The Washington Post

A Section
WaMu's ex-chief blames government, Wall Street for collapse; Says he was frozen out of backroom deals, but aides dispute account

by Frank Ahrens
524 words
14 April 2010
The Washington Post
WP
FINAL
A16
English

The former chief executive of Washington Mutual, which underwent the biggest bank failure in U.S. history, defended his actions before a Senate panel on Tuesday, blaming the federal government for picking winners and losers during the financial crisis, as well as Wall Street insiders for locking him out of key conversations.

Two of his top lieutenants, however, disputed his account.

"For those that were part of the inner circle and were 'too clubby to fail,' the benefits were obvious," said Kerry Killinger, the former chief executive. "For those outside the club, the penalty was severe."

Washington Mutual, often known as WaMu, was a Seattle-based thrift with more than $300 billion in assets. It failed in the summer of 2008, choked by its bad subprime home loans, which were sketchily securitized. The federal government took over the bank in September 2008 and orchestrated a sale to J.P. Morgan Chase for $1.9 billion.

Washington Mutual specialized in the "option ARM," a type of mortgage that let borrowers make payments so low that the amount of their loan actually rose with time.

In testimony before Sen. Carl M. Levin's (D-Mich.) permanent subcommittee on investigations on Tuesday, Killinger said his bank should have been given a chance to work through the crisis before the government's takeover. He said that Washington Mutual had adequate capital reserves and added that he had aggressively pared his bank's subprime exposure from 2003 to 2007.

Levin's committee asserts that it has found fraud in WaMu's actions and that it may refer the case to the Justice Department, which could pursue criminal charges against former WaMu officials.

Two of the bank's former risk officers, also testifying, disagreed with their former boss.

"I was increasingly excluded from senior executive meetings and meetings with financial advisers when the bank's response to the growing crisis was being discussed," said Ronald Cathcart. He said that he was "fully isolated" by January 2008 and that he was eventually fired by Killinger.

James Vanasek, the other risk officer, testified that he tried to stop the bank from making loans to high-risk borrowers and loans that were made without verifying an applicant's income. However, he said, "without solid executive management support," his proposals had no chance.

Levin's subcommittee, which assembled data on Washington Mutual for the past 18 months, said the bank's employees were given bonuses for the volume and speed at which they sold risky mortgages. In 2000, WaMu booked $2.5 billion in sales of securitized subprime mortgages. By 2006, that number was up to $29 billion.

"WaMu built its conveyer belt of toxic mortgages to feed Wall Street's appetite for mortgage-backed securities," Levin said at the hearing. "Because volume and speed were king, loan quality fell by the wayside, and WaMu churned out more and more loans that were high risk and poor quality."

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WP20100414WAMU14

Document WP00000020100414e64e0003q

The Washington Post

A Section
Senate panel inquiry finds major fraud at Washington Mutual

Associated Press
678 words
13 April 2010
The Washington Post
WP
FINAL
A14
English

The mortgage lending operations of Washington Mutual, the biggest U.S. bank ever to fail, were threaded through with fraud and the bank's own inquiries were unable to stop the deceptive practices, according to a report by Senate investigators.

The investigators said the bank's pay system rewarded loan officers for the volume and speed of the subprime mortgage loans on which they closed. Bonuses even went to loan officers who overcharged borrowers or levied stiff penalties for prepayment, according to the report being released Tuesday by the investigative panel of the Senate Homeland Security and Governmental Affairs Committee.

Chairman Carl M. Levin (D-Mich.) said Monday that the panel will decide after hearings this week whether to make a formal referral to the Justice Department for possible criminal prosecution. Justice, the FBI and the Securities and Exchange Commission opened investigations of Seattle-based Washington Mutual soon after its collapse in September 2008.

The report said that the company's 's top producers -- loan officers and sales executives who made high-risk loans or packaged them into securities for sale to Wall Street -- were eligible for the bank's President's Club, with trips to swank resorts.

Fueled by the housing boom, Washington Mutual's sales to investors of packaged subprime mortgage securities increased from $2.5 billion in 2000 to $29 billion in 2006. The 119-year-old thrift, with $307 billion in assets, was seized by regulators in September 2008 and was sold to J.P. Morgan Chase for $1.9 billion in a deal brokered by the Federal Deposit Insurance Corp.

Jennifer Zuccarelli, a spokeswoman for J.P. Morgan Chase, declined to comment on the subcommittee report.

WaMu was one of the biggest issuers of so-called option-ARM mortgages, which allowed borrowers to make payments so low that loan debt actually increased every month.

The Senate subcommittee investigated the Washington Mutual failure for a year and a half, focusing on the thrift as a case study for the financial crisis that brought the recession and the loss of jobs or homes for millions of Americans. The panel is scheduled to hold hearings Tuesday and Friday to take testimony from former senior Washington Mutual executives, including former chief executive Kerry Killinger, and former and current federal regulators.

Washington Mutual "was one of the worst," Levin told reporters Monday. "This was a Main Street bank that got taken in by these Wall Street profits that were offered to it."

Investors who bought mortgage securities from Washington Mutual were not informed of the fraudulent practices, the Senate investigators found. The company "dumped the polluted water" of toxic mortgage securities into the stream of the U.S. financial system, Levin said.

In some cases, sales associates in Washington Mutual offices in California fabricated loan documents, cutting and pasting false names on borrowers' bank statements. The company's own investigation in 2005, three years before the bank collapsed, found that two top-producing offices -- in Downey and Montebello, Calif. -- had levels of fraud exceeding 58 percent and 83 percent of the loans. Employees violated the bank's policies on verifying borrowers' qualifications and reviewing loans.

Washington Mutual was repeatedly criticized over the years by its internal auditors and federal regulators for sloppy lending that resulted in high default rates by borrowers, according to the report. Violations were so serious that in 2007, Washington Mutual closed its big affiliate Long Beach Mortgage as a separate entity and took over its subprime lending operations.

Senior executives of the bank were aware of the prevalence of fraud, the Senate investigators found.

In late 2006, Washington Mutual's primary regulator, the U.S. Office of Thrift Supervision, allowed the bank an additional year to comply with stricter guidelines for issuing subprime loans.

According to an internal bank e-mail cited in the report, Washington Mutual would have lost about a third of the volume of its subprime loans if it applied the new requirements.

WP20100413WAMU13

Document WP00000020100413e64d0003o

The Washington Post

Outlook
Teddy showed the banks who's boss. Will Obama?

by Simon Johnson and James Kwak
1,430 words
4 April 2010
The Washington Post
WP
FINAL
B03
English

In late February 1902, J.P. Morgan, the leading financier of his day, went to the White House to meet with President Theodore Roosevelt and Attorney General Philander Knox. The government had just announced an antitrust suit -- the first of its kind -- against Morgan's recently formed railroad monopoly, Northern Securities, and this was a tense moment for the stock market. Morgan argued strongly that his industrial trusts were essential to American prosperity and competitiveness.

The banker wanted a deal. "If we have done anything wrong, send your man to my man and they can fix it up," he offered. But the president was blunt: "That can't be done." And Knox succinctly summarized Roosevelt's philosophy. "We don't want to fix it up," he told Morgan, "we want to stop it."

Just over a century later, on March 27, 2009, 13 bankers were summoned to the White House. The global financial system was verging on collapse, in no small measure because of the bankers' concentrated power and their manifest inability to manage the risks of their "financial innovation." Banking had to be rescued -- no modern economy can function without credit, of course -- and only the Obama administration had the power to save the day.

But instead of specific new regulations or changes in the way they operate -- or even any constraints on their power -- what did these 13 bankers find waiting for them? On this day and in the months that followed, the administration provided generous expressions of unconditional financial and moral support, both explicit and implicit, along with gentle and nonbinding admonitions.

The headline quote from President Obama sounded tough: "My administration is the only thing between you and the pitchforks," he told the meeting. But the reality was as mild as it could be: All 13 bankers, no matter how discredited, kept their jobs, their salaries, their bonuses, their pensions, their staff and, most remarkable given the near-complete breakdown of governance, even their boards of directors. Our leading bankers were saved by the generosity and magnanimity of our president.

Since that meeting, the country has seen no discernible changes in the financial management and incentive systems that for 30 years have given Wall Street the benefits of the upside and Main Street the costs of the downside. And politically, our financial titans have bitterly opposed the mild reforms that the Obama administration eventually proposed. Even Citi and Bank of America, which essentially spent 2009 as wards of the state, have engaged in egregious lobbying.

There is no way that Teddy Roosevelt would have stood for this. He saw finance and economics through the lens of political power. In his book, it did not matter how important you were, or claimed to be, to the economy. If you were too powerful, and if your actions were hurting other people in the economy, Roosevelt wanted to take you on -- and he instructed his lawyers accordingly.

Roosevelt did not launch the antitrust movement by gently tugging on some low-hanging fruit. He took on J.P. Morgan, the central figure in the burgeoning American financial system, and he won (though just barely, with the Supreme Court voting 5 to 4 to dissolve Northern Securities). And after many twists and turns, the new consensus regarding acceptable business practices led to the breakup of John D. Rockefeller's Standard Oil -- arguably the most powerful company in U.S. history to that date.

Of course, Roosevelt did have the 1890 Sherman Antitrust Act on his side. But before 1902, that law had never been used against an industrial trust, and precedent suggested that there was no legal basis for reining in Morgan's ventures. Roosevelt's audacious move seemed against the odds, and it was very much against the advice of top figures in his Republican Party.

In the spring of 2009, Obama and his senior advisers did not seem terribly troubled by the dangerous concentration of power, wealth and hubris on Wall Street. The president thought it reasonable to find a way forward through amicable accommodation, assuming that Big Finance really could change. Yet, in memoirs and public statements, the bankers repeatedly submit their defense: The system -- the mechanics and incentives of Wall Street -- made them do it. Unfortunately, Wall Street and its intimate connections to Washington have not become any safer for the American economy since this crisis began.

In fact, the latest boom-bust-bailout cycle probably worsened matters. We can argue whether, before September 2008, the people running huge financial firms really thought they were "too big to fail." Lehman, after all, did go bankrupt; Morgan Stanley and Goldman Sachs were rescued at the eleventh hour. But today, who thinks Goldman could fail?

In the moment of most intense crisis, Goldman became a bank holding company, subject to the supervision of the Federal Reserve and able to borrow from the Fed's official "discount window" -- effectively gaining government support. Yet today the firm is also allowed to carry out essentially the same activities (including securities and foreign-exchange trading, as well as real-estate-related transactions) as it did prior to the meltdown of 2008, when there was supposedly no government backing.

If you were exempt from paying speeding tickets, no matter how fast you drove, what would you do? Perhaps, immediately after observing a horrific crash or having a near-death experience, you would be more careful. But soon you would feel the need to get somewhere quickly. And you might even think that your special legal status merely reflected your advanced skills. How long until the next big accident?

Since Democrats lost the special Senate election in Massachusetts in January, the president has shown some new fire. In a major potential course correction, he proposed the "Volcker Rule," named after former Fed chairman and current Obama adviser Paul Volcker, which would constrain the risk-taking and the size of the largest U.S. banks. The move blind-sided Wall Street. In the sound bite of Jan. 21, Obama sounded just like Teddy: "If these folks want a fight," he said, "it's a fight I'm ready to have."

It is now time for that fight. Senate Democrats have proposed a financial overhaul that includes the Volcker Rule, and White House spokesman Robert Gibbs said Tuesday that passing regulatory reform by late May is realistic. But to make progress in this legislative cycle, the president needs to go all in, as he did with health-care reform. The potential political message here is powerful: If opponents of reform think they are "too big to fail," then we will prove them wrong.

It doesn't help that Wall Street has vast amounts of cash to spend on lobbying and political ads. Yet, if framed correctly, the reform message cuts across the political spectrum. If there is one thing that the left and the right agree upon, it is that a "get out of jail free" card distorts the free market. Massive banks have access to cheaper financing because the credit markets understand that the government stands behind them. This is unfair competition, pure and simple.

Will the administration stand up and fight now, before we have another crisis? Surely this is what Theodore Roosevelt would have done. He liked to act preemptively; when he saw excessive power, he took it on, creating his own moments of political opportunity.

Of course, there is always the other Roosevelt. When FDR took power in March 1933, he took aim at the banks. As historian Arthur Schlesinger wrote in "The Coming of the New Deal" -- "No business was more proud and powerful than the bankers; none was more persuaded of its own rectitude; none more accustomed to respectful consultation by government officials. To be attacked as antisocial was bewildering; to be excluded from the formation of public policy was beyond endurance."

By the mid-1930s, Franklin Roosevelt had become skeptical of powerful financiers, but he was only able to translate those feelings into policy after a major global depression. Obama shouldn't wait for another one before pushing for the changes that matter.

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WP20100404O-ROOSEVELT

Document WP00000020100404e6440004g

The Washington Post

A Section

CEO says new laws have hurt J.P. Morgan; Shareholders are told bank has scaled back credit offerings

by Tomoeh Murakami Tse
612 words
2 April 2010
The Washington Post
WP
FINAL
A15
English

J.P. Morgan Chase cut consumer access to credit and canceled credit cards in response to legislation signed into law by President Obama last year, the bank's chief executive Jamie Dimon said. The credit card reform act , which went into effect in February, could cost the bank up to $750 million in annual profits, he added.

Despite the losses, "we believe that many, but not all, of the changes made were completely appropriate," Dimon said in his annual letter to shareholders, which was released late Wednesday.

Dimon said enacting the bill in the middle of a recession reduced access to credit for some consumers. The act prevents credit card companies from raising interest rates arbitrarily and charging certain fees. It also mandates that all of a cardholder's payments be applied to the balance carrying the highest interest rate.

J.P. Morgan is expected to take a hit of $500 million to $750 million from the new rules, according to Dimon, who added that the bank will no longer offer cards to 15 percent of its customers because they pose too much of a risk in light of the regulations. The bank has reduced credit lines, canceled cards that had not been used for a long time, and substantially reduced offers for introductory rates and promotional balance transfers.

Bank of America has said the new regulations will cost it $800 million.

Consumer advocates, while worrying about banks shifting losses to consumers, largely characterized the changes as a healthy market correction.

"Them being more selective, having higher credit standards and screening their applicants more closely is a good thing," said Curtis Arnold, CardRatings.com founder. "I think they should have been doing that all along. I don't think you can blame the card act on everything."

Dimon's 36-page letter , accompanied by color charts illustrating the bank's performance and pictures of the chief executive, is largely an update of its businesses. But Dimon also spends a considerable amount of time explaining his company's positions on Washington's financial reform efforts while trying to dispel what he suggests are misguided perceptions of the crisis and its aftermath.

Dimon acknowledged the benefits J.P. Morgan had reaped from the government's actions to keep the financial system from unraveling, but called them a "mixed blessing." Not all banks, Dimon said, would have failed without government action, an assumption he blamed for much of the public anger and "some policy recommendations that are meant to punish banks."

The $25 billion the bank received from Treasury's Troubled Assets Relief Program -- which it always has maintained it did not need -- cost the company money, Dimon said, in part because the bank gave the government warrants worth almost $1 billion in exchange for the loan.

"We did not anticipate the anger or backlash the acceptance of TARP capital would evoke from the public, politicians and the media," Dimon said. "I do wish it was possible to distinguish between the healthy and unhealthy banks in a way that didn't damage the success of the program."

Although the bank's participation in another federal program -- a loan guarantee from the FDIC under which J.P. Morgan issued $40 billion in debt -- will save the bank "a significant amount of money" over the next few years, Dimon said he regretted using it because "we didn't need it, and it just added to the argument that all banks had been bailed out."

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WP20100402DIMON2
Document WP00000020100402e6420000v

The Washington Post

A Section

Banks stung by criticism over pay; SKEPTICISM OVER CHANGES Modifications fail to win over Obama, lawmakers

by Tomoeh Murakami Tse
973 words
23 January 2010
The Washington Post
WP
FINAL
A08
English

Wall Street banks thought they had made big concessions to populist anger over large year-end bonuses. On Tuesday, Citigroup said its compensation pool for 2009 had shrunk 20 percent from the prior year. On Wednesday, Morgan Stanley announced its top executives would receive 75 percent of their pay in deferred compensation. And on Thursday, Goldman Sachs said its bonus pot represented just 36 percent of its revenue, the lowest ratio since it became a public company in 1999.

But by the end of the week, the firms were facing a president proposing new restrictions on their activities and threatening them with a showdown. Lawmakers eager to impose a British-style tax on bonuses barely acknowledged Wall Street's efforts at restraint. Treasury Secretary Timothy F. Geithner, who has advocated a more moderate approach to financial reform, was being overshadowed by Paul Volcker, who favors more aggressive change. And second-term prospects for Federal Reserve Chairman Ben S. Bernanke, who led the bailout of the financial system with Geithner, were dimming.

The turn of events has alarmed many banking executives, who contend they did much of what was asked of them. They say they have paid back the billions of dollars in government rescue funds, with interest, and they insist they are responding to cues from Washington to change pay practices. They say they have learned from their mistakes, reducing their use of borrowed money and clearing toxic assets from their balance sheets, but that the continuous stream of anti-Wall Street rhetoric from Washington is prolonging public anger and hampering their efforts to move forward.

During this earnings season, the nation's biggest banks have reported substantially improved results for 2009 but only slightly higher compensation, more of which would be paid in the form of company stock that cannot be accessed for a few years.

As a group, the banks -- Goldman Sachs, Morgan Stanley, J.P. Morgan Chase, Citigroup and Bank of America -- disclosed compensation expenses totaling $114 billion for 2009, up 4 percent from the previous year's $109 billion. This, despite revenues that jumped 63 percent to produce combined profits of $31 billion.

More deferred pay

While the pay figures are still astounding by Main Street standards, the numbers represent a concession by Wall Street to public outrage over multibillion-dollar bonuses just a year after taxpayers kept the financial system intact with a multibillion-dollar rescue.

But questions remain about whether the firms would continue down a path of uncharacteristic restraint, and just how significant the changes to their pay practices actually are.

In response to mounting criticism from lawmakers and regulators, industry executives said they had restructured compensation so that pay packages would include more deferred stock, and less cash, in an effort to tie compensation to long-term performance.

Analysts and compensation experts largely agree on the merits of this change. But they also note that the shift could have the effect of artificially lowering the firms' closely watched total compensation figures. That's because under securities rules, companies record deferred stock only when the shares vest. For example, if an employee receives a $1 million pay package, but half of that is in deferred stock that vests years later, only $500,000 would show up in the company's current compensation pool.

"I'll buy the idea that compensation may come down for next year, but I don't want to bet too much on it," said Brad Hintz, an analyst at Bernstein Research and a former executive at Morgan Stanley and Lehman Brothers. "If they increased the amount of equity substantially, then really, they haven't really changed . . . They've just pushed the compensation expense out into the future, in which case it's going to rise again."

Lucas van Praag, a spokesman for Goldman Sachs, said the notion that the bank was artificially lowering compensation expenses was inaccurate. He said the firm's $16.2 billion compensation expense for 2009 includes salaries, medical benefits and payroll taxes, as well as the value of prior-year stock awards that had vested.

"The cynical argument just doesn't hold water," van Praag said. "I suppose at the very, very margin, you could say that there was a tiny grain of truth in that, but it's simply not material."

How much is enough?

J.P. Morgan, which also announced last week a lower ratio of revenue set aside for compensation, said a number of factors contributed to reducing that figure by several percentage points to 33 percent, including the increased level of equity in compensation and a one-time bonus tax in Britain. Going forward, bank executives said, the revenue-to-compensation ratio for its investment banking division will be closer to 40 percent.

"The reason why it might be close enough to 40 next year is because you're amortizing last year's" equity awards, chief executive Jamie Dimon explained in a conference call last week.

At a hearing Friday on compensation in the financial industry before the House Financial Services Committee, experts warned that not enough had been done to address dangerous pay practices, which they say contributed to the financial system meltdown.

"Having done little to change either the incentives or the constraints facing the financial sector, we cannot expect a marked change in behavior," said Joseph E. Stiglitz, an economics professor at Columbia University and a former chairman of the Council of Economic Advisers. "Of course, in the immediate aftermath of the crisis, they and their supervisors may be chastened, though at least for some seemingly far less than one might have thought, given the enormity of the recent calamity."

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WP20100123BONUSES23

Document WP00000020100123e61n0000m

The Washington Post

A Section

Obama proposes stricter rules for the largest banks; A brake on expansion Investments would have to benefit customers

by Michael D. Shear and Binyamin Appelbaum
1,086 words
22 January 2010
The Washington Post
WP
FINAL
A01
English

President Obama expanded his new offensive on Wall Street on Thursday, proposing rules that would impede the growth of the largest banks and bar them from making what he called "reckless" investments.

The proposal comes as the administration is shifting from its year-long effort to save financial firms toward a new willingness to confront them with explicit prohibitions on activities that fueled the economic crisis. In essence, Obama is now aiming to force the firms to choose between the federal benefits that come with being a bank and the unbridled pursuit of profits.

After opposing proposals such as hard limits on executive bonuses, the administration is embracing a tougher line -- more evidence that Obama has the industry in his sights as he seeks to show Middle America that he feels its economic pain.

Obama's plan would bar banks from making investments that are not intended to benefit customers, including the creation of proprietary investment funds solely to benefit employees and shareholders. New limits also would make it difficult for the largest banks to become any bigger, effectively stopping domestic expansion at well-known companies such as Bank of America and J.P. Morgan Chase.

While the proposed restrictions are narrower than the now-defunct law that segregated Wall Street trading from commercial banking for much of the 20th century, they share a similar goal: to subsidize banking -- which the administration considers vital to the economy -- without having taxpayers subsidize highly speculative activity.

Flanked by the members of his economic team in the Diplomatic Reception Room of White House, Obama chastised the chief executives of the nation's largest financial firms for sending what he called an "army of industry lobbyists" to fight his efforts to reform the banking sector.

"My message to leaders in the financial industry is to work with us, not against us," the president said. "If these folks want a fight, it's a fight I am ready to have."

Wall Street responds

Wall Street has responded to the administration's increased hostility with its own change in temperature. Bankers howled last week when Obama proposed a fee on big banks to recoup losses from the government's $700 billion program to bail out financial firms. Several executives said Thursday that they regretted their support for -- and campaign donations to -- Obama.

"I wish I could take my vote back," said one executive at a large bank. He spoke on the condition of anonymity because his firm barred public comments on the matter.

As the industry seeks to defeat proposals to rein in banks, companies may now be free to spend more money on political campaigns after a Supreme Court decision Thursday reversed some key restrictions on political advertising by big businesses. Unless Congress acts quickly to reassert these limits, banks and other financial firms will be allowed to support congressional candidates who oppose Obama's bank proposals.

Bank stocks fell Thursday as investors reacted to the president's proposal. Goldman Sachs shares fell 4 percent in trading on the New York Stock Exchange. Citigroup dropped 5.5 percent, Bank of America fell 6 percent, and J.P. Morgan Chase dropped 7 percent.

The proposal is part of the White House's election-year strategy to repair damage done to Obama's image during his first months in office, when he helped bail out the banking industry, senior advisers said. The president's top political aides are hoping to set the stage for a sharp contrast with Republicans, who have historically opposed government prescriptions for private businesses.

"He had to help Wall Street in order to save Main Street," a top Obama adviser said, describing the White House's message for the midterm congressional elections. "Every time we announce an economic policy that Wall Street does not like, the Republicans are standing right there with Wall Street, defending them."

Republicans offered a muted response to the president's proposal, suggesting they recognize the political dangers of siding with big banks when there is a 10 percent unemployment rate, depressed housing prices and increased voter anger.

The White House wants Congress to incorporate the proposals into the sprawling financial reform legislation that passed the House. Rep. Barney Frank (D-Mass.) and Sen. Christopher J. Dodd (D-Conn.), who are overseeing the legislation in their respective chambers, stood with the president as he spoke and then issued statements of support. Frank noted that the House bill gave regulators the discretion to impose similar requirements, but he expressed support for stronger language mandating that regulators take action.

Rebounding banks

White House advisers said the president has become more aggressive in recent weeks as it became clear that the big banks that received large amounts of government aid to stay afloat a year ago had rocketed back to profitability by making the same kind of risky investments that had gotten them in trouble.

Obama's announcement came as Goldman Sachs reported blockbuster earnings of $13.4 billion for 2009, the largest annual profit in the company's history. The firm sharply reduced the share of revenue devoted to bonuses but still pledged to pay an average of $498,000 per employee -- up 37 percent from 2008.

"When I see soaring profits and obscene bonuses . . . it's exactly this kind of irresponsibility that makes clear reform is necessary," Obama said.

Several industry representatives said they were concerned by the president's increasingly stern language, saying that the issues at stake are complicated and deserve to be discussed.

"There is a lot of concern in the banking industry, and by that I mean all banks, about the turn in the tone of the debate," said Edward L. Yingling, president of the American Bankers Association.

Obama officials said they did not discuss the new proposal with the industry before the president's remarks, a break with how the administration has announced its previous financial reform proposals. Treasury Secretary Timothy F. Geithner had dinner Wednesday night with several bank executives, but did not mention the president's plans. The executives learned about the proposal as early news reports about the proposal began appearing via e-mail shortly after the meal.

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WP20100122OBAMA22

Document WP00000020100122e61m0002t

A Section

J.P. Morgan posts $11.7 billion profit for '09; Paydays for investment bankers exceed those of high times before crisis

by Tomoeh Murakami Tse
862 words
16 January 2010
The Washington Post
WP
FINAL
A11
English

J.P. Morgan Chase announced Friday an $11.7 billion profit for 2009, along with paydays for its investment-banking employees that exceeded those of the flush times before the financial crisis, drawing a sharp response from lawmakers in Washington.

Kicking off earnings season for the nation's biggest banks, J.P. Morgan said it had earmarked $9.3 billion in compensation expenses for the 24,700 employees in its investment bank. Although some traders and dealmakers will each earn millions of dollars, the compensation figure translates to an average payout per employee of $379,000 -- up 37 percent from 2008 and 21 percent from pre-crisis levels in 2007.

For the bank as a whole, J.P. Morgan set aside $26.9 billion for compensation. That translates to $121,000 per employee, up 20 percent from 2008 but just shy of the $125,000 earned on average by bank employees in 2007.

Criticism from Washington was swift. "The taxpayers are the people fueling their profits," said Rep. Peter Welch (D-Vt.), who introduced a bill this week to impose a 50 percent tax on large bonuses. "The bank had three choices. One, to add to their balance sheets. Two, to lend. And three, to put it in their pockets -- and that's what they chose to do."

J.P. Morgan's announcement highlighted the chasm between the broader economy, where Americans continue to grapple with double-digit unemployment rates, and Wall Street, which for the most part has regained its footing from the worst financial crisis in decades. This gap has raised the ire of the Obama administration and lawmakers, who contend that big banks have done little to help homeowners even as they were saved with taxpayer money and boosted by profits made in markets thawed by emergency federal lending programs.

Wall Street executives say the pay levels are backed by performance.

For the fourth quarter, J.P. Morgan reported earnings of $3.28 billion, or 74 cents a share, compared with earnings of $702 million, or 6 cents a share, a year earlier. Analysts had expected about 60 cents a share.

As has been the case during J.P. Morgan's resurgence, its results were boosted by strength in its investment-banking operations. The investment bank, which generated a majority of the company's 2009 profit, helped make up for losses in consumer banking, which continues to incur losses on consumer loans and credit cards. The bank set aside an additional $1.9 billion to cover losses on consumer loans during the fourth quarter.

On Friday, J.P. Morgan executives struck a cautious tone in discussing the bank's performance. Chief executive Jamie Dimon said in a statement that the results "fell short of both an adequate return on capital and the firm's earnings potential."

"While we are seeing some stability in delinquencies, consumer credit costs remain high, and weak employment and home prices persist," he said. "Accordingly, we remain cautious."

Shares of J.P. Morgan fell $1.01, or 2.3 percent, to close at $43.68. U.S. stock markets fell about 1 percent as investors scaled back expectations for earnings scheduled to be released next week by other major banks.

In a conference call Friday, Dimon expressed concern over the Obama administration's proposal to tax large financial firms to cover losses from the Troubled Assets Relief Program. Obama hopes the program, which requires congressional approval, will encourage smaller bonuses.

J.P. Morgan and other large banks have already returned their rescue funds, but American International Group, General Motors and Chrysler continue to rely on billions of dollars in aid from the program.

"TARP got extended to a lot of things other than banks, like insurance companies and car companies," said Dimon, who has emerged from the crisis as an industry leader. "So I don't understand why we should pay for that."

The remarks drew criticism from some lawmakers.

"This is about the finance economy, and this is about the government's role in bailing out the financial system," said Rep. Dennis J. Kucinich (D-Ohio), who has introduced his own legislation to tax bonuses. "Since major repairs were done to the financial system, everyone in that financial system benefited, J.P. Morgan Chase more than many others. They should know better."

J.P. Morgan said it has made changes to its compensation plans. For example, executives said the bank is paying out a larger portion of bonuses this year in company stock, not cash. And throughout the year, J.P. Morgan has been reducing the portion of revenue set aside for compensation expenses, the bulk of which consists of year-end bonuses.

In the fourth quarter, $549 million went into that pool, representing just 11 percent of revenue. This brought compensation expenses for the year down to 33 percent of revenue, down from 62 percent in 2008. Typically, investment banks put 50 percent of revenue toward compensation.

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WP20100116JPMORGAN16

Document WP00000020100116e61g0001v

A Section
Financial crisis panel calls on bankers; Year-long inquiry opens Goal is to learn 'what the heck happened'

by Binyamin Appelbaum
680 words
8 January 2010
The Washington Post
WP
FINAL
A14
English

The commission appointed by Congress to examine the causes of the financial crisis is to hear testimony Wednesday from the heads of four of the nation's largest banks, as the panel begins a year-long investigation that its chairman described as an effort to figure out "what the heck happened."

Philip Angelides, chairman of the Financial Crisis Inquiry Commission, said he planned to hold a series of public hearings, conduct hundreds of interviews and request or subpoena information from companies and government agencies.

"This is a proxy for the American people, giving them the chance to ask what led this country to the economic precipice," said Angelides, a Democrat who served as California's state treasurer until 2007.

The commission has until Dec. 15 to produce a report. Although legislation to reform financial regulation already is moving through Congress, Angelides said the commission's work remains relevant because more bills are likely to follow and a better understanding of what happened could inform the way laws are enforced.

The commission's vice chairman, William Thomas, a retired Republican congressman from California who once headed the House's tax-writing committee, said the commission would also benefit from its instructions to focus on understanding the crisis rather than providing policy recommendations.

Thomas said commissions that focus on recommendations often bog down in political debates and accomplish little. During a meeting Thursday with Washington Post reporters and editors, both men pointed to the success of the 9/11 Commission as a model for their own work.

"They were looking to say what happened and not what should happen next," Thomas said.

Still, the Financial Crisis Inquiry Commission faces a number of challenges.

House and Senate leaders, who appointed six Democrats and four Republicans to the commission, allocated $8 million for its work, enough to hire about 50 investigators but "probably less than any of the investment banks will spend dealing with this investigation," Angelides said.

The tight timetable also makes it impossible to produce a comprehensive account of the crisis, both men said. Instead, the commission will focus its work on particular topics, perhaps producing a series of case studies, Angelides said.

Four bank executives are to appear at the first hearing: Jamie Dimon of J.P. Morgan Chase; Lloyd C. Blankfein of Goldman Sachs; Brian Moynihan, the new chief executive at Bank of America; and John Mack, who retired at the end of December as chief executive of Morgan Stanley but remains the company's chairman. The commission did not invite anyone from Citigroup, the other U.S. company with a large investment banking operation.

The next day, the commission is to hear from local and state regulators about ongoing investigations related to the financial crisis.

President Obama detailed his financial reform agenda in June, and the House has already passed its version. Democrats and Republicans on the Senate banking committee continue to negotiate their differences, but

Democratic leaders say they are confident that a bill will pass before the midterm elections in November -- at least a month before the commission is required to publish its findings.

In addition to shaping future legislative efforts, Angelides said, an authoritative account of the crisis could have an impact beyond Washington, affecting public debate on issues such as executive compensation.

Both Angelides and Thomas acknowledged that the commission is off to a slow start, having waited more than a year since the peak of the crisis to hold its first hearing. Thomas said that a lot of work already was happening behind the scenes and that the hearing next week could be compared to a rocket lifting off after a lengthy construction process.

Even as books and speeches about the crisis pile up, Thomas expressed confidence that the committee's work could still make a difference.

"There are a lot of people who still haven't learned the lessons," he said.

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WP20100108ANGELIDES8

Document WP00000020100108e61800015

The Washington Post

A Section

What became of the biggest players

196 words
21 December 2009
The Washington Post
WP
FINAL
A06
English

The Federal Reserve did not prepare some large banking companies to weather the financial crisis. The 10 largest U.S. retail banking companies on the eve of the financial crisis:

1. Citigroup

2. Bank of America -- Needed more than $45 billion in federal aid.

3. J.P. Morgan Chase -- Among the healthiest large banks.

4. Wachovia

5. Wells Fargo -- Just a few bumps and bruises.

6. U.S. Bancorp -- Perhaps the healthiest large bank.

7. SunTrust Bank -- Hasn't made a profit since crisis began.

8. Capital One Financial -- Strong enough to buy Chevy Chase Bank.

9. National City

10. Regions Financial -- Mired in real estate lending losses.

Citigroup

The Fed let it gamble beyond its means, allowing the company to circumvent basic regulations requiring banks to hold capital reserves against unexpected losses.

Wachovia

The Fed's board unanimously approved Wachovia's 2006 application to buy Golden West, a mortgage lender deeply engaged in high-risk lending.

National City

Fed officials repeatedly gave the company clean bills of health even as losses on its vast portfolio of subprime loans started to pile up.

WP20091221FEDBANKSBOX21
Document WP00000020091221e5cl0000h

The Washington Post

A Section
Municipal bond case settled by J.P. Morgan

by Zachary A. Goldfarb
438 words
5 November 2009
The Washington Post
WP
FINAL
A22
English

J.P. Morgan Chase agreed to a $722 million settlement with federal regulators over accusations that the bank and two former executives made illegal payments to win municipal bond business from Jefferson County, Ala.

The Securities and Exchange Commission said Wednesday that J.P. Morgan and former managing directors Charles E. LeCroy and Douglas W. MacFaddin paid $8 million to friends of Jefferson County commissioners who voted to hire the bank to carry out municipal bond offerings and other transactions to finance a new sewer system. The friends worked for local financial firms, but did not work on the deal.

The SEC said the bank passed on the costs of these payments to Jefferson County, but did not disclose the payments or conflicts of interest. "The transactions were complex but the scheme was simple. Senior J.P. Morgan bankers made unlawful payments to win business and earn fees," Robert Khuzami, the SEC's enforcement director, said in a statement.

The financial deals arranged by J.P. Morgan ultimately resulted in millions of dollars in losses and pushed the county to the brink of bankruptcy, causing residents to pay much higher rates for water and sewer services.

The SEC charges are a blot on J.P. Morgan, which has had a cleaner record than other financial companies because it avoided many dangerous bets and swooped in to buy two banks, Bear Stearns and Washington Mutual, as they were collapsing.

Last year, the SEC filed civil charges against Birmingham, Ala., Mayor Larry Langford, a former president of the Jefferson County Commission, on allegations that he accepted payments in connection with the matter. He was also found guilty of bribery, fraud and other charges in a criminal case and awaits sentencing.

J.P. Morgan settled the case without admitting or denying the allegations. "J.P. Morgan is pleased to have reached a settlement with the SEC in connection with its investigation of Jefferson County," the bank said in a statement. It said it has ended the business at the heart of the case and that LeCroy and MacFaddin no longer work for the firm.

The SEC also took regulatory action against LeCroy and MacFaddin and is seeking payments from them as well. Richard Lawler, a lawyer representing MacFaddin, said his client acted properly in his dealings with the Jefferson County Commission and did not violate any securities laws. LeCroy's lawyer, Lisa Matthewson, said the SEC overreached with the complaint and that her client planned a vigorous defense.

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WP20091105JPMORGAN5

Document WP00000020091105e5b500002

Home Sales

1,161 words
30 July 2009
The Washington Post
WP
FINAL
T03
English

Anne Arundel County

These were among sales recorded recently in Anne Anne Arundel County and supplied to The Washington Post by Spatial Systems Associates Inc., the Maryland Office of Assessments and Taxation and the Maryland Office of Planning. To find sale and assessment records for homes in Anne Arundel and elsewhere in the Washington area, visit www.washingtonpost.com/realestate.

Annapolis Area

AMBERSTONE CT., 40, No. 40E-W. Blake Owen to Daniel A. and Melissa Sumlin, $230,000.

CHESAPEAKE AVE., 209-Robert M. Wohlfarth to David A. Bentley, $735,000.

CHESTER AVE., 310-Jonathan E. Sears to Jason S. Hyman and Carissa Messimer, $465,000.

LAKE DR. E., 104-EMC Mortgage Corp. to Anne E. Natoli, $1.2 million.

Annapolis-Broad Creek Area

BOOM WAY, 915-Dana L. Flynn to Markus A. Yo and Susan A. Corrigan Harper, $355,000.

COVINGTON WAY, 1007-Bank of New York to Michael Shen and Huiqing Yu, $590,000.

FAIRFAX RD., 2030-Tara R. Morrison to Michael and Lisa Moylan, $350,000.

MATHIAS HAMMOND WAY, 503, No. 204-Kirstin Haugeto to Scali and Roland Riggs, $264,000.

NORWOOD RD., 1-Vernon R. Tate to Horseshoe Point Corp., $6 million.

RIDGELY AVE., 646-Mahlon F. Stilwell to Evangelical Presbyterian Church, $300,000.

SEVERN GROVE RD., 1868-Washington Mutual Bank to Steve and Jessica Hatfield, $300,000.

SOLSTICE LANE, 3003-NVR Inc. to Mark S. and Karen L. Schecter, $599,990.

Arnold Area

BIRCHCREST CT., 1242, No. 115-Homesales Inc. to Gregory J. and Karen M. Hinkleman, $173,250.

BRENT RD., 128-Lasalle Bank to Jeffrey and Anita Harris, $237,000.

Brooklyn Area

ELIZABETH AVE., 207-Arundel Habitat for Humanity Inc. to Jacqueline Esdelle, $132,854.

FOURTH ST., 5324-Mark H. Volke to Tracy and Anthony D'Angelo, $139,900.

Cape St. Clair-Sandy Point State Park Area

BAY FRONT TERR., 2101-Thomas I. Weems III to John P. and Jessica P. Hoge, $520,000.

DOGWOOD TREE DR., 991-Edward D. Difiglia to Isaac Haertel and Lucia De La Paz, $311,000.

HOLLY DR. E., 822-Ernest F. Wuest III to David L. and Laura Thurston, $1.2 million.

MAN-O-WAR CT., 460-Barbara E. Remias to Richard K. Cowman, $225,000.

RIVERBOAT CT., 1102-Jeffrey Wentz to Gavin H. Westenburger, $270,500.

Crofton Area

CARRY PL., 1763, No. 262-Carl N. Senzee to Amy L. Mateer, $260,000.

FOXDALE CT., 1810, No. 132-Shane C. Eastman to Michael J. Gardner, $264,900.

LANG DR., 2104-Marion M. Ekeland to Joseph P. Kelly, $290,000.

Curtis Bay Area

BELVEDERE PL., 1016-Scott Conrad to Adrienne B. and Richard G. Harville, $140,000.

Edgewater Area

BRAXTON WAY, 265-Deutsche Bank National Trust Co. to Daniel A. Sheftell, $314,900.

CAMP LETTS RD., 3724-John P. Frick Jr. to Raymond W. and Colleene E. Boggs, $425,000.

GREAT HERON DR., 718-NVR Inc. to Joanne C. Bryant and Anthony H. Carpenter, $574,735.

LONGWOOD RD., 1719-Michael S. Haley to Anna C. Smith and Steven R. Graham, $243,000.

SALISBURY RD., 320-Rasely B. Moyer to Melissa H. and Samuel D. Huston, $280,000.

Gambrills Area

CHAPEL LAKE DR., 2605, No. 4142-Frances L. Hall to Clayton K. and Sylvia J. Hashimoto, $190,000.

VIVALDI LANE, 2517-K.S. Hanna to James W. and Lois L. Squires, $285,000.

Glen Burnie Area

GLEN OAK LANE, 22-Home Quest Inc. to Noemi Leon, $378,000.

STRATHSPEY RD., 402-Dennis E. Rucker to Jeremy M. Stader, $250,000.

WASHINGTON BLVD., 400-Elizabeth M. Asbury to James C. Midkiff, $227,000.

Glen Burnie-Marley Creek Area

MOUNTAIN RD., 104, No. 1D-Napoleon A. Blake to Shayna J. Hunt, $159,500.

RAVEN GREEN, 711-NVR Inc. to John E. and Erica N. Melton, $281,486.

SEAGROVE RD., 716-James H. Doney to Brian Mason and Brooke Imhoff, $252,500.

Hanover Area

CALLINGTON WAY, 7816-CC Dorchester Corp. to Jeffrey A. Kilby, $409,585.

MAIDENHEAD DR., 7530-CC Dorchester Corp. to Jason C. and Lana L. Miller, $427,064.

MAIDENHEAD DR., 7553-CC Dorchester Corp. to Richard A. and Megan S. Mugerwa, $357,145.

RACCOON RUN CT., 209-Jerome V. Spears to Brian D. Smoot and Stacy G. Creque Smoot, $560,000.

Laurel Area

INDIAN SPRINGS RD., 8625, No. 8-Howard D. Holm to Gary Fry and Jennifer Meister, $325,000.

LAUREL VIEW CT., 3603-Renee C. Champ to Lisa A. Rice, $235,000.

PENNINGTON DR., 8058-Leroy W. Warren Jr. to Theophile P. Voilquin, $300,000.

Linthicum Heights Area

MARYDEL RD., 5807-Snyder Development Corp. to W.F. Utz Construction Co., $125,000.

Millersville Area

ASHBURTON DR., 1331-Amy M. Galligan to Holly Newquist and Christopher Hatton, $340,000.

DICUS MILL RD., 1241-Leslie D. Heacock to Dawn A. Keegan, $397,100.

FINNEGAN DR., 230-Robert J. Eckels to Paul J. and Leslie J. Weinbaum, $660,000.

LETHBRIDGE RD., 8239-Valerie R. Dada to Aaron E. and Tina M. Dada, $250,000.

Odenton Area

CAMELIA CT., 1972-Olumuyiwa Awolusi to Adrianne L. Jones, $235,000.

CHAPELVIEW DR., 1346-J.H. Utterback to North Arundel Estates Corp., $150,000.

FOUND ARTIFACT DR., 7636-Pediment Avenue Corp. to Gregory A. and Gwendolyn Fraser, $425,000.

MACFREE CT., 1410-Winchester Homes Inc. to David J. Marvin, $600,000.

PATUXENT RUN CIR., 842-Carlton L. Peeples to Prudential Relocation Inc., $375,000.

ST. MICHAELS CIR., 221, No. 91-Steven G. Betten to Eric Ruiz, $304,000.

WINTERGREEN CT., 8607, No. 305-Beazer Homes Corp. to Wayne A. Royce and Cathryn Jung, $274,990.

Pasadena-Rock Creek Area

BAY ST., 7619-Gerardo Vitale to David S. and Kimberly J. Yancheski, $565,000.

HARBOR RD., 7817-William O. Dove to James and Marybeth Griffith, $135,000.

JENKINS RD., 8495-Kimberly Cymek to Melissa L. and Brett P. Francisco, $315,000.

MAYFORD AVE., 7796-Christopher S. Basciano to Thomas L. and Christina M. Robison, $265,000.

OUTING AVE., 8077-David L. Sprouse Jr. to Bruce Weatherstein, $220,000.

RED LION WAY, 7844-Gary T. Sheridan to David Wise, $268,000.

SCORTON HARBOUR, 8685-Paul J. Macuirles to John T. and Sarah J. Preis, $245,000.

207TH ST., 718-Arundel Investments Inc. to Suman Tuladhar and Puspa Sha, $320,000.

210TH ST., 665-Trevillian Enterprises Inc. to Donald Martz, $304,000.

Severn Area

COOLIDGE AVE., 1604-NVR to Samuel D. and Pamela Battle, $518,952.

WILD WILLOW WAY, 314-NVR to Eric M. and Heather M. Hodge, $549,839.

Severna Park Area

ARLEIGH RD., 636-Daniel A. Nowicki to Carolyn C. Rogers, $351,000.

ARUNDEL BEACH RD., 462-Charles H. Linthicum to Carl M. Stahle and Gail A. Cooper, $1.2 million.

JUMPERS HOLE RD., 623-Brian P. Mayers to Andrew B. Pulver and Stacey R. Gore, $357,000.

RIO LANE, 1043-Sidney S. Doll to Jennifer Accinelli and Marnie Tomasello, $825,000.

Shady Side Area

HOLLY AVE., 1221-Matthew I. Fisher to Johnny W. Kirby and Kristen R. Page, $330,000.

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Document WP00000020090730e57u0002w

The Washington Post

A Section
Rescued Banks Post Big Profits, Drawing Ire; Lending Hasn't Risen With Strong Earnings

Binyamin Appelbaum
Washington Post Staff Writer
1,259 words
18 July 2009
The Washington Post
WP
FINAL
A01
English

The huge profits reported this week by some of the nation's largest banks showed that the government is succeeding in its rescue of the financial industry, but the details of those earnings reports made it clear that the broader economy is not seeing the benefits.

Bank of America and Citigroup yesterday became the latest megabanks to report multibillion-dollar profits in the second quarter, joining J.P. Morgan Chase and Goldman Sachs. The four banks together earned $13.6 billion only half a year after they lost a combined $20.8 billion.

Washington once celebrated such profits as evidence of economic strength, but the current round of earnings has instead become a political problem.

Simmering public anger over the pay practices of large financial companies has been fanned by the news that banks rescued so recently are now profiting so massively, particularly because trillions of dollars worth of federal aid has yet to revive lending, a critical step toward economic recovery.

The Obama administration moved yesterday to harness that anger in the service of its proposal to reform financial regulations.

The president's chief economic adviser, Lawrence H. Summers, said after a speech at the Petersen Institute for International Economics that the profits were made possible by "the extraordinary public support provided by the federal government." While he welcomed the performance as "a positive indicator for the economy," Summers said that the government still needs to reform financial regulations to prevent companies from engaging in the kinds of excesses that produced the crisis.

"No one should be confused about the extent to which the public sector has provided a foundation for financial recovery," Summers said. "And in that context, it is the obligation of the public sector to insist that reforms be put in place so that the mistakes of the past are not repeated."

The earnings reports also showed that the recovery is incomplete. The core business of banking -- lending money to companies and consumers -- remains deeply troubled. The number of borrowers defaulting on existing loans continued to rise rapidly, and the banks continued to respond by shrinking the total volume of their lending.

There are few signs that it is getting easier for Americans to borrow money.

Administration officials and financial experts said that the profits were a necessary step forward: The banks led the economy into recession, and now they must lead the recovery.

"It's a prerequisite for that augmented lending to have the restoration of health, which seems to be happening," said Douglas J. Elliott, a financial expert at the Brookings Institution.

But Elliott and others noted that the problem cannot be solved by the banks alone. Before the recession, about 40 percent of lending was funded by investors. Lenders went to Wall Street to raise the money they provided to borrowers. But it has been two years since investors have been willing to provide significant amounts of money, a point underscored this week by the death throes of small-business lender CIT Group, which depended on those capital markets and now faces the prospect of bankruptcy.

Experts say that lending cannot recover completely until investors start providing money again.

Bank of America posted earnings of $3.22 billion for the second quarter, or 33 cents a share. That was down from $3.41 billion (72 cents) in the period last year, but it represented a large turnaround from the bank's struggles in the fall. Citigroup reported a $4.3 billion profit, or 49 cents a share, reversing a loss during the comparable period last year of $2.5 billion (55 cents). As with reports earlier this week from Goldman Sachs and J.P. Morgan Chase, the earnings exceeded analyst predictions by a wide margin.

Despite offering emergency aid to the firms, the government gets little direct benefit from their profits, which go mostly to employees and common shareholders. The government will soon hold common shares in Citigroup, which could increase in value, and it still holds preferred shares in Bank of America, which do not fluctuate in value but do pay a regular dividend. Officials have said the investments were intentionally structured to produce modest returns because the real goal was increased lending.

The two companies reporting yesterday earned large sums from the sale of business units and other investments. Bank of America made $5.3 billion by selling part of an investment in China Construction Bank, and $3.8 billion from the sale of a merchant-processing business. Citigroup booked a $6.7 billion gain on the sale of a majority interest in its Smith Barney brokerage.

The companies also benefited from a revival in the investment-banking business. The value of investments started to rebound, and investors started to spend money again. The big banks all benefited from the absence of former rivals such as Lehman Brothers and Bear Stearns, but the strongest banks benefited the most. Goldman Sachs and J.P. Morgan Chase also were able to draw business away from Citigroup and Bank of America, according to financial analysts and executives.

The revival, however, was a product of federal intervention as much as economic recovery. The Federal Reserve provided all the banks with vast sums of cheap money, and the Federal Deposit Insurance Corp. helped banks to borrow from private investors.

"The reason we have strong capital markets is because the government is guaranteeing everyone's liquidity," said Paul Miller, a financial analyst at FBR Capital Markets.

Citigroup has required the most help. The government has invested a total of $45 billion, guaranteed to limit the company's losses on a huge portfolio of troubled loans, and allowed the company to repay the government with common stock, rather than requiring the regular dividend payments that other banks are required to make.

Bank of America is a close second. The company also got a $45 billion investment and a government guarantee to limit losses on troubled loans.

J.P. Morgan Chase last month repaid $25 billion in federal aid, and Goldman Sachs repaid $10 billion, but both companies continue to rely on the emergency borrowing programs.

The aid has allowed the banks to survive despite suffering major losses on loans made during the economic boom.

Bank of America said it had abandoned efforts during the second quarter to collect on almost 14 percent of its outstanding credit card loans, almost doubling its loss rate during the period last year. Its loss rate on mortgage loans increased more than sevenfold. Unlike in past downturns, the rate of defaults has continued to increase more rapidly than unemployment, as many Americans who still have jobs still prove unable to repay loans.

Bank of America chief executive Kenneth D. Lewis said he does not expect the numbers to improve until next year.

"We have to get through the next few quarters," Lewis told financial analysts on a conference call yesterday.

Government officials have repeatedly said that the aid programs are designed to spark new lending, but experts said that was never a realistic goal.

"This is all about survival at this point. You look at all these balance sheets, they're shrinking. Nobody's really adding liquidity to the system," Miller said. "It's going to take a while for this system to heal itself. There's a lot of damage out there, and it's going to take a while to get through it."

WP20090718BANKS18

Document WP00000020090718e57i0001t

The Washington Post

Steven Pearlstein
A Section

Where the Payoffs Are Big, So Are the Paychecks

Steven Pearlstein
1,072 words
17 July 2009
The Washington Post
WP
FINAL
A11
English

The rest of the country may be stuck in a nasty recession, but on Wall Street, where it all began, business is booming.

This week, Goldman Sachs reported a record profit for the latest quarter while J.P. Morgan Chase weighed in with record revenue, and other banks are set to exceed expectations. Compensation levels in some areas are returning to 2007 levels, and firms are once again offering big salaries and guaranteed bonuses to lure away top traders and investment bankers.

Good news or bad?

Certainly we're all better off now that some banks are healthy enough to remove themselves from government life support and pay back the Treasury loans. And if well-run banks can again earn an honest profit by taking smart risks and restoring the flow of capital into the markets -- well, that's what capitalism is all about.

Then again, it seems outrageous that the geniuses whose excessive risk-taking brought on the crisis, and who had to be bailed out by the rest of us, are the first to recover and could soon be earning what they did before.

It's the pay, of course, that gets everyone up in arms. Most firms are already revamping their compensation strategies to require that bonuses be earned over the long run. However effective this restructuring proves to be at dampening excessive risk-taking, it probably won't reduce overall pay, which explains why Wall Street has been so quick to embrace it. The real problem with Wall Street pay is that these firms simply make too much money relative to the economic value they create.

If other industries were to enjoy such excessive profits, these would be eroded fairly quickly by competition as firms sought to increase market share by cutting prices. But in many segments of the financial services industry -- investment banking being the best example -- a natural oligopoly has developed in which a relatively small number of blue-chip firms dominate the market. These firms compete fiercely against one another in every way except price, which allows them to earn those extraordinary profits.

There are several reasons for this less-than-perfect competition.

The most obvious is that, in this market, the relative reputation of the firm matters a whole lot more than price. If your company is floating a $10 billion bond issue, having a dependable lead underwriter sends a signal to most investors that you are a borrower who can be trusted, and so it's worth paying an extra $10 million to get Goldman Sachs to do it. Or if your company is trying to fend off a hostile takeover by General Electric, you probably are willing to pay a premium to get Bruce Wasserstein as your investment banker. There may well be banks or bankers just as smart and capable as Goldman and Wasserstein who would do the job for less. But getting it wrong could prove very costly.

This is also an industry in which size and scope matter a lot, meaning that the largest players have a big advantage. At Goldman Sachs and J.P. Morgan, for example, much of last quarter's profits were made by trading desks that bought and sold huge quantities of stocks, bonds, commodities, derivatives and other securities for their customers, as well as for their own accounts. Because so many trades pass through their hands, these large trading desks have the best real-time information about where markets are heading than anyone in the world, and they use that information to great competitive advantage -- not only earning a little more than everyone else on each trade, but learning when to get into and out of markets.

Being big and having a good reputation don't guarantee success on Wall Street -- just ask Lehman Brothers, Bear Stearns and Merrill Lynch -- but they surely help. That's why a Wal-Mart hasn't emerged and crashed the Wall Street party by offering lower prices. In fact, what new entrants there are tend to be boutique firms started by industry superstars who trumpet their superior skills by charging more than the industry norm.

There is one other reason for Wall Street's extraordinary profits -- the safety net provided by the federal government. Most firms would have to pay a considerable amount of money to ensure a reliable source of liquidity in the midst of a financial crisis. But as a practical reality, big banks and financial houses have always gotten their liquidity backstop at a huge discount, courtesy of the U.S. taxpayer.

Just because an industry earns outsize profits, of course, doesn't mean that those profits will necessarily go to employees in the form of outsize compensation. But that is often the case. That's what happened in the auto and steel industries in the 1960s, when unions successfully captured most of those industries' profits. It also happened at nonunion companies such as IBM and Microsoft, in the form of stock options and above-average pay.

On Wall Street, much of the surplus is captured by superstar bankers and traders who generate a disproportionate share of those outsize profits, just as superstar actors have done in the movie business or superstar athletes in professional sports. And because these superstars work side by side with colleagues with similar skills doing similar work, firms tend to offer higher-than-market pay to everyone else to assure a modicum of workplace harmony.

For a brief moment, the financial crisis interrupted this compensation arms race as profits dried up. But now that profits are returning, there is no reason to believe that the inflated pay packages won't be far behind. Because the government's pay caps apply only to the firms that have been unable to pay back their loans from the Treasury, the effect of these rules won't be to reduce pay levels at Goldman Sachs or J.P. Morgan, but to weaken the weakest firms even further as their top talent is lured away.

In truth, the best way to restrain Wall Street pay is to restrain Wall Street's profits, either by increasing taxes, reducing leverage or inducing more robust competition. Trying to cap industry pay is like trying to cap a volcano.

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WP20090717PEARLSTEIN17

Document WP00000020090717e57h00039

The Washington Post

A Section
J.P. Morgan Profit Surges as Fortunes Revive on Wall Street

Binyamin Appelbaum
Washington Post Staff Writer
737 words
17 July 2009
The Washington Post
WP
FINAL
A11
English

The economy was still doing fine when Wall Street began its plunge into crisis two years ago. Now Wall Street is humming along as most everyone else suffers.

J.P. Morgan Chase said yesterday that it earned $2.72 billion in the second quarter, as the success of its investment bank outweighed problems in its commercial bank. Investment bank Goldman Sachs reported the most profitable quarter in its history earlier this week. Even struggling Bank of America and Citigroup are expected by analysts to highlight their Wall Street operations as a bright spot when they report earnings today.

The strong earnings are not evidence that the banking industry has returned to health. Banks continue to lose vast sums as borrowers default on loans, a trend increasingly driven by rising unemployment.

But the business of investment banking, historically centered on Wall Street, has returned to profitability in part because surviving companies have fewer rivals. Another plus: Firms had earlier recorded huge losses on many investments expecting that the recession would get much worse. The recession has not reached those projected depths, allowing the banks to report that their portfolios are looking better, too.

"It's a huge help for them," said Michael Williams, a financial analyst at Gradient Analytics. "All of a sudden you've got gains instead of losses on securities."

J.P. Morgan's second-quarter profit topped by 36 percent the $2 billion it earned during the same period last year, although earnings per share fell to 28 cents from 53 cents because of a heavy issuance of new shares.

The company's investment bank produced more than half the profit. Its revenue from helping companies sell shares roughly doubled as some investors returned to the market. The company also faced less competition after the demise of Wall Street firms such as Lehman Brothers. J.P. Morgan also nearly doubled revenue from investment in financial instruments such as bonds and mortgage-backed securities.

Michael J. Cavanagh, the company's chief financial officer, said he was "very proud of those results."

The giant New York bank had a much tougher time in the business of retail and commercial banking. The rate of losses continued to increase in nearly every category of consumer lending, including credit cards and mortgages. Despite those increases, the company set aside slightly less money to cover future losses, improving its short-term results. Executives said the decision reflected signs that defaults might soon begin to moderate, provoking skepticism from some financial analysts.

"The company feels relatively confident that a change is coming here but there is no evidence of this in the numbers," wrote Richard Bove of Rochdale Research.

J.P. Morgan's recent results have given it a competitive advantage over some of its surviving rivals. The company repaid $25 billion in federal aid last month, freeing it from pay restrictions and limits on hiring foreign workers that still apply to Bank of America, Wells Fargo and Citigroup.

The company also is less subject to other forms of federal involvement. Bank of America and Citigroup both are operating under elaborate and restrictive agreements with federal banking regulators that affect everything from executive appointments to corporate strategy.

J.P. Morgan continues to rely, however, on other federal rescue programs, including money borrowed with help from the Federal Deposit Insurance Corp. and from various emergency programs created by the Federal Reserve, including one created specially to reduce the cost of its acquisition last year of crippled investment bank Bear Stearns.

The company's relative success is changing the tone of its relationship with the government. In return for providing aid, the Treasury Department had received warrants to purchase stock in the company. J.P. Morgan wants the government to sell the warrants but has balked at the Treasury's asking price, calling it too high. Instead, the company plans to let the government auction the warrants to private investors.

The company also is taking an increasingly public role in the debate over how to reform financial regulations. In a recent opinion piece, chief executive Jamie Dimon warned against overly restrictive regulations on the sale of derivatives, which can be used to manage financial risks or to gamble. J.P. Morgan is one of the largest participants in that market.

WP20090717JPMORGAN18

Document WP00000020090717e57h0001c

The Washington Post

Financial

Fed Lifts Veil on Lending Efforts; Central Bank Details Collateral Terms but Names No Banks

Neil Irwin
Washington Post Staff Writer
557 words
11 June 2009
The Washington Post
WP
FINAL
A17
English

The Federal Reserve yesterday started disclosing a wider range of information about its lending programs, aiming to stanch growing concerns among lawmakers that it is too secretive.

The Fed released for the first time a new monthly report on lending programs, including its aid to banks, investment firms and companies that use a form of debt known as commercial paper. The document also includes new details about the Fed's support for American International Group and its rescue of Bear Stearns.

Many members of Congress have assailed the Fed for refusing to disclose which companies have benefited from the lending programs and what collateral the Fed is taking in exchange.

The new document addresses the second concern, but not the first. It breaks down, for example, the credit rating and loan types of collateral accepted for the Fed's emergency loans to banks and investment firms. A total of 378 banks, the Fed reported, had pledged $965 billion in collateral to the emergency lending program known as the discount window, in exchange for $448 billion in loans. The largest concentrations of collateral were in business loans (29 percent) and asset-backed securities (18 percent), and 55 percent of the securities pledged as collateral represented either obligations of the U.S. government and housing agencies or were among the most highly rated.

But the Fed still will not identify the individual banks benefiting from the discount window, nor will it name the institutions benefiting from the primary dealer credit facility, commercial paper funding facility or other facilities. A senior Fed official, echoing an argument that Fed Chairman Ben S. Bernanke has made publicly, said yesterday that doing so would make institutions reluctant to participate in the programs, thus undermining the Fed's ability to support the financial system.

Some in Congress said the new disclosure isn't enough. "Today's report is completely insufficient," Sen. Bernard Sanders (I-Vt.) said in a statement. "The American people have a right to know who received more than $2 trillion in loans from the Fed, how much each one received, and what they are doing with this money."

Nonetheless, the Fed said in a statement that the new release is "consistent" with a recently passed Senate resolution that called for the central bank to be more transparent. Senate Banking Committee Chairman Christopher J. Dodd (D-Conn.) praised the move as an "important step."

The document also collects information on investment gains and losses on the programs, allowing for a back-of-the-envelope calculation of the central bank's quarterly earnings. For the first three months of the year, the Fed earned $1.2 billion on its discount window and similar lending programs, $2.1 billion on the commercial paper facility, and lost $5.3 billion on its Bear Stearns and AIG portfolios. It also made $4.6 billion on the buying and selling of government debt that it undertakes to manage the money supply.

Put together, the Fed earned $2.6 billion in the first quarter on investment operations. That excludes operating expenses, such as buildings and salaries, and revenue and expenses tied to processing checks and managing the nation's payment systems.

WP20090611FED11

Document WP00000020090611e56b0001k

The Washington Post

DealsAllan Sloan
A Section
An Unhappy Anniversary for the Financial Crisis

Allan Sloan
746 words
26 May 2009
The Washington Post
WP
FINAL
A10
English

We're about to mark the anniversary of the financial meltdown. But don't expect to see any clinking of champagne glasses, because except for a handful of prescient (or lucky) investors, it's been a ghastly two years.

The nightmare started June 12, 2007, when news broke that two Bear Stearns hedge funds speculating in mortgage-backed securities were melting down. That was the precursor to the panics and collapses that have led to a worldwide recession and the fall of mighty institutions like Bear, American International Group, Lehman Brothers and Royal Bank of Scotland.

But even a clinkless anniversary has its uses -- it's an occasion to reflect on the past and contemplate the future. So let's look at what the meltdown is really about, the underrated impact of Lehman's collapse, and where we go from here.

Yes, the meltdown started with subprime mortgages -- subprime is a Wall Street euphemism for junk but can spread far beyond that. Problem areas now include credit cards, construction loans, office buildings, shopping centers, leveraged buyouts, nonjunk mortgages, and the various and sundry securities based on all that stuff. So even if the U.S. housing market were miraculously restored to health tomorrow -- not likely -- we'd still have major grief.

What almost everyone (including me) missed two years ago is that the world's financial system was a disaster-in-waiting. It was clear that housing prices, leveraged buyouts and such were being driven by vast amounts of money looking for something to buy, no matter how idiotic. What wasn't clear is how the markets are interlinked and internationalized. Thus, piggish behavior in the United States -- financial swine flu, as it were -- sped around the world even faster than regular swine flu has.

Enter, or rather exit, Lehman, which failed in September 2008. Financial markets freaked out, for reasons we'll get to. The markets' problems dragged down the economy, creating a slowdown that's been putting a second hurt on the markets. It's the first time we've seen this pattern since the Great Depression. Creepy stuff.

Letting Lehman croak seemed rational, after the uproar six months earlier when taxpayers bailed out Bear Stearns's creditors and allowed Bear shareholders to get $10 a share for stock that was essentially worthless. But the unexpected consequences of Lehman's failure scared the pants off the world's financial-crisis managers. First, because of a little-noted 2005 change in U.S. bankruptcy laws, Lehman's counterparties -- the institutions on the other side of huge bets that Lehman made -- were able to seize and sell the collateral that Lehman had posted. Those sales drove down asset prices, inflicting huge losses on other institutions and fomenting fear as institutions grew ever more wary of dealing with one another. Second, Lehman's collapse led to Reserve Primary Fund becoming the first sizable money market fund to "break the buck" and inflict capital losses on investors. That scared millions of people.

Finally, some hedge funds that had Lehman as their prime broker -- the institution that holds their securities and cash and does their transactions -- couldn't access their assets after the bankruptcy. Other funds began moving their prime brokerage accounts out of Goldman Sachs and Morgan Stanley, which as investment banks couldn't use all the Federal Reserve's emergency-borrowing programs. That put the two in a bind and forced them to become bank holding companies.

These unexpected consequences of Lehman's collapse help explain why U.S. regulators have been so solicitous of the 19 big "stress test" institutions. Who wants to close, say, Citi, and be responsible for a Lehman II?

Despite the huge stock market run-up the past three months, things are still far from cheery. The government's rescue strategy seems to be the traditional "play and pray" of past crises. You play for time, pray that all the money being thrown at the markets and the economy will turn things around, and hope banks make enough profit to heal themselves.

Will it work? Or will we turn into another Japan, where banks and the economy were stagnant for a decade? Ask me in a year. Meanwhile, an unhappy anniversary to all of us.

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WP20090526SLOAN26

Document WP00000020090526e55q00022

A Section

Banks Rush to Repay U.S. Funds, but Cling To Other Lifelines; J.P. Morgan Says Aid Is a 'Scarlet Letter'

Binyamin Appelbaum
Washington Post Staff Writer
1,031 words
17 April 2009
The Washington Post
WP
FINAL
A01
English

Six months after Washington rescued Wall Street, exasperated banks insist they want to leave the lifeboat.

Jamie Dimon, the chief executive of J.P. Morgan Chase, said yesterday that he regrets accepting $25 billion in federal aid. He called the money "a scarlet letter," pledged quick repayment and renounced further borrowing from the government, saying, "We've learned our lesson about that."

But the company, which announced a $2.1 billion first-quarter profit yesterday, has not entirely had it with Washington. J.P. Morgan said it plans to continue using a separate federal aid program through which it has borrowed more than $40 billion.

Other large banks are attempting the same combination of breakup and embrace. Even as they clamor to exit the most prominent part of the bailout program by repaying government investments, firms continue to rely on other federal programs to raise even larger amounts of money.

The Treasury Department so far has invested slightly less than $200 billion in banks. Meanwhile, the Federal Deposit Insurance Corp. has helped companies, including J.P. Morgan, borrow more than $336 billion through the end of March, by guaranteeing to repay investors if the firms defaulted. And financial firms hold more than $1 trillion in emergency loans from the Federal Reserve.

Goldman Sachs declared a "duty" to repay the Treasury after posting a first-quarter profit. The chief executives of several large banks at a meeting last month urged President Obama to accept repayments. But no company has similarly pledged to leave the government's other aid programs.

The explanation appears to be simple: Only the capital investments by the Treasury require the companies to make significant sacrifices, such as restricting executive pay.

"The capitalization efforts are actually the most important and are doing the most good, but they come with strings attached, and because they come with substantial strings attached they are getting the most push-back from the banks," said Douglas Elliott, a financial policy expert at the Brookings Institution. The other programs "have no strings attached," he said. "What's not to like about it from the perspective of the banks?"

The Treasury and the FDIC announced their rescue programs on the same day in October. The Treasury pledged to invest up to $250 billion in financial firms. The FDIC said it would help companies borrow up to $939 billion from private investors.

The FDIC's promise to repay investors if a bank defaults allows banks to offer those investors interest rates several percentage points below prevailing market rates. A reduction of one percentage point in the interest rate on $1 billion in debt saves $10 million in interest payments each year. The program was even more valuable for banks that could not find investors at any price, which was particularly common in the fall.

Initially, neither the offer from the Treasury nor that from the FDIC came with significant strings attached. Public anger about the lack of conditions prompted Congress to impose tighter restrictions in February -- including stricter limits on executive pay and on hiring of foreign workers, and increased disclosure requirements. But the changes applied solely to recipients of Treasury money. The law did not mention participants in the FDIC program or those who borrowed from the Fed.

Bank executives have argued since February that the more onerous terms would hurt their firms and therefore damage the economy. The healthiest banks, however, are now in a position to do more than complain. They want to give the money back.

J.P. Morgan's profitable first quarter is the latest indication that some banks are beginning to overcome the weight of continuing loan losses. Goldman Sachs and Wells Fargo have also reported large first-quarter profits.

The three companies all have benefited from massive government assistance: A total of $60 billion from the Treasury and another $68 billion borrowed with FDIC help. The Fed has declined to disclose the names of its borrowers or the amounts of its individual loans -- something banks also are reluctant to disclose -- but financial analysts say it is highly likely that every major firm is on the list.

The federal intervention helped protect all of the major banks from huge losses and possible collapse last fall, according to financial analysts. Now, the availability of cheap government funding is goosing profits. Banks make money from the margin between the cost of getting money from investors and the price charged to borrowers. The low cost of government funding has fattened that margin.

Goldman Sachs Chief Financial Officer David Viniar said the company now has a "duty" to repay the Treasury's $10 billion investment in the firm.

Wells Fargo has expressed a similar determination. The company's chairman, Richard Kovacevich, called the government's restrictions on aid recipients "asinine." The companies must get government permission to repay the money.

But none of the companies have expressed a similar determination to repay the money borrowed through the FDIC, or to forswear borrowing from the Fed.

J.P. Morgan said it planned to continue borrowing through the FDIC program. A Wells Fargo spokeswoman did not return a call for comment.

Dimon said yesterday that he regrets accepting the Treasury investment because J.P. Morgan did not need the money. The firm took the funds because the government asked large banks to form a united front, he has said. The FDIC program is a different case because the company is borrowing money that it wants.

J.P. Morgan has been one of the most prolific borrowers, using the FDIC program more than a dozen times to raise more than $40 billion, according to SNL Financial. The company most recently raised $2.3 billion during the first week of April.

Still, to underscore its independence, J.P. Morgan now plans to sell dollar-denominated debt without government backing for the first time since August -- about $3 billion in 10-year bonds. The company in January sold euro-denominated 10-year debt without government backing.

WP20090417JPMORGAN170

Document WP00000020090417e54h0001b

The Washington Post

A Section

Oversight of Bank Bailouts Criticized; House Panel Faults Treasury for Not Forcing Firms to Reveal Overseas Deals [Corrected on 17 March 2009]

Amit R. Paley
Washington Post Staff Writer
747 words
9 March 2009
The Washington Post
WP
FINAL
A12
English

PUBLISHED CORRECTIONS: A March 9 A-section article about House oversight of the federal bank bailout program cited a congressional report that included inaccurate information on Goldman Sachs. The report said Goldman Sachs had repurchased $2 billion of its own stock in December, which could have enriched the company's top employees despite public pressure for limits on executive compensation at banks receiving government bailout money. The House oversight panel that issued the report now acknowledges that Goldman Sachs's stock repurchase occurred earlier in the year, before the bailout took place. (Published 3/11/2009)

Congressional investigators are criticizing the Obama administration for failing to police deals in which banks participating in the $700 billion federal bailout lent billions of dollars overseas, highlighting the growing political tension over the extent of government involvement in firms receiving taxpayer funds.

A report by a House oversight panel, which was described to The Washington Post in advance of its release this week, raises questions about a $8 billion financing deal for Dubai by Citigroup (recipient of at least $45 billion in bailout funds); a $1 billion investment in India by J.P. Morgan (which got $25 billion from the government rescue); and a $7 billion investment in China by Bank of America (which got $45 billion from the bailout).

"When the American people find that their tax dollars, which were supposed to be used to get us out of this financial crisis, instead are being used to ship jobs and investments overseas, there will be outrage," said Rep. Dennis J. Kucinich (D-Ohio), chairman of the domestic policy subcommittee for the House Oversight and Government Reform Committee. The report is a memo by that panel's Democratic staff.

The report underscores the political strain between some lawmakers, who are pressing for much more government involvement in banks that receive federal assistance, and officials at the Treasury Department and the Federal Reserve, who say it is impractical and counterproductive to approve every aspect of a bank's operation.

"We haven't seen this report so we cannot comment on its contents," Treasury spokesman Isaac Baker wrote in an e-mail. "But the Administration's new Financial Stability Plan requires banks to detail how government funds will be used to increase or preserve lending and report back on their lending activity every month."

The overseas deals by the banks were not illegal, the report concluded, and it is impossible to know whether they were funded with bailout dollars. The transactions also involve relatively tiny amounts of money for multitrillion-dollar companies that operate in dozens of countries.

But congressional investigators nonetheless said they were troubled that Treasury oversight and reporting requirements did not force the banks to disclose the deals, which they said reflects a lack of scrutiny of the bailout.

Under the bailout's largest program, only the 20 largest recipients of money are required to file reports with the program's overseers, the report said, while the other 297 are not. The investigators also said that Treasury has not deployed personnel to any of the largest participants, other than a minimal presence at two. Even the filings required of the 20 largest recipients provide general monitoring of the bailout money's impact on lending activities, not the overall use of the taxpayer dollars, the subcommittee concluded.

"As a result, Treasury has limited ability to detect or prevent waste and abuse," the report concludes.

The report also raises questions about Goldman Sachs's $2 billion repurchase of its own stock in December, which caused the share value to increase almost 20 percent. That would have been a significant financial benefit for senior executives, who usually own large amounts of company stock. Congressional investigators are looking at whether the deal was an inappropriate way to enrich those top employees despite a public clamor for strict limits on executive compensation.

Spokesmen for the banks either declined to comment or did not respond to e-mail and telephone messages yesterday.

"Treasury has not safeguarded taxpayers' money, yet Treasury is prepared to keep investing in a failed economic strategy when they don't even know what happened to the money they gave in the first place," Kucinich said. "This is a textbook definition of a taxpayer's nightmare."

WP20090309BANKS9

Document WP00000020090309e5390000d

The Washington Post

Financial

Fed Adopts Program To Stem Foreclosures; Mortgage Renegotiation to Focus On Reducing Amount of Principal Owed

Neil Irwin and Renae Merle
Washington Post Staff Writers
615 words
28 January 2009
The Washington Post
WP
FINAL
D01
English

With its bailouts of Bear Stearns and American International Group, the Federal Reserve took a vast portfolio of mortgages onto its books. Now, it is trying to use its control of billions of dollars worth of home loans to help prevent foreclosures.

The Fed will seek to renegotiate mortgages it owns that might otherwise enter foreclosure, Chairman Ben S. Bernanke told congressional leaders in a letter yesterday. The decision won praise from congressional Democrats, who took it as a sign that the central bank's leaders are cooperating with efforts to use government power to try to stem the number of foreclosures.

It is unclear how many homeowners stand to benefit. Under the program, the Fed can reduce what a homeowner owes on a mortgage, lower the interest rate, lengthen the term of a loan or take other steps to keep a loan from defaulting, if doing so would offer taxpayers a better long-term payoff than foreclosure. Individual borrowers are unlikely to know whether their mortgages are owned by the Fed, but if they qualify for a renegotiation, they would deal only with their mortgage servicer.

The Fed is emphasizing reducing the amount of principal owed by people at risk of foreclosure, particularly those with a loan balance that is more than 125 percent of the estimated value of their property. Private lenders have been reluctant to renegotiate loans that way, as some of the institutions that own those loans, in the form of mortgage-backed securities, stand to lose money and therefore object.

Bernanke has previously advocated principal reductions, saying in a speech in March that they could be an "effective means of avoiding delinquency and foreclosure."

If the Fed strategy works and reduces the number of foreclosures while helping the owner of the loans -- the central bank in this case -- it could serve as a model for other owners of mortgage loans. For example, the Federal Deposit Insurance Corp. has tried to use its control of California bank IndyMac, which it seized last summer, to do loan modifications, but has been frustrated by investors in those loans being unwilling to reduce the amount of principal owed.

"It's a step beyond what FDIC is doing with its own portfolio," said Alan White, an assistant professor at Valparaiso University School of Law, who has been studying the foreclosure crisis. "Principal write-downs are still the critical issue" in keeping borrowers in their homes.

It is impossible, based on public information, to know the exact dollar value of the mortgages the Fed holds -- though it is in the tens of billions of dollars. In the near term, the mortgages affected are those held in special limited liability corporations that the central bank created to hold assets after its March rescue of investment bank Bear Stearns and September takeover of insurance company AIG.

The Bear Stearns portfolio is worth $27 billion, of which some portion -- exactly how much the Fed will not disclose -- consists of residential mortgages. The AIG assets include a $20 billion portfolio of mortgage-backed securities and a $27 billion portfolio that includes complex securities that are partly backed by mortgage debt.

Congressional leaders yesterday praised the Fed's action, while urging further steps. "This is an important advance, and I hope to work with the [Fed] to strengthen the program," said Sen. Christopher J. Dodd (D-Conn.), chairman of the Senate Banking Committee. Dodd also urged the Fed "to work with consumer advocates to develop the most effective program possible."

WP20090128FORECLOSURE28

Document WP00000020090128e51s00009

The Washington Post

Financial

LOCAL BRIEFING

199 words
30 December 2008
The Washington Post
WP
FINAL
D03
English

EXECUTIVES

Freddie Mac Names

Chief Credit Risk Officer

Mortgage-finance company Freddie Mac appointed acting Chief Credit Officer Raymond Romano to the job on a permanent basis after a three-month search.

Romano, who joined the company in 2004, was put in charge of credit risk as part of a management shakeup after federal regulators seized control of the company Sept. 6. He previously worked at North American Mortgage, Dime Savings Bank of New York and Citicorp, which is now part of Citigroup.

MERGERS & ACQUISITIONS

BroadSoft Buys

Sylantro Systems

Gaithersburg-based BroadSoft, which provides voice-over Internet protocol applications, said it has bought competitor Sylantro Systems of Campbell, Calif. The terms were not disclosed.

"Sylantro has been a strong competitor of BroadSoft for 10 years. This acquisition further advances our market and innovative leadership position," said Michael Tessler, president and chief executive of BroadSoft. The acquisition extends BroadSoft's leadership in VoIP applications. To serve its growing customer base, BroadSoft now has development and customer operations centers in Montreal; Dallas; Bangalore, India; Sydney; Belfast; and Gaithersburg.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081230DIGLOCAL30

Document WP00000020081230e4cu00009

The Washington Post

Financial
NATIONAL BRIEFING

598 words
5 November 2008
The Washington Post
WP
FINAL
D02
English

EXECUTIVES

Fed Hires Ex-Bear Stearns Officer

The former chief risk officer at investment bank Bear Stearns, which nearly collapsed in March, is now a senior official at the Federal Reserve division that supervises U.S. banks.

Michael Alix, who worked at Bear Stearns for 12 years and was its senior risk manager since 2006, was named a senior vice president in the bank supervision group of the Federal Reserve Bank of New York, according to an announcement by the Fed.

AVIATION

Dreamliner Test Flight Delayed

Boeing said it will delay the first test flight of the new 787 Dreamliner beyond the fourth quarter because of the just-ended machinists strike.

No new timeframe for the flight has been established, the company said.

The 787's first delivery to customers has already been delayed three times and was running 15 months late before an eight-week-long machinists strike that ended Nov. 2.

The earlier delays were due to parts shortages and problems with the new production process, which uses suppliers around the world.

Boeing previously said the strike would cause a "day-for-day" delay without updating the first-flight date of November that program manager Pat Shanahan gave in July.

CONSUMER SAFETY

Fed Warns Against Loan Pitches

The Federal Reserve cautioned consumers against fraudulent solicitations claiming access to a nonexistent federal consumer loan program.

People are being told that brokers can tap into a Fed effort providing "sizable secured loans to consumers," the Fed said in a statement.

Consumers are then encouraged to deposit large sums of money, described as a security deposit, to get their loan, the bank said.

"The Federal Reserve is advising consumers that it has no involvement in these solicitations and does not directly sponsor consumer lending programs," the Fed said.

CONTRACTING

Navy Asks for Bids on Ship

The Navy has asked Lockheed Martin and General Dynamics to submit bids to build five Littoral combat ships.

The Navy's request follows its decision last month to scrap its plan of awarding a third ship this year to one of the contractors. With a decision by Congress to cut funding for the third ship in the fiscal 2008 budget, which ended Sept. 30, the Navy had to go back and draw up new plans.

The Navy envisions a winning contractor building three ships, while its rival builds the other two, and plans by January to award both contractors a ship each under the current budget.

Lockheed spokesman Craig Quigley confirmed the company had received the bids request. A General Dynamics representative deferred questions to the Navy.

INSURANCE

AIG Facing Shareholder Suit

American International Group was sued by a shareholder who claimed that the insurer trampled investors' rights in accepting a rescue package from the federal government.

The lawsuit claims that AIG violated Delaware corporate law by refusing to allow existing shareholders to vote on a key part of the bailout proposal, which gives a 79.9 percent stake to the government in return for $85 billion in loans. AIG is incorporated in Delaware.

Nick Ashooh, an AIG spokesman, wrote in an e-mail that the company was not aware of the lawsuit and declined to comment on it.

Archer Daniels Midland said its first-quarter profit more than doubled compared with the corresponding period a year earlier, to $1.05 billion, as the company benefited from lower commodity prices and higher selling prices. Sales rose 65 percent, to $21.16 billion.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081105DIGNAT5

Document WP00000020081105e4b50001f

The Washington Post

Financial
Senate Investigators Target SEC Officials; Inside Knowledge on Bear Stearns Cited

Amit R. Paley
Washington Post Foreign Service
339 words
22 October 2008
The Washington Post
WP
FINAL
D03
English

Senate investigators are looking into whether senior officials at the Securities and Exchange Commission provided confidential information to former colleagues working on Wall Street.

The inquiry began after the SEC's Inspector General received an anonymous tip earlier this month. It alleged that Linda Chatman Thomsen, the agency's director of enforcement, gave information about investigations into Bear Stearns around March to the general counsel of J.P. Morgan Chase, which at the time was considering whether to buy the troubled investment bank. The Oct. 7 complaint claimed that the inside knowledge obtained by the attorney, Stephen M. Cutler, a former head of enforcement at the SEC, allowed J.P. Morgan to low-ball its bid to purchase Bear Stearns.

A copy of the complaint was also provided to Sen. Charles E. Grassley (R-Iowa), the ranking member on the Senate Finance Committee.

In a letter sent last night to the SEC, Grassley asked for information about all SEC investigations into Bear Stearns, as well as communications between SEC officials and J.P. Morgan Chase about those cases.

"Such conduct would reinforce the appearance that Enforcement decisions, and disclosures of information about them, are sometimes based not on the merits," he wrote in his letter yesterday, "but rather on access to senior officials by influential representatives of power brokers on Wall Street."

An SEC spokesman declined to comment last night. J.P. Morgan Chase did not respond to a request for comment last night.

The inspector general, H. David Kotz, issued a report last month that criticized what some agency employees called the "common practice" of outside lawyers gaining access to senior SEC officials. He also said the agency should consider disciplining Thomsen for such behavior while she was in charge of an insider-trading case.

Grassley raised concerns last year about improper communications between high-level SEC officials and attorneys at firms under investigation.

WP20081022SEC22

Document WP00000020081022e4am0003k

The Washington Post

Financial
NATIONAL BRIEFING

708 words
16 October 2008
The Washington Post
WP
FINAL
D02
English

BANKING

WaMu's Failure Being Probed

Washington Mutual is under investigation by federal authorities looking into what caused its banking units to be seized by government regulators and sold to J.P. Morgan Chase last month. U.S. Attorney Jeffrey Sullivan in Seattle said his office created a task force working with investigators from the FBI, the Federal Deposit Insurance Corp., the Securities and Exchange Commission and the Internal Revenue Service to investigate what led regulators to close WaMu.

"Due to the intense public interest in the failure of Washington Mutual, I want to assure our community that federal law enforcement is examining activities at the bank to determine if any federal laws were violated," Sullivan said.

J.P. Morgan, the largest U.S. bank by market value, acquired WaMu's branch network Sept. 25 for $1.9 billion after the thrift was seized in the largest U.S. bank failure in history. The holding company filed for bankruptcy protection two days later.

Wells Fargo CEO Discusses Merger

Wells Fargo chief executive John Stumpf told a crowd of Wachovia employees that he would make every effort to retain workers amid the banks' combination, but made no promises about jobs.

Stumpf said Wells Fargo would work to "retain and retrain" workers in positions duplicated through the merger. Stumpf said the $15 billion deal, which still needs the approval of Wachovia shareholders, is scheduled to close in December.

Wachovia chief executive Robert Steel, who took over the beleaguered bank in July, said he will no longer have an operating role in the company following the deal. Steel said he is now focused on ensuring that the integration runs smoothly and Wachovia continues to do well.

AUTOMOTIVE

GM Launches Ad Blitz on Loans

General Motors is launching an advertising campaign this week to reach people who have stopped looking for cars out of fear that they can't get a loan.

Many banks and finance companies, including GM's own GMAC Financial Services, have tightened credit standards because they can't borrow money to lend, or they're reluctant to lend and risk defaults. "But that doesn't necessarily mean you can't get a car loan if you want to get a car loan," GM spokesman John McDonald said.

GMAC said Monday it would only make auto loans to people with credit scores of 700 or above. That, coupled with media reports about people getting turned down for car loans, has kept many customers away from showrooms, according to industry analysts.

Coca-Cola said its profit rose 14 percent, to $1.89 billion from $1.65 billion compared with the period a year earlier. Revenue rose 9 percent to $8.39 billion. International sales volume grew 7 percent, with particular strength in countries such as China, Turkey, India, Pakistan and Nigeria. Chief executive Muhtar Kent said sales in emerging markets would continue to fuel growth and that the market in North America will pose challenges into 2009.

EBay said it swung to a third-quarter profit of $492 million from a loss of $936 million in the comparable period last year, which included a write-down on the value of its Skype unit. Revenue rose 12 percent to $2.12 billion. The online auctioneer said the value of goods sold on its Web sites fell 1 percent in the quarter, the first such drop in the company's history.

Abbott Laboratories said its third-quarter profit jumped 51 percent, to $1.08 billion from $717 million during the comparable period last year, led by sales of the arthritis medication Humira and a steep increase in sales of stents and other heart-related devices. Revenue rose nearly 18 percent to $7.5 billion.

Charles Schwab reported an 80 percent drop in third-quarter earnings, to $304 million from $1.53 billion in the year-ago period, but that quarter's results included a $1.21 billion gain on the sale of U.S. Trust. The earnings topped analysts' expectations. Revenue declined 3 percent to $1.25 billion, as the financial markets' collapse drove down asset management and interest revenue.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081016DIGNAT16

Document WP00000020081016e4ag0001e

The Washington Post

Financial
Report Says SEC Failed in Oversight of Bear Stearns

Cecilia Kang
Washington Post Staff Writer
673 words
27 September 2008
The Washington Post
WP
FINAL
D01
English

The Securities and Exchange Commission failed in its oversight of investment bank Bear Stearns, ignoring that the company took excessive risks with mortgage-related securities before its demise, according to a report released yesterday by the agency's inspector general.

In a review of the agency's supervision of investment banks, inspector general David Kotz said that the SEC had identified "numerous, potential red flags prior to Bear Stearns' collapse . . . but did not take action to limit these risk factors." J.P. Morgan Chase bought Bear Stearns last March after initial emergency funding to keep it operating failed.

SEC Chairman Christopher Cox has said Bear Stearns was "well-capitalized and apparently fully liquid" but "experienced a crisis of confidence" that led to its collapse. Yesterday he defended his agency, saying the oversight program was voluntary and that the SEC could not force large investment banks such as Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers and Bear Stearns to report their capital, maintain liquidity or submit to leverage requirements.

The program "was fundamentally flawed from the beginning, because investment banks could opt in or out of supervision voluntarily," Cox said in a statement. "The fact that investment bank holding companies could withdraw from this voluntary supervision at their discretion diminished the perceived mandate."

The SEC's oversight program, known as Consolidated Supervised Entities, was created to allow global investment bank conglomerates that lack a supervisor under the law to voluntarily submit to regulation. But Cox said the SEC lacked specific legal authority to act as the regulator of investment banks.

Yesterday, Cox said the agency would end its program because the five biggest investment banks have either been swallowed by commercial banks, converted into bank-holding companies or filed for bankruptcy protection. Instead, some of the new bank-holding companies will be regulated by the Federal Reserve. The SEC said it would have stronger oversight through an agreement it struck with the Fed in July, where it would regulate the broker-dealer subsidiaries of bank-holding companies.

The inspector general said the findings of yesterday's report did not demonstrate a "direct connection" between oversight failures and the collapse of Bear Stearns. Critics said, however, that the report was another blow to the credibility of the SEC and its leadership, which have been rebuked by lawmakers.

The report pointed to Bear Stearns's large concentration of mortgage securities, its poor management of mortgage-related securities and its high leverage -- the practice of taking heavy debt compared to capital to make big investment bets. When the housing market began to collapse and mortgages went into default, the market for mortgage-related securities froze up and the banks were saddled with crippling loads of worthless assets.

"These reports are another indictment of failed leadership," ranking Senate Banking Committee member Charles E. Grassley (R-Iowa) said in a statement. "We had it at Fannie Mae and Freddie Mac, it was throughout Wall Street, and these reports document the failure of regulators at the Securities and Exchange Commission to either make its oversight program work or seek authority from Congress so that it could work."

Grassley commissioned the audit of the SEC's supervision of Bear Stearns and other large investment banking firms in April.

In congressional hearings earlier this week, Cox was sharply questioned by lawmakers for failing to stop banks from taking massive amounts of debt to invest in complex securities with little transparency. Republican presidential candidate John McCain said last week that Cox should be fired because he "betrayed the public's trust."

Jacob Frenkel, a former enforcement officer at the SEC who is now in private law practice in Rockville, said the report revealed that problems at the SEC were systemic. "Cox may be the face of the agency, but the staff and the agencies also dropped the ball because they are the ones going out and doing the inspections," he said.

WP20080927SEC27

Document WP00000020080927e49r0003q

The Washington Post

Financial
In Full Stride as Others Fall; During Crisis, Dimon Bolsters J.P. Morgan Chase's Position

Heather Landy
Special to The Washington Post
1,017 words
27 September 2008
The Washington Post
WP
FINAL
D01
English

Jamie Dimon steered his bank away from the bad mortgage bets and risky financing methods that have damaged much of his competition. But the J.P. Morgan Chase chief executive finds himself playing a major role in the credit crisis anyway.

From a dashing rescue of Bear Stearns in March to this week's winning bid in an emergency auction of savings and loan Washington Mutual, Dimon has helped federal officials avoid potential messes stemming from the turmoil in the financial markets.

"It's very fortunate that he's in the position to appear as a white knight, but make no mistake: J.P. Morgan and Jamie Dimon are in this thing to make money for their shareholders," said Tom Kersting, a banking analyst at Edward Jones.

J.P. Morgan shares jumped 11 percent to $48.24 on Friday as investors applauded Dimon's $1.9 billion acquisition of Washington Mutual's banking operations.

Dimon has been instrumental in turning J.P. Morgan into a banking giant. He came to the firm from Bank One, itself the product of mergers, after it was bought by J.P. Morgan in 2004. With the latest acquisition, he now heads a U.S. banking empire of 5,400 locations in 23 states whose only peer is Bank of America.

The son and grandson of stockbrokers who for many years worked alongside former Citigroup chairman Sanford Weill, Dimon has never shared the appetite for risk and disdain for plain-vanilla lending that have defined much of Wall Street in recent years.

"Jamie has always been focused on deposits and on creating what he calls a 'fortress balance sheet,' which among other things means carrying a stable supply of cash that doesn't run out the door at the first sign of crisis," said former J.P. Morgan investment banker David Stowell, now a professor at Northwestern University's Kellogg School of Management.

That fortress mentality has raised Dimon's already considerable profile as competitors, investors and federal officials scramble to unfreeze credit markets and restore faith in the American banking system.

Dimon, 52, said that he and his top lieutenants don't consider themselves "go-to guys" for the federal government.

Although he conceded to showing some degree of flexibility when he was asked by top regulators to buy Bear Stearns and stave off the fallout from a failure of a major securities firm, he suggested that anyone in his position would have responded similarly.

"We went out of our way to accommodate what we thought could have been a devastating situation," Dimon told reporters Friday on a conference call. "Personally, I think that should be the attitude of everybody."

Earlier this month, J.P. Morgan joined Goldman Sachs in trying to arrange a $75 billion loan for ailing insurance giant American International Group, also at the government's behest. But the firms could not raise the financing in the two-day time frame that AIG needed to meet its obligations, and the government stepped in with a loan.

Dimon appeared on the scene again Thursday, picking up Washington Mutual's banking operations for far less than what he was rumored to be interested in paying earlier this year when he was mulling a takeover of the company. But this time, Dimon's bid was not solicited by the government.

"This was an arm's length transaction," he said. "There may have been other people willing to do it," he said, but not at the price J.P. Morgan had offered.

Unlike the Bear Stearns transaction, the Washington Mutual acquisition comes with no guarantees from the Federal Reserve, which put up $29 billion to help J.P. Morgan absorb potential losses from Bear Stearns's assets.

The Washington Mutual purchase, executed late Thursday evening, should generate profit quickly, adding an estimated 50 cents to per-share earnings for 2009, the company said. And crucially, J.P. Morgan sold $10 billion of common stock Friday to ensure that it could absorb any potential losses on Washington Mutual's mortgage-laden books.

Costs related to the merger are expected to total $1.5 billion, the company said.

The acquisition quickly expands J.P. Morgan Chase's retail banking business in California, Florida and Washington state, and strengthens its presence in key markets including New York and Texas.

Michael Moskow, president of the Chicago Fed, described the New York native as a "personable, but no-nonsense" executive who "speaks about a thousand words a minute," is widely known for his attention to detail.

"He's willing to go into the weeds," similar to his mentor, said Stowell, of Northwestern. "Sandy Weill was another extreme detail guy who understood the plumbing of an organization. That was, I'm sure, a very big influence on him. But above and beyond that, he's just a very tenacious guy. And he sees things that a lot of people don't see."

J.P. Morgan hasn't been completely shielded from the mortgage crisis that has infiltrated Wall Street. But its write-downs have been relatively small, and investors have maintained confidence in Dimon's ability to keep the bank healthy.

"He's been preparing for this moment for years," said Jason Polun, a banking analyst at T. Rowe Price. "It's not luck. He's very, very smart. And his discipline, while others were jumping into growth opportunities with great risk, kept the balance sheet in great position to take advantage of the situation at Bear Stearns and at Washington Mutual."

That doesn't mean J.P. Morgan won't have to worry about the backdrop to the ongoing credit crisis: a slowing economy and a more cautious consumer. But Dimon doesn't expect economic tides to throw his growing company too far off course.

"We've never said we're immune to that," Dimon said in the conference call with reporters. "We're just prepared for it."

WP20080927DIMON27

Document WP00000020080927e49r0001h

The Washington Post

Financial
Investors Flee From Banking Stocks; National City, Wachovia Plummet

Binyamin Appelbaum
Washington Post Staff Writer
1,118 words
27 September 2008
The Washington Post
WP
FINAL
D01
English

A day after the collapse of the nation's largest thrift, Washington Mutual, investors scurried yesterday from the stocks of Wachovia, National City and other banks with large portfolios of troubled loans, as concerns were rekindled that those banks have yet to acknowledge the full extent of their probable losses.

The stock market's major indicators climbed modestly on hopes that Congress will approve a big-dollar bailout for the financial system. The Dow Jones industrial average gained 121.07 points, or 1.1 percent, to close at 11,143.13, recouping about a third of its losses from earlier in the week.

But that broader confidence did not extend to Wachovia, whose shares lost 27 percent of their value yesterday, or to National City, which was down nearly 26 percent. The combined declines erased about $10 billion in shareholder value.

Investors also sold off Wachovia's bonds and bought insurance against the possibility of a default on those bonds. The cost of insuring a Wachovia bond against default soared as high as one-third of the value of the bond itself. At these prices, buyers were paying more for the insurance than they would earn from the bond.

Donn Vickrey, co-founder of Gradient Analytics, an independent research firm, said investors are punishing companies that hold high-risk mortgage loans.

"The ones that are the most vulnerable are the ones that have engaged in the most creative lending," Vickrey said.

Washington Mutual was seized by the government Thursday after depositors withdrew billions of dollars, leaving the Seattle mortgage lender short on cash. Much of the company was immediately sold to J.P. Morgan Chase, but the terms of the sale have frightened investors in other troubled banks.

Commercial banks were previously regarded as unlikely to fail during the current crisis because their ample deposits offer a source of funding even if they cannot borrow from investors.

Now it is clear that a run on those deposits can destabilize even a large bank and that the government will act swiftly to shutter such an institution, putting concerns about the stability of the financial system and the security of deposits above the interests of investors.

In the case of Washington Mutual, shareholders and bondholders are likely to be left empty-handed.

"Now it's clear that you could get wiped out if you invest in the wrong bank," said Ed Fredericks, a finance professor at Pepperdine University. "That's what really rattled the market today. It's the understanding that if Wachovia does go into financial distress, the FDIC might do the same thing they did with Washington Mutual."

Also, J.P. Morgan immediately marked down the value of Washington Mutual's mortgage-related investments by $31 billion, suggesting that similar assets at other banks are being held at highly inflated values.

Investors are concerned about Wachovia, the largest bank in the Washington area, because the company owns large numbers of the same kind of loans that crushed Washington Mutual. These "option" mortgages allowed borrowers to pay less than the outstanding balance each month, as on a credit card. It was a disastrous idea.

Many borrowers could not afford to make the full payment when they were finally required to do so, and they are now defaulting in droves.

Wachovia bought its way into trouble with the 2006 acquisition of Golden West Financial, which had been one of Washington Mutual's largest rivals. The Charlotte company posted a loss of $8.9 billion in the second quarter, largely because of the declining value of the Golden West mortgage portfolio, and analysts say that further losses are likely.

Wachovia is a much larger and more diverse company than Washington Mutual, and its executives have emphasized that it remains strong. But the company recently discussed a possible merger with Morgan Stanley.

Wachovia chief executive Robert Steel sent an e-mail to employees yesterday saying that the company was "aggressively addressing our challenges" and expressed hope that Congress would approve some version of a plan to buy mortgage-related securities from Wachovia and other banks. A spokeswoman said customers are continuing to open bank accounts.

The concern over National City, based in Cleveland, centers on its former role as one of the nation's largest subprime lenders, through its subsidiary First Franklin. National City has sold off the business and shuttered its lending operations in high-risk states such as Florida, where real estate prices are tumbling, but the company retains large quantities of mortgage-related investments.

National City said in April that it would review its options, which is what companies say when they're putting themselves up for sale. But no buyers emerged. While Washington Mutual was prized for its large network of branches in growing areas, National City operates mainly in the Rust Belt, and so even its core banking business is considered less desirable.

The uncertainty surrounding banks continues to freeze the flow of loans between banks.

A measure of the cost of borrowing money from another bank remained at historic highs overnight Thursday. The London interbank offered rate (LIBOR) showed that banks continue to pay about 3 percentage points more than the federal government to borrow money.

The pricing is prohibitive, forcing banks to curtail lending to customers, experts say.

Banks borrow from one another to meet regulatory requirements that dictate how much money they must keep on hand. The requirement is based on the volume of outstanding loans; banks that cannot reliably borrow from one another at day's end are forced to limit their lending based on the money they already have in hand.

Amiyatosh Purnanandam, a finance professor at the University of Michigan's Ross School of Business, said banks are refusing to lend to one another because they are no longer sure that the money is merely needed to balance the books. They are now plagued by the fear that the borrowing banks simply lack money.

"Are you borrowing money because you are in trouble or because you are smoothing things? Banks cannot tell," Purnanandam said. "And right now, they do not want to take the risk."

In an attempt to keep loans flowing to customers, the Federal Reserve has opened its vaults to banks that can't borrow from one another, lending out more than $200 billion last week, a record sum.

The Fed also has tried to make money available to banks in Europe through arrangements with other central banks. Early yesterday morning the Fed said it would increase the amount of money available to European banks to $290 billion.

WP20080927CREDIT27

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The Washington Post

A Section

U.S. Forces WaMu Sale As Bank Founders; Historic Failure Prompts Deal With J.P. Morgan

Binyamin Appelbaum
Washington Post Staff Writer
1,155 words
26 September 2008
The Washington Post
WP
FINAL
A01
English

Federal regulators last night seized the massive, troubled mortgage lender Washington Mutual in the largest bank failure in U.S. history, then immediately sold much of the company to J.P. Morgan Chase for $1.9 billion in a deal that will create the largest bank in the country.

The historic two-step was orchestrated by Sheila Bair, chairman of the Federal Deposit Insurance Corp., on terms that preserve Washington Mutual's deposits and avoid what could have been a huge drain on the insurance fund that protects deposits of up to $100,000.

The fall of Washington Mutual, which was the country's largest savings and loan, expands once again the vast, burned-over landscape of the financial industry. The federal government has seized mortgage financiers Fannie Mae and Freddie Mac and insurance giant American International Group. The five largest independent investment banks are closed or have changed their business model. Most of the largest mortgage companies are closed or have been sold. This is the first time, however, that a large bank funded mostly by deposits has failed during the current crisis.

The sale furthers the consolidation of the U.S. financial industry, which is increasingly dominated by a few colossal banks with more than $1 trillion in assets, offering a vast range of services. J.P. Morgan will become the largest, surpassing Bank of America.

The willingness of J.P. Morgan to cover all of Washington Mutual's deposits narrowly averts a massive hit on the FDIC. Washington Mutual held $188 billion in deposits as of June, far more than any bank that has ever failed. Analysts estimated that a Washington Mutual failure could have soaked up half the money in the government insurance fund, forcing a huge increase in the premiums paid to the fund by other banks.

Bair said Washington Mutual lacked the cash to fund its business. Since Sept. 15, depositors pulled $16.7 billion from the bank, and the company's bond rating, a measure of its financial health, was slashed several times until Washington Mutual was ranked among the nation's most fragile companies.

Congress is currently debating a plan designed to relieve pressure on troubled banks by buying their mortgage-related investments. That could have helped Washington Mutual, but regulators decided that waiting any longer "was not a responsible decision to make," Bair said.

She said the FDIC had been planning to seize the company Friday night but acted yesterday because of concerns that media leaks would scare depositors. "This was an eroding situation," Bair said.

Washington Mutual, based in Seattle, made thousands of mortgage loans that its borrowers cannot repay. That has left it saddled with billions of dollars in bad debts. The company has posted losses for three straight quarters, including a loss of $3.3 billion for the most recent quarter, ending in June.

Last week, the company placed itself on the auction block, but bidders failed to materialize.

J.P. Morgan submitted the highest bid in an auction regulators held Wednesday night, buying Washington Mutual's 2,200 branches, its $135 billion in remaining deposits -- and its vast portfolio of troubled investments in mortgage-related securities. The deal does not affect depositors -- even those with deposits over the federal insured maximum -- or people with mortgage loans held by Washington Mutual.

J.P. Morgan said that it would immediately write down $31 billion to reflect the deteriorated value of those investments and that it would add $3.6 billion to its own loss reserves. The company also said it would issue $8 billion in common stock this morning before the markets open, creating the larger capital cushion it needs to absorb the troubled company.

J.P. Morgan chief executive Jamie Dimon said he was undeterred by Washington Mutual's financial problems and relatively unconcerned about the short-term struggles of the financial industry -- or the congressional debate about a possible bailout.

"We're getting franchises of this company for a long period of time," Dimon said on a conference call last night. "We didn't do this because we're guessing the economy is going to get a little bit better or going to get a little bit worse."

Washington Mutual had rejected a March offer of $8 a share from J.P. Morgan. The company's then-chief executive was subsequently fired.

With the acquisition, New York-based J.P. Morgan will gain a massive, long-desired presence on the West Coast. Neither company has branches in the Washington area. Washington Mutual's branches are concentrated in California, with large clusters in New York, Florida, Texas and the company's home state of Washington. J.P. Morgan has large numbers of branches in the Midwest, the Southwest and New York.

J.P. Morgan and Bank of America are emerging as the great winners in the current crisis. Funded by deposits and less involved in the business of securitizing loans, they are strong at a moment of weakness for erstwhile rivals. J.P. Morgan already has carried off the remnants of investment bank Bear Stearns, which collapsed in March. Bank of America has picked up Countrywide Financial and Merrill Lynch.

"Some in corporate leadership are now coming to Washington for help, others are coming to Washington to help," Bair said. She applauded J.P. Morgan's willingness "to put private capital at risk" and compared Dimon's actions to long-ago rescues orchestrated by the company's legendary namesake.

J.P. Morgan is not buying the holding company that owns the thrift, nor is it paying anything to shareholders in the company, who have essentially been wiped out, or those who have purchased its bonds. The $1.9 billion J.P. Morgan paid to the government will be paid out to the holding company's surviving creditors, but many of them will suffer large losses.

Washington Mutual's stock dropped 25 percent, to close at $1.69 yesterday, then fell 73 percent more, to $0.45, in after-hours trading, reflecting the remaining value of what is now a shell company.

The failure marks the second time in recent months that a large bank has been seized by regulators before it was included in the FDIC's quarterly count of troubled institutions. IndyMac Bancorp, another large mortgage lender, was seized by regulators in July. That reflects the rapid pace of the financial crisis but has also raised questions about the care with which regulators are scrutinizing trouble companies.

The Washington Mutual-J.P. Morgan deal is not subject to any of the reviews that normally attend a major bank merger.

"When you have a failing institution, you don't have time for that," Bair said.

Staff writer Zachary A. Goldfarb contributed to this report.

WP20080926WAMU260

Document WP00000020080926e49q0004e

The Washington Post

Editorial

What Keynes Could Tell Paulson

David Ignatius
822 words
25 September 2008
The Washington Post
WP
FINAL
A19
English

In times like these, when even the most sober analysts are wondering if we're heading for another Great Depression, it's wise to take a deep breath, head to the basement and dust off a copy of John Maynard Keynes's modestly titled 1936 treatise, "The General Theory of Employment, Interest and Money."

Most of us remember Keynes from our college economics courses as the guy who advocated deficit spending to "prime the pump" during downturns. And that was certainly part of his argument. But revisiting "The General Theory," what's striking is that it's a book about economic panics and the market psychology that produces them -- and the consequent need for government intervention. Parts of it could have been written this week to describe the cascading defaults of Bear Stearns, Lehman Brothers and AIG.

The problem with financial markets, Keynes argued, was that investors were periodically seized by an extreme form of what he called "liquidity preference," which made them wary of putting their money into anything but the safest investments. "It is of the nature of organized investment markets . . . that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force," he wrote. "Once doubt begins it spreads rapidly."

That's a pretty good description of what has been happening on Wall Street over the past few months. We've gone from a bubble of overenthusiasm, in which interest-rate spreads took little account of risk, to a state of panic in which financial institutions are so risk-averse that they don't want to lend to anyone. As Keynes observed, "the actual, private object of the most skilled investment today is . . . to outwit the crowd, and to pass the bad, or depreciating, half-crown to the other fellow."

Keynes's revolutionary idea was that financial markets were not inherently self-correcting, as classical economics had argued. Left to itself, Wall Street might remain in a liquidity trap in which the markets would stay frozen and productive investment would cease. So it fell to the government to take actions that would restore confidence and stimulate investment. "I conclude that the duty of ordering the current volume of investment cannot safely be left in private hands," he wrote.

Which brings us to Treasury Secretary Henry Paulson and the present financial crisis. Since he intervened to rescue Bear Stearns in March, Paulson has been trying to pump cash into markets that are locking up because of the extreme liquidity preference of investors. But each rescue measure only sets up the next disaster -- so that Paulson lurches from Bear Stearns to Fannie and Freddie to AIG, and now to a government pledge to buy up $700 billion or more of mortgage-backed securities.

What advice would Keynes offer Paulson and Fed Chairman Ben Bernanke? His first instinct, I think, would be to reiterate that markets, left to themselves, will not solve this sort of crisis. They need government help -- in this case, on a scale that would have daunted even Keynes -- including underwriting mortgage loans, backstopping the market for credit swaps and other steps. But if these measures are taken piecemeal, without broad political support, they may only add to the public's anxiety. Indeed, that's a real worry now: A Wall Street panic may become a Main Street panic.

Keynes's biographer, Robert Skidelsky, makes clear that at every stage of Keynes's career, he tried to think broadly about the social and political consequences of economic policy. That was true in his famous denunciation of onerous German reparations payments after World War I, which he correctly warned would lead to a future war; it was true in the magnanimity of the post-World War II international financial system he helped create at Bretton Woods.

A truly Keynesian rescue plan should do more than bail out foolish investors. How might the pieces fit into a larger design? Well, if the taxpayers are going to acquire a stake in the nation's largest insurance company, perhaps that company can be the cornerstone of a new system of universal private health coverage. If the taxpayers are going to acquire $700 billion in real estate assets, perhaps the eventual profits can fund new investments in infrastructure or energy technology.

Keynes spoke in the finicky English of a Cambridge don, but listen to what he said: "When the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done." Keynes wouldn't have wanted to nationalize that casino; he was an active investor himself. But he reminds us that public purposes are best served by public institutions.

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WP20080925OP-IGNATIUS25

Document WP00000020080925e49p0003x

The Washington Post

THE NATION'S HOUSING Kenneth R. Harney
Real Estate
Settlement Sheds Light on the Boom's Bad Practices

Kenneth R. Harney
796 words
20 September 2008
The Washington Post
WP
FINAL
F01
English

Fannie Mae, Freddie Mac, Merrill Lynch and Lehman Brothers have dominated recent headlines, but a little-noticed $28 million settlement earlier this month between the Federal Trade Commission and what's left of Bear Stearns symbolizes the housing boom era products -- and practices -- that started a lot of the trouble.

Once the fifth-largest investment bank on Wall Street, Bear Stearns was a major funding source for subprime and exotic mortgages -- payment-option plans that allowed borrowers to buy expensive houses and run up debts while making minimal monthly payments, "stated-income" mortgages that required no income or asset verifications, and a variety of other products. Its subsidiary, EMC Mortgage, serviced hundreds of thousands of these mortgages, and had a portfolio of more than 475,000 loans in 2007, according to the FTC.

But the FTC's complaint and settlement on Sept. 9 allege that EMC hit mortgage customers with unauthorized fees, misrepresented how much money they owed, harassed homeowners with debt-collection techniques including "property inspections" that were designed to get collectors into houses illegally, and failed to tell national credit reporting bureaus that borrowers were disputing derogatory reports.

Bear Stearns and EMC agreed to pay $28 million to consumers as part of the settlement and to change loan servicing procedures, but they admitted no wrongdoing. J.P. Morgan Chase, which acquired Bear and EMC as part of a federally assisted bailout May 30, was not named in the settlement and had no comment about the terms.

The types of loans Bear Stearns and EMC made their specialty were the jet fuel of the boom, aimed at consumers who often couldn't afford the houses they wanted and didn't understand the payment changes and principal balance movements associated with the complex mortgage instruments they used.

These borrowers depended heavily on their loan servicers to maintain accurate records and tell them what they owed and when it was due. Yet EMC, according to the FTC, acquired portfolios from lenders without performing proper due-diligence checks on the accuracy or completeness of the account files.

"Despite indications that loan data obtained from prior loan servicers . . . was likely inaccurate or unverified, EMC nonetheless used that data" to demand principal and interest payments and late fees from customers who didn't actually owe what they were being charged, the FTC's complaint said.

EMC sometimes made late-payment collection calls immediately after acquiring mortgages, according to the FTC, without having backup data to be certain of the facts. In the course of those collection efforts, EMC allegedly violated the Fair Debt Collection Practices Act by contacting homeowners with phone calls for debt amounts they didn't necessarily owe, and even resorted to "false representations" to gain access to borrowers' homes -- sending out "property inspectors" who were actually debt collectors.

The FTC alleged that EMC violated the Fair Credit Reporting Act by sending delinquency and default reports to the national credit reporting bureaus without disclosing that borrowers were disputing EMC's charges. Failure to report disputes can have serious negative impacts on consumers' overall credit standings and affect their ability to obtain credit elsewhere.

EMC also allegedly imposed impermissible fees including late-payment and prepayment penalties, and $500 "loan modification" fees, among others. They even charged new customers for property inspections when there was no information in loan files suggesting the house needed a physical examination, according to the FTC complaint.

Compounding the problems inherent in the high-risk, high-flying mortgage products of the boom years, a key aspect of the Bear Stearns-EMC case is data integrity. Every month, millions of homeowners put their trust in companies they don't really know -- loan servicers working for the borrowers' original lenders or companies who bought the servicing rights.

If successive servicers do not accurately keep track of loan balances, escrows and payment histories -- or worse, as alleged by the FTC in this case, pile on improper charges and violate federal credit, truth-in-lending and debt collection laws -- borrowers can find themselves in deep financial jams.

"People already have enough problems with their mortgages," said Lucy Morris, a lead lawyer for the FTC in the Bear Stearns-EMC settlement, "so it's all the more important that servicers take appropriate care in handling consumers' billings and collections."

That's especially true when the borrowers involved happen to be saddled with confusing loans they should never have been sold, stuck with houses that have plummeted in value, and are sitting on a conveyer belt moving them closer to foreclosure every month.

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WP20080920HARNEY20

Document WP00000020080920e49k0004s

The Washington Post

D.C. Extra
D.C. Home Sales

1,006 words
18 September 2008
The Washington Post
WP
FINAL
T13
English

These were among sales recorded recently in the District and supplied to The Washington Post by Spatial Systems Associates Inc. and the D.C. Office of Tax and Revenue. To find sale and assessment records for homes in the District and elsewhere in the Washington area, visit www.washingtonpost.com/realestate.

Northeast

A ST., 1635-Geraldine Bradford and Deborah Brisbon to Daniel Peete, $289,500.

D ST., 1412-District of Columbia Housing Authority to Justin and Nicole Sprinzen, $280,000.

E ST., 1236-Albert W. Dalgliesh to Audrey A. and Michael A. Hubbard, $551,236.

EASTERN AVE., 5852-Citibank and EMC Mortgage Corp. to Juan Guevara, $241,500.

ELLIOTT ST., 622-John L. Allen and James J. Lawlor to Homa and Sharifa Said, $575,000.

G ST., 612-Anna M. and Jeffrey C. Martin to Marjorie Newman Williams, $699,000.

GALLATIN ST., 1532-Linda Reese and Peter A. Davidson to Blair Hall Hayes, $352,000.

HAYES ST., 5357-Judy C. Smith to One Piney Grove Investment Corp., $163,000.

MONTELLO AVE., 1425-Eric Grims to Mervin A. Garry, $315,000.

FIFTH ST., 639-Gary R. Green to Ted Cochin, $500,000.

NINTH ST., 652-Ray D. Lowe to Christopher R.M. and J. Erin Jenkins Waylor, $580,000.

12TH ST., 4931-Carmelita D. and Julius C. Lewis to Kendall T. Joyner, $305,000.

31ST PL., 2811-Mary L. Bunn to Cynthia Moore, $305,000.

36TH ST., 141-Everett P. Jones and April Love Jones to Jason M. Reabe, $385,000.

Northwest

ADAMS ST., 15-Deutsche Bank National Trust Co. to Maya C. Davis, $385,000.

ASPEN ST., 808-Alan Abrams and Lynne D. Motley to Joseph H. Prosser, $619,000.

CALIFORNIA ST., 1842, No. 16B-Kristin Mazovec to Paul L. Duncan, $350,000.

CATHEDRAL AVE., 3901, No. 107-Ronald Gomez to Gwinneth A. Clarkson Revocable Trust, $372,000.

CHURCH ST., 1771, No. 1-Doyle E. Vincent to David H. Mann, $437,000.

CLIFTON ST., 1341, No. 304-Carlos Milton Ceron and Santos R. Reyes to Paul M. Gerber, $205,000.

CORCORAN ST., 1735-Anna S. and Joseph E. Payne to Dean J. Storer and Dana Lamar Whitman, $935,000.

DAVIS PL., 3825, No. 302-Trent D. and Valeria Bruyere to Mary Ellen Gowday, $351,900.

DEVONSHIRE PL., 2737, No. 520-Theodor Schuchat to Sook and Wolfgang Bertelsmeier, $1.47 million.

FESSENDEN ST., 2922-Richard Kennedy and Steven Prieto to Kim Green and Amy Horton, $1.37 million.

HUNTINGTON ST., 3707-Linda M. Illig to Mario Marcel, $725,000.

KENYON ST., 1724-George Koutromanos to Victor Ferreira and Sean P. McDonald, $775,000.

MASSACHUSETTS AVE., 400, No. 314-Craig and Sulan Peebles to Sirva Relocation Corp., $407,000.

NEVADA AVE., 5515-Laura M. Papero to Louis S. and Sonva K. Matza, $770,000.

NEW HAMPSHIRE AVE., 4510-Adam C. Barford and Andrea Defay Hayduk to T.D. Coates and Troy Warner, $445,000.

NEWTON ST., 1871-Eyvonne Bates to Mary P. Illes, $630,000.

ORDWAY ST., 3526-Eleanor and Reid Dunn to Jonathan P. Graham and Elizabeth Ulmer, $3.7 million.

PENNSYLVANIA AVE., 801, No. 1109-Kazuyo Kono to Patrick W. Brown, $389,000.

Q ST., 1615, No. 102-Daniel L. Carpenter to Carolan E. Sudol, $560,000.

R ST., 1423, No. 203-Annabelle F. Javier and Jason R. Wilburn to Anne Hilliard Simmons, Robert Simmons and Emily M. Simmons Trust, $354,500.

S ST., 1933, No. C-Rodney S. Van Nostrand to Derrick S. Browning, $385,000.

SUDBURY RD., 2210-Helena B. McEvoy and Patrick J. McEvoy and Dorothy A. Gunsalus Revocable Living Trust to Peter A. Davidson, $610,000.

SUTTON PL., 3297-Martine D. Burkel and Nicholas B. Isbell to Jens Haarlov and Lisbet Kemp, $675,000.

TRACY PL., 2456-Everglades Enterprises Corp. to Hashemite Kingdom of Jordan, $5.5 million.

VERMONT AVE., 1816-Irene Karoline Lee to Dana E. Miller and Jeffrey S. Sank, $407,000.

W ST., 1342-PNH Union Square Townhouse Corp. to Jara B. and Shawn D. Seaman, $700,000.

WISCONSIN AVE., 2320-Raymond J. Hodge to Mieko Nishimizu and Peter Wickham, $375,000.

WOODLEY PL., 2773-Gregory J. Deninno to Adrienne and Solomon Wisenberg, $751,000.

YUMA ST., 4324-Estate of Muriel Mae Bales and Donald T. Ward to Nelson Jacobsen and Jessamyn Sarmiento, $739,000.

FIRST ST., 1718-1718 First Street Northwest Corp. to Sara E. Bukovnik, $455,000.

12TH ST., 2020, No. 505-Hagop Avedissian and Paul Gonzalez to Greg W. Featherman, $435,000.

13TH ST., 1245, No. 302-Adrian Raphael Gardner to Sandra Milivojevic and Gabriel E. Perez, $359,000.

13TH ST., 5004-Brooke Foster and John Vargas to Katharyn Doherty and Stuart Tucker Warren, $561,500.

14TH ST., 2750, No. 202-Nonprofit Community Development Corp. to Jessica A. Bradley, $440,000.

24TH ST., 922, No. 720-922 24th Street Corp. to Neha and Raj Jakhete, $255,000.

27TH ST., 1415-1415 27th Street Northwest Corp. to Ellie Chamberlain and EMCG Living Trust, $935,000.

29TH ST., 1236-Willem H. Brakel to Benjamin H. Leachman, $687,500.

39TH ST., 3850, No. 100-Colleen A. Deegan to Julie K. Bulgrin, $337,500.

41ST PL., 5443-Christine A. and R. Thomas Ruppert to Prudential Relocation Inc., $955,000.

Southeast

D ST., 1524-Sandra A. Thomas to Cataldo J. Urso, $340,000.

ELLEN WILSON PL., 631-Constance B. Schultz to Michael J. Silvestro, $550,000.

KENTUCKY AVE., 302-James M. Tallie to Alexander Fink, $597,000.

POMEROY RD., 2820-Jerome Bates to MB Management Co., $287,650.

XENIA ST., 800-Estate of Rita Y. Thornton and Brenda Gaines Thomas to Jefferey Sibert, $199,000.

FOURTH ST., 4135-Derrick Smith and Chambers Osmond to Sylvia Davis Pool, $160,000.

27TH ST., 1720-Estate of Audrey B. Phifer and Carole P. Plante to D. Elliott Corp., $715,000.

47TH ST., 9-James F. Schneider to James A. Carr, $158,580.

Southwest

CARROLLSBURG PL., 1403-Donald F. Richardson and Estate of Alywin D. Currie to David L. Sherzer, $399,999.

WP20080918DC-HOMES18
Document WP00000020080918e49i0004x

The Washington Post

A Section
Scrambling to Clean Up After A Category 4 Financial Storm

Steven Pearlstein
Washington Post Staff Writer
1,259 words
18 September 2008
The Washington Post
WP
FINAL
A01
English

You know you're in a heap of trouble when the lender of last resort suddenly runs out of money.

Having pumped $100 billion into the banking system and lent $115 billion more to rescue Bear Stearns and AIG, the Federal Reserve was forced to ask the Treasury yesterday to borrow some extra money to replenish its coffers. If there was any good news in that, it was that investors here and abroad were eager to help out, having decided that the only safe place to put their money is in U.S. government securities. Indeed, demand was so brisk at one point yesterday that, for an investor, the effective yield on a three-month Treasury bill was driven below zero, once the broker's fee was figured in.

This is what a Category 4 financial crisis looks like. Giant blue-chip financial institutions swept away in a matter of days. Banks refusing to lend to other banks. Russia closing its stock market to stop the panicked selling. Gold soaring $70 in a single trading session. Developing countries' currencies in a free fall. Money-market funds warning they might not be able to return every dollar invested. Daily swings of three, four, five hundred points in the Dow Jones industrial average.

What we are witnessing may be the greatest destruction of financial wealth that the world has ever seen -- paper losses measured in the trillions of dollars. Corporate wealth. Oil wealth. Real estate wealth. Bank wealth. Private-equity wealth. Hedge fund wealth. Pension wealth. It's a painful reminder that, when you strip away all the complexity and trappings from the magnificent new global infrastructure, finance is still a confidence game -- and once the confidence goes, there's no telling when the selling will stop.

But more than psychology is involved here. What is really going on, at the most fundamental level, is that the United States is in the process of being forced by its foreign creditors to begin living within its means.

That wasn't always the case. In fact, for most of the past decade, foreigners seemed only too willing to provide U.S. households, corporations and governments all the cheap money they wanted -- and Americans were only too happy to take them up on their offer.

The cheap money was used by households to buy houses, cars and college educations, along with more health care, extra vacations and all manner of consumer goods. Governments used the cheap money to pay for services and benefits that citizens were not willing to pay for with higher taxes. And corporations and investment vehicles -- hedge funds, private-equity funds and real estate investment trusts -- used the cheap financing to buy real estate and other companies.

Two important things happened as a result of the availability of all this cheap credit.

The first was that the price of residential and commercial real estate, corporate takeover targets and the stock of technology companies began to rise. The faster they rose, the more that investors were interested in buying, driving the prices even higher and creating even stronger demand. Before long, these markets could best be characterized as classic bubbles.

At the same time, many companies in many industries expanded operations to accommodate the increased demand from households that decided that they could save less and spend more. Airlines added planes and pilots. Retail chains expanded into new malls and markets. Auto companies increased production. Developers built more homes and shopping centers.

Suddenly, in early 2007, something important happened: Foreigners began to lose their appetite for financing much of this activity -- in particular, the non-government bonds used to finance subprime mortgages, auto loans, college loans and loans used to finance big corporate takeovers. What should have happened at that point was that the interest rate on those loans should have increased, demand for that kind of borrowing should have decreased, the price of real estate and corporate stocks should have leveled off, takeover activity should have slowed and companies should have begun to cut back on expansion.

Mostly, however, that didn't happen. Instead, the Wall Street banks that originally made these loans before selling them off in pieces decided to try to keep the good times rolling -- and, significantly, keep the lucrative underwriting fees pouring in. Some used their own "AAA" credit ratings to borrow more money and keep the loans on their own balance sheets or those of "structured investment vehicles" they created to hide these new liabilities from regulators and investors. Others went back to the foreigners and offered to insure those now-unwanted takeover loans and asset-backed securities against credit losses, through the miracle of a new kind of derivative contract known as the credit-default swap.

As a result, when the inevitable crash finally came, it wasn't only those unsuspecting foreigners who bought those leveraged loans and asset-backed securities who wound up taking the hit. It was also their creators -- Bear Stearns, Merrill Lynch, Citigroup, Lehman Brothers, AIG and others -- who made the mistake of doubling-down on their credit risk at the very moment they should have been cutting back.

We are now nearing the end of the rocky process of uncovering the full extent of the credit losses of the major Wall Street banks and hedge funds. But as Robert Dugger, an economist and partner in a leading hedge fund likes to points out, the markets have only just begun to force some financial discipline on the majority of U.S. households that relied on borrowed money to maintain their lifestyles.

With nobody willing to finance those lifestyles, there are really only two choices.

One is to turn to Uncle Sam to keep the economy and the financial system afloat. Unlike businesses, households and Wall Street firms, the Treasury can still borrow from foreign banks and investors at incredibly attractive rates. And by acting as an intermediary, the Treasury and the Federal Reserve have shown a newfound willingness to use those funds to keep the housing market and the financial system from totally collapsing.

Last spring, the government borrowed $165 billion to send tax rebates to households in an effort to boost consumer spending. Now, some Democrats want to create a new agency that would use money borrowed by the Treasury to recapitalize troubled financial institutions by buying some of their unwanted loans and securities at discounted prices. The same strategy was used successfully during the Great Depression and the savings and loan crisis of the 1990s, and even some Republicans are warming to the idea.

In the end, however, there is only so much the government can borrow and so much the government can do. The only other choice is for Americans to finally put their spending in line with their incomes and their need for long-term savings. For any one household, that sounds like a good idea. But if everyone cuts back at roughly the same time, a recession is almost inevitable. That's a bitter pill in and of itself, involving lost jobs, lower incomes and a big hit to government tax revenues. But it could be serious trouble for regional and local banks that have balance sheets loaded with loans to local developers and builders who will be hard hit by an economic downturn. Think of that, says Dugger, as the inevitable second round of this financial crisis that, alas, still lies ahead.

WP20080918PEARLSTEIN18

Document WP00000020080918e49i00049

The Washington Post

Financial
In Crisis Mode

279 words
18 September 2008
The Washington Post
WP
FINAL
D05
English

MARCH 16: The Fed rescues Bear Stearns.

The Federal reserve announces that it has helped broker a deal for J.P. Morgan Chase to buy beleaguered investment bank Bear Stearns. J.P. Morgan agreed to buy the firm for $2 a share after the Fed promised to guarantee $30 billion of risky assets. It later increases its offer to $10 a share.

JULY 11: IndyMac Bank fails.

The Federal Deposit Insurance Corp. takes control of IndyMac Bank of Pasadena, Calif., after a $1.3 billion run on deposits rattles the major mortgage lender. The FDIC estimates the cost at $4 billion to $8 billion.

SEPT. 7: The government takes over Fannie Mae and Freddie Mac.

Fannie Mae and Freddie Mac come under government control after it becomes clear that the twin mortgage-finance giants lack the capital to cover future losses. The Treasury pledges to inject up to $200 billion to make sure Fannie Mae and Freddie Mac remain solvent.

SEPT. 14: Lehman Brothers goes bankrupt.

The firm files for Chapter 11 bankruptcy protection after the government fails to persuade a private bidder to purchase the 158-year-old investment bank. The move is considered a signal that the Treasury is not willing to assist every endangered financial firm.

Bank of America buys Merrill Lynch, the faltering brokerage, for $50 billion in stock.

TUESDAY: The Federal Reserve saves AIG.

The Federal Reserve lends AIG $85 billion in return for an 80 percent share of the company. The Fed had tried to persuade Goldman Sachs and J.P. Morgan to make a similar, $75 billion loan, but the talks fell through.

WP20080918MORGANBX18

Document WP00000020080918e49i0003q

The Washington Post

Financial

J.P. Morgan's Take on Oil Prices? Views to Congress, Clients Differ

Steven Mufson
Washington Post Staff Writer
308 words
18 September 2008
The Washington Post
WP
FINAL
D04
English

J.P. Morgan Chase's view on whether speculators are to blame for high oil prices depends on which J.P. Morgan Chase guru you listen to. On Tuesday, Congress heard one version in testimony, while wealthy clients got an opposite version in an e-mail the same day.

Lawrence Eagles, global head of commodity research at the bank, testified before a Senate subcommittee that "we believe that high energy prices are fundamentally the result of supply and demand." Written testimony submitted by Blythe Masters, a managing director at the bank's global commodities group, said "we fundamentally believe that high energy prices are a result of supply and demand, not excessive speculation."

But wealthy clients of J.P. Morgan's "private banking" arm got a different view in an e-mail sent by the unit's chief investment officer, Michael Cembalest. He said "there was an enormous amount of speculation pent up in energy markets . . . and it wasn't just the supply-demand equation."

An angry Sen. Byron L. Dorgan (D-N.D.), sponsor of legislation to address oil market speculation and a member of the Senate Committee on Energy and Natural Resources, sent a letter to J.P. Morgan chief executive Jamie Dimon. "I am troubled," he wrote. "Please explain why J.P. Morgan testified before Congress that the high oil prices are only due to supply and demand when your experts clearly acknowledge privately that it was speculation, not market fundamentals, that sent oil prices skyrocketing."

J.P. Morgan spokesman Joseph Evangelisti said that nothing was amiss. "These two people are in completely separate, firewalled groups," he said, "and we are careful to preserve the independence of our client research."

WP20080918SPECULATE18

Document WP00000020080918e49i0002w

The Washington Post

A Section

Stocks Plunge as Crisis Intensifies; AIG at Risk; $700 Billion In Shareholder Value Vanishes

Glenn Kessler and David S. Hilzenrath
Washington Post Staff Writers
1,691 words
16 September 2008
The Washington Post
WP
FINAL
A01
English

The Federal Reserve and Treasury Department struggled yesterday to contain the fallout from an upheaval among the country's largest investment banks as they moved on to their next challenge -- engineering a $75 billion private rescue of the nation's largest insurance company.

The insurer, American International Group, faces a cash crunch that grew more severe last night when the major credit-rating agencies warned investors that the company could have greater difficulty in meeting its obligations. It was unclear whether the downgrades by the agencies would force AIG to post additional collateral at a time when it is having difficulty raising money.

Investors sent the Dow Jones industrial average plunging more than 500 points, or 4.4 percent, for the biggest point loss since the Sept. 11 terrorist attacks seven years ago. About $700 billion in shareholder value disappeared in a single day of trading and the sell-off continued in Asian markets Tuesday.

The wrenching reshaping of Wall Street -- which over the weekend included the demise of one big firm and the sale of another -- also pushed the value of the dollar lower. It sent the price of crude oil below $100 a barrel for the first time since Feb. 15 as traders bet a global downturn would reduce the demand for energy.

Wall Street's biggest shakeout since the Great Depression stems from a collapse in housing prices, which spread losses among firms that bet on securities linked to mortgages. Twice in the past year, regulators intervened to save financial firms and prevent further erosion in the housing markets. But over the weekend, officials drew the line at rescuing the storied investment bank Lehman Brothers, which yesterday filed for bankruptcy protection.

"We had a very, very tough day on the market," said Art Hogan, chief market analyst at Jefferies & Co. "Investors are anxious about the spillover effect of Lehman and what is the next shoe to drop."

As investors digested the news, some economists worried whether Wall Street's troubles were spilling over into other parts of the economy, renewing pressure on the Federal Reserve to cut interest rates when it meets today.

Fed leaders, however, believe it is too early to tell what the impact might be, and they are unlikely to cut rates for now.

In the meantime, Treasury Secretary Henry M. Paulson Jr. signaled yesterday that taxpayer funds could still be used broadly to "maintain the stability and orderliness of our financial system" but that he was pressing healthier Wall Street firms and commercial banks to join together to assist in rescuing individual firms -- much like the purchase of Merrill Lynch on Sunday by Bank of America.

Goldman Sachs, for instance, was asked by the Federal Reserve Bank of New York to help AIG, a $1 trillion-asset insurance company that serves 74 million consumers in 130 countries. AIG had been heavily involved in the business of issuing complex insurance contracts to investors in securities backed by mortgages, and the collapse of subprime and other home loans threatened to hobble the company and trigger a chain reaction in the financial system.

J.P. Morgan Chase, which is serving as AIG's financial adviser, was seeking support for a credit line of $70 billion to $75 billion that would involve multiple lenders, spreading the risk, according to two sources familiar with the discussions. They spoke on condition of anonymity because the talks were private.

New York's governor, meanwhile, said his state would allow AIG to use $20 billion from its own insurance subsidiaries to ease a financial crunch. By posting the assets as collateral, AIG can borrow money to run its day-to-day operations, Gov. David A. Paterson (D) said. The move required special dispensation from state insurance superintendent Eric R. Dinallo, who is responsible for protecting the stability of AIG insurance companies in New York and their policyholders.

"It's no secret that the company has been talking to the Feds and talking to us," Paterson said. "They asked us what assistance we could provide, and this is our idea."

A deal to rescue AIG may have to come quickly now that Standard & Poor's and Moody's Investors Service have lowered their credit ratings for the firm, should the decision force AIG to boost its collateral to meet its obligations.

The Fed has maintained that it will not offer AIG a bridge loan or other direct injection from the government, according to sources familiar with the conversations. AIG executives huddled at their Manhattan headquarters over the weekend with potential private investors including J.C. Flowers, Kohlberg Kravis Roberts, and TPG as well as Paterson's representatives, including Dinallo; AIG was also talking to Warren E. Buffett's Berkshire Hathaway.

AIG spokesman Peter Tulupman declined to comment.

"I don't think anybody is going to lend that amount of money at terms that are anywhere near economically feasible without a backstop, without some form of guarantee, say by the Fed or another party," said Donn Vickrey of Gradient Analytics, who has been warning of trouble at AIG for months.

Vickrey said it appeared the Fed was playing a game of chicken with Wall Street, trying to pressure firms with a big stake in AIG's continued viability to step up to the plate.

AIG's stock fell 61 percent, to close at $4.76, yesterday.

At the same time, the Fed over the weekend made it easier for investment banking firms to borrow money by agreeing to accept a wider range of assets as collateral, including mortgage-backed securities that banks may not be able to sell. The increased availability of cash could be crucial to the investment banks, the rough equivalent of a home equity line for a house-rich, cash-poor family.

"The actions of the Federal Reserve, it was the most overlooked but the most important thing that happened this weekend," said Steve Bartlett, president of the Financial Services Roundtable, which represents the largest financial companies.

The Fed's willingness to take those assets off banks' balance sheets could also help the institutions avoid further write-downs if those assets continue to lose value.

The Fed, for its part, is betting that the assets could eventually be sold for more than the market is willing to pay right now. If not, taxpayers could lose money.

Patricia McCoy, who served on the Fed's Consumer Advisory Council from 2002 to 2004, cautioned that "it's a big, big risk. . . . Right now it's really hard to value that collateral. And in the meantime, even though the Fed financing is temporary, it sends a huge message to the investment banking industry to continue to arrange your balance sheets to be dependent on short-term financing, because when you get into a liquidity crunch, you can turn to us and we'll help you out."

Stocks' plunge yesterday showed that investors remained nervous. Shares opened lower but generally traded in the same range until the last hour of trading -- when a 300-point drop in the Dow became a 504.48-point rout, bringing it to 10,917.51, moving below the 11,000 mark for the first time since mid-July. The technology-heavy Nasdaq was down more than 3.5 percent, and the Standard & Poor's 500-stock index was down 4.7 percent.

The financial sector was among the hardest hit. Bank of America closed down 21 percent, while Wachovia fell 25 percent. Goldman Sachs and Morgan Stanley, the two remaining survivors of what were once Wall Street's Big Five, report quarterly earnings this week -- and closed down 12 and 14 percent, respectively.

Although it was a horrible day for the market, it was no worse than Treasury and Fed officials had expected when they declined to intervene to save Lehman. Indeed, officials said they were pleased that the credit markets seemed to generally to function all right.

Another bit of good news for consumers: Oil prices fell about $5 a barrel, to close at $95.71, the first time prices have closed below $100 in months. Hurricane Ike did not do as much damage as some had feared and overall demand for fuel continues to decline, analysts said.

"One of the reasons that oil is weak is that [there is an acknowledgment that] the slowdown in the economy could affect everything, and that includes demand for oil," said Phil Flynn, oil analyst at Alaron Trading in Chicago.

Risk-averse investors are likely to move away from U.S. assets, dragging down the value of the dollar compared with a range of foreign currencies, said Joseph Brusuelas, chief U.S. economist at California-based Merk Investments. Already, Treasury bond prices surged yesterday, meaning that yields fell. "There is a concern about the basic stability of the market going forward," he said.

Global stocks also plunged on the weekend news, with Japan's benchmark Nikkei 225 index down as much as 5.4 percent in early trading today. Central bankers tried to calm the situation during deepening uncertainty about the resilience of the global financial system and the strength of the world economy. China's central bank announced it was cutting a key interest rate to uphold growth, and U.S. industrial production fell faster than expected in August.

Meanwhile, the sidewalk outside Lehman's headquarters in midtown Manhattan took on a carnivalesque atmosphere yesterday, as dozens of reporters clamored outside the doors, a half-dozen television trucks parked on the street, tourists grouped on the sidewalk taking photos, a few political partisans preached their platforms -- and occasionally an employee came out dragging a suitcase on wheels.

One man waved a red flag, calling for a workers' revolution and yelling, "The capitalist order is in freefall collapse!"

Staff writers Binyamin Appelbaum, David Cho, Zachary A. Goldfarb, Neil Irwin and Renae Merle in Washington, and Heather Landy and Robin Shulman in New York contributed to this report.

WP20080916WALLSTREET16

Document WP00000020080916e49g0003u

A Section

Financial Rescues Show That Faith in Free Market Is Shaken

Steven Pearlstein
Washington Post Staff Writer
698 words
12 September 2008
The Washington Post
WP
FINAL
A01
English

Self-reliance. Individual responsibility. A faith in free markets and a belief that people should have the opportunity to fail or succeed on the basis of their hard work and ingenuity. These are qualities that have been as central to the national identity as they have been to the American economic model.

Which is why it is so extraordinary that the government now finds itself hip-deep in the direct management of the financial system, rescuing four of the country's biggest financial institutions -- Bear Stearns, Fannie Mae, Freddie Mac and now Lehman Brothers -- from the harsh discipline of markets and the consequences of their own misjudgments.

This unprecedented intrusion of government is coming in the waning days of the administration of a Republican president who made privatization, deregulation and a faith in free markets the centerpiece of his economic policies and of his political agenda.

But now, facing the very real risk of a global financial meltdown and the prospect that he could go down in economic history compared to Herbert Hoover rather than Ronald Reagan, the president and his appointees have decided to set aside their principles in favor of economic and political pragmatism.

It was only a decade ago, after the heads of some of Wall Street's biggest banks and investment houses were invited to a meeting at the Federal Reserve Bank of New York and merely encouraged to mount a private rescue for a failing hedge fund, that there were howls of protest from both the left and the right about undue interference. Although no public money was involved, nor any exercise of regulatory powers, the Fed's behind-the-scenes effort to prevent the collapse of Long-Term Capital Management was seen as an abandonment of free-market principles.

Today, those objections seem almost quaint.

In March, the Fed agreed to lend J.P. Morgan Chase $29 billion to finance the purchase of Bear Stearns at a price and on terms effectively dictated by the secretary of the Treasury. And to forestall the risk of other failures, the Fed for the first time opened its lending window to investment banks that were not normally subject to its regulatory oversight.

Then, last weekend, the government used its broad regulatory powers to force Fannie Mae and Freddie Mac to accept a federal takeover that could potentially require taxpayers to lend or invest hundreds of billions of dollars to prop up not only the two housing giants but also the depressed market for mortgage-backed securities.

Now, officials from the Fed and the Treasury are carefully orchestrating the breakup and sale of Lehman Brothers to rivals and investors. Although it is unclear whether any government money or guarantees will be involved, there is a chance that a part of the venerable Wall Street firm will wind up in the hands of a foreign bank.

If these actions had been taken in Moscow, Paris, Beijing or even Brasilia, they would have seemed merely confirmation of long-standing socialist instincts and traditions. But in Washington, they are revolutionary. As with the Great Depression, it has taken a full-blown financial crisis to shake the faith that free markets will always deliver better outcomes than politicians and bureaucrats.

It will be several years, and probably several more rescues and interventions, before the crisis has subsided. There is already talk of $25 billion to $50 billion in federal loans to the auto industry, along with an economic stimulus package chock full of "public investments."

And there is a consensus, even among Republicans, that financial deregulation went too far and that a new and more robust regulatory architecture will be needed.

But even after the economy has recovered and financial markets return to normal, a generation of Americans that has lived through the savings-and-loan crisis of the '80s, the Internet bubble of the '90s and the current credit crisis is likely to retain both a lingering suspicion of unregulated markets and a willingness to use the powers and resources of government to enhance economic stability.

WP20080912ANALYSIS12

Document WP00000020080912e49c0001j

The Washington Post

Financial
Lehman Retools In Bid for Recovery; Investment Bank Loses $3.9 Billion In Third Quarter

Heather Landy
Special to The Washington Post
1,131 words
11 September 2008
The Washington Post
WP
FINAL
D01
English

Lehman Brothers, anxious to show it can weather a credit crisis that contributed to the firm's $3.9 billion third-quarter loss, said Wednesday that it would sell a majority stake in its investment-management division, slash its dividend and spin off about $30 billion of real estate assets.

The announcement did little to calm investors' concerns that Lehman, the smallest of the four major Wall Street investment banks, might suffer the same fate as former rival Bear Stearns, which was acquired by J.P. Morgan Chase in a deal regulators brokered in March after a bank run that shook the securities industry.

Lehman stock, which fluctuated throughout the session as investors tried to weigh the benefits of the plan against the costs of shrinking the firm, finished 6.9 percent lower, at $7.25. That was on top of Tuesday's 45 percent drop, which prompted the firm to unveil its plans a week ahead of schedule.

During a conference call with Lehman executives, analysts pressed for assurances that the $5.6 billion of write-downs that the firm disclosed for the quarter ended Aug. 31 -- primarily for declines in the value of assets tied to residential mortgages -- sufficiently reflected the severity of the troubles in the real estate market. The concern demonstrated the skepticism that remains even after last weekend's federal bailout of government-sponsored enterprises Fannie Mae and Freddie Mac, which play a vital role in supporting the mortgage and housing markets.

"There's still an element of doubt in terms of confidence of the financial players, and that's not going to go away just with the bailing out of Bear Stearns and the bailing out of the GSEs," said Michael Kastner, managing director of fixed income at Sterling Stamos Capital Management in New York. "What we're going to need to see is at least one quarter where the financial institutions don't show write-downs and do show profits and an ability to grow their business."

Increasing business will become a tougher task for Lehman as it unwinds or restructures several of the deals that helped it diversify in the past decade from its historic strength in bonds.

The firm plans to move $25 billion to $30 billion of commercial real estate assets to a new company that would be spun off to shareholders early next year. The new entity, Real Estate Investments Global, would aim to hold mortgage-related investments to maturity or exit them with orderly sales once the market improves instead of being forced into fire sales that turn paper losses into real ones.

Lehman, which developed a niche in the mortgage market as a way of competing with larger rivals in equity underwriting and other traditional brokerage businesses, said it was in advanced talks to sell $4 billion of mortgages in Britain to BlackRock Financial Management.

In a nod to the times, Lehman executives confirmed that their firm would probably put up the bulk of the financing for the BlackRock deal. Both UBS and Merrill Lynch used seller-financing arrangements this summer to cement deals with investment firms that acquired tainted mortgage assets from them. These arrangements illustrate the generous terms that buyers are able to demand and underscore the continuing difficulty of getting credit from traditional sources.

Lehman executives said they were not sure whether they would need to offer financing as part of their effort to sell 55 percent of the investment-management division. Bids for the business, which includes prized fund manager Neuberger Berman, are being examined.

Taken together, the restructuring measures, which include cutting the yearly dividend to 5 cents a share from 68 cents for an annual savings of $450 million, will give Lehman about half the extra capital that CreditSights debt analyst David Hendler thinks it will need to survive.

"We continue to think that for the company to return to more normalized capital markets trading capacity that it needs a major strategic stake from an outside investor," Hendler wrote in a note to clients.

Lehman has about $42 billion of liquidity and can borrow from the Federal Reserve, but it "cannot be stuck in a shrinkage strategy for extended times," Hendler wrote.

Lehman has not needed the Federal Reserve's discount window, an emergency lending program set up in March to help investment banks avoid the type of run that felled Bear Stearns. To help investment banks, the Fed also gave them a separate opportunity to borrow money by putting up high-quality assets as collateral. These programs have been a source of comfort to some investors and have created a sense of foreboding for others.

"The fact that the market has Lehman pinned on the ropes here following the events of the weekend with the intervention on Fannie and Freddie, and the fact that Lehman has something that Bear didn't have, which is access to the discount window, to me it says that we're still very much in the grips of this credit crisis," said John Ryding, chief economist at RDQ Economics and former chief U.S. economist at Bear Stearns.

Lehman chief executive Richard S. Fuld, who joined the firm nearly 40 years ago and has run it since 1994, held open the possibility of changes more drastic than the ones announced Wednesday.

"I have always said that if anybody came with an attractive proposition that made it compelling for shareholder value, that it would be brought to the board, discussed by the board and evaluated, and that has not changed," he said during the conference call.

Lehman's appetite for real estate investments led to the firm's involvement in high-profile condominium and office projects in the Washington area, including District-based developer Monument Realty's renovation of the Watergate Hotel and a 1.9 million-square-foot mixed-use retail project near the Nationals' new ballpark. Lehman has invested about $620 million in at least 15 projects developed by Monument.

"I am waiting to hear from them what is going on with our assets, but I presume if they are in that [spin-off] company, then it is business as usual," said Michael J. Darby, principal at Monument. "I would rather see the assets stay with Lehman, absolutely, because they know the assets and they know us."

Lehman's stake in Archstone, a portfolio purchased in 2007 with New York-based Tishman Speyer, will be transferred to the spin-off company. Lehman is also an equity investor in 13 apartment buildings in Arlington owned by Monday Properties.

Staff writer Alejandro Lazo in Washington contributed to this report.

WP20080911LEHMAN11

Document WP00000020080911e49b0001s

The Washington Post

STEVEN PEARLSTEIN
Financial
Don't Like Bailouts? Consider the Alternatives.

Steven Pearlstein
896 words
10 September 2008
The Washington Post
WP
FINAL
D01
English

First came the rescue of Bear Stearns and the Fed loans to cash-strapped investment banks. Then the government stepped in to fill the financing gap left when private lenders retreated from the college loan business. Last weekend brought the takeover of Fannie Mae and Freddie Mac. And now the Not-So-Big Three are headed our way looking for $50 billion in retooling loans.

When is this going to end?

The honest answer: With stock markets swinging 300 points a day and the economy diving into recession, not anytime soon.

Indeed, the chances are pretty good that by year's end, Washington will have to bail out another big bank or investment house along with a bond insurer or two. And taxpayers will be called on to replenish the coffers of the federal agencies that insure private bank deposits and private pensions.

Already, there's been plenty of grumbling from editorial writers and market-oriented conservatives that the country is on a slippery slope toward socialism. They also fear that these rescues will encourage reckless risk-taking in the future, creating the expectation that if bets go bad, Uncle Sam will always be there with a bailout.

From the left, meanwhile, come populist complaints that government has committed enormous amounts of taxpayer money to bail out corporate fat cats and rich investors while ignoring the plight of millions of Americans facing personal bankruptcy and foreclosure.

While there is validity to these concerns, they are also based on a number of false assumptions, chief among them that vast sums are expended on these rescues.

History shows that rather than costing taxpayers, the rescues have often wound up making money.

That was the case with the Home Owners Loan Corp., a New Deal agency that bought mortgages from banks and wound up with a small profit by the time all the loans were paid up in the early 1950s. The same was true of the controversial loan guarantees made to Lockheed and Chrysler in the 1970s. More recently, following the Sept. 11 terrorist attacks, the government set up an Air Transportation Stabilization Board that offered loans and loan guarantees to a handful of cash-strapped airlines. The agency now expects to close out its books in the black.

In the case of the $29 billion that the Federal Reserve loaned J.P. Morgan Chase to take over Bear Stearns, the final cost won't be known until the Fed sells the asset-backed securities it took as collateral for the loan. So far, so good: As of June 30, those assets had an estimated market value of $29 billion.

It's anyone's guess what the Fannie and Freddie rescue will cost, but at this point it looks to have been structured on terms quite favorable to the government. Although the government is yet to put a dime into the companies, it has received $1 billion worth of preferred stock and warrants for 80 percent of both companies' common stock simply for agreeing to provide backstop financing.

Over the next few years, however, the Treasury will almost surely have to invest tens of billions of dollars to keep Fannie and Freddie adequately capitalized, and how much of that money will ultimately be recovered depends on how things turn out with the millions of mortgages the companies hold or have guaranteed. But if it is willing to wait until housing markets finally recover, there's a good chance the government will recoup most of its investment, along with a 10 percent annual dividend and a hefty guarantee fee.

In the end, the right way to think about these rescues is not to simply ask how much they are likely to cost, but how the rescue compares to the cost of doing nothing.

It's not hard to imagine, for example, that if nothing had been done, Fannie and Freddie would have been forced by nervous bondholders to hunker down and throttle back its housing-finance activities, further destabilizing financial markets and accelerating the housing market's downward spiral. Those, in turn, could have easily turned a short recession into one that was longer and deeper -- one that cost Americans an extra $200 billion in lost income, several hundred thousand additional lost jobs and a net loss to the Treasury of $80 billion. Suddenly, a Fannie/Freddie rescue begins to look like a bargain.

Aside from the money, of course, there is also the problem of moral hazard -- the concept that unless markets are allowed to inflict the full measure of punishment on investors and executives for their bad judgments and undue risk-taking, it will only invite bad judgment and undue risk in the future. But using moral hazard to argue against the carefully structured rescues of Bear Stearns or Fannie and Freddie is a bit likely arguing that any sentence short of capital punishment is insufficient to deter bank robbery.

Remember that even with the rescues, top executives at Bear Stearns, Fannie Mae and Freddie Mac lost their jobs, their reputations and most of their net worth, while long-term investors lost all but a tiny fraction of their money. It's hard to imagine that anyone will look back on those experiences and see anything but a cautionary tale.

WP20080910PEARLSTEIN10

Document WP00000020080910e49a0002s

The Washington Post

Financial
Producer Prices Up 1.2% In July; Housing Data Add to Concerns

Howard Schneider and Heather Landy
Washington Post Staff Writers
557 words
20 August 2008
The Washington Post
WP
FINAL
D01
English

Wholesale prices jumped in July at the fastest rate in more than a quarter-century, the Labor Department reported yesterday, furthering concerns about a continued increase in inflation at a time when economic activity has ebbed.

Stocks tumbled, with the Dow Jones industrial average posting its second straight triple-digit decline as the new government data suggested that an economic recovery may take longer than investors had expected.

"The economy faces more tough times ahead, which is uncomfortable for workers, businesses and investors," said Stuart Schweitzer, global markets strategist at J.P. Morgan Private Bank. "But we're only going to have room to grow once inflation is contained, and unfortunately the slowdown we're in is what appears to be needed right now to keep inflation in check."

Labor Department data showed that the cost of materials used by businesses increased 1.2 percent in July and has risen 9.8 percent in the past 12 months. It was the largest yearly increase since 1981, as businesses absorbed sharp cost increases for energy and other commodities.

The report followed recent news that consumer prices also are rising faster than expected -- and faster than the Federal Reserve's generally accepted target rate of around 2 percent. Although wholesale inflation does not necessarily translate into higher consumer prices, it can be indicative of things to come.

So far, however, the Fed has not reacted to inflation reports by raising interest rates, out of concern that higher borrowing costs would further slow the economy. With oil prices in particular falling from recent record highs, some hope upcoming reports will show price increases slowing.

Other government data released yesterday brought more bad news for the housing industry. Housing starts in July fell 11 percent compared with the month before, and housing permits -- a gauge of future construction activity -- dropped 18 percent.

The slump in the housing industry has taken an economy-wide toll, depressing earnings at such companies as Home Depot, which yesterday reported a 24 percent drop in profit for the past three months. The downturn has also upended the budgets of homeowners who had banked on the equity from increasing home values.

Rising mortgage default rates, meanwhile, have caused a crisis among banks and financial institutions and prompted a series of steps by the federal government to keep the credit markets functioning.

Financial stocks were among the biggest decliners yesterday. SLM Corp., the student loan company known as Sallie Mae, dropped 16 percent, or $2.47, to close at $13.

Lehman Brothers fell 13 percent, or $1.96, to $13.07, on concern that continued turmoil in the mortgage market will lead to more write-downs this quarter, and on growing speculation that the firm will sell its investment-management division, a stable source of income, to shore up its balance sheet.

Shares of Bank of America, American Express, J.P. Morgan Chase and Citigroup also ended the session lower.

The Dow Jones industrial average shed 1.14 percent, or 130.84, closing at 11,348.55. The broader Standard & Poor's 500-stock index fell 0.93 percent, or 11.91, to 1266.69.

Landy reported from New York.

WP20080820ECONOMY20

Document WP00000020080820e48k0001q

The Washington Post

Financial
Executive Search: Laid-Off Wall Street Workers Branch Out

Caroline Salas and Pierre Paulden
Bloomberg News
827 words
17 August 2008
The Washington Post
WP
FINAL
F04
English

Jessica Walter didn't go to Harvard University to study cupcakes, but they're her focus since she lost her job as a vice president in credit strategy at Bear Stearns.

"I want to teach kids to cook," said Walter, 27, who founded Cupcake Kids in New York to provide birthday parties and cooking classes for children. "The goal is to have this be my full-time job and make enough to live."

Wall Street professionals are trying new careers, and fetching smaller salaries, in the wake of the elimination of 76,670 investment jobs in the Americas stemming from the global credit crunch that started a year ago, according to data compiled by Bloomberg.

Bankers are "buying businesses for themselves, moving west or to Europe, including Russia, or to Dubai," said Jeanne Branthover, managing director of Boyden Global Executive Search in New York. "They're also moving totally outside what they do, buying a retail store or a ranch."

About 33,300 finance jobs in New York, or 7.1 percent of the 2007 peak total, will be cut by June 2009, the Independent Budget Office, a monitor of city finances, estimated in a May report. Half the people working in debt sales, trading and research in New York at the beginning of 2007 will have been fired by the end of this year or won't get a bonus, estimated Michael Maloney, who recruits finance professionals for Maloney Inc.

"The job market is in the worst, most chaotic state I've ever seen it in fixed income," Maloney said. "I've been doing this for over 30 years, and I've never seen anything like this."

Jeff Salmon said job jitters prompted him to swap investing in asset-backed securities at Bank of New York Mellon for keeping the books at a hair salon. He and his wife, Olga, opened a Great Clips franchise in Mercerville, N.J., that offers $12 haircuts for men and women, and they plan to open another.

"The structured-finance market is so bleak right now, it makes sense for us to focus our energies on this," said Salmon, 49. "It's refreshing to not have to worry about whether I am going to have a job next week."

Traders and bankers who leave finance can expect to earn a small fraction of what they used to make. Compensation for employees on Wall Street averaged $399,360 in 2007, compared with $62,390 for New York City jobs outside the securities industry, according to the state comptroller's office.

Goldman Sachs Group, which has cut 1,500 jobs, paid its employees an average of $661,490 last year, company filings show.

Walter, who studied economics at Harvard, is among those welcoming the opportunity to try something radically different.

"The biggest thing that I enjoy is being the jack-of-all-trades, of having my own business," she said. "It's a challenge."

Bear Stearns, where Walter worked, was facing bankruptcy before being acquired in May by J.P. Morgan Chase, which fired 55 percent of Bear's 14,000 employees. Lehman Brothers Holdings has eliminated 6,390 employees and Citigroup has cut 14,100, according to data compiled by Bloomberg.

"The most affected areas are structured finance, [collateralized debt obligations] and mortgages," said Arturo Cifuentes, managing director of New York-based R.W. Pressprich, which trades derivatives. "Over one-third of jobs in this area are gone for the next five or 10 years."

Gary Witt left as a managing director in structured finance at Moody's Investors Service to teach finance and statistics at Temple University in Philadelphia.

"It's hard to say if things were going well, would I have left," said Witt, 49. "It didn't look like the industry would be any fun for the next few years."

Moody's, the oldest credit-ratings company, eliminated 275 jobs, or 7.5 percent of its workforce, to cope with a plunge in bond sales that sliced revenue from rating debt.

Bond salesmen and traders are trying jobs as varied as bartending and real estate sales so they can make insurance and tuition payments for their families, Maloney said.

"I know a few guys that started gambling, playing poker to pay the bills," he said. "Especially ex-traders."

Joshua Persky took to the streets after being laid off as an investment banker at Los Angeles-based Houlihan Lokey. He strolled New York's Park Avenue in June wearing a sandwich board reading "Experienced MIT Grad For Hire."

"It's been slow and frustrating," said Persky, 48. "The only places to turn are hedge funds and boutique banks. I've never been unemployed this long."

While his gambit generated some job leads, none has panned out so far, Persky said. He's considering a move to Omaha.

WP20080817WALLSTREET17

Document WP00000020080817e48h0008c

The Washington Post

Financial

Balducci's Coming Soon to Food Lovers in Dubai

216 words
11 August 2008
The Washington Post
WP
FINAL
D02
English

The next chapter in the Balducci's saga takes place overseas.

The gourmet grocer that built a following for its 10 stores along the East Coast plans to open its first international location in Dubai at the end of September. The store is being built in partnership with developer Nakheel Retail in the Mall of Dubai, and the company hopes it will be the first of several locations in the bustling, wealthy region.

Looks like residents of Penn Quarter, which has had an on-again/off-again relationship with Balducci's, will need a passport to get their Bilinski all-natural chicken sausages.

Still, Balducci's name is woven into the fabric of Washington, not least because local businessman Mark Ordan, who took over Balducci's in 2003 with financial backing from Bear Stearns Merchant Banking. (Yes, he's the same guy who founded Fresh Fields then sold it to Whole Foods.) Ordan left Balducci's in 2006 to become chief operating officer of Mills Corp., a shopping mall developer in Chevy Chase. Last month, he was named head of McLean-based Sunrise Senior Living.

-- Ylan Q. Mui

This was originally printed on The Checkout at blog.washingtonpost.com/thecheckout.

WP20080811MORN-BALDUCCI11
Document WP00000020080811e48b0003j

The Washington Post

Editorial

Throwing Honesty Out the Window

Sebastian Mallaby
870 words
21 July 2008
The Washington Post
WP
FINAL
A15
English

Until just recently, policymakers were doing well in the financial crisis. Congress passed a timely and well-crafted stimulus. Bear Stearns was rescued, averting market chaos. The Fed cut interest rates aggressively, reasonably fearing a collapse of the economy more than a collapse of the dollar.

But now Washington is losing it. The most vivid illustration comes from the Securities and Exchange Commission, which first failed to oversee the financial institutions under its purview -- and now wants to stop the markets from doing their part.

Starting today, the SEC is clamping down on short selling, which is a way for market watchdogs to telegraph trouble. Short sellers dig around in company balance sheets. When they come across a problem, they borrow shares in the offending company and sell them. This pushes down the share price, alerting others to trouble.

Short sellers have always been unpopular. Everyone likes optimists; pessimists tend to be despised. People who think companies are undervalued, buy their stock and then make speeches on their terrific prospects may be inflating a dangerous bubble -- but they are just being red-blooded Americans. On the other hand, people who think a company is overvalued, short its stock and publicly explain their reasons may be preventing a bubble from inflating -- but they are rumor-mongers and conspirators.

Needless to say, this double standard is dumb. Despite popular myth, the strength of the American economy does not lie in boundless optimism. It lies in optimism spiked with honesty. Optimism drives entrepreneurs to start new companies. Honesty allows venture capitalists to filter out crackpots. Economies need a balance of boosters and skeptics to be healthy. When the boosters take over, you get frauds like Enron, farces like the dot-com bubble and tragedies like families who can't afford their home payments.

When the mortgage bubble burst last summer, there was much earnest speechifying on how not to be Japan. The Japanese, you will remember, reacted to their property bust by throwing honesty out the window. Banks didn't own up to the full extent of their losses, and the government propped up stock prices. The result was that Japan's recovery was a decade in coming. The United States, it was argued, would be altogether more forthright. Banks would acknowledge problems, fix them and move on.

One year later, the Japanese urge is growing strong. For perfectly sound reasons, the economy is not yet out of the woods: Real estate prices are still falling, and years of reckless borrowing by finance companies and households still have to be worked off. But rather than be honest about these problems, people are pointing fingers at imagined villains.

The finger-pointing began with the Bear Stearns failure. Bear was sound, its boosters say; short sellers killed it off. Well, if traders did collude to drive down the stock price, they can and should be prosecuted. But without offering any evidence of collusion, the boss of J.P. Morgan stated recently on television, "This is even worse than insider trading. This is deliberate and malicious destruction of value and people's lives."

The finger-pointing continued with the near-failure of Lehman Brothers, another large investment bank. Lehman's boss brazenly declared in April that the firm had put the worst news behind it, and investors were lured into injecting fresh capital before Lehman fessed up to a huge loss. But Lehman's boss has gotten away with that because nobody objects to boosters. Instead there has been outrage about the short sellers who disputed Lehman's numbers -- and were right.

Now the finger-pointing has climaxed with Fannie Mae and Freddie Mac. The shares of those housing-finance companies plummeted two weeks ago for a very good reason: If you valued their books in a way that reflected the decline in house prices, they were worth about zero. Ah, but never mind such details. Blame the short sellers.

Enter the SEC chairman, Christopher Cox. Steamrolling his own staff and departing from prepared testimony to Congress last week, Cox declared that he would suspend "naked shorting" of 19 financial stocks. By this he meant that short sellers would have to borrow stocks before they sell them rather than when the sale is settled three days later.

It's true that naked shorting is a problem. If people sell stocks and then fail to deliver them to buyers, you are left with a mess. But the SEC issued a good rule three years ago to deal with that. Cox is ignoring his own agency's achievement and inventing a fictitious technical issue, all because he wants to be on the right side of the anti-short witch hunt.

Wall Street is already tense; it needs gratuitous disruption like a hole in the head. Cox's unconsidered populism has forced dealers to recode complex trading systems on virtually no notice. If the machinery misfires this week, we know whom to blame. But the really scary thing is what this promises for later. We are a long way from the end of this financial crisis. What will Washington do next?

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WP20080721OP-MALLABY21

Document WP00000020080721e47l0001y

The Washington Post

Financial

Fed, SEC Team Up On Bank Oversight; Deal Formalized to Coordinate on Wall St.

Neil Irwin
Washington Post Staff Writer
832 words
8 July 2008
The Washington Post
WP
FINAL
D01
English

Two top regulators reached a formal agreement to coordinate their oversight of Wall Street yesterday, as the government attempts to build a new system to guard against a meltdown of the financial system.

Leaders of the Federal Reserve and the Securities and Exchange Commission signed a memorandum of understanding that explicitly allows for the two agencies to share information about the inner workings of investment banks. The move formalizes what has been a reality since the rescue of Bear Stearns in March and marks an end to an era in which the two agencies held information close to their vests.

"It requires consultation between the SEC and the Fed in areas that the SEC had thought previously were its exclusive business. But the world has changed," said David Becker, a partner at law firm Cleary, Gottlieb, Steen & Hamilton and former general counsel at the SEC. "This mostly ratifies facts on the ground."

The agreement is a baby step in a broader path toward changing the way the nation's financial system is regulated. The Bush administration proposes streamlining the oversight of banks and investment firms while giving the Fed new powers to guard against financial crises. Fed Chairman Ben S. Bernanke will address the topic in a speech today and in congressional testimony Thursday.

Bernanke is considering whether to extend a special lending program for investment banks, implemented during the Bear Stearns episode, that is scheduled to end in September. He is considering extending that program beyond the end of the year if the strains in financial markets continue.

Currently, investment banks voluntarily agree to have the SEC as their primary regulator, a situation that Bernanke worries weakens the SEC's oversight ability. In his view, and that of many experts outside the government, Congress should grant stronger legal authority to those who regulate investment firms.

Bernanke also favors exploring new procedures by which the government can ensure that if investment firms fail, they could do so in a way that inflicts less damage on the overall economy. Such a formal procedure, which is in place for regular banks, might have made the dissolution of Bear Stearns more orderly.

The Fed chairman is open to taking on formal responsibility for the stability of the financial system, which the Bush administration advocates, but to do so the central bank wants the ability to gather information and order changes in a wide range of financial companies.

Any major overhaul will require changes to the law -- a sprawling and complicated task that is unlikely to happen this year. Yesterday's agreement shows how the agencies involved are trying to find ways to prevent a recurrence of the financial crisis in March using the tools and legal authority they already have.

"Once you try to do a major overhaul, you get into a lot of turf wars and you can get very bogged down," said Martin Neil Baily, a senior fellow at the Brookings Institution. "This is working within the existing system, which can be a more effective way to go."

The SEC-Fed agreement came about because of what happened in March, when the Fed agreed to make an emergency loan to Bear Stearns, which otherwise would have filed for sudden bankruptcy, and then gave financial backing to the acquisition of Bear Stearns two days later. The Fed also made loans available to all investment banks, to prevent the run on the bank that enveloped Bear Stearns from bringing down other major firms.

As it made those loans, leaders of the Fed insisted they get new access to the inner workings of the investment firms so as to be sure that their loans would be paid back. New York Fed employees have been working alongside SEC regulators in the large banks since March, doing just such monitoring.

Under current law, the SEC is the primary regulator of investment banks, such as Goldman Sachs and Morgan Stanley, while the Fed has explicit authority over commercial banks such as Citigroup and Bank of America. But that distinction has become increasingly blurry in a world in which commercial banks have big investment banking arms and investment firms are so intertwined in world markets that their downfall could threaten the world economy.

According to the new agreement, the SEC will provide the Fed with "information and analysis regarding the financial condition, risk management systems, internal controls and capital, liquidity and funding resources" of the firms it oversees, and the Fed will do likewise for the SEC.

"This agreement will permit the expanded sharing of information on a confidential basis," said SEC Chairman Christopher Cox in a statement, "and help ensure that regulated entities receive a coherent message from Uncle Sam."

Congressional Democrats praised the agreement while saying that there is still major work to be done to make financial regulation more effective.

WP20080708FED8

Document WP00000020080708e4780001w

The Washington Post

A Section
Former Fund Managers Face Fraud Charges In Credit Crisis; 2 Ex-Bear Stearns Workers Arrested

Michael A. Fletcher
Washington Post Staff Writer
1,123 words
20 June 2008
The Washington Post
WP
FINAL
A01
English

Two former Bear Stearns hedge fund managers were arrested yesterday and charged with fraud related to the collapse of a pair of investment funds that helped usher in the current financial crisis that grew out of the meltdown of the subprime mortgage market. They are the first top Wall Street executives to face criminal charges in connection with the crisis.

Federal agents arrested Ralph Cioffi, 52, and Matthew Tannin, 46, at their New York-area homes before marching them in handcuffs to their arraignment in federal court in Brooklyn, where they were formally charged with mail fraud, wire fraud and conspiracy. The charges capped a nearly year-long investigation into the management of the hedge funds.

The indictment alleges that the two men misled investors by offering upbeat assessments of the fiscal health of two Bear Stearns hedge funds, even as these executives harbored deep doubts about their viability. Cioffi was also charged with insider trading for allegedly moving $2 million of his personal money out of one of the funds, which were heavily invested in subprime-mortgage-backed securities, and into a better-performing fund he managed. The two men each face as much as 25 years in prison if convicted.

When the two funds run by one of Wall Street's most venerable firms crashed last June, it sent tremors through the financial world and became a harbinger of the chaos that followed as the mortgage problems roiled credit markets across the world. The arrests now symbolize the newest chapter of the crisis, in which law enforcement officials and regulators are beginning to seek accountability from those they accuse of fanning the crisis.

The indictments yesterday could well be followed by others, as federal officials announced they were conducting 19 corporate-fraud investigations of firms that had a role in the subprime debacle. "The majority of these corporate-fraud investigations address accounting fraud, insider trading and, with criminal intent, the failure to disclose the proper valuation of the securitized loans and derivatives," said FBI Director Robert S. Mueller III.

In a separate civil complaint, the Securities and Exchange Commission yesterday alleged that in the first five months of 2007, Tannin and Cioffi "deceived their own investors, as well as the fund's institutional counterparts, by fraudulently concealing from them the full extent of the fund's deepening troubles."

The indictment relies heavily on e-mails from the two men to make the government's case. The e-mails cited in the indictment are offered as evidence of Tannin and Cioffi's concerns about the funds' performance and their desire to conceal those worries to protect "their incomes and reputations."

In an e-mail written from his personal account on a Sunday in April 2007, two months before the two funds imploded, Tannin recommended to Cioffi that they either shut the funds or change their investment strategies, the indictment alleges. "[T]he subprime market looks pretty damn ugly. . . . If we believe [our internal modeling] is ANYWHERE CLOSE to accurate I think we should close the funds now. The reason for this is that if [our internal modeling] is correct then the entire subprime market is toast."

The next day, Tannin cautioned Cioffi against disclosing any information to other fund employees that would indicate the dire straits they could be in, the indictment says. Days later, the two told senior managers at Bear Stearns that the funds were in good shape and would continue to be successful. In a conference call with investors a day after that, Tannin said: "We're very comfortable with exactly where we are."

Cioffi and Tannin were named in lawsuits brought last year by hedge fund investors, including Barclays Bank, that alleged they were intentionally misled by the fund managers.

Lawyers for the two indicted men said their clients were caught off guard by the collapse of the subprime market. "The subprime crisis took everyone by surprise, including the Fed and Treasury, and dozens of the largest financial institutions have lost over $300 billion to date on the same investments," said Cioffi's lawyer, Edward Little, in a statement. "Ralph Cioffi's funds lost money in exactly the same way. Because his funds were the first to lose might make him an easy target but doesn't mean he did anything wrong. Indeed, Mr. Cioffi had no motive to do anything wrong. He did not and could not have profited by doing anything the government now claims he did."

Susan Brune, Tannin's lawyer, said: "Matt Tannin is innocent. He is being made a scapegoat for a widespread market crisis. He looks forward to his acquittal."

The collapse of the hedge funds run by Bear Stearns was the first indication of how widespread the subprime mortgage crisis had become and how exposed some of the financial world's most respected players could be. The tremors started by the collapse of the funds began to erode faith in Bear Stearns, which crashed three months ago and was sold to J.P. Morgan Chase. Last month, Bear Stearns shareholders approved J.P. Morgan Chase's $2.2 billion buyout at about $10 a share. In January 2007, Bear Stearns traded at $171 a share.

The indictment of the two Wall Street players coincides with a broad federal investigation of mortgage brokers, credit-repair firms and others who federal officials say contributed to the crisis by brokering fraudulent loans or attempting to fleece homeowners who were behind on their mortgages.

During a Washington news conference yesterday, Mueller said the FBI had since March charged more than 400 people involved in the mortgage and real estate industry -- and arrested 60 people Wednesday and more yesterday -- in a crackdown on mortgage fraud. The people were from across the country and were charged with fraud either in making loans or in swindling distressed homeowners under the guise of trying to save them from foreclosure. Officials put the losses to victims at more than $1 billion.

Four Maryland residents were among those charged. They are Michael K. Lewis, 56, and Cheryl Brooke, 51, who lived together in Upper Marlboro; Earnest Lewis, 59, of Takoma Park; and Winston Thomas, 42, of New Carrollton. They were charged with wire fraud and conspiracy in connection with a scheme in which they offered to save people from foreclosure but instead defrauded them and mortgage companies.

In some cases, the group would rent homes back to people they were purporting to bail out and charging more than the original mortgage payments, according to the indictment unsealed in federal court in Greenbelt.

WP20080620BEAR20

Document WP00000020080620e46k0000l

The Washington Post

Financial

Paulson To Urge New Fed Powers; Bank Would Help Police Wall Street

Neil Irwin
Washington Post Staff Writer
797 words
19 June 2008
The Washington Post
WP
FINAL
D01
English

Treasury Secretary Henry M. Paulson Jr. plans to call today for the Federal Reserve to be given new, explicit powers to intervene in the workings of Wall Street firms to protect the financial system, adapting his vision of how the financial world should be regulated to reflect the lessons of the collapse of Bear Stearns.

"Our nation has come to expect the Federal Reserve to step in to avert events that pose unacceptable systemic risk," Paulson plans to say in a speech today, according to prepared remarks obtained by The Washington Post. But the central bank "has neither the clear statutory authority nor the mandate to anticipate and deal with risks across our entire financial system."

"We should quickly consider how to appropriately give the Fed the authority to access necessary information from highly complex financial institutions and the responsibility to intervene in order to protect the system," Paulson plans to say, "so they can carry out the role our nation has come to expect."

Over the course of a few days in March, the central bank took unprecedented steps, with Paulson's support, to keep the rapid dissolution of Bear Stearns from causing an international financial catastrophe. The Fed provided financial backing for the acquisition of the investment bank by J.P. Morgan Chase and made emergency loans available to all major investment firms.

Those steps upended decades of precedent for how the financial sector was regulated. They also prompted a broad rethinking of how the government should try to prevent the actions of an individual firm from endangering everyone. Top officials are now, after several months, presenting their thoughts on what should come next; New York Fed President Timothy F. Geithner did so last week, for example, and Federal Deposit Insurance Corp. Chairman Sheila C. Bair did the same in a speech yesterday.

Any new formal regulatory powers for the Fed would have to be passed by Congress.

Paulson's recommendations go beyond those contained in a blueprint for financial regulation that he unveiled shortly after the Bear Stearns rescue. That document, which had been in the works for more than a year, proposed an enhanced role for the Fed in preempting financial crises but offered few details. Today's speech will elaborate, calling for the Fed to be given explicit power to step in whenever a firm poses risks to the system and the authority to demand information from financial institutions so it can better anticipate emerging threats.

Paulson's argument, which is shared by leaders of the Fed, is that even when the emergency Fed lending program for investment banks goes away -- it is scheduled to expire in September, though the central bank could choose to extend it -- financial players will assume they would be bailed out again in a crisis. That means they may be more willing to take risks that could threaten the financial system and thus require greater policing.

"We must limit the perception that some institutions are either too big to fail or too interconnected to fail," Paulson is to say. "If we are to do that credibly, we must address the reality that some are."

In many ways, Paulson's comments echo those by Geithner last week. For example, in today's speech, Paulson is to urge that the trading of financial products called over-the-counter derivatives be standardized. That has been a longtime goal of Geithner's.

Though Paulson and Geithner have collaborated in addressing the financial crisis of the past 10 months, the Treasury Department and the Fed still have some disagreements. Paulson, for instance, would move the Fed's day-to-day supervision of commercial banks to a different regulator in the name of simplification.

Fed leaders counter that their day-to-day regulation of banks gives them important insight into risks to the broader system. Indeed, they argue that the British regulatory system, which does separate the two roles, was a major reason for the run on the British bank Northern Rock last year that contributed to the financial crisis.

Bair, the chairman of the FDIC, made that point in her speech yesterday to the Exchequer Club of Washington. Her agency is responsible only for deposit insurance at regular, commercial banks, but she advocated a new system to handle the dissolution of any investment banks.

"I believe we need a special receivership process for investment banks that is outside the bankruptcy process, just as it is for commercial banks and thrifts," Bair said. "The bankruptcy process focuses on protecting creditors. When the public interest is at stake, as it would be here, we need a process to protect it."

WP20080619PAULSON19

Document WP00000020080619e46j0004d

The Washington Post

Financial

Fed Official Says Rescues May Create More Risks

Neil Irwin
Washington Post Staff Writer
695 words
6 June 2008
The Washington Post
WP
FINAL
D01
English

In a sign of widening skepticism within the Federal Reserve system of the central bank's rescue of Bear Stearns, the president of a regional Fed bank said yesterday that such actions may make financial crises more common.

The comments by Richmond Fed President Jeffrey M. Lacker reflect a concern among people within the central bank and close to it that the emergency actions taken over a single weekend in March may have fundamentally recast the role of the institution -- but without the lengthy, deliberative process that normally would precede such a move.

"The danger is that the effect of recent credit extension on the incentives of financial market participants might induce greater risk taking," Lacker told the European Economics and Financial Centre in London, "which in turn could give rise to more frequent crises, in which case it might be difficult to resist further expanding the scope of central bank lending."

Lacker did not specifically criticize the decision of Fed Chairman Ben S. Bernanke and New York Fed President Timothy Geithner to give financial backing for the emergency acquisition of Bear Stearns and to extend Fed lending to all investment banks. The actions taken March 16 were aimed at averting a global financial catastrophe, but Lacker expressed concern that that they created new risks.

"In times of financial crisis, the understandable central bank imperative is to alleviate the stress." Lacker said. "But the expectations such actions engender could very well make future crises more likely."

Others with close ties to the Federal Reserve system have expressed misgivings. The presidents of the Kansas City Fed and Minneapolis Fed have voiced concerns similar to those of Lacker, if not as directly. Former Fed chairman Paul Volcker said that the actions were on the edge of the central bank's legal authority.

Just yesterday, Philadelphia Fed President Charles Plosser said in a speech that the central bank should explicitly define in what situations it will intervene to protect an institution, because if officials simply use their discretion, it might encourage the taking on of too much risk.

Former St. Louis Fed president William Poole has attacked the actions explicitly as an undue interference in markets, and Vincent Reinhart, a senior staffer at the central bank until last summer, called it "the worst mistake in a generation."

In an interview yesterday, Reinhart said that the rumblings of discontent reflected a sense that the central bank's mission has changed without much forethought.

"You go back a few years, there was a settled consensus about the role of a central bank," said Reinhart, now a resident scholar at the American Enterprise Institute. "That has changed very rapidly, and the changes were driven by events. It's not clear anyone internalized the longer-term issues when they were solving that day's problems."

There have been other signs of disagreement within the Fed, reflecting both the complicated challenges the economy is facing and Bernanke's personal manner, which favors open debate. There has been at least one dissenter on every interest rate move at each meeting since the Fed's policymaking committee began cutting rates in September. Two members of the committee have dissented at the past two meetings.

Such open disagreement in crisis was unheard of when Alan Greenspan was Fed chairman.

Bernanke and his colleagues realized as they were taking the emergency actions in March that the moves could have momentous significance for the Federal Reserve. But they concluded the risks of not acting were greater than those of intervening -- failure to act could have caused financial markets to cease functioning, a massive loss of wealth and a deep global recession.

They also considered the possibility that ongoing financial events may have led to even more criticism and fundamental rethinking of the Fed's role than is occurring.

"We did what we did because we felt it was necessary to preserve the integrity and viability of the American financial system, which in turn is critical for the health of the economy," Bernanke told Congress shortly after that weekend.

WP20080606FED6

Document WP00000020080606e4660000c

The Washington Post

Style
It's Wall Street, Without the Cash; With Only Memories to Trade, Bear Stearns Employees Awaiting Sale to JP Morgan Employees Awaiting Sale to

David Segal
Washington Post Staff Writer
1,644 words
29 May 2008
The Washington Post
WP
FINAL
C01
English

What's truly odd about the demise of a Wall Street firm, it turns out, isn't the noise of the implosion but the quiet of the rubble. A post-calamity hush has settled over Bear Stearns's Manhattan headquarters. Traders who haven't left their desks for years take two-hour lunches. The phones rarely ring. A company with 14,000 employees, once known as the scrappy bantam of the financial world, is a zombie in a dark-blue suit.

Thursday, this undead corpse is going to bury itself. Or that's the expectation, anyway. Shareholders are scheduled to vote in New York on the reduced-for-clearance sale of the company to rival and next-door neighbor JP Morgan Chase. The price -- $10 per share -- would have been about as welcome as an obscene gesture last year, when Bear shares traded as high as $171. But in the span of a week in mid-March the firm basically vaporized.

"We knew it was a storm, but we didn't know it was the storm," recalls Fares Noujaim, a Bear Stearns vice chairman.

On Tuesday afternoon Noujaim, who is 44 and dressed in an impeccable pinstriped suit, is standing in his office on the top floor of Bear's headquarters. Movers have just shown up to haul away his furniture, which Noujaim paid for and which he's taking with him, wherever he ends up. All that is left is a killer view, a phone and a two-screen computer monitor on a bare floor.

"There was a TV here, a mirror over there," he says, gesturing around the room. He points to the ceiling. "I put in the recessed lighting."

Obviously, the lights stay, but nearly everything that can be wrapped up and packed at 383 Madison Ave. is on its way out the door, if it hasn't left already.

You think your office is depressing? Try a company where as many as 10,000 employees could soon be laid off. For added grimness, imagine a company that's been taken over by a former enemy. JP Morgan sent in "transition teams" on March 17, the day after the deal was announced. Job interviews have been underway for weeks, though in this case the candidates already have jobs and the interview is to determine whether they can keep them.

To say the least, this has been kind of awkward.

It's as though an opposing army has invaded and is trying to be courteous about finishing off the POWs, says a Bear employee, who, like others interviewed for this story, did not want to be identified for fairly obvious career reasons. "You knew they were going to hold you in prison, and you had to do everything they said. Or else they'd kill you."

Noujaim presses the elevator button to head down to the fixed-income trading floor, part of a quick tour he has offered to give a reporter. He's trim, intense and, at the moment, pretty distracted. He's about to land a job with a different firm, though he's still conducting Bear business. "I work for this company, and I'll continue to work for it until it's gone," he says.

Everyone else here appears to be socializing in somber groups of two or three. A lot of the offices are empty but for a desk and chair. The atmosphere is what you'd imagine at a Broadway show that's been canceled.

"Have you figured out what's next for you?" Noujaim asks a woman he greets on the elevator with a pat on the back.

"Well, I've got a few options," she replies. She mentions two of those options, but before she can get to the third, the doors open and Noujaim is on his way.

"Good luck," he says.

The fixed-income trading floor has row after row of computers and black chairs, an indoor prairie that looks two acres in size. At full bustle, rooms like this convey the blood lust that is capitalism at its most carnivorous, and when Bear was alive and well, Noujaim says, you'd have to shout to make yourself heard in here. The ceiling tiles were designed to reduce noise. Now, most of the seats are empty. In the few that are filled, traders are reading newspapers, or idly chatting on the phone while a Microsoft logo floats around their sleeping monitors.

"This is deathly quiet," Noujaim says. "When this place was functioning, it was a battleground."

The proximate cause of Bear's passing was a good old-fashioned run on the bank. Hedge-fund investors, spooked by rumors that the company's balance sheets were awash in toxic subprime mortgage securities, drained it of so much cash that it went bust. Seventeen billion dollars flew out the door in two days in March. The asset transfer system, which wasn't designed for an exodus of greenbacks on this scale, froze for a while. Fund managers were said to be showing up in the lobby, demanding their money.

In a sense, Bear was gossiped to death. And the company fought back with what several employees consider a mediocre crisis PR operation, one that was complicated by a bit of bad luck. When Bear CEO Alan Schwartz was interviewed a few days into the meltdown, on March 12, his no-problems-here refrain was interrupted in mid-sentence.

"I'm sorry to jump in here," said CNBC anchor Erin Burnett, who suddenly appeared on the screen. "Breaking news, though, we do want you to know that we have New York state officials confirming that New York Governor Eliot Spitzer will resign today."

Schwartz's attempt at pushback was too little and it might have been too late, since the momentum against Bear was nearly tsunami strength by then and wiped out the company a mere five days later. The day of Schwartz's CNBC appearance was also the day Bear employees started to panic. Especially after a senior managing director stood on a desk and announced to a group of underlings that everything was fine.

"He was so adamant," says an employee, "that we all realized, 'Oh my God, we're not fine.' "

Everyone at Bear has contracted a mild case of sudden infamy. The company has come to embody the excesses blamed for what is all but officially a national recession, and it achieved something close to villainy after the Federal Reserve Board promised $30 billion to backstop the sale to JP Morgan. Protesters showed up in Bear's lobby, chanting "Help Main Street, not Wall Street." Schwartz was summoned to Congress, where he was gently barbecued. John McCain denounced "very greedy people" on Wall Street in a meeting with reporters and singled out Chairman Jimmy Cayne, "who decided the day before he was bailed out by the federal government to cash in millions of dollars worth of stock."

This is true, though Cayne's sale will be remembered on Wall Street not for how much it netted him, but how little. His shares were worth $61 million when he sold them in late March. They were worth about $1 billion last year.

After a quick stop at the cafeteria, Noujaim heads back to the 43rd floor, to one of the firm's "entertainment suites." Dinner for him and a few clients will be served here in a few hours. A waiter in formal black and white flutters in and out of the room, laying out bowls of nuts, readying plates of cheese. There's a fully stocked bar against a wall. It feels like the banquet room on the Titanic after the iceberg pierced the hull.

"Where else can you eat dinner with a view of New York like this?" Noujaim asks, looking out the window.

Noujaim is the son of immigrants from Lebanon and was raised in the Bay Ridge section of Brooklyn. He's a typical Bear Stearns employee, he says: No Ivy League degree or family connections. In the firm's parlance, he's a PSD, short for "poor, smart and desperate to be rich."

Bear set itself apart from competitors, Noujaim says, by encouraging employees to stay for their whole careers. To him, Bear expired because it was so much smaller than rivals and lacked the resources to weather what he thinks was essentially a storm of damaging whispers.

That, at any rate, is the view from the top. At lower pay grades, the blame is laid on Bear's somewhat insular corporate culture, which purportedly allowed mediocre managers to dominate fiefdoms long after those managers stopped innovating. For a long time Bear's unofficial motto, says a member of the prime brokerage division, was if it ain't broke don't fix it. When two of Bear's hedge funds collapsed, in July of last year, then-CEO Cayne was reportedly at a bridge tournament, incommunicado.

"To tell you the truth, I'm psyched to work for JP Morgan," this employee says. "I'm happy to get away from these knuckleheads."

The occupying force that JP Morgan sent has been reasonably humane, considering its task. No end-zone dances, no high-fives. A kind of there-but-for-the-grace civility has prevailed, for the most part.

Within Bear, the anger is directed at Bear's leadership. The atmosphere is so fraught that when Cayne, who is 74 and now the company's chairman, walks around the office he's accompanied by beefy security guards. Word around the company is that the guards are to protect him from his own employees.

WP20080529BEARSTEARNS29

Document WP00000020080529e45t00018

The Washington Post

Editorial
How This Crisis Is Different

Robert J. Samuelson
815 words
18 March 2008
The Washington Post
WP
FINAL
A19
English

It's said that we're in the worst financial crisis since the Great Depression. Maybe. But remember the S&L crisis of the mid-1980s? Or the commercial banking crisis of the late 1980s (from 1988 to 1992, 905 banks failed). Or the 1997-98 Asian financial crisis, which sent South Korea, Indonesia and other countries on a boom-bust rollercoaster? All were frightening. What distinguishes this crisis -- which brought down Bear Sterns over the weekend -- is that it involves the entire financial system, not just depository institutions, and it's more mystifying than any of its predecessors.

Previous financial crises so weakened the banks and savings and loans that they lost their primacy. As recently as 1980, they supplied almost half of all lending -- to companies, consumers and home buyers. Now their share is less than 30 percent. The gap has been filled by "securitization": the bundling of mortgages, credit card debt and other loans into bond-like instruments that are sold to all manner of investors (banks themselves, pension funds, hedge funds, insurance companies).

As a result, the nature of financial crises changed. With a traditional "bank run," the object was to reassure the public. The central bank -- the Federal Reserve in the United States -- lent cash to solvent banks so that they could repay worried depositors and preempt a panic that would spread to more and more banks and would ultimately deprive the economy of credit. But now the fear and uncertainty center on the value of highly complex, opaque securities and the myriad financial institutions that hold them.

At the center of the crisis are the now-notorious "subprime" mortgages made to weaker borrowers and subsequently "securitized." On paper, the financial system seems to have ample resources to absorb losses. Commercial banks have $1.3 trillion in capital; U.S. investment banks in 2006 had an estimated $280 billion in capital -- and other investors, including foreigners, may hold half or more of subprime loans. But no one knows who or how much. Recent estimates of subprime losses range from $285 billion to $400 billion. They might go higher. Ignorance breeds caution and fear.

The stunning fall of Bear Stearns reflects these realities. It was not a traditional commercial bank that took deposits from the public but America's fifth-largest investment bank, which funded most of its operations with borrowed money ("leverage"). On average, the ratio of borrowed money to underlying capital for investment banks and hedge funds is about 32 to 1, according to a recent study. Many of these loans -- commercial paper, "repurchase agreements," bank credits -- are backed by the securities owned by the borrowing financial institutions.

What this means is that if lenders became worried about the worth of these securities, they might ask for more collateral or pull their loans. In effect, that's what happened to Bear Stearns. Deprived of its credit lifeblood, Bear Stearns either had to collapse or be purchased by someone with credit. J.P. Morgan Chase bought Bear for almost nothing: $236 million for a firm valued at $20 billion in January 2007.

Whether Bear Stearns was the victim of unfounded rumor or of genuine rot in its securities portfolio is unclear. But the very uncertainty defines the nature of the modern financial crisis -- and the difficulties the Fed faces in trying to contain it. Financial institutions (banks, investment banks, hedge funds and others) are interconnected through networks of buying, selling, borrowing and lending. These require confidence that commitments made will be commitments honored. If confidence collapses, the processes of extending credit for the economy and of trading -- for stocks, bonds, foreign exchange -- may also collapse.

The Fed can no longer instill confidence by lending to besieged but sound banks. Somehow it must reassure the broader market that there are backup sources of credit and that the failure of any major financial institution won't trigger a chain reaction, as firms refuse to deal with each other and dump stocks, bonds and other securities onto the market. That's why the Fed was eager to see Bear Stearns continue operations by being purchased and why it has, in the past six months, introduced more and more ways for financial institutions to borrow from the Fed itself.

So far, panic has been avoided, though some observers think the Fed's frantic efforts have actually undermined confidence. Meanwhile, the real economy of production and jobs, though weakening, is not yet in dire straits. In February, manufacturing output dropped 0.2 percent -- bad news but hardly a calamity. But in trying to calm financial markets, the Fed has spewed out enormous amounts of money and credit that have depressed the dollar's exchange rate and could aggravate inflation. The effort to fix one problem may lead to others.

WP20080318OP-SAMUELSON18

Document WP00000020080318e43i0003z

The Washington Post

Financial
Economic Downturn Emboldens Shareholder Activists

Tomoeh Murakami Tse
Washington Post Staff Writer
1,231 words
19 February 2008
The Washington Post
WP
FINAL
D01
English

Investor groups angered by plunging stock prices are vowing to hold executives and corporate board members accountable at annual shareholder meetings this spring, turning up the pressure on U.S. companies already reeling from the credit crunch.

Activist investors are targeting a variety of financial services companies, including Citigroup, Merrill Lynch and Washington Mutual. Shareholder proposals demand that major banks better disclose mortgage-related risks, that Wall Street investment firms provide more transparency on their executive succession plans, and that credit-rating agencies address potential conflicts of interest that arise from what critics say is an all-too-cozy relationship with companies that pay them to rate securities.

One activist group, CtW Investment, has asked board members at major financial institutions to spell out exactly what they did to address the subprime mortgage-related losses, which have wiped out hundreds of billions of dollars in shareholder value and threaten to pull the economy into a recession. The group is promising a vigorous campaign urging investors to withhold votes from directors if they fail to explain themselves.

Meanwhile, a network of shareholder groups, furious over multimillion-dollar payouts to financial executives during some of the worst corporate performance ever, has upped its efforts to rein in executive compensation.

"We have a singular focus on the residential homebuilding crisis, the credit crisis," said Jennifer O'Dell, assistant director of corporate affairs at the District-based Laborers' International Union of North America, which has filed shareholder proposals at 28 companies it sees playing a role in the turmoil. "Shareholders are so angry, the public is so angry. . . . The worlds have aligned. The crisis is so severe that we do have more leverage now," she said.

The credit crisis stems from the housing market decline and ensuing losses in securities related to subprime mortgages. During the five-year housing boom that peaked in mid-2005, mortgage lenders approved billions of dollars of loans to home buyers with risky credit. Those mortgages were bought by Wall Street investment banks, which pooled the loans before slicing them into complex securities. These were given ultra-safe, AAA ratings by credit-rating agencies and sold to investors around the world. As homebuyers started defaulting on their mortgage payments and investors grew increasingly risk-averse, the value of the securities plunged.

Management experts likened the current environment of shareholder activism to the period following the Enron scandal, which motivated shareholders to challenge corporate boards. But this time, the losses are larger and more widespread, with toxic subprime mortgages showing up in the investment portfolios of Wall Street banks, large institutional money managers, pension plans and even small towns overseas.

Shareholders have also been emboldened by their success over recent years in advocating changes in corporate governance, notably rules calling for directors to be elected by a majority of stockholders. That change has gained wide acceptance, with many companies shifting to majority voting from an earlier system in which shareholders could abstain but not vote against directors.

Charles M. Elson, director of the Weinberg Center for Corporate Governance at University of Delaware, said the shareholder resolutions -- many of which are filed by union pension funds with relatively small stakes in each company -- are unlikely on their own to prompt much change. But, he and others said, the resolutions serve as a measure of shareholder unrest, and high investor support for them could create an opening for hedge funds and shareholders with larger stakes to mount a takeover campaign for board seats.

"The more dissatisfied the investors appear, the more likely someone opportunistic will come in and challenge management and effect change," Elson said.

The responses from companies vary. Some are actively meeting with shareholders, who in some instances have withdrawn their proposals once the companies accepted changes. For example, the Laborers' union said two affiliates withdrew a proposal seeking better disclosure of mortgage-related risks at Ryland Group after the home builder, which has a mortgage-lending unit, agreed to regularly report what types of home loans it makes and who purchases the mortgages in the secondary market.

A Ryland spokeswoman, citing fair disclosure rules, said the company could not comment on the specifics of the proposal but expects to address the group's concerns in its annual report, to be filed later this month. Lehman Brothers, Bear Stearns, Washington Mutual and Beazer Homes, which received similar proposals, have sought approval of the Securities and Exchange Commission to keep them from coming to votes. The SEC granted the requests of Bear Stearns, Lehman and Washington Mutual but denied Beazer's. Bear Stearns and Lehman declined to comment. Washington Mutual and Beazer did not return phone calls. Beazer, however, announced this month it would stop writing mortgages.

Credit agencies, which rated billions of dollars' worth of mortgage-backed securities as safe investments, have also come under shareholder scrutiny. Moody's and the parent company of Standard & Poor's received proposals demanding, among other things, that boards of directors be directly involved in managing potential conflicts of interest with clients.

The companies, which last week won approvals from the SEC to keep the matter off the ballots, declined to comment on the proposals.

But earlier this month, Standard & Poor's announced new measures to "enhance independence," including rotating lead analysts and hiring an outside firm to conduct regular reviews. Moody's also proposed changes this month to its rating process and is asking for feedback from customers.

Merrill Lynch and Citigroup, which together have written down $46 billion in mortgage-related securities by restating their value on company books, are also targets of shareholder proposals.

The AFL-CIO has filed proposals at both, asking that any employment agreements with executives be limited to three years. The proposals also seek the exclusion of "evergreen" clauses that provide for automatic renewal of employment agreements without shareholder approval, bans on accelerated vesting of stock options and on "excise tax gross-ups" under which companies essentially pay for executives' taxes on certain pay. The AFL-CIO said its proposals came partly in response to the multimillion-dollar pay packages awarded to the chief executives of the two companies, who both left late last year.

Merrill declined to comment on the proposal. A Citigroup spokeswoman said concerns raised in the proposal are addressed in its senior executive compensation guidelines and current practices. Merrill also faced a proposal that sought expanded disclosure of succession plans but got SEC approval to keep the measure from coming to a vote.

Merrill and Citigroup, along with four other firms, have also been the focus of CtW Investment, which is calling for directors on committees responsible for risk oversight to describe what they did to protect shareholders from mortgage-related losses.

"These are institutions that are at the epicenter of the meltdown. Their shareholders have taken huge losses, and they helped destabilize the market," said Michael Garland, director of value strategies at CtW Investment, which works with pension funds on corporate governance. "We want to be comfortable that the board is comprised of directors who are protecting the interest of shareholders an acting independently of management."

Citigroup said its directors on the audit committee acted responsibly and that there is "no basis for an election challenge." Merrill also said its board acted appropriately.

WP20080219PROXY19

Document WP00000020080219e42j0003b

The Washington Post

STEVEN PEARLSTEIN
Financial
For Consumers, the Raw Deal

Steven Pearlstein
973 words
18 April 2007
The Washington Post
WP
English

The Bush administration may have failed in its efforts to roll back Franklin Roosevelt's New Deal, but it's racking up more success with Teddy Roosevelt's Square Deal. Health and safety regulation. Labor protections. And certainly the centerpiece of progressive-era economic policy, the antitrust law.

It should tell you something that when Sallie Mae, the big kahuna in the college loan business, agreed this week to be bought by a group that included two of its three biggest rivals, Bank of America and J.P. Morgan, the question of whether this would reduce competition barely came up. Estimates vary, but the merged company would control 25 to 40 percent of the college loan business.

Tom Joyce, Sallie Mae's spokesman, claims there will be no antitrust problem because the two banks and Sallie would continue to run their college lending businesses separately, competing vigorously. Not only is this notion laughable, it is immediately undercut by corporate officers trying to convince Wall Street about the synergies and efficiencies of the deal.

Joyce stepped on his own story line when he told my colleague David Hilzenrath that the deal would enable Sallie to sell its products, such as its tax-free college savings plans, through Bank of America and J.P. Morgan branches.

And J. Christopher Flowers, one of the private-equity investors in the deal, predicted that Sallie would be able to use credit-analysis capabilities developed by the banks to better target and price its own products.

"We hope to reach more students and offer them better deals using the combined technology capability of all three companies," Flowers told The Post's Tomoeh Tse. Call me cynical, but it doesn't sound like these "competitors" are going to launch price wars against one another anytime soon.

Perhaps the most telling piece of evidence is the 50 percent premium the banks and their partners are willing to pay for a company even before they know how the Democratic Congress is going to change the federal student loan program, as it is inclined to do. As analyst Matt Snowling of Friedman Billings, Ramsey put it, there's no way to justify the $60 per share offer without assuming the benefits of integrating the three college-lending operations. For the banks, he reckons, buying Sallie was a "defensive move" -- in other words, a way to foreclose competition.

Ten years ago, there was little doubt this transaction would have faced an uphill fight. Not only would regulators have found the combined market share troubling, they would have worried about how the three players would use their clout to drive out small competitors, prevent new ones from entering and punishing those who got too aggressive about price-cutting. They would have worried about Sallie & Friends spreading around even more largesse to get themselves onto colleges' preferred-lender lists. Or that the combined company would have made it harder for competitors to package loans and sell them to investors.

But these days, antitrust enforcement has become so lax that even lawyers who might have questions about a deal are advising clients to give it a try. That was one of the conclusions reached by two well-known academics, Jonathan Baker of American University and Carl Shapiro of the University of California at Berkeley, in a paper presented yesterday at an antitrust conference organized by Georgetown University Law Center.

Baker and Shapiro asked 100 of the country's top antitrust lawyers whether mergers between firms in the same industry are more likely to be approved than they were a decade ago. On a scale of 1 to 5, with 5 being "significantly more favorable," the average score was 4.9.

And there's good reason for the changed perception. Analyzing the percentage of proposed mergers and acquisitions that have been challenged by regulators, Baker and Shapiro found the rate had fallen only slightly at the Federal Trade Commission but by more than half at the other agency that reviews proposed deals, the Justice Department's antitrust division.

Robert Pitofsky, a former FTC chairman, opened the conference by asking whether the pendulum had swung too far -- from antitrust enforcement that interfered too much in business dealings to enforcement that interfered too little. From the papers and discussions, there was a general feeling that it had.

Among the cases frequently cited was the Justice Department's approval of the recent merger of Whirlpool and Maytag, with a combined market share of 70 percent, which rested largely on the premise that because an Asian manufacturer had gained a toehold in the U.S. market, it and other foreign companies would provide sufficient competition.

To the surprise of many, the Bush Justice Department tried to block the merger of business software rivals Oracle and PeopleSoft. But even that effort was overturned by Judge Vaughn Walker of U.S. District Court in Northern California. Walker ignored the views of regulators and customers -- along with decades of legal precedent -- to rule that only mergers resulting in monopolies or near-monopolies can be blocked.

Judges like Walker, and regulators like Justice Department antitrust chief Tom Barnett, have adopted the same kind of rigid, ideological approach that liberal judges and regulators took until the 1980s. Under the new orthodoxy, any merger that enhances efficiency and leaves at least one competitor standing is presumed to improve consumer welfare. So do once-suspect practices like tying one product to another, setting minimum retail prices and driving weak competitors out of business through predatory pricing.

This is a view unsupported by economic theory or real-world evidence. And if allowed to prevail, it threatens to suck the diversity, vibrancy and innovative potential from what has been the world's most competitive economy.

WP20070418PEARLSTEIN18

Document WP00000020070418e34i0003t

A Section
Private Investors to Buy Sallie Mae for $25 Billion

David S. Hilzenrath and Amit R. Paley
Washington Post Staff Writers
1,198 words
17 April 2007
The Washington Post
WP
English

Sallie Mae, the nation's largest student loan company, announced yesterday that it would be bought by a group of private investors in a $25 billion deal that could reduce public scrutiny of the lender at a time when the student loan industry is under siege.

The enormous deal underscores the potential for profit that Wall Street sees in the $85 billion-a-year student loan industry, even as Congress considers slashing billions of dollars in federal loan subsidies and an expanding nationwide probe reveals fresh conflicts of interest in the student lending world.

The buyers of the Reston company include J.P. Morgan Chase, the third-largest originator of federal student loans, and Bank of America, the fourth-largest. Together with Sallie Mae, they control up to 40 percent of the market, analysts said.

The sale -- which could triple the value of the chief executive's stock options, to more than $120 million -- is the latest transformation for a 35-year-old company that began as a congressionally chartered quasi-governmental entity. Sallie Mae has capitalized on rising tuition costs and increased enrollments at colleges and universities to become a financial powerhouse and one of the largest public companies in the Washington area.

Sallie Mae's bread and butter has been issuing loans that carry federal interest rate subsidies and government guarantees, which minimize the potential losses if borrowers default.

Tom Joyce, a spokesman for Sallie Mae, said the deal would not affect the company's nearly 10 million student loan customers, who owe a total of $142 billion. He also said Sallie Mae, Bank of America and J.P. Morgan Chase would continue to compete with one another in the student loan business.

But some analysts said the buyout could reduce options for consumers. "This deal is going to hurt students because there aren't going to be as many competitive rates out there," said Stuart Plesser, an analyst at Standard & Poor's.

News of the deal prompted concern from Democratic lawmakers who have opened investigations into the financial relationships and conflicts of interest among private lenders, universities and government officials. Government probes have already resulted in the suspension of financial aid directors at six universities, a senior official at the Department of Education and three top lending company executives.

"Clearly, banks and investors see student loans as a very profitable business," Edward M. Kennedy (D-Mass.), chairman of the Senate Education Committee, said in a statement. "It's more urgent than ever to enact reforms to our student loan system to ensure that students, not profits, are our top priority."

Critics of Sallie Mae have for years pored over the lender's Securities and Exchange Commission filings to discover details about compensation packages for top executives and the company's profit margins. Some of those disclosures have galvanized efforts to overhaul the student loan industry.

Much of that information could became secret once the company goes private.

"They are trying to turn student loans into a black box," said Luke Swarthout, an advocate for the U.S. Public Interest Research Group Higher Education Project. "That will further stymie and undermine appropriate regulations and appropriate protection of taxpayer subsidies."

But some student advocates said it was unclear that the deal would have any effect on students. "I think this is more about changes in corporate America than it is about changes in student loans," said Robert Shireman, president of the Institute for College Access and Success and executive director of the Project on Student Debt.

And Sallie Mae disputed the notion that the sale would cloak its operations in secrecy. "Sallie Mae will continue to have publicly traded debt securities and as a result will continue comprehensive financial reporting about its business, financial condition and results of operations," spokesman Joyce said in an e-mail.

After the buyout, which remains subject to shareholder and regulatory approval, Sallie Mae's management team would stay on the job, and the company would remain based in Reston, Sallie Mae said in a news release. No layoffs are planned, Joyce said. The company employs 11,456 people, including 763 in the Washington area.

At a price of $60 per share, the buyout would boost the value of Sallie Mae's stock by almost 50 percent compared with the price last week before the possibility of such a deal was first reported.

Chief executive Thomas J. Fitzpatrick's stock options would be worth $123.1 million; as of last week, he could have cashed in options worth $39.4 million, based on data from the company's most recent compensation disclosure. Fitzpatrick also owned more than 2 million shares that would be worth another $122.2 million.

As a group, Sallie Mae's officers and directors held more than 5 million shares as of Feb. 28 that would be worth more than $300 million at the buyout price.

"This transaction . . . recognizes the value in the company for shareholders," Sallie's Joyce said. "The marketplace, you could say, [had] not rewarded our shareholders for the earnings power of the company."

Sallie Mae's shares closed at $55.05 yesterday, up 17.7 percent from Friday's close, which already reflected news of a potential deal.

The sale of the company, which had been in the works for several weeks, was signed Sunday night after Sallie Mae's board met over the weekend, Joyce said.

By pooling their resources -- the student loan marketing dominance of Sallie Mae and the banking power and reach of Bank of America and J.P. Morgan Chase -- the three firms could position themselves to better withstand the threats from Congress, analysts said. The two other buyers are New York investment firms: J.C. Flowers & Co. and Friedman Fleischer & Lowe.

The change to private ownership reflects Sallie Mae's desire to shift from restrictive federal loans into the booming private loan business, where higher interest rates and fees can double the cost to borrowers, analysts said. The company also has been expanding into debt collection and the marketing of college savings plans.

"The fact that we have investors now who can bring significant resources to the table . . . will allow us to continue to diversify the business away from being wholly reliant on guaranteed student loans," Joyce said.

The cuts the government is considering in student loan subsidies "will result in less lenders, higher prices and less choice for students," Joyce said.

The debt Sallie Mae would take on as a result of the deal was raising eyebrows. Almost two-thirds of the $25 billion purchase price would be borrowed. The three major credit ratings agencies put Sallie Mae on watch yesterday for a possible downgrade in its investment ratings. A downgrade, which acts as an alert to the financial markets, could make it more difficult for Sallie Mae to get low-interest funds that back its student loans.

Staff writer David Cho, graphics editor Karen Yourish and staff writer Tomoeh Murakami Tse in New York contributed to this report.

WP20070417SALLIE17

Document WP00000020070417e34h0004x

The Washington Post

Financial

Wall Street, Washington Huddle on U.S. Markets; Despite Profits, Worry About Global Competitors

Carrie Johnson
Washington Post Staff Writer
778 words
14 March 2007
The Washington Post
WP
English

The bulls of Wall Street converged on Washington yesterday, clogging narrow Georgetown streets with black-windowed Town Cars as they met to discuss the worrisome state of the U.S. markets.

But at the same time Treasury Secretary Henry M. Paulson Jr. and such financial luminaries as the leaders of J.P. Morgan Chase, Charles Schwab and the New York Stock Exchange fretted about losing ground to international rivals, one of the nation's largest investment banks reported a record first-quarter profit.

The irony was not lost on Warren E. Buffett, described yesterday by Paulson as "the world's best known and most successful investor" and a man who has "forgotten more about capital markets than any one of us has known to begin with."

For his part, the Oracle of Omaha (and in full disclosure, a Washington Post Co. board member) said business leaders brought government scrutiny on themselves after numerous scandals shook investor confidence. During calls to loosen rules on companies and accounting firms, Buffett pointed out that corporate profits have never been higher as a percentage of gross domestic product. "That cannot be regarded as a broken capitalistic system," he said at the Capital Markets Competitiveness Conference.

Earlier, inside the grand Georgetown University meeting hall, surrounded by rich red and blue stained-glass walls and Catholic imagery of sacrifice, Paulson opened the program with a call for "more rigorous cost-benefit analysis of new regulation."

Most of the speakers, from institutional investor advocate Ann Yerger to Clinton-era Treasury secretary Robert E. Rubin, seemed to agree that rules adopted five years ago, after the Enron debacle, could use at least minor tweaking. Costs for accounting reviews remain high, and corporate board members spend too much time on process as opposed to substance.

The harmony mostly ended there. Supporters of the movement to streamline regulation cited statistics showing that a smaller number of public companies chose to list their stocks on U.S. exchanges in the past few years. But the data reflect a decade-long trend and do not consider the rising tide of globalization or the fact that U.S. investment banks are continuing to profit from underwriting fees no matter where the stocks are listed, several speakers said.

Former Securities and Exchange Commission chairman Arthur Levitt posited that arguments advanced in three industry-funded reports about America's losing record on initial public offerings were "specious." He went on to declare himself "really impatient" with industry pleas to import British-style oversight. Regulators in Britain bring a handful of enforcement cases each year, while U.S. watchdogs file more than 600.

Panel members gently clashed on whether it is too risky for executives to sign off on the accuracy of their financial reports in the current climate, with J.P. Morgan Chase chief James Dimon calling the U.S. litigation system "a crapshoot" in which executives' actions are reviewed in hindsight and companies can lose but never win.

Yet a short while later, former Federal Reserve Board chairman Paul A. Volcker said that forcing executives to sign on the dotted line promotes a strong dose of accountability. His successor, Alan Greenspan, cheerfully interjected that "You could go to jail" in the event of phony financial filings. "Some of the stuff that's gone on in recent years is outrageous," Greenspan said as he recommended even harsher penalties against executives who threaten investors' belief in fair play.

There was universal agreement that consensus and action on the most intractable issues, including whether to impose more curbs on class-action lawsuits, would be difficult to achieve with Democrats in control of Congress and with less than a year before campaign 2008 is likely to induce a regulatory stalemate.

"I don't think our political system is capable right now of engaging in cost-benefit analysis," said Rubin, now a board member at Citigroup.

Seizing the spirit of competition, Yerger, the investor rights advocate, urged business to consider adopting European policies that allow shareholders to offer advisory votes on executive pay and to nominate board candidates, an anathema to industry groups. No one on the panel seconded her motion.

A select group of 50 delegates spent the rest of the day sequestered behind closed doors to entertain proposals to streamline regulation, introduce new protections and competition among audit firms, and stamp out aggressive class-action lawsuits.

It was, attendees later reported, only the beginning of a long-running conversation about the power -- and the limits -- of American business interests.

WP20070314PAULSON14

Document WP00000020070314e33e00049

Financial

HEALTH CARE Johnson & Johnso ...

632 words
13 February 2007
The Washington Post
WP
English

HEALTH CARE

Johnson & Johnson Disclosure

Johnson & Johnson told U.S. authorities that some of its overseas subsidiaries may have made improper payments related to the sale of medical devices and that one of its top executives had immediately retired.

Johnson & Johnson told the Justice Department and the Securities and Exchange Commission that the actions violated company policies. The worldwide chief of medical devices, Michael J. Dormer, retired from the company, Johnson & Johnson said.

Dormer said in a letter to the company that he bore "ultimate responsibility by virtue of my position" for subsidiaries involved in improper payments.

MERGERS & ACQUISITIONS

Duncan Hines Parent Sold Again

Blackstone Group agreed to buy Pinnacle Foods for $2.2 billion including debt, becoming the third private-equity firm in four years to own the maker of Duncan Hines cake mixes and Hungry Man frozen dinners. Blackstone is buying Pinnacle from CCMP Capital Advisors, formerly J.P. Morgan Partners. Blackstone did not say how much debt was involved.

LEGAL

Westar Executive Free on Bond

David Wittig, the former chairman, president and chief executive of Westar Energy, was released from prison on bond pending the appeal of his sentence in a bank fraud case. He served nearly 13 months in prison.

U.S. District Judge Julie Robinson sentenced him to two years but granted Wittig's request to be released on bond pending his appeal.

Coca-Cola Settles Bottlers' Suits

Coca-Cola agreed to settle lawsuits filed by independent bottlers over a plan to ship products to Wal-Mart warehouses instead of directly to stores. More than 50 bottlers agreed to consider new ways to distribute drinks outside of the direct-to-store system, through which they deliver products, stock shelves and arrange displays themselves, Coca-Cola said.

The independent bottlers claimed that delivery to Wal-Mart warehouses infringed on their exclusive distribution rights covering certain regions.

MEDIA

MTV Networks to Cut 250 Jobs

MTV Networks is cutting 250 jobs, or about 6 percent of its workforce, as it reduces costs and refocuses its resources on the Internet. MTV Networks, a Viacom unit, includes MTV, VH1, Comedy Central and Country Music Television.

AT&T Adds Cellphone TV Service

AT&T plans to use Qualcomm's MediaFlo network to deliver television to its cellphone customers, making it the second U.S. carrier to use the service. It is to be available this year, AT&T said.

REGULATORS

Funds' Chief Must Pay $20 Million

A hedge fund manager accused of bilking clients, including National Football League players, was ordered to pay almost $20 million in a lawsuit brought by the Securities and Exchange Commission.

Kirk S. Wright was ordered to forfeit $19.8 million and pay a $120,000 fine, the SEC said. It alleged that Wright falsified statements about his firm's assets and inflated the rates of return for the seven hedge funds under his management.

T-bill rates rose. The discount rate on three-month bills auctioned yesterday rose to 5.025 percent, up from 5.010 percent last week and the highest level since January 2001. Rates on six-month bills rose to 4.965 percent from 4.955 percent. The annualized return to investors is 5.16 percent for three-month bills, with a $10,000 bill selling for $9,872.98, and 5.164 percent for a six-month bill selling for $9,748.99.

Separately, the Federal Reserve said the average yield for one-year Treasury bills, a popular index for making changes in adjustable rate mortgages, fell to 5.07 percent last week from 5.10 percent two weeks ago.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20070213DIGNAT13
Document WP00000020070213e32d0000j

The Washington Post

Financial
J.P. Morgan Hires SEC's Former Top Cop

Carrie Johnson
Washington Post Staff Writer
447 words
13 December 2006
The Washington Post
WP
English

Stephen M. Cutler, a former securities watchdog who presided over the investigations of Enron, Tyco and WorldCom, will become general counsel and head of worldwide compliance at J.P. Morgan Chase early next year, bank officials said yesterday.

For the past 18 months, Cutler has represented companies and individuals in probes into stock options practices and other issues as a partner at the Washington law firm WilmerHale. But he is best known for his tenure as enforcement chief at the Securities and Exchange Commission from 2001 to 2005, years that spanned the unraveling of widespread accounting fraud and Wall Street research and trading scandals.

Cutler, 45, will join J.P. Morgan Chase in February after he relocates from the Washington area with his wife and two young sons. In a telephone interview, he expressed a measure of regret at leaving Wilmer, which has one of the nation's top securities-law practices. Cutler, a graduate of Yale Law School, spent more than a decade at the firm during the course of his career.

In his new role, Cutler will be responsible for ensuring that the bank's 172,000 employees in more than 50 countries comply with the law, and he will have an opportunity to shape policies that encourage following the rules. He also will sit on the operating committee, reporting directly to chief executive James Dimon.

"You know, opportunities like this don't come around every day, with companies like this," Cutler said. "You always hope as a lawyer in house to be able to prevent problems."

Cutler replaces banking industry veteran Joan Guggenheimer, who died of cancer this year. J.P. Morgan Chase, considered the third-largest financial institution in the country, did not disclose his compensation package.

Separately, WilmerHale partner Charles E. Davidow said yesterday that he would leave the firm after 26 years to start a securities enforcement unit in the District office of law firm Paul, Weiss, Rifkind, Wharton & Garrison. Davidow, 52, performed the difficult work in internal investigations into wrongdoing at Enron, WorldCom, Delphi and Cablevision in recent years but said the prospect of building a unit from scratch was too "exciting" to pass up.

William R. McLucas, a former SEC official who is co-chairman of the Wilmer securities division, said the two departures were the result of once-in-a lifetime opportunities. "The depth and breadth of this group is quite substantial," he said. "It's the price you pay for having a practice group that most of the firms out there would love to duplicate."

WP20061213CUTLER13

Document WP00000020061213e2cd00002

The Washington Post

Financial
J.P. Morgan Unit to Take Columbia Equity Private

Dana Hedgpeth
Washington Post Staff Writer
363 words
7 November 2006
The Washington Post
WP
English

Columbia Equity Trust Inc., owner of 21 local office buildings, agreed yesterday to be sold to a private real estate investment fund run by J.P. Morgan Chase & Co.

J.P. Morgan Asset Management's Special Situation Property Fund is to pay $289 million, or $19 per share in cash, for Columbia Equity and assume $213 million in debt. Columbia Equity owns and operates commercial office properties totaling 3 million square feet in the Washington region.

Columbia is made up of properties previously owned or controlled by the Carr family. The trust went public in June 2005 at $15 a share. A much larger, national office owner controlled by the Carrs, CarrAmerica Realty, was sold this year to a private real estate fund. The deals represent the strong interest in mature office real estate, especially in the Washington area, by private equity funds.

"With their existing portfolio we knew they would be an attractive investment," said Nathaniel Daly, vice president at J.P. Morgan Asset Management. "They're in downtown, Northern Virginia and Maryland, and they have some long-term tenants, redevelopment plays and development potential. It's an attractive fit on all fronts given the focus of our fund."

Another factor, said John W. Guinee, managing director of research at Stifel Nicolaus & Co., was the so-so performance of Columbia as a public company. "They were having difficulty hitting their quarterly operating numbers and with the high cost of being public," he said. "They have very high general and administrative costs of being a public company and in complying with SEC requirements such that being private and being entirely funded by J.P. Morgan was very appealing."

The deal with Columbia Equity, expected to close in the first quarter of 2007, needs the approval of Columbia shareholders.

Daly said "nothing is going to change in the way the company operates."

Oliver T. Carr III, chairman, president and chief executive of Columbia Equity, and John A. Schissel, executive vice president and chief financial officer, are to stay on as executives.

WP20061107COLUMBIA7

Document WP00000020061107e2b70001o

The Washington Post

Financial
APPOINTMENTS J.P. Morgan Exe ...

287 words
19 May 2006
The Washington Post
WP
FINAL
D05
English

APPOINTMENTS

J.P. Morgan Executive Nominated for IMF Post

John Lipsky, vice chairman of the J.P. Morgan Investment Bank within J.P. Morgan Chase, was nominated for the No. 2 post at the International Monetary Fund to replace First Deputy Managing Director Anne Krueger. Lipsky, who would be the highest-ranking U.S. official at the IMF, would replace First Deputy Managing Director Anne Krueger following her announced departure on Aug. 31. The nomination must be approved by the IMF's board.

JAPAN

Central Bank Keeps Interest Rate at Zero

The Bank of Japan kept its key interest rate unchanged at zero.

In March, the bank ended its five-year easy monetary policy of flooding the financial markets with excess cash to encourage lending, while keeping interest rates virtually at zero to encourage lending. But at that time, it said it will keep interest rates at zero for some time to allow for adjustment.

CHINA

Yum Brands to Open 400 Restaurants

The parent of fast-food chains KFC, Taco Bell, Pizza Hut and other eateries plans to open 400 or more restaurants in China, adding to more than 1,800 already there, with hopes of boosting its stock price. Yum Brands also plans 700 new restaurants in its international division, excluding China and the United States.

SABMiller, with beer brands that include Miller, Peroni and Pilsner Urquell, said its profit for the fiscal year ended March 31 fell 5 percent, to $1.44 billion from $1.52 billion for the previous fiscal year. Revenue rose 19 percent, to $15.31 billion.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20060519DIGWORLD19

Document WP00000020060519e25j0001d

The Washington Post

Financial
Mills Taps Two Banks to Find Investors

Terence O'Hara
Washington Post Staff Writer
572 words
17 February 2006
The Washington Post
WP
FINAL
D04
English

Mills Corp. has increased its efforts to ensure it has the financial wherewithal to complete its ambitious retail developments, hiring two major Wall Street investment banks to find a new equity investor or possibly a buyer for the company.

According to sources with knowledge of the matter who spoke on the condition of anonymity because the mall developer has not yet disclosed the arrangement, Mills brought in J.P. Morgan Chase & Co. and Goldman Sachs Group Inc. to advise the company on strategic financing options. While an outright sale of the company is possible, these sources consider it unlikely, at least for now. The company is more likely to find a strategic investor, such as another real estate firm, or a major financial investor such as a private equity fund, the sources said.

As rumors of the investment bank engagement spread on Wednesday -- they were reported by an Australian newspaper -- Mills stock shot up 8.7 percent to $42.20, its highest point in five weeks. But Mills shares were down somewhat yesterday on heavy trading, closing at $42.14.

A Mills spokesman declined to confirm or deny the hiring of J.P. Morgan and Goldman.

J.P. Morgan last week helped Mills raise $100 million in a securities sale to an undisclosed investor, according to a securities filing.

While the company is not short on cash, Mills is looking for more capital to assure investors and its development partners that it will have enough sources of capital to complete several massive developments over the coming years, including its $1.3 billion Xanadu retail and entertainment complex in the Meadowlands, N.J. The sharp reduction in Mills stock in recent weeks has made selling new stock unworkable.

The stock decline was triggered by two separate accounting restatements in the past year, the most recent in early January, that have shaved more than $25 million off Mills' $400 million reported profit since 2000. The company also has acknowledged breakdowns in its internal controls, laid off 14 senior executives and dropped plans to develop 10 new retail centers. This last move resulted in a $71 million charge in the fourth quarter.

David Fick, an analyst at investment firm Stifel, Nicolaus & Co., said that while the sharply reduced pipeline of new developments could hint at an ultimate sale of the company, he is skeptical a buyer would emerge in the next 90 days. While Fick said Mills' real estate assets are valuable -- he estimates them at $51 to $61 a share, well above Mills' current stock price -- the company's Xanadu development still has several years of work left before its value can be fully realized.

"They've been investing in [Xanadu] for 15 years," Fick said. "They are building what will be the most productive and valuable real estate asset in the history of mankind. And only Mills is uniquely suited to finish it. It's not something that's easily transferable."

Fick said he wouldn't be surprised if Mills were to announce another round of layoffs as the company tries to cut administrative costs on a reduced development pipeline.

Mills owns, manages and leases 42 malls, including Arundel Mills and Potomac Mills in the Washington area, and in addition to Xanadu is building a major entertainment site in downtown Chicago.

WP20060217MILLS17

Document WP00000020060217e22h0002u

The Washington Post

Financial
LOCAL BRIEFING

231 words
18 January 2006
The Washington Post
WP
FINAL
D04
English

MERGERS & ACQUISITIONS

Carlyle Group Buys Hispanic Teleservices

District buyout firm Carlyle Group acquired Hispanic Teleservices, an operator of call centers providing services in Spanish and English, to take advantage of the continued integration of the U.S. and Mexican economies. Terms were not disclosed.

The sellers were J.P. Morgan Partners and Citigroup Venture Capital International.

Hispanic Teleservices, based in Houston, provides technical support, account inquiries and translation services through its 1,350 employees in Monterrey and Guadalajara, Mexico, the country's second- and third-largest cities.

APPOINTMENTS

Marriott Names New Division President

Marriott International named Robert J. McCarthy president of North American lodging operations, making him responsible for 2,300 hotels in a division that last year generated more than $6 billion in revenue.

McCarthy began his career at Marriott 30 years ago as a waiter in one of the Bethesda-based hotel chain's restaurants. He had been executive vice president of North American lodging operations before his promotion.

CORPORATE GOVERNANCE

Former Bank Leader to Join Gannett Board

Gannett, the largest U.S. newspaper company, named Marjorie Magner to its board, three months after she retired as chairman of Citigroup's Global Consumer Group.

Magner will become the 10th member of the McLean-based media company's board Feb. 1, said spokeswoman Tara Connell.

Compiled from staff and news service reports.

Document WP00000020060118e21i00019

The Washington Post

Financial
J.P. Morgan Hedge Fund Buys Stake in Six Flags

Annys Shin
Washington Post Staff Writer
391 words
12 January 2006
The Washington Post
WP
FINAL
D02
English

A hedge fund owned by New York investment firm J.P. Morgan Chase & Co. has paid $40 million for a major stake in Six Flags Inc., a sign of investor confidence in the theme park chain now controlled by Redskins owner Daniel Snyder.

Highbridge Capital Management, which manages $7 billion in assets, acquired an 8.9 percent share of the company, paying a premium compared with Snyder, who began amassing his 11.7 percent share in August 2004, when shares were trading below $5.

After Snyder launched his bid to gain three seats on the Six Flags board in August, the stock rose steadily, closing at $9.21 yesterday, up 18 cents from the day before.

Snyder became chairman of Six Flags last month. In November, shareholders voted him, former ESPN executive Mark Shapiro and local builder Dwight C. Schar onto the board and ousted the former management. The company in recent years has seen its revenue and attendance decline.

Snyder and Shapiro have hinted that the theme park company could eventually become part of a multimedia family entertainment business.

Yesterday, Six Flags tapped Mark Antinoro, a former ESPN executive producer, to head its newly created entertainment and marketing department, adding further support to that ambition.

"We want to be about more than rides -- Six Flags must be about a wider, more fulfilling experience," Shapiro said in a news release.

Joining Antinoro are Angelina Vieira as senior vice president of entertainment and marketing and Wendy Goldberg as senior vice president of communications. Vieira is a former president of Bugaboo, creator of the Bugaboo Frog baby stroller, and a former executive with the advertising agency Wieden & Kennedy, where she worked on campaigns for Nike Inc., Microsoft Corp. and ESPN Inc. Goldberg is a corporate communications strategist who formerly worked for America Online Inc.

Separately, Red Zone LLC, the holding company for Snyder's Six Flags shares, said it was launching Red Zebra Broadcasting, a media company headed by Bennett Zier, a veteran radio executive. Zier said there would be "zero connection" between Red Zebra and Six Flags.

Red Zebra plans to acquire and run radio, television and Internet properties and will also be the home of Redskins radio broadcasts.

Document WP00000020060112e21c0003x

The Washington Post

Financial
LOCAL BRIEFING

503 words
16 December 2005
The Washington Post
WP
FINAL
D04
English

MERGERS & Acquisitions

J.P. Morgan to Buy Collegiate Funding

J.P. Morgan Chase said it agreed to acquire education loan provider Collegiate Funding Services for about $663 million in cash. Under the deal, J.P. Morgan will pay shareholders $20 for each share of Collegiate, a 31 percent premium on its closing price Wednesday. The companies expect to complete the acquisition early next year, pending regulatory and shareholder approval. Following the transaction, J. Barry Morrow, Collegiate's president and chief executive, would become president of the combined Chase Education Finance business. The firm would be headquartered in Fredericksburg.

Last year, J.P. Morgan said, its Chase Education Finance unit originated $7.9 billion in loans while Collegiate funded $4.4 billion. Collegiate serviced about $12.1 billion in loans as of Sept. 30.

Collegiate's largest shareholder, Lightyear Fund, has agreed to vote in favor of the transaction, the companies said.

MANUFACTURING

Danaher Raises 2006 Earnings Forecast

Danaher raised the low end of its 2005 guidance and said it expects full-year 2006 earnings, excluding items, to be above Wall Street estimates. District-based Danaher, which makes tools and industrial equipment, said it expects 2005 earnings of $2.76 to $2.79 per share, raising the lower end of its outlook by 2 cents. Analysts, on average, are calling for earnings of $2.76 per share, according to a Thomson Financial poll.

Danaher said that for the first quarter of 2006, it anticipates earnings, not including a stock option charge, of 61 cents to 66 cents per share. Analysts are expecting earnings of 63 cents per share.

The company said that for all of 2006, it expects earnings, excluding items, of $3.13 to $3.23 per share. Analysts are expecting earnings of $3.11 per share.

GOVERNANCE

Fairchild Delays Filing Annual Report

Fairchild, a McLean distributor of aircraft parts and motorcycle gear, said it requested extra time to file its annual financial report with the Securities and Exchange Commission. The company, which said it will file the overdue report by Dec. 29, said it has not completed steps including the review of its internal controls required by the Sarbanes-Oxley Act on corporate governance.

DEFENSE

Decision on Lockheed-Boeing Venture Nears

The Air Force and Pentagon are close to deciding whether to recommend approval of a rocket launch joint venture between Lockheed Martin and Boeing, Deputy Air Force Secretary Ronald M. Sega said. The Federal

Trade Commission is awaiting the recommendation before it determines if the venture, called the United Launch Alliance, complies with antitrust laws.

PHARMECEUTICAL

Enrollment Set for MedImmune Numax Trials

MedImmune said it completed patient enrollment in two late-stage trials at a cost of $10 million, which was not included in the company's 2005 forecast provided in October.

The drug developer said the figure represents added recruiting and enrollment costs for studies evaluating Numax, a respiratory infection treatment for infants and children.

Compiled from staff and news service reports.

Document WP00000020051216e1cg0001f

The Washington Post

Financial
Carlyle, Partners to Buy Dunkin' Donuts Parent

Terence O'Hara
Washington Post Staff Writer
497 words
13 December 2005
The Washington Post
WP
FINAL
D04
English

A trio of investors that includes the District's Carlyle Group won the bidding for Dunkin' Brands Inc. yesterday, agreeing to pay more than $2.4 billion for the owner of the Dunkin' Donuts and Baskin-Robbins chains.

Two Boston-based private equity firms, Bain Capital LLC and Thomas H. Lee Partners LP, combined with Carlyle on the deal for the Massachusetts-based company. The team beat competing bids from groups led by Kohlberg Kravis Roberts & Co. and J.P. Morgan Partners LLC.

The deal will make Dunkin' Donuts an American-owned company after 15 years under French ownership. The new owners are expected to retain current management under chief executive Jon L. Luther, and senior management is expected to buy a small stake in the company.

Dunkin' Brands, which includes 6,000 Dunkin' Donuts stores, 5,400 Baskin-Robbins ice cream shops and 400 Togo's sandwich restaurants on the West Coast, booked most of its $4.8 billion in 2004 sales in the United States.

The firms declined to say how much, and from whom, they borrowed to finance the purchase, though each of the three will have an equal equity stake. Typically, buyout funds borrow 50 percent to 80 percent of the purchase price.

While both Bain and Lee have extensive experience in consumer products -- Bain is a major investor in Burger King and Domino's Pizza, and Lee made more than $1 billion buying, then selling, the Snapple beverage company in the 1990s -- this is the first U.S. consumer-product company Carlyle has invested in. The largest U.S. private equity firm, with $31 billion under management, Carlyle made most of its reputation and vast amounts of money for its investors buying and selling defense, aerospace, real estate and telecommunications companies in the 1990s.

In May, Carlyle hired Sandra J. Horbach to build a new retail and consumer-products group in New York. This is the 18-member group's first deal. Horbach said Bain, Lee and Carlyle first approached Pernod Ricard SA, Dunkin' Brands' parent company, in July before Pernod officially put the unit up for sale. Pernod initially rejected the overture.

Horbach said they continued to pursue the deal because they believed that Dunkin' had a strong management team and that the company was growing and profitable.

"First of all, it's a great brand that's been around for 50 years," Horbach said. "It also has tremendous growth potential. It has nationwide brand awareness but really only operates in scale in Northeast and mid-Atlantic territories. So the potential to expand the franchise is there."

Horbach predicted that this will be the first of several retail and consumer-product investments Carlyle will pursue in 2006. "We hit the ground running with this one," she said. "We have several deals we are actively pursuing." She declined to name the targets.

Document WP00000020051213e1cd0002b

The Washington Post

Financial
Carlyle Bidding On Food Chains; Deal Would Be A First for Firm

Terence O'Hara
Washington Post Staff Writer
688 words
9 December 2005
The Washington Post
WP
FINAL
D01
English

The Carlyle Group is among the final bidders for the Dunkin' Donuts and Baskin-Robbins restaurant chains, in what would be the first U.S. consumer retail investment for a company built around its expertise in defense, aerospace and telecommunications.

Carlyle has been eyeing Dunkin' Brands Inc. since this summer and has joined with Thomas H. Lee Partners LP and Bain Capital LLC, both of Boston, to submit a bid for the French-owned food chains, according to two sources familiar with the bid who spoke on condition of anonymity because the bidding process is supposed to remain private.

Groups headed by Kohlberg Kravis Roberts & Co. and by J.P. Morgan Partners have also made bids for the company, which is expected to draw a price of about $2 billion, the sources said.

The auction for Dunkin' Brands comes at the end of a record-setting year for private equity deals.

In the first three quarters of the year, more than 200 private partnerships had raised more than $100 billion to buy companies, eclipsing the previous year-long record of $65.4 billion, set in 2004, according to Buyouts magazine. Washington-based Carlyle and New York's Blackstone Group LP each raised more than $10 billion in buyout funds this year. Investors in the funds include pensions, endowments and wealthy individuals.

The year also saw some of the largest individual deals since 1989's $25 billion buyout of RJR Nabisco. A group of private equity firms bought SunGard Data Systems Inc. for $11.3 billion, Toys R Us was bought out for $8.8 billion in cash and debt, and Carlyle was part of a group that bought car renter Hertz Corp. for $15 billion in cash and debt. Those deals are funded largely by bank borrowing, with the private equity firms putting up 5 to 20 percent of the purchase price in cash. Typically, the target companies are sold within a few years, either to another corporate buyer or in an initial public stock offering.

With the vast amount of cash private equity firms have to put to work, and the economy growing steadily, most experts don't expect the pace or the size of acquisitions to decline next year, either.

"I don't see deal activity slowing down measurably," said Louis J. Bevilacqua, head of the mergers and acquisitions practice at Cadwalader, Wickersham & Taft LLP in New York.

French beverage company Pernod Ricard SA has been soliciting offers for the Massachusetts-based Dunkin' Brands for two months, after acquiring the food company in a larger merger and concluding that it was not a good strategic fit.

Dunkin' Brands, which had worldwide sales of $4.8 billion last year, has three restaurant brands with a combined 12,000 company-owned and franchised restaurants in the United States and elsewhere. Along with Dunkin' Donuts and Baskin-Robbins, it also owns the Togo's sandwich chain.

Carlyle's interest in the well-known consumer chain stems from its hiring in May of Sandra J. Horbach, a 15-year veteran of the buyout industry at Forstmann Little & Co. with an expertise in consumer companies. Carlyle established a consumer team in New York for her to head. At Forstmann, Horbach oversaw some of that firm's most successful consumer company buyouts in the 1990s, such as golf-club-shaft manufacturer Aldila Inc., specialty gift maker Department 56 and mall chain Yankee Candle Co. Though it owns a small department store chain in China, Carlyle has never invested in a U.S. retailer.

A spokesman for Carlyle, which employs 300 in the District, said the firm had no comment. Spokesmen for Kohlberg and J.P. Morgan Partners also declined to comment. J.P. Morgan Partners is the buyout arm of financial behemoth J.P. Morgan Chase & Co., whose investment banking division is actually conducting the sale for the chains' French parent company. The sources said J.P. Morgan Partners came into the bidding recently.

Document WP00000020051209e1c90001l

The Washington Post

DEALMAKERS Terence O'Hara
Financial

$35 Million in Venture Capital Gives NexTone New Life

Terence O'Hara
1,052 words
7 November 2005
The Washington Post
WP
FINAL
D01
English

Malik Khan, chief executive of NexTone Communications Inc., was expansive in an interview last week, laying out plans for hiring 100 more people in the next year, forming a "VOIP interoperability lab" and starting a "NexTone University" to train 10,000 engineers on the company's brand of Internet networking software.

Khan, who was named chief executive of NexTone in August, had good reason to be upbeat. The Gaithersburg company, which nearly crashed and burned in 2001, just raised $35 million in one of the largest telecom venture financings in the Washington area in the past three years, a deal that brought in a well-heeled backer that could fund his grand plans.

The deal was led by One Equity Partners, a private equity fund better known for buying major companies than providing venture funding for start-up telecommunications software companies like NexTone.

"It takes us to a whole new level," Khan said. "If we choose to, we could do some acquisitions. Or if we grow faster, then we may end up needing more capital. And OEP is a $3.5 billion fund and we're the smallest investment in that fund."

One Equity Partners began as the private equity fund of Bank One in Chicago. Now it's funded by the third-largest U.S. bank because of Bank One's merger with J.P. Morgan Chase & Co. last year. It is best known for its $60 million buyout in 2002 of then-bankrupt Polaroid Corp., which One Equity sold early this year for $226 million. One Equity has a diverse portfolio of telecom, industrial and health care companies.

"What we try to specialize in is identifying trends that are transforming industries, then identifying companies that will benefit from the change," said David A. Walsh, the former Global Crossing Ltd. president and OEP partner who led the NexTone deal. "Our investments do tend to be larger than the one we're making here, but the investment definitely fits our profile."

NexTone develops software that resides on Internet networks. The software helps move the data, voice and video traffic traveling on these networks as efficiently and quickly as possible. Khan thinks that as more people use the Internet for their telephone service, demand for such "session management software" will explode. NexTone sells the software to telecommunications carriers, Internet infrastructure companies and companies that use the Internet for their own networks. Its closest competitor is Acme Packet Inc., a Massachusetts company funded by a group of venture investors led by Silicon Valley's Menlo Ventures.

NexTone probably could have raised more money, but Khan and other investors in the company said it shouldn't need to. The OEP round gave a "very attractive" valuation to the company, said Thomas A. Smith, a partner at Mid-Atlantic Venture Funds, which was the earliest investor in NexTone, back in 1998. That means NexTone could expand through acquisitions using shares in the privately held company. Also, NexTone's growing roster of customers -- it has 370 -- means that much of its internal growth can be funded with the cash it is generating.

Khan would not disclose NexTone's revenue or other financial information.

Since it was founded in 1998, NexTone has raised $67.5 million in several rounds of venture financing, each bringing in new investors. Reston's Mid-Atlantic Venture, one of the most dogged early-stage investors in the region's telecommunications start-ups, is the only fund to have stayed with NexTone from the beginning, renewing its investment at each stage.

Smith said NexTone in 2000 and 2001 was too reliant on business from the numerous telecommunications carriers that surfaced in the 1990s to compete against the Baby Bells. Then, NexTone's business was focused on providing access equipment so a small carrier's customers could use voice over Internet protocol (VOIP). When that business collapsed, NexTone had to reconsider its entire strategy.

"It was a tough time," Smith said. "We went back to the drawing board and figured out what we could actually sell. We identified what at the time was a fairly narrow solution, a small market niche. We were able to carve it out from there."

In 2002, the District's Core Capital Partners LP led a new small round of financing for NexTone that allowed it to rebuild its business around what is now its core software product. Previous investors that also participated in the $35 million round were BCE Capital, a Canadian fund, and Safeguard Scientifics Inc., a fund based in Wayne, Pa.

Walsh and Smith said that there is no clear strategy for how and when the venture investors will cash out. A sale is possible, though Khan thinks NexTone will be an acquirer, not an acquiree. An initial public stock offering is a possibility but isn't planned right now.

All Walsh is thinking about is growing the business, which employs 180 people in Gaithersburg, Europe and Asia.

"We're expecting big things to come from this company," Walsh said. "It has the potential to become the market leader in something that's hugely important to the future of [telecommunications]. It was but a few years ago that people didn't know what a router was. In a few years everyone will know what this software is."

American Capital Hires Adviser

The march of top defense and intelligence brass into the private equity world continues.

Last week American Capital Strategies Ltd. hired Les Brownlee, former acting Army secretary and a former staff director of the Senate Armed Services Committee, as a consultant and adviser to help identify -- and serve on the boards of -- defense contractors that American Capital invests in.

American Capital, a public company in Bethesda, is a business lender and equity investor in mid-size businesses. In recent years it has increasingly become a controlled buyout business.

"He won't be a lobbyist," said David Ehrenfest Steinglass, American Capital managing director. "He'll make us a smarter investor. First and foremost, he can bring the perspective of the customer, and where national defense is headed. There's no substitute for that."

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Document WP00000020051107e1b70004l

The Washington Post

WASHINGTON INVESTING Jerry Knight
Financial
Blue-Chip Trio Played Out of Tune in Third Quarter

Jerry Knight
1,091 words
3 October 2005
The Washington Post
WP
FINAL
D01
English

Fannie Mae, Freddie Mac, Marriott International.

They call them Washington's blue chips because, back in the good old days, the blues were the biggest chips on the poker table.

Now, the blues is what stockholders of these local giants are singing after a painful third quarter.

Investors lost money on the stocks of 10 of the 20 largest companies in the region, with Marriott, Freddie and Fannie taking the biggest hits in the three months that ended Friday.

Last Wednesday, Fannie Mae suffered its worst blow since the 1987 stock market crash. Its stock was knocked down almost $5, or 11 percent, by a Dow Jones Newswires report that its accounting problems are even worse than previously reported. Stock in the District-based mortgage giant bounced back more than $3 a share the next day, after old friends on Wall Street came to its rescue.

Not to worry, insisted analysts at J.P. Morgan Securities and Morgan Stanley. Both are major players in the mortgage securities market that do billions of dollars of business a year with Fannie.

"It's not clear that the issues raised in the Dow Jones report would be material," said J.P. Morgan. "Relatively small impact," nodded Morgan Stanley.

Maybe. It's hard to know, given how little has been publicly disclosed about the various inquiries into Fannie, including the accounting investigation being conducted by former senator Warren Rudman. The only new tidbit Rudman offered last week was that his probe might not be finished on schedule in December, but will be done by January.

The friendly analysts could be right. It could turn out that the Wall Street investors who have been dumping Fannie Mae stock and driving down the price simply panicked in the face of uncertainty and made a costly blunder by bailing out.

It will be the middle of next year before Fannie puts out corrected numbers. Based on what happened after a similar accounting investigation at its counterpart, McLean-based Freddie Mac, the stock could rebound once the financial restatement is completed.

But Freddie's rebound was only temporary. Last quarter the stock fell steadily, in tandem with Fannie's. Freddie's stock plunged to $56.46 from $65.23, a 13.4 percent loss. Fannie shares dropped to $44.82 from $58.40, a 23.3 percent loss.

If the percentage losses aren't scary enough, consider how much stockholder money has vaporized. Fannie's stock market value fell about $13 billion last quarter while the total value of Freddie's stock dropped $6 billion.

Fannie's accounting irregularities are not the only issue depressing the stocks of the two government-charted mortgage companies.

Congress is considering legislation to tighten regulation of Fannie and Freddie. The Bush administration is playing hardball, calling for even tougher oversight than some in Congress are supporting.

And as every homeowner in real estate-obsessed Washington knows, the housing market is peaking after the greatest boom in history. Mortgage interest rates are creeping higher, home sales are slowing, most everybody who could refinance already has. The mortgage business isn't going to keep growing the way it has.

At the same time, Fannie and Freddie are losing market share to private lenders.

Fannie, in fact, is deliberately downsizing its business under pressure from regulators. Its mortgage holdings have shrunk for 10 months in a row. Freddie, which has a stronger financial base, continues to grow.

Despite the bites they have taken out of investors, Fannie and Freddie are still rated "buy" by the majority of the analysts who follow them. Many of those "buy" ratings, however, come from firms that do business with both.

Though their operations are basically the same, Fannie and Freddie should be looked at as individual investments, say analysts at Fox-Pitt Kelton, a European investment firm that specializes in financial institutions.

In a report issued last week, the firm noted that Fannie's stock sells for about 1.5 times book value while Freddie shares go for just 1.2 times book. Book value measures a company's net worth, after debts are deducted from assets.

Cautioning that the higher valuation given to Fannie is "unwarranted," Fox-Pitt Kelton predicted the ratios would converge, making Freddie a better investment.

Washington investors have to wonder, though, whether Fannie and Freddie will ever again be what they once were: Washington's two best growth stocks, producing steadily higher earnings and a steadily rising stock price.

Last quarter, Fannie and Freddie also lost their titles as the biggest businesses in town.

With the completion of the merger of Northern Virginia's Nextel Communications Inc. and Sprint Corp., the new Sprint Nextel Corp. is now the region's biggest business based on the total value of its stock. With a market capitalization of about $69 billion, Reston-based Sprint Nextel is twice as big as the shrunken Fannie or Freddie.

Nextel shareholders who rolled their investment over into Sprint stock had a disappointing quarter, as Sprint shares fell 5.2 percent. Investors and analysts generally like the merger, but are waiting to see how well the two companies do in combining their operations and how much money they can save in the process.

Marriott International Inc. was the other local blue chip stock that badly disappointed investors last quarter, falling 7.7 percent to $63 from $68.22.

The world's biggest hotel company was hurt by its second-quarter financial report. While showing the lodging business was growing steadily, the report was cluttered with some one-time accounting adjustments that confused investors.

Record gasoline prices are hurting most travel and lodging industry stocks because investors believe people will travel less. How much a threat that really is not yet clear. The people renting rooms at Marriott's Ritz-Carlton chain aren't likely to be deterred by $3 a gallon gas when they're paying $300 a night for rooms.

Hurricane Katrina took a direct toll on Marriott because the Bethesda company is one of the largest hotel operators in New Orleans, with 15 properties.

The day the hurricane hit, Marriott shares plunged, but they made an even bigger recovery on Friday after the flagship 494-room J.W. Marriott hotel reopened, with chief executive J.W. Marriott Jr. on hand for the ceremonies. Seven New Orleans area Marriott properties are now back in business, mostly housing relief and reconstruction workers.

Document WP00000020051003e1a300045

Financial
Of Note

63 words
30 September 2005
The Washington Post
WP
FINAL
D04
English

The District-based company regained some of its losses from Wednesday, when a report by Dow Jones Newswires, citing anonymous sources, said investigators have unearthed further accounting violations at the mortgage giant. Yesterday, analysts at firms including J.P. Morgan Securities and Morgan Stanley said they expected only a small financial impact from any further problems.

Document WP00000020050930e19u0002u

The Washington Post

Financial
RECENT DEALS

370 words
12 September 2005
The Washington Post
WP
FINAL
D03
English

MERGERS AND ACQUISITIONS

Artesian Therapeutics Inc., a Gaithersburg developer of drugs for cardiovascular disease, was sold to Canada's Cardiome Pharma Corp. in a deal valued at $32 million. Oxford Bioscience Partners, Artesian's largest shareholder, agreed to invest $7.5 million in Cardiome when the deal closes. In addition to Oxford, Artesian's shareholders included the Maryland Department of Business and Economic Development. The Gaithersburg firm has raised about $14 million in venture capital since inception.

Hanley Wood LLC, a Washington-based media company serving the construction industry, completed its sale to a group of investors led by J.P. Morgan Partners LLC and including members of Hanley Wood management and Wasserstein & Co. Hanley Wood founder Michael Wood stepped down as chief executive but will remain on the board. Frank Anton, formerly president, is chief executive. Hanley Wood publishes 22 trade titles, including Builder and Remodeling.

PRIVATE EQUITY

A&G Pharmaceutical Inc., a Columbia maker of breast-cancer tests, raised $2 million in a first round of funding from venture investors New England Partners of Boston, the Maryland Department of Business and Economic Development, and California's Crocker Capital.

Milestone Capital Management LLC, a Washington-based merchant bank, will pay $12 million for 84 company-owned restaurants in Colorado and Minnesota from Papa John's International Inc., making Milestone the third-largest franchisee of the Kentucky-based pizza chain.

Allied Capital Corp. of Washington provided $64.4 million to finance the buyout of Healthy Pet Corp., a Connecticut-based operator of veterinary hospitals. Allied Capital's investment bought a majority of the common equity of the company from Catterton Partners. Allied also provided senior secured debt and a line of credit.

Valhalla Partners, a Vienna venture firm, participated in a $7 million round of funding for database software maker EnterpriseDB Corp. of Edison, N.J. Charles River Ventures of Waltham, Mass., also invested. EnterpriseDB had previously been funded by a group of 17 angel investors who supplied $1 million in April, according to an SEC filing. Phillip Merrick, founder and former chief executive of Fairfax software firm WebMethods Inc., is a board member of EnterpriseDB.

Compiled by Terence O'Hara.

Document WP00000020050912e19c0003z

Financial
Tax Shelter Cases Shed Light on Banks' Role

Terence O'Hara and Carrie Johnson
Washington Post Staff Writers
1,178 words
31 August 2005
The Washington Post
WP
FINAL
D01
English

In November 2001, Daniel E. Berce's private banker offered him a way to avoid $3 million in taxes he owed after cashing in a large block of stock options.

Berce had good reason to trust the Dallas-based banker. Bank One had been his personal bank for 18 years. Bank One was also a major financier to AmeriCredit Corp., the huge Fort Worth-based auto lender. At the time, Berce was AmeriCredit's chief financial officer -- and the company's good fortunes had made him a millionaire.

The bank offered Berce a way to not pay taxes on some of those millions. It was called Homer and was a tax-sheltering foreign currency transaction (named after the "Simpsons" character) that all but eliminated Berce's stock option gains. The problem is that Homer was a sham, according to government sources, lawyers familiar with the case, and lawsuits by Berce and several other wealthy business people.

The Berce case and others, as described in state and federal court filings, highlight the central role U.S. banks have played in the unfolding tax shelter scandals. While accounting and investment firms devised the shelters, banks helped promote and sell them. Accounting firm KPMG LLP on Monday agreed to pay $456 million and to cooperate with authorities investigating tax shelter deals. Rival Ernst & Young LLP remains under grand jury investigation for its role in selling shelters.

But experts say about a dozen major financial institutions with divisions that cater to the super-wealthy were in most cases the point of entry for tax shelter promoters, and federal investigators are expanding their probe to the role that bankers, financial advisers and lawyers played. Often, lending institutions such as Wachovia Corp. referred their wealthy clients to promoters selling what the Internal Revenue Service says are invalid shelters. In other cases, experts at such institutions as Bank One and Bank of America devised and sold questionable tax avoidance strategies themselves.

The IRS has estimated that tax shelters promoted by those banks and others improperly shielded more than $8 billion in income from federal taxes.

The fees for providing such tax-avoidance strategies were substantial. Berce paid Bank One and the co-promoters of Homer -- Jenkens & Gilchrist PC and Deutsche Bank AG, the German bank that made billions of dollars of "loans" to make the deals work -- $350,000 in fees. And Berce, now AmeriCredit chief executive, was not the only AmeriCredit insider who bought into Homer. AmeriCredit director James H. Greer, owner of a Houston building products company and also a client of Bank One, paid $600,000 in fees for a Homer in an attempt to avoid $5 million in taxes on AmeriCredit stock options.

Both men were told by the IRS in 2004 to amend their tax returns for 2001 and pay interest and penalties, according to their lawsuits against Bank One.

Bank One was acquired last year by J.P. Morgan Chase & Co. Bank spokesman Tom Kelly declined to comment on any of the pending lawsuits against the company because the cases are in litigation. A Deutsche Bank spokesman declined to comment.

The first person indicted in the ongoing federal investigations into the tax shelters was a banker, not an accountant. The plea by former HVB Group official Domenick DeGiorgio to conspiracy, fraud and tax evasion charges was the first time an individual involved in abusive tax shelters characterized them publicly as sham transactions designed to subvert the law.

"Our self-reporting tax system cannot tolerate the fraudulent acts of bankers, accountants and lawyers who, under the guise of 'sophisticated tax planning,' create elaborate structures that have no purpose but to mislead and defraud the IRS," U.S. Attorney David N. Kelley said at the time.

The deals broke the law, DeGiorgio said in court, because they were investments that involved little or no credit risk and because they were intended to produce tax losses. To comply with the tax code, investors must reasonably expect they will make a profit on such deals.

Language in a conspiracy indictment of eight former KPMG officials announced Monday refers to four unnamed, international banks that helped wealthy clients take part in the shelters.

Investigators at the Senate permanent subcommittee on investigations issued a report in April that first chronicled the role of bankers, lawyers and accountants in marketing the shelters. HVB earned $5.45 million for its role in 1999 alone. Deutsche Bank reaped $79 million in fees for BLIPS, another tax shelter, and earlier deals called OPIS, the Senate report said.

Bank of America, the largest U.S. bank, about six years ago began offering a tax shelter under the brand STARS. Texans Charles and Sam Wyly, who made several hundred million dollars as entrepreneurs in the software and retail industries in the past 20 years and who control Michaels Stores Inc., a chain of craft stores, were among their customers.

According to Securities and Exchange Commission filings, the brothers sought to avoid taxes on stock options by transferring the options to an offshore family trust. Bank of America sold the Wylys a deal that allowed the trusts to then convert the options into cash, without paying any taxes.

A Bank of America spokeswoman declined to comment on the Wyly case but said STARS is a form of derivative product commonly marketed by all banks and investment broker dealers to lock in profit on stock options.

The IRS said earlier this year that the shelters of the type employed by the Wylys with Bank of America's assistance helped shield from taxes $900 million in income from hundreds of wealthy business executives.

Lawsuits against Bank One detail the close relationship of law firms, accountants and tax advisers with the bank that sold invalid tax shelters to its clients. The bank's wealth management division in Chicago had an Innovative Strategies Group to come up with novel tax avoidance strategies for wealthy clients. Two of the executives in the group were former national tax group members of KMPG. Both men, along with most of the rest of the Innovative Strategies Group that designed Homer in 2001, have since left the bank, according to a source at the bank who spoke on the condition of anonymity because of the pending litigation.

Lawmakers who examined the tax shelter industry said lending institutions and others require heightened scrutiny to ensure they do not promote illegal tax shelters. Sens. Carl M. Levin (D-Mich.) and Norm Coleman (R-Minn.) introduced a bill last month that would increase penalties for knowingly aiding or abetting taxpayers to minimize their bills. The legislation also would require federal bank regulators to develop ways to detect tax-related violations by banks and to review those strategies at least every two years.

"Our bill provides our government the tools to end the use of abusive tax shelters . . . and to punish the powerful professionals who push them," Levin said.

Document WP00000020050831e18v0003g

The Washington Post

Financial
Rose H. Cohen

426 words
22 August 2005
The Washington Post
WP
FINAL
D08
English

Position: Vice president and senior banker in Washington for J.P. Morgan Private Bank, a wealth management arm of J.P. Morgan Chase & Co.

Career Highlights: Senior vice president, Asset Management Advisors LLC, a SunTrust affiliate; vice president, sales and business development, Olympus Group Inc.; senior vice president, business development, Franklin National Bank (purchased by BB&T); private banking officer, Sovran Bank (later merged with Bank of America); cash management officer, Sovran Bank; and analyst, department of economic policy and analysis, U.S. Securities and Exchange Commission.

Age: 40

Education: BA, economics, University of California, Santa Barbara; MBA, finance, Robert H. Smith School of Business, University of Maryland.

Personal: Lives in Washington with husband, Bob.

How did you get to where you are?

In college I realized three of my biggest passions in life: the never-ending pursuit of learning, interacting with people and a keen interest in finance. So I sought to find a career that would allow me to engage in all three. After graduation, my penchant for numbers drove me to the nation's capital to work with the Securities and Exchange Commission to learn more about the financial markets. While I learned much through my finance research, I was drawn to increasing my level of interaction with people and felt that banking would offer the balance I was seeking. I consistently migrated toward private banking as a way to bring together my analytical and relationship management skills.

In 1991, I had the opportunity to better understand entrepreneurial clients as I was part of a team of bankers that grew Franklin National Bank during challenging economic times in the Washington area. We experienced terrific growth and success as a result of the efforts of the management team, the employees and the clients working closely together, and ultimately sold a successful enterprise to BB&T. We had started with an organization of approximately $40 million in total assets and grew that to $1 billion when we sold in 1998.

My decision to join the Washington team of J.P. Morgan Private Bank was primarily the result of the firm's ability to deliver a depth and breadth of world-class wealth management solutions in a very personalized model. As a senior banker, I serve as the adviser or access point to the extensive resources of the organization. This allows me to stay connected to clients when delivering customized wealth management solutions and consistently be the adviser upon whom the client depends.

-- Judith Mbuya

Document WP00000020050822e18m0002x

Financial

Big Hit Not Expected For Travel Industry; But Even Slight Decline in Bookings Could Hurt Airlines, Analysts Say

Mark Chediak
Washington Post Staff Writer
624 words
8 July 2005
The Washington Post
WP
FINAL
D03
English

The U.S. travel industry is not expected to suffer significantly from the bombings in London yesterday, though airlines flying to Western Europe could experience a drop-off in bookings as passengers adjust their plans, analysts said.

For the struggling airline industry, a dip in travel to Europe could hurt recovery efforts because carriers have been benefiting from a recent surge in international travel.

Airline and travel-related stocks fell yesterday. Delta Air Lines Inc. lost 2.9 percent, while AMR Corp., parent of American Airlines, was off 1.2 percent. Marriott International Inc. declined 0.4 percent.

Jamie Baker, an airline analyst at J.P. Morgan Securities, said in a research note that he expected a slight decline in bookings to England over the next six to 10 weeks. "Any widespread aversion to air travel throughout Western Europe would likely have a significant negative effect" on the airlines, particularly Delta, Continental Airlines Inc. and Northwest Airlines Corp., he said. But, he added, it would be difficult to imagine any serious long-term impact from yesterday's bombings.

Leisure travelers have already booked a large portion of the transatlantic summer traffic and are unlikely to change their plans, especially those with nonrefundable tickets, said Raymond Neidl, an airline analyst with Calyon Securities (USA) Inc. He said the slide in travel after the Madrid bombings in March 2004 was small and short-lived.

Hotel chains with properties in London were assessing the potential impact yesterday. John Wolf, a spokesman for Bethesda-based Marriott, said it was too early to tell if the attacks would slow bookings in London.

Travel agents and airlines said they had not noticed a rash of overseas cancellations but expected some people traveling to London over the next few weeks to alter their itineraries.

"People are taking a kind of a wait-and-see attitude," said Maggie Buttweiler, spokeswoman for Carlson Wagonlit Travel Inc., a network of more than 700 U.S. travel agency locations.

Buttweiler said some travelers may wait a few days before deciding to go ahead with a trip overseas. "In general, people want to travel and don't want to cancel their plans," she said.

John Lampl, a British Airways PLC spokesman, said the airline had received "a lot of calls" but had not experienced "mass cancellations" due to the bombings. The airline said passengers on London flights booked through July 15 who were affected by yesterday's attacks could change their reservations without penalty up to two weeks after their scheduled departure.

American Airlines, which offers more than 20 daily flights to London, said it had not noticed a significant number of flight changes or cancellations. The airline is offering passengers on London flights in July the opportunity to change their reservations without a fee.

Airline travel within the United States is not likely to slump because of the bombings, Neidl said. "People may be a little bit more careful and a little more nervous," he said, "but I'm not expecting a big fall off."

Passengers are not shying away from Amtrak, either, according to spokeswoman Tracy Connell. "We haven't heard of any impact to ridership at all," she said. "We're expecting strong bookings over the summer."

U.S. travel is still expected to reach record levels this summer with more than 328 million leisure trips planned, according to the Travel Industry Association of America.

"Timing wise, things could have been a lot worse," said Allen Kay, spokesman for the association. "The vast majority of people have made their plans and bought their tickets."

Document WP00000020050708e1780003x

The Washington Post

Financial
Tough Times for the House of Morgan

482 words
19 June 2005
The Washington Post
WP
FINAL
F02
English

There was a time when J.P. Morgan so dominated the U.S. financial system that it could single-handedly calm a market panic, rescue an industry or keep the government from running out of cash. So powerful was the firm that after the great crash of 1929, a Congress suspicious of market manipulation decreed that commercial and investment banking could not cohabit under the same corporate roof, effectively dividing Morgan in two.

In the ensuing decades, the bankers at J.P. Morgan and the investment bankers at Morgan Stanley were considered the bluest of Wall Street bluebloods. When the Depression-era law was finally repealed, their successors tried to re-create the power and scope of the original House of Morgan through a series of acquisitions. But last week, the two proud firms, for different reasons, stood humbled before investors, corporate customers and Wall Street competitors.

At one, chief executive Philip J. Purcell was finally forced to step down as chairman of a firm where the investment bankers of Morgan Stanley never quite gelled with the retail brokers and credit card marketers of Dean Witter. Although he won the power struggle within the firm, in the end Purcell couldn't stem the flow of high-profile defections and criticism from former executives that eventually convinced directors that the price of keeping him was too high. It didn't help that the firm had just been hit with a $1.45 billion judgment in a case that it could have settled years earlier for $20 million. Nor did it help that the company had just warned of another quarter of disappointing earnings that put the firm at the back of the Wall Street pack. By week's end, dissident shareholders were talking about nominating a rival slate of directors, and plans to sell off the Discover card unit were put on hold after buyers discovered it would require a big infusion of cash.

At J.P. Morgan, the recent problems have less to do with strategy or financial results than with faulty ethics and business judgment. The bank agreed to pay $2.2 billion to Enron shareholders and bondholders to settle allegations that it knowingly helped the energy firm structure the complex deals used to hide debt and poor operating results from investors. It was a bitter pill for a company that -- despite billions of dollars in write-offs and settlements with regulators over tainted analysis and manipulated IPO markets -- had continued to claim it bore no responsibility for the tech and telecom bubble in which it was the leading financier. At least in the Enron case, J.P. Morgan arrived relatively early at the settlement table: Its earlier $2 billion agreement with WorldCom shareholders was $630 million more than a settlement offer it had defiantly rejected several months before.

Document WP00000020050619e16j0008t

The Washington Post

Financial
Unexpected Expense; Employees Must Pay Tax on Benefits for Domestic Partners

Albert B. Crenshaw
Washington Post Staff Writer
1,384 words
5 May 2005
The Washington Post
WP
FINAL
E01
English

Early in 2004, after nearly two years in a committed relationship, Dan Jessup added his partner to his health insurance, as his employer, the big Wall Street firm J.P. Morgan, allows.

For more than a decade, a focus of gay rights groups and other activists has been persuading employers to offer health insurance and other benefits to the domestic partners of unmarried employees. And Jessup was pleased that his employer was among those that did.

Employer-provided group insurance "was a great plus for us because he is a self-employed writer and content developer" and J.P. Morgan's coverage "was much cheaper than what he could get on his own," Jessup said of partner Bob Chenoweth.

But there was shock in store for the 39-year-old worker in Morgan's commercial banking division in Indianapolis: His taxes took a big jump.

"Something I didn't understand at the time was how much the taxes would be. I was very surprised when I started doing my taxes" this spring, he said.

As an increasing number of employers make health care coverage available, unmarried workers are finding that as one barrier falls, another remains standing: taxes.

Whether in same-sex or heterosexual unmarried unions, employees who take advantage of health care coverage for their partners are stuck with tax bills for the benefits.

Under federal law, any portion of an employer-paid insurance premium that goes for coverage for a domestic partner is treated as taxable income to the employee. The employee also may not make any payments for partner coverage, such as premiums under a "cafeteria" benefit plan, with pretax dollars.

The rules apply whether an employer buys medical coverage from an insurance company or whether it "self-insures" and allocates part of the costs to the worker, said Randall Abbott of the Boston office of Watson Wyatt Worldwide, a benefits consulting firm.

"Regardless, it's the employer portion of that premium. If the employer is paying 80 percent, that's what the employee is taxed on. The employer withholds taxes on it, and it is reported as income on the employee's W-2" wage reporting form, Abbott said.

Rising medical costs have added to the pain this year, Jessup said. In January of this year, as health care costs to the firm increased, taxes increased proportionately.

"My taxes went up $150 a month. That's something I hadn't planned for," he said of the reduction in his paycheck caused by additional withholding.

Employers often blame the Internal Revenue Service for the tax, but the rules were written into law by Congress.

And because it is federal law, there are other consequences. One is that employers are not required to offer COBRA benefits -- which allow employees to stay on their employers' plans temporarily after they leave their jobs -- for domestic partners.

The taxes are the result of the interaction of several laws.

First, employer-paid health insurance is tax-free only for employees, their spouses and dependents. "A man and a woman who have not officially gotten married are in the same boat," said Christopher Colwell of the accounting firm BDO Seidman LLP.

Opposite-sex couples, of course, have the option of getting married. Except in Massachusetts, same-sex couples do not. Even if they did, it wouldn't help with the tax treatment.

The Defense of Marriage Act, passed by Congress and signed by President Bill Clinton in 1996, defines marriage for the purposes of federal law as "a legal union between one man and one woman as husband and wife."

It also stipulates that "spouse" refers "only to a person of the opposite sex who is a husband or a wife." The law requires that both these definitions be used "in determining the meaning of any Act of Congress."

Thus, same-sex couples, no matter what the states do, will remain unable to get federal-tax-free health insurance for one partner through the other's employer. A 1997 study by the General Accounting Office (now known as the Government Accountability Office) found 1,049 federal laws in which marital status is a factor. They range from the obvious, such as those concerning joint tax returns, to the obscure but potentially important for certain individuals, such as in determining who gets life insurance proceeds when a federal government worker dies without specifying a beneficiary.

For many couples, the most immediate and painful impact is on health insurance.

While most workers can afford to pay the taxes -- or will struggle to do so because the advantage of employer-paid plans is so great -- some cannot.

It is a "decision people have to make," said Joe Solmonese, president of the Human Rights Campaign, a gay and lesbian rights advocacy group here. At the same time, he said, it's a decision society also should face: "What you have to factor in is the cost of the uninsured . . . the long-term cost of the uninsured partner of the person who makes that tough decision" to forgo coverage because of the taxes.

And those who get sick and are without insurance are likely to end up on some form of public assistance, such as Medicaid.

Solmonese said federal policy runs increasingly counter to what many employers are doing. "They see this not just as an issue of workplace equity but, for a whole range of reasons, [as] something that makes a lot of sense," he said.

Forty to 45 percent of the Fortune 500 companies offer domestic partner benefits, Abbott said. Among all large employers, those with more than 1,000 workers, the figure is about 30 percent, he said.

Among all businesses, "the number drops to 15 to 20 percent because many small businesses either simply can't afford the benefit" or their owners may object for personal reasons, he said.

Early on, there was "enormous concern that including same-sex partners would create crippling costs," Abbott said. "That has proven not to be the case. Generally, what we have found is the cost of domestic partner benefits has been nominal," about the same for same-sex and a little higher for opposite-sex unmarried partners as for spouses. Domestic partner benefits can escape tax if the non-employee partner can qualify as the employee partner's dependent. Children of the non-employee partner may also qualify this way.

To qualify, the partners must, among other things, live together, and the employee partner must provide more than half the non-employee's support. Some employers provide worksheets for employees to help figure out if they qualify.

For many couples, "it's difficult to meet that definition of dependent," Colwell said.

Jessup has considered claiming Chenoweth as a dependent but hasn't tried it.

"The tax laws are confusing. We need to talk to specialists," Jessup said. "We don't understand what that would do to his tax situation. He's self-employed -- how is that going to impact his business? It's complex and somewhat overwhelming."

There have been efforts in Congress to ease the tax treatment of health insurance for domestic partners, but they have stalled. Sens. Gordon Smith (R-Ore.) and Charles E. Schumer (D-N.Y.) plan to reintroduce legislation that would bring the treatment more in line with that of married couples.

Jessup and others at J.P. Morgan say they appreciate what the firm has done for them. A company spokesman noted that J.P. Morgan has provided domestic partner benefits since 1994 and was the first Wall Street firm to do so.

But even for investment bankers, the tax hit is not negligible.

Five years ago, when Laureen Callo's partner decided to leave J.P. Morgan and go back to graduate school, Callo added her as a domestic partner.

"It's much more affordable" than other options they looked at, but it resulted in $5,000 a year in additional taxable income. "In the 35 percent tax bracket . . . you are talking about $1,800 a year in tax saving" they would have been allowed if they were married, Callo said. "Over five or six years, that's not small change."

Document WP00000020050505e15500044

The Washington Post

Financial

J.P. Morgan Settles WorldCom Suit for $2 Billion

Ben White
Washington Post Staff Writer
836 words
17 March 2005
The Washington Post
WP
FINAL
E01
English

J.P. Morgan Chase & Co. agreed Wednesday to pay $2 billion to settle its part of the WorldCom Inc. shareholder lawsuit, bringing total settlement payments to more than $6 billion, by far the largest amount ever for such a shareholder action.

J.P. Morgan helped underwrite major WorldCom bond offerings in the two years before the telecommunications firm filed the largest bankruptcy case in U.S. history in 2002. Plaintiffs in the class-action case, lead by New York State Comptroller Alan G. Hevesi, claim J.P. Morgan and other WorldCom advisers and directors should have discovered the company's $11 billion accounting fraud and disclosed it to investors.

J.P. Morgan's settlement, which requires approval from a federal judge, is the second largest in the case. Citigroup Inc., WorldCom's biggest bond underwriter, agreed last year to pay $2.6 billion. It also sets the stage for a settlement with 11 of WorldCom's former directors, 10 of whom previously agreed to pay $54 million, including $18 million of their own money, to settle shareholder complaints.

If the J.P. Morgan settlement is approved, which is expected, plaintiffs will have recovered more than $6 billion in the case from the banks. The largest previous settlement in a similar shareholder class-action case came in 1999, when Cendant Corp. and its accountants agreed to pay $3.2 billion to settle fraud charges. Plaintiffs' attorneys say about $5 billion in WorldCom settlement money will go to WorldCom bondholders and about $1 billion to stockholders.

J.P. Morgan could have gotten out of the WorldCom case for significantly less money. Following the Citigroup settlement, plaintiffs offered to settle with the bank for about $1.4 billion. But J.P. Morgan rejected the deal, saying its bankers could not have unearthed WorldCom's fraud, especially since WorldCom's accountants failed to do so. J.P. Morgan executives said at the time that they were being held guilty by association.

However, as more firms settled and plaintiffs won favorable rulings in the case, the price for J.P. Morgan to settle went up. Hevesi said Tuesday's criminal conviction on all counts of former WorldCom chief executive Bernard J. Ebbers helped hasten talks that led to Wednesday's deal.

"There was a sense from the Ebbers verdict that there were serious issues with WorldCom," he said, adding, "I'm delighted we are coming to closure. This is a huge securities case, and I think we've made a substantial recovery for the people we represent."

Legal experts had long predicted that all of WorldCom's investment banks would ultimately settle rather than risk several billion dollars in exposure from a jury verdict.

In a written statement, J.P. Morgan chairman and chief executive William B. Harrison Jr. said, "Given recent developments, we made a decision to settle rather than risk the uncertainty of a trial. We can now put this litigation behind us and continue to focus on our goal of making JPMorgan Chase the best financial services company in the world."

The firm said it would take a $900 million charge against earnings in the first quarter of this year to fund the settlement. After tax deductions, the charge will be $560 million. J.P. Morgan reported profit of $1.67 billion in the fourth quarter of 2004.

Two smaller New York banks also settled Wednesday. Blaylock & Partners LP agreed to pay $572,840, and Utendahl Capital Partners LP agreed to pay $234,000.

Plaintiffs in the case said Wednesday that they are also close to settling with 11 former WorldCom directors. A previous settlement, to which the banks had objected, fell apart when the federal judge overseeing the case, Denise L. Cote, objected to a technical provision. The settlement was viewed as precedent-setting because directors rarely pay their own money, relying instead on insurance coverage to cover such agreements.

A new settlement with the directors, along terms similar to the original deal, is expected soon. Attorneys for some of the directors, however, want the settlement amount to be reduced somewhat to reflect the time and expense required to prepare for trial in the case, which had been scheduled to begin Thursday. Lawyers for some of the directors already had prepared opening statements.

The J.P. Morgan settlement leaves only former WorldCom director Bert C. Roberts Jr. and the defunct Arthur Andersen LLP accounting firm as defendants in the case. Cote directed the two remaining parties to continue settlement talks under the supervision of another federal judge.

Cote on Wednesday congratulated the settling parties on their agreement. "I think this is very much in the public interest and the interest of all the settling parties," she said. Cote made it clear she was eager to see settlement progress with the remaining two defendants. Nonetheless, she said jury selection in the case would begin next week.

Document WP00000020050317e13h0009x

The Washington Post

Financial

Ibiquity's Funding History

154 words
28 February 2005
The Washington Post
WP
FINAL
E10
English

1991: USA Digital Radio capitalized with money from Westinghouse Corp., CBS Broadcasting Inc. and Gannett Co.

1998: 15 investors, including several large radio broadcasters as well as Chase Investment Partners (now JP Morgan Partners), buy $20 million of common stock.

2000: USA Digital sells $41 million in preferred stock to 30 investors. A broad base of independent venture investors and corporate venture capital funds buy in, including Riggs Capital, Grotech Capital Group, H&Q Venture Associates and Whitney.

2000: USA Digital merges with Lucent Digital. Lucent's venture capital unit becomes largest shareholder of newly named iBiquity Digital Corp.

2002: Ibiquity sells $45 million in preferred stock to 30 investors, most of them existing shareholders.

February 2004: Ibiquity sells $30 million in preferred stock, mostly to existing investors. Columbia Partners LLC also provides $30 million in debt financing.

SOURCES: Ibiquity, Securities and Exchange Commission

Document WP00000020050228e12s0000x

The Washington Post

Financial
In Brief

539 words
18 February 2005
The Washington Post
WP
FINAL
E05
English

* Fairfax County's Economic Development Authority plans to hire a marketing representative in South Korea in an attempt to lure Korean companies to expand in the county. The county also has representatives in England, Germany, Israel and India. Fairfax County officials say Korean firms now make up the county's biggest contingent of foreign-owned companies. They say the county's growing Korean population should be a draw for business from South Korea.

* Vastera, a Dulles company that provides software to manage global trade, lost $739,000 (2 cents a share) on $22.2 million in revenue during its fourth quarter, compared with a loss of $69.6 million ($1.67) on $21.1 million in revenue during the corresponding quarter a year earlier. For the year, the company lost $4.3 million (10 cents) on $86.1 million in revenue, compared with a loss of $71.2 million ($1.73) on $85.2 million in revenue in 2003. On Jan. 7, Vastera said it agreed to be acquired by J.P. Morgan Chase Bank NA for $129 million.

* Lockheed Martin of Bethesda won a $247 million contract from the Army for the production of 97 Arrowhead systems for the Army and foreign military sales customers. The Arrowhead system provides a new electro-optical targeting and piloting system for Apache helicopter crews.

* SRA International of Fairfax won a contract worth up to $59.9 million over five years from the Department of Health and Human Services to provide program management and operations support to the Federal Parent Locator Service, used by state and local child support agencies to find parents who are delinquent in child support payments. SRA has provided support for the service since 1996.

* IBiquity Digital, a Columbia company that developed and licenses HD radio technology, said it closed a $30 million series C financing round led by existing investors New Venture Partners, Grotech Capital Group, J.P. Morgan Partners, Gannett Co. and Pequot Capital. Waller-Sutton Media Partners, Whitney & Co. andMidOcean Capital Partners also participated. IBiquity also has completed a financing round with Columbia Partners for up to $30 million in additional structured debt financing.

* Anteon International of Fairfax won a $15 million contract from the Naval Air Depot, North Island, Calif., to provide maintenance, repair, modification and overhaul services on a variety of aircraft.

* General Dynamics of Falls Church said its C4 Systems unit won a $13.3 million contract modification from the Marine Corps System Command for 16 additional unit operation centers. C4 Systems received a contract for 21 of the centers last December. The mobile command-and-control operations centers include a network of workstations supporting mission-critical software and integrates non-secure and secret voice and data communications, voice-over-Internet-protocol capabilities and networked servers.

* Xybernaut, a Fairfax company that makes wearable computers, issued a statement saying it had no explanation for the significant drop in its stock price. Between the start of the week and the close of markets Wednesday, the firm's stock fell 17 percent, or 17 cents. Yesterday it climbed back up 7 cents to close at 92 cents a share.

Compiled from reports by Washington Post staff writers.

Document WP00000020050218e12i0002w

The Washington Post

Financial
Ex-WorldCom Directors' Settlement Challenged; Co-Defendants Call Deal Inappropriate

Ben White
Washington Post Staff Writer
638 words
12 January 2005
The Washington Post
WP
FINAL
E05
English

In an unusual legal move, a group of Wall Street banks has challenged the settlement announced last week between 10 former WorldCom Inc. directors and plaintiffs in a class-action shareholder lawsuit filed after WorldCom collapsed into bankruptcy court in 2002 following charges of widespread accounting fraud.

The 16 banks, including J.P. Morgan Chase & Co., Bank of America Corp. and Deutsche Bank AG, were among the underwriters of WorldCom securities and are also defendants in the lawsuit, which is scheduled to go to trial on Feb. 28. Citigroup Inc. agreed last year to pay $2.6 billion to settle its part of the case. Citigroup was the main underwriter for WorldCom, which emerged from bankruptcy protection as Ashburn-based MCI Inc.

The 10 former outside directors last week agreed to a settlement deal, unusual in such cases, in which they would pay $18 million out of their own pockets. As part of the deal, insurance companies agreed to pay an additional $36 million. Typically, outside directors do not pay for settlements with their own money, relying instead on insurance policies or the companies where they served to cover payments.

In a letter delivered on Monday to U.S. District Judge Denise L. Cote, who is overseeing the WorldCom class-action case, the banks argued that the settlement with the former directors was inappropriate because, among other reasons, it was reached too close to the scheduled trial date, could leave the remaining defendants to shoulder too much liability and could be scuttled by the insurance companies, which under certain circumstances could back out of the agreement.

In a brief hearing Tuesday, Cote declined to grant a request by plaintiffs that the 10 former directors be immediately excused from the case.

Instead, she asked both sides to quickly submit briefs further detailing their arguments. She expressed some concern regarding certain provisions of the settlement, particularly those dealing with insurance companies. But she did not otherwise discuss the merits of the agreement. She said the trial would begin as scheduled on Feb. 28, whether the 10 former directors have been excused from the case at that point or not.

John P. Coffey, an attorney representing the New York State Common Retirement Fund, the lead plaintiff, told reporters after the hearing that he viewed the banks' effort as a delaying tactic and was not dismayed that the 10 former directors were not immediately excused from the case. "I think the judge, as is customary, is being cautious and careful. I am optimistic that the settlement will ultimately be fully approved."

Coffey also said he hopes a deal with Francesco Galesi, one of two remaining outside WorldCom directors who have not yet agreed to settle, would be announced soon. During the hearing, Paul C. Curnin, an attorney for several of the former directors, said he expected Galesi to settle.

Thomas E.L. Dewey, a securities litigator at Dewey Pegno & Kramarsky LLP in New York, said the banks' effort was not surprising. He said the banks do not want their main argument in the case -- that all the parties involved were victims of fraud committed by top WorldCom management -- to be undermined by the tacit admission of culpability by the directors. The directors neither admitted nor denied wrongdoing as part of the settlement deal.

"I think as a tactical matter, with a trial looming, it's an awful lot easier for the banks that are defendants to have as many other defendants as possible," Dewey said. But he added that he believed it was unlikely that the banks would succeed in scuttling the settlement. "These challenges are quite uncommon because usually there isn't much of a basis to them."

Document WP00000020050112e11c0002x

Financial
Vastera Ticker: VAST Frid ...

237 words
10 January 2005
The Washington Post
WP
FINAL
E06
English

Vastera

Ticker: VAST

Friday's close: $3

Week's change: +14%

Shares of Vastera Inc., a Dulles firm that helps companies manage international trade, rose last week after the company said it agreed to be acquired by J.P. Morgan Chase & Co. for $129 million. The deal is to close in April.

I.C. Isaacs

Ticker: ISAC

Friday's close: $4.70

Week's change: +21%

I.C. Isaacs & Co., which sells sportswear and denim apparel, said last week it landed a new, three-year, $25 million credit facility with Wachovia Bank. The firm, based in Baltimore and New York, said the new line of credit has a lower interest rate.

Circuit City Stores

Ticker: CC

Friday's close: $13.63

Week's change: -13%

Circuit City Stores Inc.'s chief executive told investors the company's holiday results were hurt by lower customer traffic and disappointing sales of desktop computers. Same-store sales fell 5.8 percent in December, far below expectations.

Micros Systems

Ticker: MCRS

Friday's close: $70.58

Week's change: -10%

Micros Systems Inc., a Columbia company that sells technology to hotels, restaurants and other retailers, said last week it had acquired JTech Communications, a Florida firm that sells pagers to restaurants to alert patrons that their table reservation is ready. Financial terms of the deal were not released.

Document WP00000020050110e11a00003

The Washington Post

Financial
J.P. Morgan Chase Agrees To Buy Vastera; Global Trading Firm Sells for $129 Million

Ellen McCarthy
Washington Post Staff Writer
748 words
8 January 2005
The Washington Post
WP
FINAL
E01
English

Vastera Inc., a firm that helps companies manage their international trade, said yesterday that it agreed to be acquired by J.P. Morgan Chase Bank NA for about $129 million.

Vastera shareholders would receive $3 per share under the proposed deal, which is expected to close in April. Shares of Vastera rose $1 yesterday, to close at the $3 acquisition price.

Dulles-based Vastera has struggled to turn a profit on its automated systems to process and track imports and exports. Executives from both companies said New York-based J.P. Morgan Chase, one of the world's largest commercial banks, has a network of international trade experts who will be able to sell Vastera's products and services.

But some analysts said J.P. Morgan Chase got a bargain on Vastera because it faced consistent losses and an uncertain future. They said the company may not have been able to survive on its own because much larger companies like United Parcel Service of America Inc. have also begun offering services to manage international trade.

"It had been increasingly difficult for Vastera to be a stand-alone company," said Robin Y. Roberts, an analyst with Stephens Inc. But he said the company's products and its strong roster of clients could have attracted a better price.

Vastera has about 400 customers, including big-name clients such as Dell Inc., Nestle SA, Ford Motor Co. and General Electric Co. About 70 percent of its revenue comes from providing services to such companies, taking over the management of their international trading processes, rather than simply selling software.

Vastera chief executive Timothy A. Davenport said the firm could have remained competitive, but he acknowledged, "Our biggest challenge as a stand-alone was to have the resources to meet our customers' needs around the globe." Because companies are now buying and delivering goods in so many countries, some of them small and remote, Vastera needed a broader reach worldwide, he said.

Vastera, which has about 650 employees including 200 in the Washington area, would operate as an independent unit of the logistics and trade division in J.P. Morgan Chase's treasury services operation if shareholders and regulators approve the acquisition. No layoffs are expected, said Vastera's Davenport, who will remain with the company. Davenport declined to disclose his compensation under the deal.

The company, founded in 1991 as Export Software International, was among the first ventures to use technology to simplify the international trading process, according to Adrian Gonzalez, director of ARC Advisory Group, a market research company.

Vastera grew steadily through the 1990s. In September 2000, it held an initial public offering that raised $84 million. The stock debuted at $14 a share; the next month it closed as high as $23 a share. Its share price has lingered at about $2 in recent months.

While Vastera's revenue increased significantly over the last four years, the company has reported losses to shareholders during each quarter since it went public. In the three months ended Sept. 30, the most recent quarter reported, Vastera lost $1.2 million (3 cents a share) on revenue of $21.8 million.

J.P. Morgan Chase, which has $1.1 trillion in assets, will turn Vastera's offerings into a new product line for its logistics and trade services unit.

The unit provides financial services for importers and exporters. For example, when a corporation orders a shipment of goods from another country it can turn to J.P. Morgan Chase to provide a letter of credit verifying that it will pay for the shipment once it arrives.

Vastera's automated systems manage the complex processes required for international trade, such as the customs and tax requirements that a delivery must meet when it arrives at a port.

Vastera and J.P. Morgan Chase began a joint marketing effort in June 2003, and started talking about an acquisition in late 2004.

"The ultimate goal that we have is the same for the client -- for the exporter it's to get them paid quicker and minimize their risk. And for importers it's to allow them to know when their shipments are going to hit," said Paul Simpson, head of J.P. Morgan Chase's global trade services. "And we feel very comfortable that it will be a good fit."

Document WP00000020050108e1180002v

The Washington Post

Financial
Lockheed Martin Profit Jumps 41% in Quarter; Information Technology Leads Gain

Renae Merle
Washington Post Staff Writer
521 words
27 October 2004
The Washington Post
WP
FINAL
E03
English

Lockheed Martin Corp. yesterday reported a 41 percent increase in profit during its third quarter as fighter jet and information technology demand continued to drive growth.

The Bethesda maker of the F-16 fighter, Atlas rocket and military satellites reported net income of $307 million (69 cents a share), compared with $217 million (48 cents) in the same period last year. The 2003 quarter included a charge of $83 million for early retirement of debt. Revenue in the quarter increased 4 percent, to $8.4 billion from $8.1 billion last year.

Lockheed's stock gained 88 cents, or 1.64 percent, yesterday to close at $54.38 on the New York Stock Exchange.

"Overall, this was a strong quarter for Lockheed operationally," Joseph B. Nadol III, defense analyst with J.P. Morgan Securities Inc., said in a research note.

Lockheed's Information and Technology Services unit reported a 33 percent increase in sales, to $991 million compared with $743 million last year. Operating profit in the quarter rose 43 percent, to $73 million from $51 million. The division received a boost from the recent acquisition of the government contracting unit of Affiliated Computer Services Inc., company officials said. It also benefited from increased demand for defense-related information technology services.

The company's Space Systems unit reported a 4 percent drop in revenue, to $1.43 billion, but its operating profit increased 19 percent, to $113 million from $95 million. Continued slow demand for commercial rocket launches and satellites was offset by strong government demand, company officials said.

"The space business is doing very well. The margins are improving. In the fourth quarter we will probably announce" increased revenue, said Christopher E. Kubasik, Lockheed's chief financial officer. The dip in revenue this quarter is "not a concern."

Despite the collapse of the commercial space market, Lockheed decided last year to keep the unit and wound up winning a $3 billion Navy satellite contract. "I've got to believe that had we shut down [the commercial business] it would have been difficult to win that competition," Kubasik said.

The quarter also included a $400 million contribution to the company's pension plans to satisfy funding requirements into 2005. Lockheed also said it expects to take a charge in the fourth quarter of this year for the early retirement of debt, but that could be offset by the sale of its interest in New Skies Satellites N.V. and Intelsat Ltd., deals that are expected to close during the quarter or in early 2005.

Pointing to several recent contract wins, Lockheed, the Pentagon's largest contractor, increased its profit forecasts for this year and next. The company now expects earnings per share of $2.65 to $2.75 next year, up from its previous forecast of $2.50 to $2.60 a share. In 2005, the company expects earnings of $3 to $3.25 a share compared with its previous forecast of $2.85 to $3.20 a share.

Document WP00000020041027e0ar0002j

The Washington Post

Financial
MCI Hires Advisers For Likely Sale Bid; Legal, Banking Firms Retained

Christopher Stern
Washington Post Staff Writer
680 words
21 September 2004
The Washington Post
WP
FINAL
E01
English

Just five months after emerging from bankruptcy protection, MCI Inc. has hired investment and legal advisers to solicit potential buyers for the telecommunications giant, sources close to the company confirmed.

Ashburn-based MCI declined to comment yesterday on its decision to hire advisers to guide it through a possible sale. The company has already attracted one prospective buyer, Leucadia National Corp., which informed regulators in July that it may acquire more than 50 percent of MCI's stock.

But after making a brief regulatory filing indicating its interest in the telecommunications company, Leucadia has declined to comment further on its plans for MCI.

In an effort to consider other alternatives, MCI has hired investment bankers Greenhill & Co. and J.P. Morgan Chase & Co., a source with knowledge of the company's decision said. In addition, Greenhill & Co. is playing a role in the search for additional buyers, said the source, who spoke on the condition of anonymity because terms of the agreements are confidential. Lazard LLC counseled MCI on possible deals while the phone company was working its way through the Chapter 11 process.

MCI's chief bankruptcy law firm of Weil Gotshal & Manges LLP is also advising the company along with the recently retained Davis Polk & Wardwell.

The move to hire advisers, reported yesterday in the New York Times, is the first indication that the long-distance giant may be ready to consider putting itself on the auction block. MCI chief executive Michael D. Capellas has said several times since he joined the company two years ago that his goal was to run the telecommunications firm as an ongoing concern, not to sell it. But the company's board would have a fiduciary duty to consider alternatives if Leucadia or some other concern were to make an offer, sources said.

MCI has continued to struggle after emerging from Chapter 11 reorganization in April, having shed $30 billion in debt from its balance sheet. The company reported a $71 million loss in the second quarter, which was an improvement over the first quarter, when it reported a loss of $388 million. Second-quarter revenue was $5.2 billion, a 15 percent decline from the same period a year earlier.

Shares of MCI rose less than 1 percent yesterday, climbing 8 cents to close at $17.28.

MCI is considering a sale at a time when stand-alone long-distance companies are losing millions of customers annually to the regional phone companies that originally were granted rights to provide local phone service. Five months ago, MCI claimed it had 20 million customers. Now the company says its total customer base has shrunk to about 15 million. During the same period, Verizon Communications Inc., BellSouth Corp. and SBC Communications Inc. reported dramatic increases in long-distance subscribers.

Regional phone companies have effectively usurped traditional long-distance providers such as MCI and AT&T Corp. by bundling local and long-distance in a single calling package. The long-distance giants say they can no longer compete with their own bundle after a federal court ruling effectively eliminated a requirement that regional phone companies lease lines to competitors at deeply discounted rates.

In July, AT&T announced it would no longer compete for new residential customers and would instead focus on its business customer base. MCI has quietly taken similar steps and is no longer competing in the residential business.

One of the regional phone giants once seemed like a natural acquirer of MCI. But as the long-distance giant's revenue continues to fall, some analysts expect potential buyers to sit on the sidelines, expecting that the assets will only become cheaper.

Although Wall Street has long speculated that MCI would be broken up and sold in parts, sources familiar with the company's plans say there is currently no interest in breaking the company up and selling its parts to the highest bidders.

Document WP00000020040921e09l0002r

Financial
Herndon, N.Y. Cyber-Security Firms to Merge

Ellen McCarthy
Washington Post Staff Writer
349 words
21 September 2004
The Washington Post
WP
FINAL
E05
English

TruSecure Corp., a Herndon provider of network security systems, agreed to merge with Betrusted Holdings Inc., a New York company that offers similar services.

Financial terms of the all-stock deal, which is set to be announced today, were not disclosed.

The combined company is to be renamed Cybertrust, and its headquarters will be in Herndon. It will have about 1,000 employees and $160 million in annual revenue, company executives said.

One Equity Partners LLC, the venture capital arm of J.P. Morgan Chase & Co.'s Bank One, owns Betrusted and will be the majority stakeholder in Cybertrust.

The combined company will sell intrusion detection technologies, firewall application management systems and consulting services to business clients.

"Betrusted was more centered around letting the good guys in. . . . We're helping keep the bad guys out," said John C. Becker, chief executive of TruSecure who will maintain that position at the merged company. Rick Smith, chairman of Betrusted, will become Cybertrust's chairman.

Betrusted was founded in 1999 as a security spinoff of PricewaterhouseCoopers. In February 2003, One Equity Partners acquired the company for an undisclosed amount. In July 2003, the company acquired an Australian security company, SecureNet Ltd., for $109 million and throughout the following year gobbled shares in the Belgian security firm Ubizen NV. It now owns about 90 percent of Ubizen.

Betrusted's funders have pumped more than $200 million in venture capital into the company.

TruSecure has raised more than $50 million over its 15-year history from investors including Weston Presidio Service Co., known as Weston Presidio Capital, and Greylock Management Corp.

Becker said some administrative personnel may be laid off, but he expects less than 10 percent of the overall staff to be cut.

The deal includes an undisclosed amount of new funding, he said, adding that the company would not rule out an initial public offering in the future. "We will use all the appropriate strategies to grow a large business," Becker said.

Document WP00000020040921e09l0001t

The Washington Post

Financial
Revolving Door

173 words
22 August 2004
The Washington Post
WP
FINAL
F03
English

IN

Cynthia M. Fornelli, deputy director of the Securities and Exchange Commission's Division of Investment Management, as a Bank of America executive for compliance risk management.

Robert D. Ebel, a senior economist at the World Bank, as senior fellow at the Urban Institute, specializing in state and local tax issues.

Joyce Russell, as chief operating officer of Adecco USA, the U.S. division of the world's largest temporary employment agency.

Mark A. Chancy, as chief financial officer of SunTrust Banks Inc.

OUT

Thomas F. Chapman, as chief executive of the credit-reporting agency Equifax Inc.

John W. Tate, chief operating officer of Krispy Kreme Doughnuts Corp., to take a similar position at Restoration Hardware Inc.

William J. Shea, chief executive of Conseco Inc., with a severance package worth $13.5 million.

Diane Swonk, oft-quoted chief economist at Bank One Corp., after the firm merged with J.P. Morgan Chase & Co., to "pursue new professional challenges," according to a J.P. Morgan statement.

Document WP00000020040822e08m000a1

The Washington Post

Financial

Production Grew, Prices Fell in July; Government Reports Indicate a Rebound

Nell Henderson
Washington Post Staff Writer
893 words
18 August 2004
The Washington Post
WP
FINAL
E01
English

The nation's factories cranked out more products in July, miners dug more minerals and builders broke ground on more homes, the government said yesterday in three reports that showed some rebound in economic activity last month.

Meanwhile, falling prices for apparel, toys, gasoline and other items pulled down the Labor Department's consumer price index in July, confirming that inflation had retreated since spurting in the spring.

Together, the figures heartened those analysts who expect the economy to gain steam in coming months after its recent slowdown.

High oil prices in recent months "tapped a brake on [the economy's] momentum but didn't stop us from moving forward," said Diane Swonk, chief economist at Bank One Corp. "Instead of the car stalling out, we just slowed our speed a bit."

The economic figures did not change analysts' widespread expectation that the Fed will likely raise its benchmark short-term rate at least two more times before the end of the year, to 2 percent from its current 1.50 percent level. Fed policymakers expect the economy to keep gaining strength in coming months and think they must raise the benchmark rate to avoid fueling inflation.

The nation's industrial production -- the output of its factories, mines and utilities -- rose 0.4 percent in July after dropping 0.5 percent in June, the Federal Reserve reported yesterday. Much of the gain was due to a strong 0.6 percent rise last month in factory production, which had dropped 0.2 percent in June.

Production of machinery, appliances, paper, chemicals, computers and electronic goods all rose. However, auto production fell for the third straight month.

Home builders were scrambling last month to keep up with booming new home sales, which reached a record high in May and stayed close to that record in June, analysts said.

Builders broke ground on 8.3 percent more homes in July than the month before, driving housing starts to a 1.98 million unit seasonally adjusted annual pace, up from 1.83 million in June, the Commerce Department said. Building permits, a sign of future construction, also jumped.

Analysts said housing starts in June were probably limited by wet weather across the nation, which pushed some projects into July.

The housing starts report showed "continued strength, albeit with some leveling off near historic highs," said Scott Winningham of Stone & McCarthy Research, in an analysis for clients.

Many home buyers had rushed into the market in the spring to take advantage of relatively low mortgage interest rates, which were then expected to begin rising.

Mortgage rates did turn upward for several weeks in May and June, but they have fallen again in response to signs of economic slowing in June and July. The average rate for a 30-year mortgage, which exceeded 6 percent in June, dropped to 5.85 percent last week, according to mortgage financier Freddie Mac.

Consumer prices fell 0.1 percent in July, seasonally adjusted, reflecting a broad slowdown in price increases and a slide in energy costs from the highs they touched in June, the Labor Department reported.

The July drop in the department's consumer price index followed increases of 0.3 percent and 0.6 percent in June and May, respectively.

After excluding volatile energy and food prices, the so-called core-CPI rose a very modest 0.1 percent, the same as in June.

Prices fell in July for new autos, apparel, education and communications, recreation and energy. Gasoline prices tumbled 4.7 percent from their June levels.

The CPI report appeared to support the Fed's view that the spring surge in inflation was largely due to "transitory" factors such as higher prices for energy, metals and many other raw materials, several analysts said.

But some economists also said that July's tame inflation in part reflected the slower economy, and it remained unclear whether consumer prices would flare again as oil prices continue to rise. Benchmark crude scheduled for September delivery closed at a new high of $46.75 a barrel yesterday on the New York Mercantile Exchange.

"This report shows that inflation, like the economy, took a pause in July," said Drew Matus of Lehman Brothers Global Economics, in an analysis for clients. "Whether it can be maintained if or when growth returns to a more normal trend is the key question."

Gasoline prices have fallen through the summer since peaking just before Memorial Day weekend, even though crude oil prices have been rising. U.S. supplies of gasoline remain high relative to demand, causing prices to ebb; meanwhile, global crude prices have been fanned higher by fears that supplies could be disrupted by terror attacks or political turmoil in some oil-producing countries.

The average national price of a gallon of unleaded regular was $1.86 yesterday, according to AAA.

That's down from $1.92 a month ago and the high of $2.05, hit on May 26. But it's still well above the $1.59 average price a year ago.

Although inflation was tame for the month, the CPI was up 3 percent for the 12 months ended in July, above the level that the Federal Reserve wants to see.

Document WP00000020040818e08i0002k

The Washington Post

Financial

Investors Unload Ciena Stock After Low Revenue Warning

Terence O'Hara
Washington Post Staff Writer
657 words
5 August 2004
The Washington Post
WP
FINAL
E05
English

A warning by Ciena Corp. of another revenue shortfall sent investor confidence in the Maryland company to a new low yesterday.

The telecommunications company, once one of the nation's hottest fiber-optic-equipment makers, lost a quarter of its market value in a broad sell-off of its stock. It closed lower than ever, at $2.08 a share, down 68 cents.

Ciena said on Tuesday, after the markets closed, that a combination of problems, including difficulty digesting recent acquisitions and a weak business environment, caused its most recent quarterly revenue to fall below the level it previously predicted.

Wall Street, already leery of Ciena's acquisition strategy, pounded the stock. At least four analysts issued downgrades yesterday, producing a wave of critical commentary about the company.

"Ciena's business model continues to be lumpy," J.P. Morgan Securities Inc. analyst Ehud A. Gelblum wrote in a report issued yesterday morning. J.P. Morgan has done investment banking business with Ciena in the past 12 months.

"Clearly, management is struggling with the integration of . . . acquisitions in a hostile spending environment that is not likely to change soon," wrote Friedman, Billings, Ramsey analyst Susan B. Kalla.

Ciena "pre-announced" its quarterly results, meaning it indicated what its revenue and some other performance measurements would be even though all the figures aren't in yet. The Linthicum company's third fiscal quarter ended Saturday. Earlier this summer, Ciena told investors that it expected revenue of about $95 million, but Tuesday it said revenue would be about $75 million.

It was the third straight quarter Ciena failed to meet its announced revenue targets.

Chief executive Gary B. Smith said the failure to reach the targets was not an indictment of his acquisition strategy, though he acknowledged that integrating two recent acquisitions has caused "more disruption than anticipated." Ciena has acquired five companies in the past two years, spending more than $1.6 billion in cash and stock.

Ciena has sought to ride out the slump in telecommunications spending by diversifying from its core business, which is making equipment that directs signals over long stretches of fiber-optic lines.

Its February acquisitions of Internet Photonics and Catena Networks gave it a toehold in the market for equipment designed to direct broadband signals near the end of the line -- for example, to one home DSL user instead of his neighbor. The acquisitions were intended to position Ciena to capitalize on the rapid growth of DSL connections offered by phone companies.

In a conference call with analysts Tuesday night, Smith said the company's customers are chiefly concerned with rolling out broadband Internet service to as many customers as possible.

"While it's certainly taking longer that we would like for the pieces to come together, we continue to get the kind of feedback from our customers that suggest we've taken the right steps at the right time," Smith said.

Smith told analysts, however, that in recent weeks there has been a "deceleration" in the growth of DSL line deployment, which dampened orders for equipment from Catena and Internet Photonics. Some large customers delayed orders that were scheduled to close in the third quarter, the company said.

In response to a question, Smith said the company board of directors is "100 percent" behind the strategy.

Kalla, who kept her "outperform" rating on the stock, said she remains optimistic that Ciena can pull out of its recent troubles. The company's current market value is equal to its cash on hand, a classic sign that a stock has bottomed out. She also said the company was an acquisition candidate.

"Ciena still has a $300-to-$400 million business," she said. "The problem right now is that its old business is ramping down significantly, and its new business isn't ramping up yet."

Document WP00000020040805e0850007v

The Washington Post

Financial
United To Delay Pension Funding; Lenders Require Deferral Until Bankruptcy Exit

Keith L. Alexander
Washington Post Staff Writer
564 words
24 July 2004
The Washington Post
WP
FINAL
E01
English

UAL Corp.'s United Airlines said yesterday that it would postpone paying into its pension fund for the rest of the year as part of a new financing agreement with its lenders.

Labor leaders called the action "devastating" and said it moves United one step closer to terminating its defined-benefit pension plan. United's retirees will still receive their pension checks but the airline will delay replenishing the pension fund.

As part of its bankruptcy reorganization, United said it had secured an additional $500 million in financing to help sustain its operations during bankruptcy reorganization. The airline filed for bankruptcy in December 2002.

The latest agreement includes a new lender, GE Capital, a unit of General Electric Co., along with United's previous creditors, J.P. Morgan Chase & Co., Citigroup Inc. and CIT Group Inc.

Under its new financial agreements, United said it was "prohibited" from making further contributions to its employee pension plan before it exits bankruptcy. United has 65,000 employees and 35,000 retirees.

By not making pension payouts until it emerges from bankruptcy, United said, it would ensure adequate funding for operations while management continues to seek additional cost reductions.

"Such payments would diminish the company's liquidity and reduce flexibility, thus impairing the company's ability to attract exit financing," the company said in a statement.

United owes about $525 million in pension payments for the remainder of the year for its four employee groups. Last week, the airline deferred a $72 million pension payment.

The future of the airline has been in question since the government last month rejected its application for $1.1 billion in loan guarantees.

United needs about $2 billion to emerge from bankruptcy, said Helane Becker, an airline analyst at Benchmark Capital. Becker says she does not expect the airline to exit bankruptcy until sometime next year.

"There's no pressure for them to emerge this year. If they emerge at all, it won't be before sometime in 2005," Becker said.

The airline said it is undertaking a thorough review of its operations. "United is in the process of re-examining every aspect of its business to identify additional cost reductions and efficiency improvements," Frederic Brace, United's chief financial officer, said in bankruptcy court testimony yesterday.

Union leaders said they opposed the airline's pension decision.

"United Airlines has betrayed their employees and destroyed what little credibility they had with us," said Randy Canale, president of United's machinist union. "This airline cannot exist for long without the support of its employees, and right now we don't see much that is worthy of our support. We're primed for a brutal fight."

Since filing for bankruptcy, United has cut about $5 billion in costs, including about $2.5 billion in employee pay and benefits. Greg Davidowitch, head of United's flight attendants, said the pension move was "demoralizing" to workers.

"While United's action falls short of an outright termination of the pension plans, the company's actions make termination of the pension plans likely," he said. "Current management should explain to us why flight attendants should continue to support their reorganization efforts if this is the best United can offer for a lifetime of service."

Document WP00000020040724e07o00028

The Washington Post

Financial

Bank One Ends Agreement With Sallie Mae

663 words
5 July 2004
The Washington Post
WP
FINAL
E02
English

Bank One, bought last week by the big financial services firm J.P. Morgan Chase, said it ended an agreement with SLM, the biggest student loan company, to market education loans under Bank One's name.

SLM, known as Sallie Mae, said the bank's acquisition by J.P. Morgan to create the nation's second-largest bank does not give Bank One the right to cancel the pact. The contract, in effect since 1999, was to expire in 2008.

Chicago-based Bank One said it would manage student loan sales and marketing internally and would offer jobs to the 70 Sallie Mae employees who were selling the loans, said Tom Kelly, a Bank One spokesman.

"Bank One believes that its actions are in accordance with its contractual rights and are entirely proper," the company said. J.P. Morgan plans to continue using the Bank One name for some of its businesses, including student lending.

Sallie Mae, based in Reston, said it "expects to review its relationship with [J.P. Morgan] and to resolve this matter to the benefit of each party." Its "long-term outlook for loan origination growth remains unchanged," the company said.

VIRGINIA

American Woodmark of Winchester, one of the biggest makers of cabinets for the new home construction and remodeling industry, will build a $12 million, 250,000-square-foot plant in Barton Business Park in Allegany County. The project is expected to create about 500 jobs in the county during the next five years.

BearingPoint of McLean, one of the world's largest business consulting and systems integration firms, said it opened a second Chinese office in the high-tech center of Dalian and plans to hire 1,500 people to do software maintenance and other work over the next 18 months. It already has an office in Shanghai.

Pepco Energy Services of Arlington, a subsidiary of Pepco Holdings, won a contract to implement an energy-saving program for the Maryland Department of Health and Mental Hygiene's Thomas B. Finan and Joseph P. Brandenburg centers.

MeriStar Hospitality of Arlington, one of the nation's largest hotel real estate investment trusts, completed the acquisition of the Marriott Irvine in California for $92.5 million. The 484-room hotel will be operated by Marriott International under a long-term contract.

Murray's Chickens of Herndon was recently certified by the nonprofit Humane Farm Animal Care organization to add the "Certified Humane Raised and Handled" label to its packages in July. Murray's Chickens is the first American poultry company to become certified to use the label.

MARYLAND

T. Rowe Price Group signed a letter of intent for a new lease at 100 E. Pratt St. that it said represented a long-term commitment to keep its global headquarters and more than 1,100 employees in downtown Baltimore. T. Rowe Price has been in the building since 1975 and its lease expires Oct. 31. The new lease expires in 2017.

Host Marriott, the Bethesda hotel owner, said it will redeem all the shares -- 4.16 million -- of its 10 percent Class A cumulative redeemable preferred stock on Aug. 3 at a redemption price of $25 per share plus $0.1250 dividends accrued from July 15.

Bresler & Reiner, a Rockville-based developer, said its board approved a 2-for-1 stock split to take effect Sept. 1.

Severn Bancorp of Annapolis, parent of Severn Savings Bank and Hyatt Real Estate, said U.S. Banker magazine ranked it ninth in the nation based on return on equity of the top 200 publicly traded community banks. The bank was also ranked ninth last year.

CoStar Group, a Bethesda real estate information company, signed new license agreements with terms of up to five years with four of the leading commercial real estate brokerage firms in San Diego. That gives it 18 of the top 20 brokerages in the city, it said.

Document WP00000020040705e0750001e

Financial
Microsoft Victory A federal ...

435 words
4 July 2004
The Washington Post
WP
FINAL
F02
English

Microsoft Victory

A federal appeals court handed Microsoft a major victory, ruling that its antitrust settlement with the Justice Department was in the public interest. The court unanimously rejected tougher restrictions sought by Massachusetts and two computer trade groups. Microsoft still faces a fine of more than $600 million from the European Commission for violating its antitrust laws, but the commission has agreed to hold off forcing Microsoft to change its business practices, pending an appeal that could take several years.

Bank One Settlement

Bank One agreed to a $90 million settlement with the Securities and Exchange Commission and New York's attorney general over charges that its mutual funds group permitted improper short-term trading. Mark Beeson, ex-president of One Group Mutual Funds, agreed to a two-year bar from the industry and a $100,000 fine. The settlement came two days before J.P. Morgan Chase's $58 billion acquisition of Bank One was completed, creating the second-largest U.S. bank, with more than $1 trillion in assets.

Unsteady Freddie

Still struggling to fix its financial systems after last year's accounting scandal, Freddie Mac released its long-delayed 2003 financial results, reporting a drop of more than 50 percent in earnings to just under $5 billion. The company blamed the decline primarily on shrinking gains from derivative contracts used to hedge interest rate risks. Freddie warned investors that it may not release any financial results for 2004 until March 2005 as it continues to rely "on a veritable army of consultants" to update outmoded systems.

The Roar for MGM

A bidding war has erupted for Metro-Goldwyn-Mayer, with Time Warner offering $4.8 billion for the Lion of Hollywood. Although not as high as Sony's $5 billion cash bid made in April, Time Warner's stock-and-cash offer has the appeal of giving MGM controlling shareholder Kirk Kerkorian a major stake in Time Warner. Meanwhile, General Electric's NBC Universal may also be considering a bid for MGM and its highly prized library of 4,000 films.

Democrats to K Street

The Motion Picture Association of America chose former Kansas congressman and agriculture secretary Dan Glickman to replace retiring president Jack Valenti. Glickman was the first Democrat named to head a major trade association since Republican activists started their "K Street Project" a few years ago to transform the lobbying business into a GOP bastion. His selection comes as other Democrats have been hired into prominent lobbying roles, a sign that the K Street effort may be waning.

Document WP00000020040704e0740008x

Financial
Revolving Door

132 words
6 June 2004
The Washington Post
WP
FINAL
F03
English

IN

Sergio Marchionne, director of Fiat and chief executive of a Swiss testing firm, as chief executive of Fiat.

Jack Valenti, outgoing president of the Motion Picture Association of America, as head of the Friends of the Global Fight, which raises funds to combat AIDS, tuberculosis and malaria.

OUT

Sanjay Kumar, as chief software architect of Computer Associates International, the software firm facing accounting fraud charges where he was chief executive until recently.

Jonathan Dolgen, as head of Viacom Entertainment and its Paramount Pictures studio.

Donald Layton, as vice chairman of J.P. Morgan Chase, anticipating completion of the acquisition of Bank One.

J. Robert Collins Jr., as president of the New York Mercantile Exchange, in the wake of friction with directors over strategic direction.

Document WP00000020040606e066000ad

Financial
Interns Can Take a Vital First Step; Make an Impression With Preparation, Attention to Detail

January W. Payne
Special to The Washington Post
823 words
23 May 2004
The Washington Post
WP
FINAL
K01
English

When Adam Chepenik sat at his desk on the first day of his internship at a division of New York-based J.P. Morgan Chase & Co., the self-proclaimed extrovert felt out of place.

"I remember walking into One Chase Manhattan Plaza, and my computer didn't work. My telephone didn't work. I didn't know where the bathroom was, and I felt lost," said the May 2003 University of Maryland graduate.

As the summer intern season kicks in over the next few weeks, that's a feeling that plenty of interns will experience during their first few days on the job. Chepenik -- who held a total of six internships during college -- did what local college career advisers say all interns should do. He asked questions.

"It's really indicative of my whole experience," said Chepenik, who is now a financial analyst for J.P. Morgan Private Bank -- a job he was offered a few months after his summer 2002 internship with another division of the company ended. "The most successful people are those who ask a lot of questions."

Asking questions is expected -- and encouraged -- said Alison Small, a staffing manager at Silver Spring-based Discovery Communications Inc., which will play host to 90 interns nationwide this summer.

"This is the intern's opportunity to make a great first impression," Small said. "Employers want interns to be enthusiastic, curious, energetic and interested in business."

That first impression starts at the very beginning. "Don't arrive at the time you're supposed to and don't leave at the time you're supposed to leave, because what you're trying to show is diligence," said LaVern Chapman, who works in employer relations for the University of Maryland's Robert H. Smith School of Business. That means coming in early and leaving late -- especially during the first few days.

Another important tip: Come prepared. "Even more critical than an intern's first few days on the job is how he or she spends time beforehand," said Jon Marino, 23, another University of Maryland graduate.

For Marino, who earned a bachelor's degree in journalism this month, preparing for the three internships he held meant spending weeks reading the online versions of the newspapers where he was going to work. That prep time "not only had me up to speed on my first day but also provided me with something relevant to discuss with the editors," Marino said.

How you prepare for your internship will vary depending on your field. Check out the company's Web site. Learn more about the work it does. Know the names of those in senior management. Say hello if you pass them in the hall or see them in the elevator.

Small suggests interns come in with a list of priorities and be ready to discuss them with their supervisors. "What do you want to get out of it? Learn the business? Network? Learn about what different people do? Complete a project? Build your resume? Make the most of all opportunities that are there," Small said in an e-mail interview.

Also be sure you know what is expected of you. "Ask for a complete list in writing of what your responsibilities are going to be," Chapman said. "Know expectations from the manager of the department and who you'll be reporting to."

A new intern's questions can range from basic to complicated, said Patricia Carretta, associate dean of George Mason University's career services department. "Ask for resources and materials that will help you learn the job," Carretta said in an e-mail interview. "Ask whom you can turn to for coaching and about co-workers and others who will be a good source of information and support."

Some internships begin with formal orientation programs. These provide general information about the company and sometimes include a tour of the building and the surrounding city. Discovery's orientation includes an overall introduction to the workplace, as well as advice on "how to make your internship successful, and then usually an ice breaker to liven things up," Small said.

If you don't get a formal orientation, be sure to familiarize yourself with your surroundings. Use those first few days to ask the little things. Is it okay to observe senior management meetings? What are your hours? Is there a set time you should take lunch?

Remember, an internship could turn into a full-time job, as it did for Chepenik.

"The most successful interns really look at the internship as an opportunity to learn and contribute," Small said. "They ask questions and are genuinely interested in learning all they can. Those are the ones who often walk away with full-time positions at the end of the program."

Document WP00000020040523e05n0004r

Financial
File:x1234

210 words
26 April 2004
The Washington Post
WP
FINAL
T58
English

TableStyle: TOP200_FINANCIAL CCI Template:
TOP200_FINANCIALRANKCOMPANYFINANCIALSEMPLOYEES200320022001NameLocationAssets

(millions)Net income

(millions)Stockholder

equity(millions)Annual

dividendFiscal

yearTotalArea134Mercantile Bankshares Corp.Baltimore$13,695.5$196.8$1,841.4$1.29Dec. 313,565880212Chevy Chase Bank FSBBethesda12,620.280.5623.8NADec. 313,4253,425345Riggs National Corp.Washington6,369.61.0373.50.20Dec. 311,4501,360456Provident Bankshares Corp.Baltimore5,207.851.5324.80.93Dec. 311,688326567Sandy Spring Bancorp Inc.Olney2,333.332.1193.40.74Dec. 31578578689Virginia Financial Group Inc.Culpeper1,387.213.5119.80.75Dec. 315102357910Burke & Herbert Bank & Trust Co.Alexandria1,167.720.5119.236.00Dec. 3130630681112Southern Financial Bancorp Inc.Warrenton1,094.413.292.90.59Dec. 3123819491011Columbia BancorpColumbia1,029.311.985.40.50Dec. 3134657101314Virginia Commerce Bancorp Inc.Arlington881.111.555.1NoneDec. 31173173111213Community Bank of Northern VirginiaVienna780.07.955.70.30Dec. 31118118121620Cardinal Financial Corp.McLean636.26.285.4NoneDec. 31131131131716Severn Bancorp Inc.Annapolis540.511.353.00.34Dec. 3193931418 -- Middleburg Financial Corp.Middleburg508.98.247.30.70Dec. 311251251515 -- Greater Atlantic Financial Corp.Reston499.42.322.9NoneSept. 301571561620 -- Eagle Bancorp Inc.Bethesda443.03.253.0NoneDec. 31104104171918OBA Federal Savings BankGermantown439.23.232.9NAJune 306262182221Washington Savings Bank FSBBowie433.07.539.40.13July 3116615819 -- -- Fauquier Bankshares Inc.Warrenton378.54.328.50.48Dec. 3111211220 -- -- Alliance Bankshares Corp.Chantilly356.74.019.4NoneDec. 318282

Document WP00000020040426e04q0003w

The Washington Post

Financial

Suit Says Banks Knew of Woes At WorldCom; Management and Board Also Cited in Class Action

Griff Witte
Washington Post Staff Writer
893 words
18 March 2004
The Washington Post
WP
FINAL
E01
English

Credit analysts at some of the nation's largest banks expressed concerns internally about the financial fortunes of WorldCom Inc. in 2001, concerns they did not share publicly when they later led a $12 billion bond issue for the company, according to accusations made this week as part of an investors' lawsuit.

The New York State Common Retirement Fund, run by the state comptroller, is leading a class-action suit in federal court in Manhattan on behalf of WorldCom investors who lost billions after the firm filed for bankruptcy in 2002. Targets of the suit include former WorldCom chief executive Bernard J. Ebbers and the company's former directors, as well as the banks and brokerage firms that sold WorldCom securities.

Documents filed this week show that the banks "had much more access to what was happening within WorldCom than they presently acknowledge," plaintiffs' attorney John P. Coffey wrote in the filings.

Coffey noted that Bank of America Corp., J.P. Morgan Chase & Co. and Deutsche Bank all downgraded WorldCom in their internal, undisclosed ratings for the company in early 2001, indicating an increased risk of lending money to the company. Yet those firms served as three of the four top underwriters for a massive WorldCom debt offering just months later. The prospectus for the offering did not mention the internal downgrades.

The fourth underwriter, Citigroup's brokerage unit, Salomon Smith Barney, did not downgrade WorldCom's credit rating, but did project in its internal documents that the company would be spending more money than it was taking in. At the same time, Jack Grubman, star analyst for Salomon Smith Barney, was predicting publicly that the company would have a positive cash flow in 2002.

J.P. Morgan spokeswoman Kristin Lemkau said yesterday that the decision by her firm to downgrade WorldCom was based on publicly available information accessible to any investor.

Spokespersons for Deutsche Bank, Citigroup and Bank of America declined to comment. The court documents were reported in Wednesday's New York Times and Wall Street Journal.

The banks were not the only ones to have concerns about WorldCom's prognosis. On Feb. 27, 2001, Standard & Poor's Corp. publicly lowered its long-term ratings on WorldCom, citing "WorldCom's heightened business risk profile" and S&P's "anticipation that competitive challenges and pricing pressures will increase in the voice and data markets."

Unlike S&P's rating, which is made public, the banks' ratings were intended for internal use in their decisions about where to lend money.

That same day, J.P. Morgan Chase analysts downgraded WorldCom in a research note to a triple-B1 rating "owing to its weakened credit profile and continued pressure on its MCI long distance business segment."

At Deutsche Bank, a February 2001 review of WorldCom's financial outlook indicated "performance concerns" due to the rejection by regulators of the company's planned 2000 merger with Sprint Corp., price wars and the success of competitors in eating away at WorldCom's share of the long distance market. Bank of America also downgraded WorldCom's internal credit rating around the same time and for similar reasons.

Several analysts noted that the company still had its strong points. "These drawbacks are offset by its considerable size and dominance in the high growth data services industry," the J.P. Morgan note said.

At the time of the bond issue, in May 2001, WorldCom was in need of additional funding. The company planned to use proceeds from the sale to pay off debt and cover part of the cost of operations, according to the court filings.

Just over a year later, the company declared bankruptcy under the weight of a $10.6 billion accounting scandal. There is no indication in the documents disclosed this week that the banks had advance knowledge of the improper accounting maneuvers that brought down the company.

Lynn Stout, a professor of securities law at UCLA, said this case differs from many others because the plaintiffs aren't trying to prove the banks should have known something was amiss, but failed to find out.

"The argument here is that they knew all along. It's not a question of them failing to do their homework," Stout said.

She said the burden on the plaintiffs is to prove that the information withheld was significant enough that the banks should have been required to disclose it. One potential flaw in that argument, she said, is that there was plenty of public information available at the time that would have indicated WorldCom was in trouble. "Standard & Poor's had just downgraded them. That's a red flag to any investor," she said.

The lawsuit is scheduled to go to trial in January of next year, though the defendants have asked for an extension that could set that date back. The plaintiffs have fought that request.

Jacob Frenkel, a former Securities and Exchange Commission enforcement lawyer, said he doubts the case will ever go to trial, and said it will likely end in a settlement.

"All these cases are about is pushing for the largest settlement possible at the earliest possible point in the process," he said.

Document WP00000020040318e03i000au

The Washington Post

Financial
Fed Approves Bank Merger [CORRECTED 15 MARCH 2004]

1,296 words
9 March 2004
The Washington Post
WP
FINAL
E02
English

PUBLISHED CORRECTIONS: A March 9 Business in Brief item gave an incorrect name for European Aeronautic Defence and Space Co., the parent of aircraft manufacturer Airbus. (Published 3/10/04)

Bank of America and FleetBoston Financial won approval from the Federal Reserve for a merger creating the third-largest U.S. bank, holding nearly $1 trillion in assets and stretching from California through the South to New England. The new institution, with about 5,700 branches, would have assets trailing only Citigroup and another planned merger between Chicago-based Bank One and J.P. Morgan Chase. The central bank's approval removed the last major regulatory hurdle for the combination, which also must be approved by shareholders of both banks, allowing it to be completed early next month.

Indictment of Reliant Unit Sought

Reliant Resources said federal prosecutors will seek a criminal indictment against a subsidiary for shutting down California power plants in 2000 to boost prices during the state's energy crisis. Some former and current employees also may face charges, Houston-based Reliant said in a statement. The U.S. attorney's office in San Francisco notified the company on Friday that it would seek an indictment against the subsidiary, Reliant Energy Services. Reliant said it didn't violate any laws or regulations in effect at the time and that it intends to contest any charges. The company in January 2003 agreed to pay $13.8 million to settle related charges by the Federal Energy Regulatory Commission.

MORE NEWS

U.S. carmakers can say they make more reliable cars than their competitors in Europe for the first time in a quarter-century, but Asian manufacturers still hold top bragging rights, according to the consumer survey in Consumer Reports' 2004 auto issue. Cars and trucks from General Motors, Ford Motor and DaimlerChrysler's Chrysler Group topped those made in Europe, the group reported, based on 675,000 responses to questionnaires sent to subscribers of its magazine and Web site.

The National Highway Traffic Safety Administration is investigating reports that some Toyota Camry, Camry Solara and Lexus ES300 vehicles have surged forward without apparent reason, injuring at least five people. The NHTSA said it has received reports of 30 crashes caused by the alleged defect. Vehicles from the 2002 and 2003 model years are included in the investigation. The agency also said it is investigating reports that the sliding door on 1999-2002 Ford Windstar minivans can slide open while the vehicle is moving. The NHTSA said it has received 56 complaints about the problem but no reports of injuries.

BellSouth agreed to sell its stake in 10 Latin American operations to a wireless unit of Telefonica, the Spanish telecommunications giant, for about $4.2 billion in cash and $1.5 billion in debt. BellSouth said the sale will help fund its $16 billion share of Cingular's deal to acquire AT&T Wireless; BellSouth owns 40 percent of Cingular. Telefonica Moviles will acquire BellSouth's stakes in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, making Telefonica the only cellular operator in all the key Latin American markets.

T-bill rates fell. The Treasury Department sold $19 billion in three-month bills at a discount rate of 0.930 percent yesterday, down from 0.940 percent last week. An additional $17 billion was sold in six-month bills at a rate of 0.975 percent, down from 0.990 percent. Actual returns to investors were 0.945 percent for three-month bills, with a $10,000 bill selling for $9,976.50, and 0.994 percent for a six-month bill selling for $9,950.70.

Adelphia Communications faced an "unmitigated disaster" because of $2.28 billion in off-balance-sheet debt owed in 2002 by the family businesses of founder John J. Rigas, former director Dennis Coyle testified in federal court in New York at the fraud trial of Rigas and two of his sons. Coyle told jurors about learning on Feb. 28, 2002, the size of debt jointly incurred by family businesses and Adelphia, a cable operator. The loans form the heart of the government's accounting fraud case against the Rigases.

Conrad Black has been dismissed as chairman of Telegraph Group, the group's owner said. Black, who has a controlling stake in Chicago-based publisher Hollinger International, will no longer play an executive part in the London-based company, which includes the Daily Telegraph, Sunday Telegraph and Spectator magazine.

Three regional carriers, Chautauqua Airlines, Republic Airlines and Shuttle America, have joined United Express, United Airlines said, and will serve United's Washington Dulles and Chicago O'Hare hubs, as well as smaller airports. All three are owned by investment funds managed by Wexford Capital.

EBay's PayPal unit reached an agreement with New York state Attorney General Eliot L. Spitzer to do a better job of disclosing a customer's rights if a merchant doesn't deliver its product. Under the agreement, PayPal must describe in its user agreement any conditions or limitations on refund policies. The company will pay New York $150,000 in penalties and cover investigation costs, Spitzer's office said in a statement.

Eastman Kodak bought two digital-printing business lines from German manufacturer Heidelberger Druckmaschinen for up to $150 million. The deal brings Kodak a 50 percent interest in NexPress Solutions, a six-year joint venture that makes digital color printing systems, and all of Heidelberg Digital, which makes digital black-and-white printing systems.

Vanguard Group lengthened the trading day for index and international funds to give less-affluent clients the same advantages as wealthy customers. Starting yesterday, the mutual fund company took orders from investors in all of its funds until 4 p.m. EST, 90 minutes later than before.

United Auto Workers said a four-year contract with American Axle & Manufacturing was approved by 68 percent of the union members who voted on it. The agreement, which covers about 6,500 workers, includes a $5,000 signing bonus, performance bonuses and higher compensation for current employees than for new hires.

The average retail price of gasoline climbed 2 cents last week to $1.74 per gallon, the Energy Department said, about a penny shy of the highest price since the department began collecting data. High prices for crude oil, strong demand and low commercial inventories made gasoline expensive this winter. Analysts expect those trends to continue this summer.

Job discrimination complaints fell slightly last year after hitting a seven-year peak in 2002. The Equal Employment Opportunity Commission said 81,293 complaints were filed nationwide in the 12 months ended Sept. 30, 2003, 3.7 percent less than in the same period a year earlier.

INTERNATIONAL

China said it will lift capital controls within six years, but Charles W. Stenholm of Texas, ranking Democrat on the House Agriculture Committee, said that was unacceptable, calling for steady movement away from the country's policy of pegging the yuan to the dollar.

LOCAL BUSINESS

Dominion Resources agreed to buy a 138-megawatt, coal-fired power plant near Clarksville, Va., from New Jersey's United American Energy Holdings. All of the plant's electricity currently is sold to a Dominion utility under a 25-year contract, the Richmond-based energy supplier said.

EARNINGS

Eastern Aeronautic Defense and Space, the parent company of European aircraft manufacturer Airbus, reported a $188 million profit for 2003, compared with a loss of $373 million in 2002 when it took a $437.5 million one-time charge to offset a collapse in demand for satellites.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers.

Document WP00000020040309e03900026

The Washington Post

Financial
Unbiased Stock Data to Cost Wall Street Firms

Kathleen Day
Washington Post Staff Writer
1,144 words
9 March 2004
The Washington Post
WP
FINAL
E01
English

Consultants hired to ensure that Wall Street firms provide consumers with unbiased stock research are expected to earn $500 an hour for their efforts over the next five years -- for total pay that could exceed $1.25 million apiece, according to sources familiar with the details of the pay packages.

Last year's $1.4 billion agreement between federal and state securities regulators and Merrill Lynch & Co., Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Morgan Stanley and six other investment banks settled charges that the firms issued biased stock recommendations to boost their own profits at the expense of retail investors. The so-called global settlement was reached after investigations disclosed that Wall Street analysts were issuing positive reports about companies despite their own negative views.

Court documents filed last fall show that regulators required each investment firm to put $1.25 million into escrow "to cover the fees and costs of the Independent Consultant" whose job is to oversee each firm's agreement to buy millions of dollars worth of bias-free stock research.

Securities and Exchange Commission officials, New York state Attorney General Eliot L. Spitzer and state securities regulators have taken the lead on working out the details of the consultants' pay packages but declined to disclose them. A spokesman for the SEC said disclosing the details was not required by the settlement. Spitzer's office declined to comment. The investment banks and the consultants they hired also have declined to comment publicly, saying the information is private.

However, sources familiar with the arrangements said that the SEC, Spitzer's office and other regulators agreed to cap the consultant's pay at $500 an hour. Regulators set no limit on how many or how few hours a consultant could work but have estimated the job will require 500 hours a year, with more in the first year or two and fewer during the last three years -- or an average over five years of about 10 hours a week, sources said.

Sources said all of the consultants are being paid at the top $500 rate allowed, which translates into $250,000 a year on average for each of the five years the firms are required to employ the consultant. The court documents spell out that the investment firms may keep whatever portion of the $1.25 million they don't spend. What the documents don't say is that the firms are free to pay more than that -- there is no cap on the total -- if the hours worked exceed the 500-hours-a-year estimate.

The consultants, who are selected by the banks, cannot have had a "significant" relationship with the firm they oversee in the three years before taking the job. Nor can they take a job with the firm for three years after their five-year contract ends.

State and federal regulators have an ongoing right to review each consultant's work and compensation, sources familiar with the process said.

Morgan Stanley is the only investment firm whose first choice for consultant was rejected by regulators. They forced the ouster in November of Todd Conover, a former federal bank regulator under President Ronald Reagan whom Morgan Stanley had hired over the summer. Regulators thought Conover gave Morgan Stanley too much say in the selection of the outside research, sources familiar with the situation said.

The companies involved in the global settlement have generally hired experienced money managers to oversee the selection of third-party companies to produce independent research reports.

The job of each consultant is to evaluate companies that provide independent stock research, pick the ones the investment banks must hire, monitor the process and ensure that the research remains free of potential conflicts of interest.

Several of the consultants were hired weeks before the settlement became official, and all were on board by the end of 2003. Many have small consulting firms they set up when they left their last job. They have met as a group with federal and state officials several times in the past six months to review how they are proceeding, but so far the bulk of their time has been spent reviewing research companies. Some are close to making a decision on which companies they will choose -- each investment bank must hire at least three -- but say it will be a scramble to craft systems to make delivery and dissemination of the information seamless by the summer deadline.

A few consultants were willing to talk about the job and the pay as long as their names were not used. One consultant pointed out that the $1.25 million each firm has put aside for consultants is in addition to the money each investment bank is required to spend buying independent research. And so far, the consultant said, the work has required more than 40 hours a week.

Bill Coleman, head of research and analysis at Salary.com, a Web-based company founded in 1999 that collects salary information, said financial consultants can command anywhere from $50 to $500 an hour, depending on their expertise and experience and the size of the firm employing them.

"Five hundred dollars is a very healthy number. It's real money. If you were doing it full time it would come to about $1 million a year," said Brian Foley of Brian Foley & Co., an executive compensation consultant. "The interesting thing here is that they are imposing a limit on the hourly fee but not on the hours."

He and others said $500 an hour is comparable to what law partners in New York and Washington charge per hour but is considerably more than the pay of federal judges, who typically earn less than $200,000 a year for full-time work.

Nell Minow, editor of the Corporate Library, a corporate governance advisory firm, said she was surprised that the details about the consultants' compensation had not been made public. "I cannot think of one possible reason for not disclosing that information," said Minow. "When you are untangling a system that has been so riddled with conflicts, you should err on the side of transparency, particularly with the solution."

Many consultants started work weeks or even months before Oct. 31, when a federal judge officially approved the terms of the settlement. Several consultants said they did that to get a leg up on what they knew would be a difficult process under a tight deadline. As they expected, the judge mandated that the research be available to retail investors nine months from the date he approved the plan, which means the consultants will be aiming for the end of July.

"Nobody's ever done this before," said one consultant. "It's very intense."

Document WP00000020040309e0390003n

The Washington Post

Financial
Companies Taking Stock of Opportunities

David A. Vise
Washington Post Staff Writer
939 words
12 February 2004
The Washington Post
WP
FINAL
E01
English

Comcast Corp.'s $56 billion unsolicited stock bid for Walt Disney Co. yesterday is the latest sign that corporate takeover activity, which had slowed in recent years, is shifting into high gear.

Fueled by a rising stock market and growing confidence in the economy, corporate deal-making is off to its fastest start in years. Since the beginning of 2004, there have been $165.5 billion in deals announced, compared with $39.5 billion in the same period last year, according to Thomson Financial.

The deals have been across industry segments, with mega-deals in banking and entertainment leading the way.

What nearly all of the big deals have in common -- from the pending $58 billion merger of J.P. Morgan Chase & Co. and Bank One Corp., to Comcast's bid for Disney -- is that companies are seeking to make acquisitions using their own stock as currency.

"Stock deals are coming back now because people think their stock has a good valuation," said Daniel A. D'Aniello, co-founder and managing director of the Carlyle Group. Chief executives "found themselves in a situation where they had the currency to start shopping again and could do so now rather than wait for the recovery to fully value stocks. This is an opportunity to get in before the full recovery."

The flurry of deals, which experts say shows no signs of abating, has reached into the technology and telecommunications sectors as well. In recent days, Juniper Networks Inc. agreed to buy NetScreen Technologies Inc. by issuing $4 billion of its own stock, and Gateway Inc. agreed to buy eMachines Inc., while the ongoing auction of AT&T Wireless Services Inc. raised the prospect of more high-profile consolidation in the wireless segment.

Joe Laszlo, a senior analyst at Jupiter Research, said the AT&T auction has sparked talk of the possibility that T-Mobile USA Inc. and other carriers may soon be in play. He said he regards the deals and chatter as a signal of greater confidence in the direction of the economy.

"Companies are seeing opportunities and seizing them aggressively. I see that as a good sign for overall economic growth," Laszlo said. "If you are an optimist, you look at this activity and say the economy is really going to get started again. And if you are a pessimist, you say we boiled over once and we are starting to overheat again."

There are other factors underlying the recent wave of mega-deal-making, not only early this year, but also in the fourth quarter of 2003, when Bank of America Corp. agreed to buy FleetBoston Financial Corp. for $48 billion in stock. Big banks see the opportunity to grow geographically by using their own shares to buy financial institutions that operate elsewhere in the United States.

"The consolidation in the banking industry is going to be accelerating," said Gerald Hanweck, a finance professor at the George Mason University School of Management. "These companies have shown good earnings in the past, they are going to show good appreciation and a lot of them are ripe for takeover."

Hanweck pointed out that big banking deals are getting done without the acquirer offering a premium price. "There is still some degree of conservatism. We haven't reached the euphoric state yet," he said.

That could change. The likely prospect for continued low interest rates, along with healthy growth in corporate productivity and profits, has left senior executives more confident than they have been in recent years about doing deals, experts said. In addition, companies no longer are facing the kind of uncertainty surrounding last year's U.S. invasion of Iraq that led them to maintain a more cautious posture.

The deal flow in early 2004 is the second-biggest ever, according to Thomson Financial, following only the $314 billion in deals announced in early 2000. If history is any guide, in the frenzy to avoid being left behind, some companies may end up overreaching.

"I think that over the next 12 months you are going to see the return not only of big deals, but also more activity in Europe and maybe in Japan as well. Our gut tells us it is going to start moving again," the Carlyle Group's D'Aniello said. "There may be some mistakes that are going to be made."

One technology deal that cuts against the grain, because it is an all-cash offer, is Oracle Corp.'s $9.4 billion hostile takeover bid for PeopleSoft Inc. That transaction, initiated last summer, is being fiercely opposed by the target. Earlier this week, the proposed deal ran into serious problems in Washington when Justice Department lawyers recommended that it be blocked on antitrust grounds.

Nevertheless, Oracle vowed that it would continue to pursue PeopleSoft and seek to persuade senior Justice Department officials to overrule the staff. "The decision on Oracle's merger will be made by the assistant attorney general with the assistance and advice of his staff and deputies," said attorney James Rill, who is representing Oracle.

"Over the course of my 45 years of antitrust practice," Rill added, "I have seen many instances in which the assistant attorney general's decision differed from that recommended by the investigating staff. . . . The assistant attorney general will take ample time to review the facts of this situation with an open mind and meet with Oracle before coming to a decision on the matter. This process simply is not complete."

Nor is the flow of deals.

Document WP00000020040212e02c000by

The Washington Post

DEALS Allan Sloan
Financial

Bank One's Sale to J.P. Morgan Chase Signals Dimon's Triumphant Return

Allan Sloan
951 words
20 January 2004
The Washington Post
WP
FINAL
E03
English

Homecomings make for such heart-warming stories -- even on Wall Street, a place that's normally all business, no heart.

Last week marked the triumphant return of one of Wall Street's prodigal sons, James Dimon, who was banished from Citigroup in 1998 by his mentor, Sandy Weill, in a high-profile corporate soap opera. From the time Dimon surprised the Street four years ago by moving to Chicago to run ailing Bank One, the only question was when he would return to New York to take over a big Wall Street house. That was answered when Dimon, 47, made a deal to sell Bank One for $58 billion to J.P. Morgan Chase, which agreed to make him chief executive in two years.

The people involved say this transaction is all about business and strategy. Their pitch is that Morgan, one of America's three financial mega-companies, is merely competing with rivals Citigroup and Bank of America by buying a large commercial bank to even out the swings of its unpredictable businesses such as trading and deal-advising and underwriting stocks and bonds. But as with all deals, there's ego here -- and not all of it Dimon's.

William B. Harrison Jr., who runs Morgan, was on the rocks a year ago, with his firm's stock way down, the company enmeshed in the Enron scandal and employees traumatized by job cuts. Now, with his stock recovered, Harrison, 60, had a chance to buy an heir and a commercial bank and go out looking like a winner.

Harrison got Bank One for a relatively cheap 14 percent premium above its pre-deal price -- Bank of America paid 43 percent for Fleet -- by agreeing to make Dimon chief executive in 2006 and giving Bank One directors half the seats on the new Morgan's board. Dimon gets to be a hero to shareholders and employees by selling rather than merging, which boosted the stock price and will allow employee stock options to vest immediately.

For Dimon, it's a return to New York to go head to head with Citigroup, the creation of his former mentor, Weill. Dimon, son of one of Weill's old buddies, had been Weill's second banana for 20 years, but Weill banished him in late 1998, shortly after Citigroup was formed. At the time, Weill's people said Dimon, in the running to become future chief executive, was disruptive. Dimon's people said Weill fired Dimon for having a high profile and not giving Weill's daughter a promotion.

Ironically, while Dimon bristled under Weill's my-way-or-the-highway school of management, Weill is now the one on the side of the road. He was eased out as Citi's chief executive last year, in part for having his name attached to Wall Street scandals. Dimon, by contrast, is squeaky clean.

Now it's Dimon's chance to show what "my way" is. He was a huge hit at demoralized Bank One, which hired him in the spring of 2000 when it was reeling from a failed attempt to combine a big credit card company with big banks from Chicago, Detroit and Columbus, Ohio. Dimon shelled out $57 million personally to buy 2 million shares of Bank One stock (currently worth around $100 million), and fostered a stock-oriented culture. He did a lot of basic blocking and tackling, but nothing spectacular. He cut the cash dividend by 50 percent shortly after being installed, eliminated perks and showed self-control by not chasing big deals. In fact, Bank One fell from the fourth-largest bank company when he took over to No. 6.

Dimon and Harrison said there would be no cultural conflicts, and said they had already decided on new managers a few levels down. Strangely enough, for a supposedly well-thought-out combination, they didn't settle a key potential conflict involving stock options at the new Morgan.

Here's the deal: Morgan employees have 10-year options that can be exercised only once. Most of Bank One's options are 10-year "reload" options, which let holders exercising them get new options. (Dimon has reloaded almost 2 million such options, which are the gift that keeps on giving.) Then last summer, after deciding to count options as an expense for earnings purposes, Bank One handed out not 10-year reloads but six-year, one-time options, which are far less expensive for earnings purposes than 10-year reloads.

When I asked last week what kind of options the new Morgan would offer -- and how it will convert Bank One's existing reload options into new Morgan options -- a Morgan spokeswoman told me it has not been decided yet. You'd think that would be settled fairly early in negotiations -- but what do I know?

This will be the second time Dimon has returned to New York from corporate exile. The first time was in the 1980s, when he and Weill's team moved to Baltimore to take over Commercial Credit after Weill was ousted from American Express. They returned in triumph in a few years, and Commercial Credit became Citigroup.

The question now is: Will Jamie Dimon, returning from his second exile, get along with Harrison and get the big job two years from now? Will he be the wise, tempered boss to help Morgan mop up Citi? As story lines go, it's money in the bank.

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Document WP00000020040120e01k0000x

The Washington Post

Financial

One Big Bank Another Wall St ...

447 words
18 January 2004
The Washington Post
WP
FINAL
F02
English

One Big Bank

Another Wall Street colossus was born when J.P. Morgan Chase agreed to buy Chicago's Bank One for $58 billion in stock, forming the second-largest U.S. bank and a real rival for Citigroup. The new behemoth brings together Morgan's name and corporate clientele with Bank One's regional banking reach and consumer business. The deal also solves Morgan's succession conundrum, putting Bank One chief executive James Dimon in line to take over from William Harrison in 2006.

Shelter Shake-Up

It is far too early to declare a turning point in the federal government's war on tax shelters, but there are signs that the pressure is taking a toll. KPMG, the Big Four accounting firm long in the Internal Revenue Service's sights, last week purged executives who promoted aggressive corporate shelters. The Treasury Department announced it would request in its 2005 budget a revamped anti-shelter campaign that, according to its estimates, should pull in $34 billion in corporate taxes over the next decade.

Film Finished

Eastman Kodak erased all doubts about the arrival of the digital age with its announcement that its last reloadable, film-based camera would be sold by year's end. The company that launched the world's first camera for the masses more than a century ago conceded that film-less, digital photography is the future -- and the present. Digital cameras outsold film cameras for the first time last year. Kodak executives believed they had to make an emphatic statement to prove they did not intend to go the way of the dodo.

Business of America

If the Reagan defense buildup came to be symbolized by $600 hammers and gold-plated toilet seats, the Bush buildup may be remembered for one word: Halliburton. Pentagon auditors asked the Defense Department's inspector general to formally investigate whether Halliburton's KBR subsidiary overcharged the government for fuel in Iraq. And Halliburton's name emerged in an unlikely venue: space. Vice President Cheney's old firm could benefit from President Bush's call to settle the moon and head to Mars.

They're Watching

The airline industry did its best, even failing to cooperate during the testing phase. But the federal government is plowing ahead with a vast computerized system to examine the backgrounds of everyone boarding a commercial airliner in the United States. As early as next month, the Department of Homeland Security will begin compelling airlines and reservation companies to turn over all passenger records. Then each traveler will be scored with a number and a color that ranks their perceived threat.

Document WP00000020040118e01i000a8

The Washington Post

Financial
Banks Promise Caution in $58 Billion Union; J.P. Morgan, Bank One to Go Slowly

Kathleen Day
Washington Post Staff Writer
920 words
16 January 2004
The Washington Post
WP
FINAL
E01
English

The planned merger of J.P. Morgan Chase & Co. and Bank One Corp. would create an organization with two of the most desirable characteristics in financial services: access to retail consumers and size.

Customers might not notice a change in their credit card or other accounts, not even a new name. Though the merged corporation would be called J.P. Morgan Chase, executives said yesterday they will conduct extensive market studies before changing the names of products bearing the Bank One name to J.P. Morgan or vice versa.

They pledged to proceed carefully as they meld the companies to avoid the disruptions -- and soured retail customer relations -- that plagued many bank mergers in the past decade.

But the $58 billion J.P. Morgan-Bank One merger would transform the two companies from entities with a relatively narrow focus into a single behemoth with a wide mix of consumer and corporate products -- a company with a strong network of retail outlets and a huge list of clients to whom it can sell additional financial services such as deposit accounts, mortgages, auto loans and credit cards.

"This merger gives us real balance between the two," William B. Harrison Jr., J.P. Morgan's chairman and chief executive, said at a news conference yesterday. Harrison would also hold the two top jobs in the merged company.

Bank One's chairman and chief executive, James L. Dimon, said creating a company with $1.1 trillion in assets -- which makes it a close second to Citigroup Inc., the nation's largest financial institution -- fits into the "get big or get out" reality of the competitive financial services market. Dimon, 47, would be president and chief operating officer of the merged company until 2006, when he would succeed Harrison as chief executive.

Dimon, who was ousted from Citigroup in 1998 after a falling-out with its chairman, Sanford I. Weill, said his goal in the merger was to increase shareholder value, not move back to New York. Some analysts and industry executives took the comment as his way of denying rumors that his primary motive in crafting the deal was to create a rival to Citigroup as revenge.

"Bill and I would both be disappointed if we're not up here in a year showing you identifiable benefits that we got from cross-selling in almost all the businesses," Dimon said.

Analysts praised the planned merger, which was announced late Wednesday and requires approval from shareholders and regulators. Harrison and Dimon said they expect it to be completed by the end of June.

"The two franchises fit together like two pieces of a puzzle, really," said Tanya Azarchs, an analyst with Standard & Poor's who said the merger would solve issues confronting each bank.

The merger would give J.P. Morgan a major network of bank branches in 16 states, a jump from the four states -- New York, New Jersey, Connecticut and Texas -- in which the company has a presence now. And it would transform New York-based J.P. Morgan from the nation's fifth-largest credit-card issuer to the second-largest, just behind Citigroup.

The additions would mean that J.P. Morgan would get 50 percent of its pretax earnings from consumer operations, up from 36 percent now, which Harrison said will make earnings more consistent. He said J.P.

Morgan's over-reliance on non-consumer products such as corporate lending and investment banking have been a problem in the recession and falling stock market of recent years. The company's problems with loans to scandal-ridden Enron Corp. also hurt the bottom line, he said.

Consumer spending has been a relative bright spot for banks because mortgage refinancing has given consumers extra cash.

"The branch network is going to be the cornerstone of a [consumer] relationship going forward," Azarchs said. "It will be the thing that helps banks retain customers, and retaining customers is the name of the game."

For Bank One, the union adds mortgage products, investment banking services and a presence in global markets the Chicago-based regional bank would have found hard to offer on its own, industry executives and analysts said.

But size will present its own problems, analysts said. For example, the new company would have issued 95 million credit cards, which means its plastic is probably already in households that carry more than one card. The issue for such a big player is how to keep those customers and entice them to use the bank's card rather than others in their wallets.

Another potential problem, one that looms in any merger that involves job cuts, is how to make sure the people it wants to retain aren't driven away. The company has said it will have to trim 10,000 jobs from the combined company's 175,000-member workforce.

"I'm not saying it will be easy," Harrison said of the task he and Dimon face in melding the two companies. But, referring to the mergers that created his company and the many mergers Dimon crafted when working for Weill to build Citigroup, he said, "Experience counts in this stuff. We have it."

In New York Stock Exchange trading yesterday, J.P. Morgan's shares closed at $38.92, down 30 cents, and Bank One's closed at $50.42, up $5.20.

Document WP00000020040116e01g0004x

The Washington Post

Financial
Financial Shares Lead Gainers; Nasdaq Dips

From Wire Service Reports
611 words
16 January 2004
The Washington Post
WP
FINAL
E03
English

The Standard & Poor's 500-stock index rose to its highest since April 2002, with financial shares leading gains after J.P. Morgan Chase agreed to buy Bank One for $58 billion, triggering predictions of further mergers in the banking and brokerage industries.

International Business Machines advanced as the company said fourth-quarter profit more than doubled. Intel, Yahoo and Apple Computer dropped after earnings or forecasts that were not as good as expected.

"The news in the banking industry is being offset by some news out of Intel, Yahoo and Apple; people were a little disappointed that they didn't meet what some would call higher whisper numbers," said Joseph DeMarco, head of trading at HSBC Asset Management Americas, which oversees $165 billion in New York. "The backdrop to me seems mixed."

The S&P 500 rose 1.53, or 0.1 percent, to 1132.05. Financial companies had the biggest increase among the benchmark's 10 industry groups. The Dow Jones industrial average gained 15.48, or 0.2 percent, to 10,553.85, for its third advance in four days. The Nasdaq Stock Market's composite index fell 2.05, or 0.1 percent, to 2109.08.

Stocks pared gains even after government reports showed the economy is strengthening as claims for unemployment benefits declined and retail sales increased.

Bank One climbed $5.20, or 12 percent, to $50.42, for the second-biggest gain in the S&P 500. J.P. Morgan lost 30 cents, to $38.92, after the company agreed to buy Bank One, creating a financial institution with $1.1 trillion of assets to challenge Citigroup, the world's largest financial services company. Citigroup lost 50 cents, to $49.50.

IBM, the world's biggest computer maker, rose $3.71, or 4.1 percent, to $94.02, for the biggest gain in the Dow.

Intel, the world's largest maker of computer chips, fell 33 cents, to $33.06. First-quarter sales will rise to $7.9 billion to $8.5 billion. Analysts, on average, expected $8.24 billion, according to Thomson Financial. Intel shares more than doubled in 2003 and have gained an additional 3.1 percent this year.

Yahoo, whose shares almost tripled last year, fell 30 cents, to $48.09. Apple, the maker of Macintosh computers, lost $1.35, to $22.85. The stock surged 49 percent last year.

Other Indicators

* The New York Stock Exchange composite index fell 9.77, to 6550.04; the American Stock Exchange index fell 13.51, to 1185.93; and the Russell 2000 index of smaller-company stocks rose 0.24, to 586.36.

* Declining issues narrowly outnumbered advancing ones on the NYSE and the Nasdaq Stock Market. NYSE trading volume rose to 1.69 billion shares, from 1.51 billion on Wednesday, and Nasdaq volume totaled 2.2 billion, up from 2.05 billion.

* The price of the Treasury's 10-year note rose $2.50 per $1,000 invested, and its yield fell to 3.97 percent, from 4.01 percent on Wednesday.

* The dollar rose against the Japanese yen and the euro. In late New York trading, a dollar bought 106.21 yen, up from 106.13 late Wednesday, and a euro bought $1.2580, down from $1.2665.

* Light, sweet crude oil for February delivery settled at $33.44, down $1.06, on the New York Mercantile Exchange.

* Gold for current delivery fell to $408.40 a troy ounce, from $421.70 on Wednesday, on the New York Mercantile Exchange's Commodity Exchange.

Document WP00000020040116e01g0003y

The Washington Post

Financial

J.P. Morgan Chase Agrees to Buy Bank One; $58 Billion Stock Swap Would Create a $1.1 Trillion Entity Rivaling Citigroup

Kathleen Day
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900 words
15 January 2004
The Washington Post
WP
FINAL
E01
English

J.P. Morgan Chase & Co., the nation's second-largest bank, has agreed to buy Bank One Corp. in a stock swap valued at $58 billion, the companies announced yesterday.

The merger, which is subject to approval by shareholders and regulators, would create a $1.1 trillion bank that would rival Citigroup, the world's largest financial institution, in retail and corporate banking -- and in asset size.

J.P. Morgan, which operates in only four states -- New York, New Jersey, Connecticut and Texas -- would gain a foothold in more than a dozen additional states by buying Chicago-based Bank One. The deal would give it retail outlets throughout the Midwest, as far south as Florida and as far west as Arizona, Utah and Colorado. The combined companies would become the nation's second-largest credit-card issuer, behind Citigroup.

J.P. Morgan is already the largest dealer in the world in complex financial contracts, known as derivatives, that have become key tools for firms in a broad spectrum of industries to manage risk.

The deal continues a decade-long consolidation of big banks into even bigger companies in the U.S. financial arena, where size and a broad array of services give an organization a competitive advantage, industry experts say. The flurry of mergers in the 1990s slowed somewhat in recent years, only to pick up again recently.

The J.P. Morgan deal is the second major proposed bank merger in four months. Bank of America Corp., the nation's third-largest bank, agreed in October to pay $45.5 billion for FleetBoston Financial Corp., the seventh-largest, in a pending deal that, until yesterday's announcement by J.P. Morgan, would have created the second-largest bank in the United States.

Citigroup, which has assets of about $1.2 trillion, was created in 1998 by a merger of banking giant Citicorp and insurance behemoth Travelers Group Inc.

The new J.P. Morgan Chase & Co. would be based in New York. J.P. Morgan's chairman and chief executive, William B. Harrison, 60, would be chairman and chief executive of the new entity, and Bank One chairman and chief executive James Dimon, 47, would be president and chief operating officer. In 2006, Dimon would succeed Harrison as chief executive and Harrison would continue as chairman, the companies said.

As many as 10,000 of the banks' combined work forces of 175,000 would be eliminated, the banks said. Most of the overlap is in administrative and consumer functions.

Dimon was ousted as president of Citigroup by its strong-willed chief executive, Sanford I. Weill, shortly after the merger with Travelers. Now, analysts say, Dimon has helped build an organization that can compete head-to-head with Citigroup and possibly provide him with sweet revenge.

"What this really does is finally create another Citigroup," said Craig Woker, an analyst at independent research firm Morningstar Inc. "From a strategic standpoint this makes sense. Bank One brings a stronger retail presence while J.P. Morgan is the stronger commercial and global bank."

Bank One stockholders would receive 1.32 shares of J.P. Morgan for each of their shares. J.P. Morgan's stock closed yesterday at $39.22, up 32 cents, and Bank One's stock closed at $45.22, up 61 cents, both on the New York Stock Exchange.

Talks between Harrison and Dimon began in earnest in November, sources said. To preserve secrecy, negotiators began to refer to J.P. Morgan as "Jupiter" and to Bank One as "Apollo," according to sources and to a memo that a public relations firm sent to reporters by mistake.

The new company would have a 16-member board of directors, with seven outside directors from J.P. Morgan, seven outside directors from Bank One, Harrison and Dimon.

J.P. Morgan itself is the product of a merger in September 2000 between Chase Manhattan Corp. and J.P. Morgan & Co., two of the most storied names in banking.

"The big question now is, who could be next?" said Dick Bove, a banking analyst from Hoefer & Arnett, an independent research firm in San Francisco.

He said that when George H.W. Bush was president, the top 10 banks in the world were Japanese. The White House adopted a policy of trying to encourage mergers among U.S. banks to create conglomerates that could compete globally, he said.

Now, Bove said, with Citigroup and the two most recently announced mergers -- between Bank of America and Fleet, and between J.P. Morgan and Bank One -- the nation has three "super-tier" banks. A fourth is unlikely, he said, though it might be possible through a combination of Wachovia, Wells Fargo and another regional player.

These new giants, he and other analysts said, threaten Wall Street investment houses such as Merrill Lynch and Goldman Sachs as standalone firms. The banking giants have more capital and more clients and can cut prices to gain market share, the analysts said. The next wave of financial mergers could be banks buying up brokerages, as Citigroup did, to create one-stop financial houses offering a full array of services, including deposit-taking, insurance and underwriting.

Document WP00000020040115e01f000av

Financial
Big Spending In Bonus Season; Wall Street Workers Feel Benefits of Bull Market

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Washington Post Staff Writer
1,222 words
23 December 2003
The Washington Post
WP
FINAL
E01
English

Step into Lever House, the super-hip new eatery on Park Avenue, and it's clear the Masters of the Universe are feeling bullish again.

It's bonus season on Wall Street. And people are partying, quite literally, like it's 1999.

Located a stone's throw from giant banks J.P. Morgan Chase & Co. and Citigroup Inc., Lever House has quickly become a favorite haunt of the Midtown Wall Street set. And unlike in recent years, when a brutal bear market dampened moods and thinned bankrolls, the folks who work in the neighborhood are living large, ordering bottles of wine and cote de boeuf ($76 for two) without a second thought.

"There is a sense of optimism that was not there in the last two years," said Lever owner John McDonald. During that hiatus, markets were down and so was investor confidence, hammered by a series of investigations of corporate wrongdoing.

Now, with markets moving up again, McDonald said, his private dinning room has been booked for lunch and dinner almost every day for the past two months, as Wall Street firms celebrate a return to healthy profits and reward their top performers.

"There is a sense of confidence. . . . Where you really see it is in the wine list. People are going on tasting journeys. They will start with a burgundy, move to a Bordeaux, then to a dessert wine. That's how you know people are getting serious again."

Overall, Wall Street bonuses will be up 20 to 30 percent from last year, industry experts and compensation consultants say. The numbers will be even higher for bond traders and bankers, many of whom will see bumps of 50 to 60 percent, reflecting the fact that they were among the top earners on Wall Street this year.

Alan G. Hevesi, the New York state comptroller, recently said he expects Wall Street to award bonuses totaling about $10.7 billion for 2003, an average of $66,800 per employee, up from $8.6 billion last year. Hevesi said the fatter bonuses will pump $182 million into city coffers, $57 million more than 2002.

Executives at Goldman Sachs Group Inc., Morgan Stanley, Lehman Brothers Inc. and Bear Stearns Cos. have already been told their bonus figures. And for the folks at the top, the news has been stunningly good.

Goldman chief executive Henry M. Paulson Jr. received a restricted stock award worth around $21 million, according to a regulatory filing, up from $2.6 million in 2002. John A. Thain, the Goldman president recently named chief executive of the New York Stock Exchange, received $9.5 million in restricted stock, three times the amount he received in 2002. Lloyd C. Blankfein, head of bond underwriting at Goldman and Thain's successor as president, also received $9.5 million in restricted shares, up from $3.6 million in 2002.

Morgan Stanley chief executive Philip J. Purcell received stock worth around $4 million, compared with $3 million in 2002. Bear Stearns CEO James E. Cayne received $10.4 million in stock, a 30 percent boost over 2002. Figures for these executives -- with the exception of Paulson, who will receive no cash bonus, according to the regulatory filing -- do not include cash bonuses, which will be disclosed in additional filings early next year.

In general, compensation consultants said, Wall Street firms are moving away from big cash bonuses for top executives, awarding more performance-based compensation. Restricted shares generally must be held for an extended time period and can be sold only under certain circumstances.

Other big banks such as J.P. Morgan and Credit Suisse First Boston will give employees their bonus numbers in the next few weeks. Most people expect good news, at least compared with the bonus drought of 2001 and 2002.

"Last year was a joke," said a commodities trader at J.P. Morgan, who expects at least a 30 percent increase. "But the sentiment this year is very bullish."

It is most bullish for bond traders and bankers, who helped generate much of the profit on Wall Street this year. Goldman, for example, recently reported that net income in the fourth quarter nearly doubled to $971 million from $505 million in the same quarter last year, driven mainly by bond, currency and commodity trading. Bear Stearns and Lehman Brothers also reported that fourth-quarter income soared over last year, boosted in large part by bond trading.

Profit from stock underwriting and merger and acquisition advice has started to pick up on Wall Street, executives said, but much of the income from recent deals will not be booked -- or factored into bonuses -- until 2004.

In addition to bond traders, top operations managers are expected to get big bonuses for helping Wall Street make deep cuts to help improve the bottom line, mainly through layoffs.

"The people who are going to get rewarded are the managers who took out the long knives and cut as close to the bone as possible without cutting the bone," said Frank Fernandez, chief economist at the Securities Industry Association.

According to SIA, securities industry employment reached an all-time high of 840,900 in March of 2001 then dropped nearly 6 percent to 793,700 in May of this year. The employment numbers are now creeping up again, reflecting the stock market recovery and a pickup in banking deals.

As a result, several consultants and executives said, Wall Streeters who survived the implosion of the late 1990s market bubble may also benefit from a reduced workload soon. Senior traders, brokers and bankers who had to fire their deputies are now being told they will be able to do targeted hiring in 2004.

"A senior bond trader on the municipal desk who fired his junior trader last year can now make a pretty strong case for money in the budget to get that person back," Fernandez said. "A lot of people on Wall Street have been doing the work of two or three people."

And, unlike in recent years, when firms could give junior employees token bonuses of a few thousand dollars without fear of defections, Wall Street firms are putting up more bonus money this year to make sure they are fully staffed in 2004.

"You really can't afford to lose your talented kids right now," said Jeffrey Bell, an executive search and compensation consultant with the Whitney Group. "You could go and hire a bunch of new MBAs, but they will not be up to speed until the middle of next year at the earliest. So the lower people on the totem pole can expect to do relatively better than the last couple of years."

Not of all of the young rank and file on Wall Street, however, believe they will be able to use this year's bonus for a down payment on a weekend house in the Hamptons or a plush loft in SoHo, common occurrences during the bull market of the late 1990s.

"It will be better, sure. But compared to what?," said a low-level executive at Credit Suisse. "Last year was awful. I'm not that confident. I'll believe it when I see it."

Document WP00000020031223dzcn0002z

Financial

United Takes a Second Stab at Loan Guarantees; Airline Hopes to Leave Bankruptcy

Keith L. Alexander
Washington Post Staff Writer
692 words
19 December 2003
The Washington Post
WP
FINAL
E02
English

UAL Corp., parent of United Airlines, yesterday filed its second application for federal loan guarantees to help it emerge from bankruptcy protection.

The airline is asking the government to back $1.6 billion in loans, $200 million less than it sought in the initial bid, which was rejected in December 2002.

Earlier this week, the airline said it had secured $2 billion in financing from J.P. Morgan Chase & Co. and Citigroup Inc., contingent on United securing the guarantees.

The federal Air Transportation Stabilization Board, which was created by Congress after the Sept. 11, 2001, terrorist attacks to pass out $10 billion in loan guarantees, rejected the business plan behind United's first loan guarantee application as "fundamentally flawed." It ruled that granting United guarantees would pose an "unacceptably high risk" to U.S. taxpayers.

Within a week, United -- the nation's No. 2 airline -- became the world's largest carrier to file for bankruptcy protection.

The airline hopes to emerge from bankruptcy by mid-2004. Without the loan guarantee, analysts have said, United may be forced to remain in bankruptcy longer than it expected and to cut more costs, including those from employees and vendors. Sources familiar with the process said that if United's application is rejected again, it probably would not get a third chance.

United still faces multiple challenges that could make securing loan guarantees difficult. The biggest hurdle remaining is what to do with its pension plan, which is underfunded by nearly $5 billion. The airline -- as well as many ailing U.S. companies with "defined benefit plans" -- has lobbied lawmakers for legislation that would reduce the amount of required contributions to their funds, saying it cannot afford the contributions under the existing formula. But such legislation isn't likely to be passed -- if at all -- until early next year.

United must also prove that it has a plan to replace Dulles-based Atlantic Coast Airlines, its largest regional jet operator. Atlantic Coast has operated United Express flights for 14 years. But this summer, after the airlines disagreed on payments, Atlantic Coast said it wanted to terminate the relationship. Atlantic Coast plans to transform itself into a low-cost airline called Independence Air, which would be based out of Dulles International Airport and compete directly with United's Dulles hub operation.

Sources familiar with United's new application said the airline's revenue projections are much more conservative than in the first application. The ATSB members who voted against United's first application said then that United's revenue growth projections were unrealistic -- at least three times the growth projected at the time by the rest of the airline industry.

As it did last year, United offered its prized Pacific routes and several of its planes as collateral for the loan. Last year, ATSB officials decided the collateral was not enough to offset the overall risks.

It is unclear how long it will take members of the ATSB to rule on United's application. It took them six months to decide on United's first application.

United must convince ATSB officials that its cost cutting during the past year, as well as its revised business plan, warrant the guarantees. United has cut nearly $5 billion from its operating costs, about half of it from labor. Labor participation was also critical because ATSB officials were looking for shared sacrifice.

United has cut its payroll to about 62,000 workers, down about 21 percent from a year ago. It has about $2.5 billion in cash, up from about $1.65 billion last year.

As part of its new business plan, United plans to highlight its low-cost operation, Ted, which is scheduled to be launched in February to compete with Southwest Airlines, Frontier Airlines and JetBlue Airways.

"We think we have addressed all of the concerns the ATSB raised last year," said Jake Brace, United's chief financial officer. "We are a much different company, and this is a much different plan."

Document WP00000020031219dzcj0002t

The Washington Post

Financial

New Chief Brings Old Style to Boeing; Stonecipher Described as Tough Leader

Greg Schneider
Washington Post Staff Writer
954 words
3 December 2003
The Washington Post
WP
FINAL
E01
English

New Boeing Co. chief executive Harry C. Stonecipher is a gruff executive who understands Washington and who insiders hope will lead the company out of scandals and sagging fortunes. But he is also a leader whose last company, McDonnell Douglas Corp., suffered serious problems and whose harsh style could irritate Boeing's wounded morale, say long-term observers of the industry.

Boeing announced Monday that Stonecipher, 67, will replace Philip M. Condit, who resigned in the wake of investigations into Boeing's behavior in both defense contracting and in hiring a former Pentagon official.

Stonecipher had remained on Boeing's board after retiring last year as president and chief operating officer. He was chief executive of McDonnell Douglas when Boeing bought that company in 1997 -- a merger that made Boeing a global aerospace powerhouse but left it with an internal clash of cultures that still festers.

"The battle for the future of the company has been going on for years," J.P. Morgan Chase & Co. aerospace analyst Joseph B. Nadol III wrote. "Boeing may have won some of the battles, but it appears that McDonnell Douglas won the war for the future of the company."

At the time of the acquisition, Boeing was focused on commercial business and respected worldwide for its management practices. McDonnell Douglas was mired in a lawsuit with the Pentagon over a canceled bomber program, had just lost a major fighter plane competition and was watching its commercial aircraft business fade into oblivion.

Boeing now finds itself facing some of the same problems. Its sales of commercial aircraft will trail European rival Airbus SAS this year for the first time. Also this year, government contracting will account for more than half of Boeing's business for the first time -- but that is clouded by allegations of unethical behavior.

"Some people may be speculating that Stonecipher is carrying the Douglas curse with him," said Roger E. Bilstein, a retired professor who specializes in aviation history.

"I view this as a desperation move," said Robbin Laird, a defense industry consultant. With Boeing morale suffering and the commercial jetliner business sagging, the military-oriented Stonecipher "would strike one as not being the best guy at this time."

Stonecipher is one of the few outsized figures in an aerospace industry populated with cautious, circumspect leaders. Known to get by on four hours of sleep, Stonecipher made his mark at McDonnell Douglas by cutting jobs and confronting employees he felt were not up to snuff.

"My style comes across as tough and harsh. It's in the interest of decisiveness," he said in a recent interview. "It's really easy to get along with Harry Stonecipher. You just have to do exactly what you said you were going to do. It's failure to meet expectations that brings out the tough side of Harry."

Stonecipher learned the aerospace industry during 27 years with the aircraft engines business of General Electric Co., work that also put him in touch with a rising Boeing executive named Condit. After rising to the top spot at the engines business, Stonecipher left to run Sundstrand Corp., an aerospace parts supplier.

That job was remarkably similar to what he is now undertaking at Boeing. In the late 1980s, Sundstrand was temporarily suspended from Pentagon contracting for allegedly overcharging the government. Stonecipher worked to restore its credibility and cut jobs to improve efficiency.

"That was a company in trouble, and he turned it around," said defense industry consultant Brett Lambert. Today, as Hamilton Sundstrand Corp., the company is a top aerospace parts supplier owned by United Technologies Corp.

Stonecipher's reward came in 1994, when McDonnell Douglas hired him as chief executive. The company's venerable commercial aircraft business was dying against competition from Boeing and Airbus, and Stonecipher steered McDonnell Douglas further into military work.

But some experts say the company's engineering talent was waning. It couldn't control costs on the controversial A-12 stealth bomber program, which the Pentagon canceled, leading to a lengthy lawsuit. And when McDonnell Douglas lost out to Boeing and Lockheed Martin Corp. in the selection of finalists for the Joint Strike Fighter warplane program, the company threw in the towel and merged with Boeing.

McDonnell Douglas brought a new culture into Boeing -- government contracting, schmoozing bureaucrats and politicians, focusing on the needs of a single giant customer. Boeing had no skybox at the Redskins football stadium, for instance, and inherited McDonnell Douglas's.

That government contracting arena is where the new Boeing is running into trouble. The Justice Department is investigating how two Boeing employees -- who originally worked for McDonnell Douglas -- came to possess secret documents from Lockheed Martin as the companies competed for an Air Force rocket contract. The Air Force is looking into Boeing's efforts to hire a former Pentagon official before the official left public office and whether the official gave the company inside information on a contract for tanker aircraft.

Boeing fired its chief financial officer last week over the hiring probe, and Condit resigned Monday to help rid the company of "distractions," he said. Now Stonecipher has pledged to set things straight for as long as his the board of directors allows.

"The great irony is that the whole McDonnell Douglas way of thinking helped lead them to this problem," said Richard L. Aboulafia, an industry expert with consulting firm Teal Group Corp. "The cynical joke was that McDonnell Douglas used Boeing's money to buy Boeing, and there's an element of truth there."

Staff writer Renae Merle contributed to this report.

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