door open for further reductions. At the same time, it restored language saying inflation has picked up. "The Fed still has its primary focus on growth and the threat to growth from markets," said James O'Sullivan, a senior economist at UBS Securities LLC in Stamford, Connecticut. "This is still a huge move," given that Alan Greenspan, Bernanke's predecessor, never lowered rates more than a half-point at a single meeting, O'Sullivan said. The Standard & Poor's 500 Index climbed 4.2 percent yesterday to 1,330.74, the most since October 2002. The dollar, which fell to a 12-year low a day earlier, staged its biggest rally against the yen in nine years after the decision.

Treasury notes declined.

Treasury's Steel Takes Central Role in Bush Response to Banking Calamity

Treasury Undersecretary Robert Steel was huddling with regulators at the Federal Reserve Bank of New York the morning of March 14, when word came that President George W. Bush needed an update on the chaos enveloping financial markets.

Stocks were falling for a third straight week, and Bear Stearns Cos. was getting bought by JPMorgan Chase & Co. through an unprecedented Fed-backed infusion of cash. Steel, Treasury Secretary Henry Paulson's closest confidant, met Bush at a lower Manhattan heliport and briefed him in the 10-minute drive past Wall Street ahead of the president's speech to the Economic Club of New York. The worst credit crisis in at least two decades falls directly into Steel's responsibilities as head of Treasury's domestic finance division. In an interview yesterday, Steel, 56, was unapologetic about the administration's reluctance to back a taxpayer bailout of mortgages and said the early market response to the Fed action has been favorable. "The real proof will be in the pudding longer term with markets being stable and orderly, but it's good to have an initial constructive reception," he said, hours before the Standard & Poor's 500 Index rallied 4.24 percent, the most in five years.

Shirakawa Is Appointed Interim Head of Bank of Japan as Fukui's Term Ends

The Bank of Japan said Masaaki Shirakawa will act as interim governor, filling a vacancy left by Toshihiko Fukui whose term ends today, following a dispute between the government and the opposition. "Mr. Shirakawa will take up the role of acting governor," Fukui said at a press conference in Tokyo to mark the end of his term. Board member Kiyohiko Nishimura, who won backing as one of the bank's deputy governors from parliament today, will take on the role should anything happen to Shirakawa, Fukui said. Shirakawa, 58, will be on standby to prevent the spread of the credit freeze that prompted the U.S. Federal Reserve to take emergency measures this week to avert a financial market meltdown. He'll also preside over Japan's monetary policy as the longest economic expansion in 60 years slows and inflation accelerates. "As long as the central bank has Shirakawa as an acting governor, there won't be any concern about monetary policy," said Hiroaki Muto, a senior economist at Sumitomo Mitsui Asset Management. "He has monetary policy experience."

BOE Majority Defeated Votes by Gieve, Blanchflower for Interest-Rate Cut

Bank of England policy makers voted 7-2 to keep the benchmark interest rate at 5.25 percent this month, defeating calls by John Gieve and David Blanchflower for a quarter-point cut to shore up economic growth. The Monetary Policy Committee, led by Governor Mervyn King, said that a reduction so soon after lowering the rate by a quarter-point in February may signal the bank was focusing on growth at the expense of inflation, minutes of the March 6 decision published today in London showed. The dissenters said that the threat to economic expansion "argued against delay." Inflation accelerated in February to the fastest pace in nine months and unemployment fell to the lowest in three decades. The threat of higher prices and few signs of a slowing economy have made U.K. policy makers more cautious than the U.S. Federal Reserve, which cut the benchmark interest rate yesterday by three quarters of a percentage point. "The bank doesn't want to see a short-term spike in inflation get ingrained in the system," said Dominic White, an economist at ABN Amro Holding NV, who formerly worked at the U.K. Treasury. "There are concerns about financial markets and the impact on the economy. The bank needs to strike a balance."

'Big Rally' for U.S. Stocks Likely to Continue This Year, Jim Rogers Says

U.S. stocks, which surged the most in five years yesterday, will likely continue to rally this year because the "out of control" Federal Reserve is cutting interest rates to save investment banks from collapse, investor Jim Rogers said. The Fed's support is "why we're having a big rally, but that's not going to solve the problem," Rogers, chairman of Rogers Holdings and co-founder of the Quantum Hedge Fund with George Soros, said during an interview with Bloomberg Television from Singapore. "The system is terribly corroded." The central bank is helping financial stocks in the near term while delaying and deepening an eventual bear market and recession, he said. The Fed cut its benchmark lending rate by 0.75 percentage point yesterday, continuing the most aggressive easing since the federal funds rate became an explicit target of policy in the late 1980s. "What are they going to do when the stock market is down 40 percent or 50 percent?" Rogers said. "They're not going to have any bullets left. They're not going to be able to solve the problems at that point."

Russian Pulp Punishes Stora Enso, Makes International Paper, Mondi Winners

In the new world order for pulp, Finland's Stora Enso Oyj is on the wrong side of Russia. That's making winners out of Memphis, Tennessee-based International Paper Co. and Mondi Ltd.

of Johannesburg. Helsinki-based Stora, Europe's biggest papermaker, currently imports Russian logs to turn into pulp.

Higher export duties will double the cost of timber from its eastern neighbor beginning next year. While Stora's first mill won't open in Russia before 2011, International Paper and Mondi already operate in the country, the world's second-fastest growing paper market after India. Stora Chief Executive Officer Jouko Karvinen has closed mills to reduce dependence on imported wood and said he may shut more if the full tariffs go into effect. Jussi Pesonen, head of No. 2 European papermaker UPM-Kymmene Oyj, also warned of closures. The taxes on log exports will add 200 million euros to Stora's costs in 2009.

That's 40 percent of the net income analysts predict for the year, excluding the Russian levies. "If full duties come in, it will be catastrophic for all the Finnish companies," said Lars Kjellberg, a London-based analyst with Credit Suisse who has a "neutral" rating on Stora and UPM and an "outperform" on Mondi. "Fiber is their single biggest cost by a mile."

As Bear Stearns Implodes, Ousted President Spector Keeps His \$382 Million

Warren Spector, forced out as president of Bear Stearns Cos. last August, may have outdone his former mentor James "Jimmy" Cayne as the 85-year-old brokerage firm imploded.

After a spat over politics in 2004, Cayne, then Bear Stearns's chief executive officer, changed the company's deferred compensation plan, prompting Spector to sell \$382 million of stock. As of last March, his stake in the New York-based firm had dwindled to 0.06 percent, worth about \$8 million when he left. "In this case, the golden handshake didn't turn into a tin one," said Shaun Springer, chief executive officer of

London-based recruiting firm Napier Scott Executive Search Ltd. Spector, 50, faced Cayne again in a bridge tournament in Detroit last weekend. As the competition was coming to a close, Bear Stearns was being sold to JPMorgan Chase & Co. for \$291 million, less than the value of its Manhattan headquarters building. Cayne's 5 percent stake has plummeted in value from almost \$1 billion last year, when the shares reached their peak price of \$170, to about \$12 million based on the sale price.

Subprime Debt Eyed by Blackstone, Goldman Sachs for Contrarian Hedge Funds

Hedge fund manager Steve Moyer joined 4,000 realtors and bargain hunters at a five-hour Southern California housing auction in February. As the tuxedoed barker peddled foreclosed homes for hundreds of thousands of dollars below their previous sale prices, Moyer took notes -- research that may help him make money from the biggest housing collapse in 26 years.

Moyer, who helps oversee \$7 billion at Tennenbaum Capital Partners LLC, is part of the rush of more than 70 hedge funds

-- including those run by Blackstone Group LP and Goldman Sachs Group Inc. -- to snap up distressed mortgages and securities from banks battered by the subprime meltdown. "The risk is getting in too soon, before all the losses are flushed out,"

says Moyer of Santa Monica, California-based Tennenbaum, which is considering investments in securities linked to the housing market. "It's really just hard to call the bottom." Hedge funds are taking this gamble as the slate of money-making strategies shrinks and profits vanish. Their returns fell 0.5 percent in the first two months of 2008, according to Hedge Fund Research Inc.'s composite index. Managers who specialize in stocks were among the hardest hit as equities markets worldwide tumbled on

concern the U.S. economy might be in a recession.

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

-0- Mar/19/2008 11:41 GMT

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Stoltzfoos, Jeffrey

From: Nason, David
Sent: Wednesday, March 19, 2008 8:17 AM
To: Stoltzfoos, Jeffrey; Norton, Jeremiah; Appleton, Jesse; Kashkari, Neel; Scogin, Matthew
Cc: Zuccarelli, Jennifer
Subject: (BN) Paulson's Surrogate Steel Sees 'Initial' Progress in Ma

Good story.

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

From: DAVID NASON, US DEPT OF TREASURY [mailto:dnason3@bloomberg.net]
Sent: Wednesday, March 19, 2008 8:16 AM
To: Nason, David
Subject: (BN) Paulson's Surrogate Steel Sees 'Initial' Progress in Ma

Paulson's Surrogate Steel Sees 'Initial' Progress in Markets
2008-03-19 07:39 (New York)

By Brendan Murray and John Brinsley

March 19 (Bloomberg) -- Treasury Undersecretary Robert Steel was huddling with regulators at the Federal Reserve Bank of New York the morning of March 14, when word came that President George W. Bush needed an update on the chaos enveloping financial markets.

Stocks were falling for a third straight week, and Bear Stearns Cos. was getting bought by JPMorgan Chase & Co. through an unprecedented Fed-backed infusion of cash. Steel, Treasury Secretary Henry Paulson's closest confidant, met Bush at a lower Manhattan heliport and briefed him in the 10-minute drive past Wall Street ahead of the president's speech to the Economic Club of New York.

The worst credit crisis in at least two decades falls directly into Steel's responsibilities as head of Treasury's domestic finance division. In an interview yesterday, Steel, 56, was unapologetic about the administration's reluctance to back a taxpayer bailout of mortgages and said the early market response to the Fed action has been favorable.

"The real proof will be in the pudding longer term with markets being stable and orderly, but it's good to have an initial constructive reception," he said, hours before the Standard & Poor's 500 Index rallied 4.24 percent, the most in five years.

The Bush administration's reliance on markets to some analysts has prolonged the decline in the housing industry.

"They're going to have to recognize the reality that fiscal and monetary policy aren't going to be enough to get us out of this crisis," said Michael Barr, a former assistant to Treasury Secretary Robert Rubin and professor of law at the University of Michigan in Ann Arbor.

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--With reporting by Matthew Benjamin in Washington and Fergal O'Brien in Dublin. Editors: Carlos Torres

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BSC US <Equity> CN

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#<610782.10415.1.0.77.20164.25>#
-0- Mar/19/2008 11:39 GMT

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Foley, Trip

From: Foley, Trip
Sent: Wednesday, March 19, 2008 8:30 AM
To: Zuccarelli, Jennifer
Subject: RE: WSJ-White House Signals Openness on Mortgage Relief

Is this just Frank's staff leaking something???

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

From: Zuccarelli, Jennifer
Sent: Wednesday, March 19, 2008 7:08 AM
To: _DL_FYI; Kashkari, Neel; Wheeler, Seth
Subject: WSJ-White House Signals Openness on Mortgage Relief

White House Signals Openness on Mortgage Relief

Administration Talks
To Democrats on Ways
To Avoid Foreclosures

By MICHAEL M. PHILLIPS, DAMIAN PALETTA and SARAH LUECK March 19, 2008; Page A14

WASHINGTON -- The Bush administration and congressional Democrats have begun negotiations over a plan designed to stave off hundreds of thousands of home foreclosures.

After months of stalemate -- and a week of financial turmoil sparked in part by the housing crisis -- the White House signaled yesterday that President Bush is open to compromise with Democrats, who want more federal action. Rep. Barney Frank (D., Mass.) said his aides are holding discussions with Treasury Department officials.

Mr. Frank has proposed a federal program that would provide insurance for up to \$300 billion in refinanced, affordable-cost mortgages. It is far from clear whether the administration would be willing to embrace anything so ambitious. "I'm not the emperor," Mr. Frank said in an interview yesterday. "Nothing gets done without negotiations."

White House spokesman Tony Fratto said if Congress comes up with "some things we think are effective and won't cause greater problems down the road, then those are things that we'll consider and the president will be willing to consider." Mr. Fratto said the White House won't "get into public negotiating over what those items might be."

The White House's position represents a shift in tone. For weeks, the president and his economic team, led by Treasury Secretary Henry Paulson, have rejected proposals that would have further exposed the government to the housing market. As recently as the end of last month, Mr. Paulson said, "I don't think I've seen any scenario where the American taxpayer needs to be stepping in with more taxpayer dollars." He predicted at the time that the administration's approach, which centers on a voluntary program by the mortgage industry to ease terms for troubled borrowers, would be sufficient to address the crisis.

In another sign of how the federal government is bringing its weight to bear on the housing crisis, the top regulator for Fannie Mae <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FNMA>> and Freddie Mac <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FRE>>, after being prodded by Treasury, plans to announce today a change to the rules under which the two mortgage companies operate that will allow them to fund more loans.

Democrats have pressed forward with multiple plans, most of them involving a larger government role and more public money than the administration has thus far been willing to endorse. Congress also is mulling a follow-up to its \$152 billion stimulus package, which could include unemployment benefits and more funding for food stamps.

Under the plan introduced by Mr. Frank, chairman of the Financial Services Committee, financial institutions would have to take a loss by forgiving some of the remaining

principal on home loans in order to make them more affordable for distressed borrowers. In return, the lenders would get federal backing for hundreds of billions of dollars in new mortgages. Sen. Christopher Dodd (D., Conn.) is promoting a similar measure in the Senate, with federal mortgage guarantees valued at up to \$400 billion.

Both plans use federal funds to insure faltering home loans. While the government's total exposure is potentially hundreds of billions of dollars in the unlikely event all loans go sour, congressional aides estimate the likely insurance pool needed to cover those loans will be somewhere between \$10 billion and \$20 billion.

Worsening economic and housing news has generated calls for the administration to move more aggressively. Analysts project that as many as two million homes will enter foreclosure this year. Yesterday, the Federal Reserve cut a key interest rate by three-quarters of a percentage point in an effort to prevent the country's economic slowdown from worsening. And over the weekend, the Fed, with Treasury backing, engineered the emergency takeover of Bear Stearns <<http://online.wsj.com/quotes/main.html?type=djn&symbol=bsc>> Cos. by J.P. Morgan Chase & Co. <<http://online.wsj.com/quotes/main.html?type=djn&symbol=jpm>> & Co.

A weakening economy "will create greater momentum in Congress for steps to reduce the number of foreclosures," said Brookings Institution economist Douglas Elmendorf, a former official in the Clinton Treasury Department. "I think ultimately the administration will go along with some of these proposals."

Mr. Frank already has spent several weeks hashing out details of his plan with federal bank regulators, including the Federal Reserve. Fed Chairman Ben Bernanke has encouraged banks to write down the principal of some loans to help borrowers avoid foreclosure.

Treasury spokeswoman Michele Davis said the department has "looked at a lot of ideas." She added: "We've yet to see one that would do more good than harm. If someone has an additional idea, we're happy to take a look."

Early next month, the Senate plans to take up a housing bill sponsored by Democratic leaders that includes tax relief for home builders and other struggling industries, and increased funding for mortgage counseling. Senate Republicans in February had blocked the bill, largely because of a provision that would give bankruptcy judges the ability to modify the terms of certain mortgages. President Bush also opposes the bankruptcy provision, arguing it would drive up interest rates just when home prices are falling and delinquencies are increasing.

Write to Sarah Lueck at sarah.lueck@wsj.com

Foley, Trip

From: Foley, Trip
Sent: Wednesday, March 19, 2008 8:41 AM
To: Buchanan, Lindsay
Subject: RE:

Not bad, eh?? :-)

From: Buchanan, Lindsay [mailto:Lindsay.Buchanan@gs.com]
Sent: Wednesday, March 19, 2008 8:00 AM
To: Foley, Trip
Subject:

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 2008-03-19 07:39 (New York)

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