



BENJAMIN S.

**CROCKER**  
SYMPOSIUM 2010



# Defining the New Capital Markets Financing Paradigm

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## US Economy is Recovering - Slowly

- Avoided Financial System Collapse
- Fed and UST Bailout Efforts – Essential

**CONFIDENCE** – Still Elusive

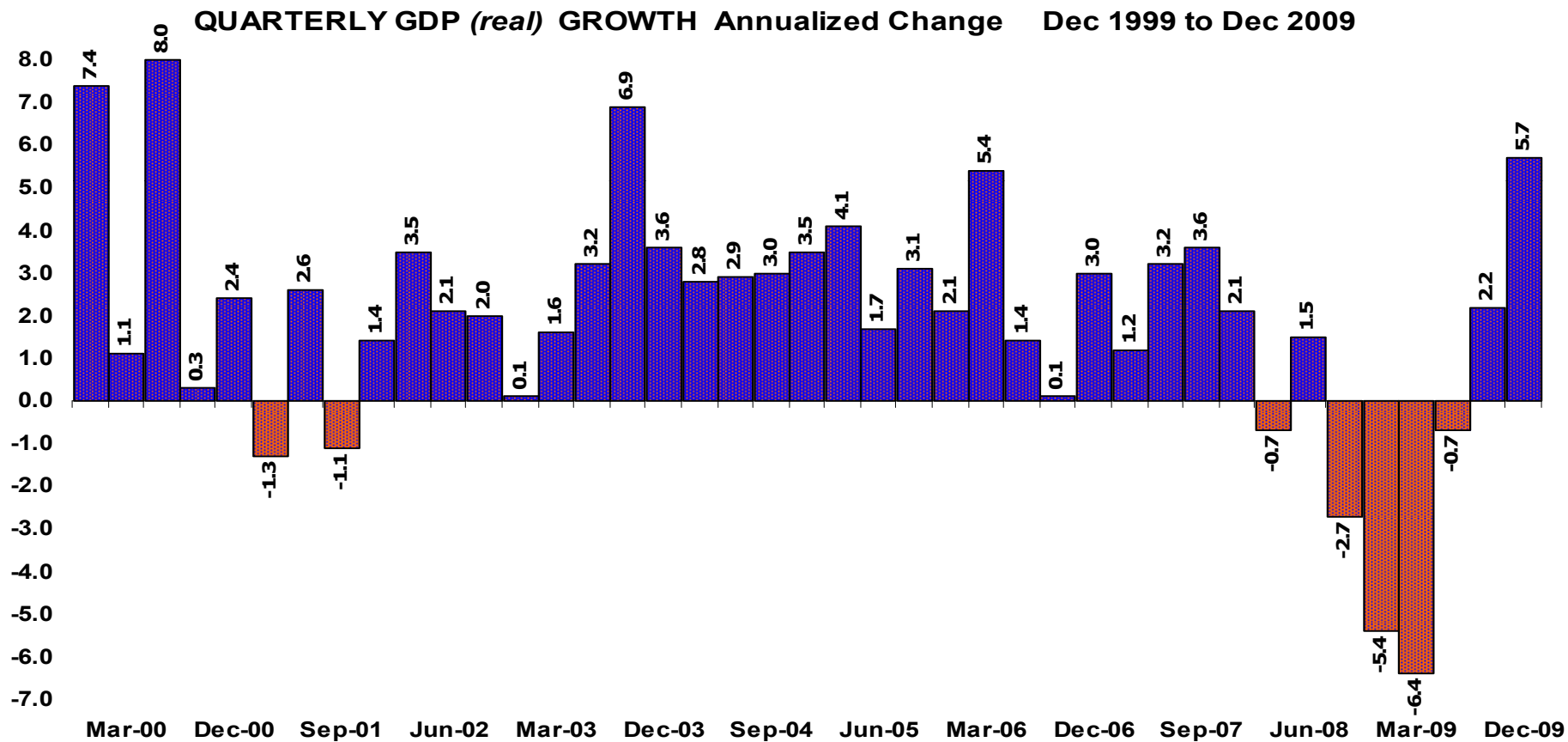
**HOUSING** – Long Recovery Time

**COMMERCIAL MORTGAGE MARKET** – Problems

*Courtesy of Stone & Youngberg LLC*



# GDP Has Turned Around



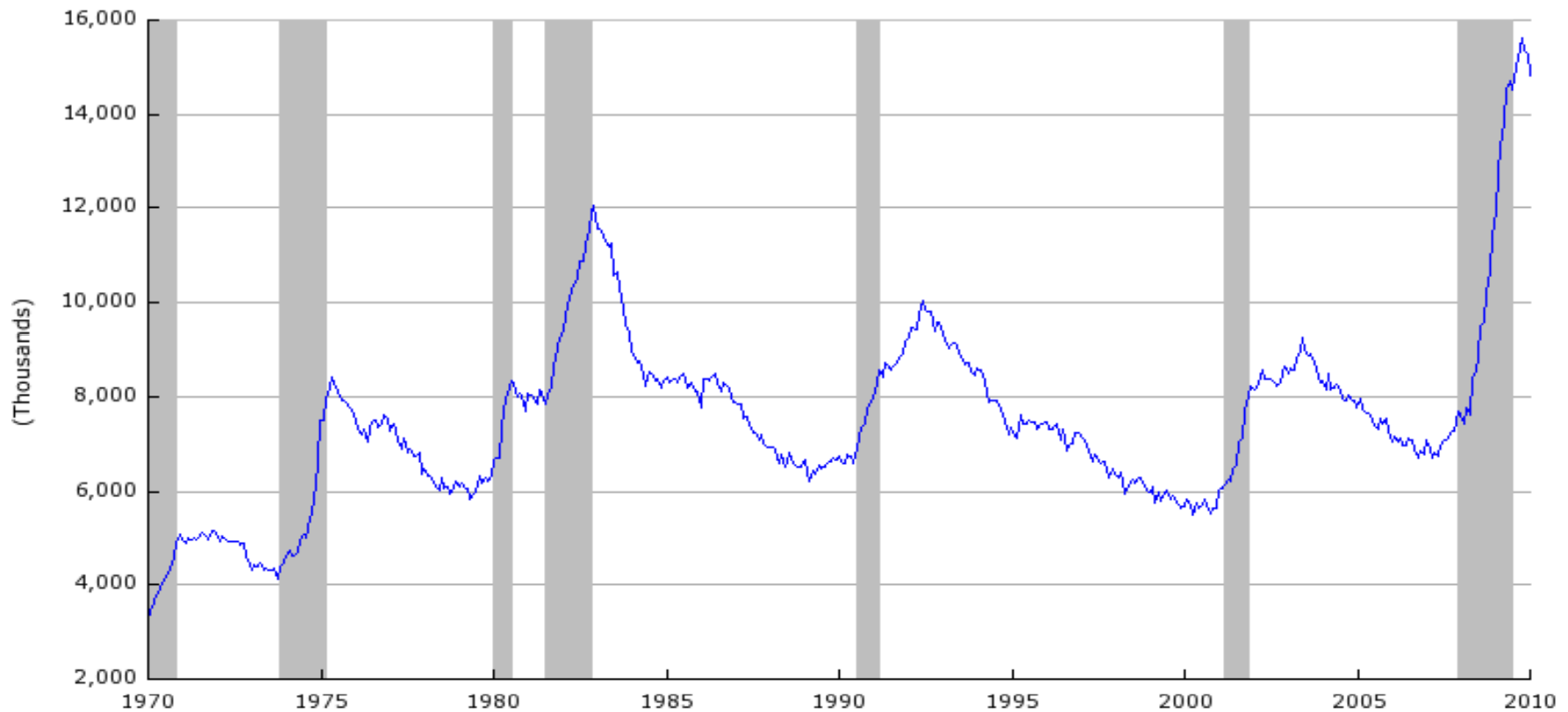
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# Labor Markets Are Still Depressed

Unemployed (UNEMPLOY)

Source: U.S. Department of Labor: Bureau of Labor Statistics



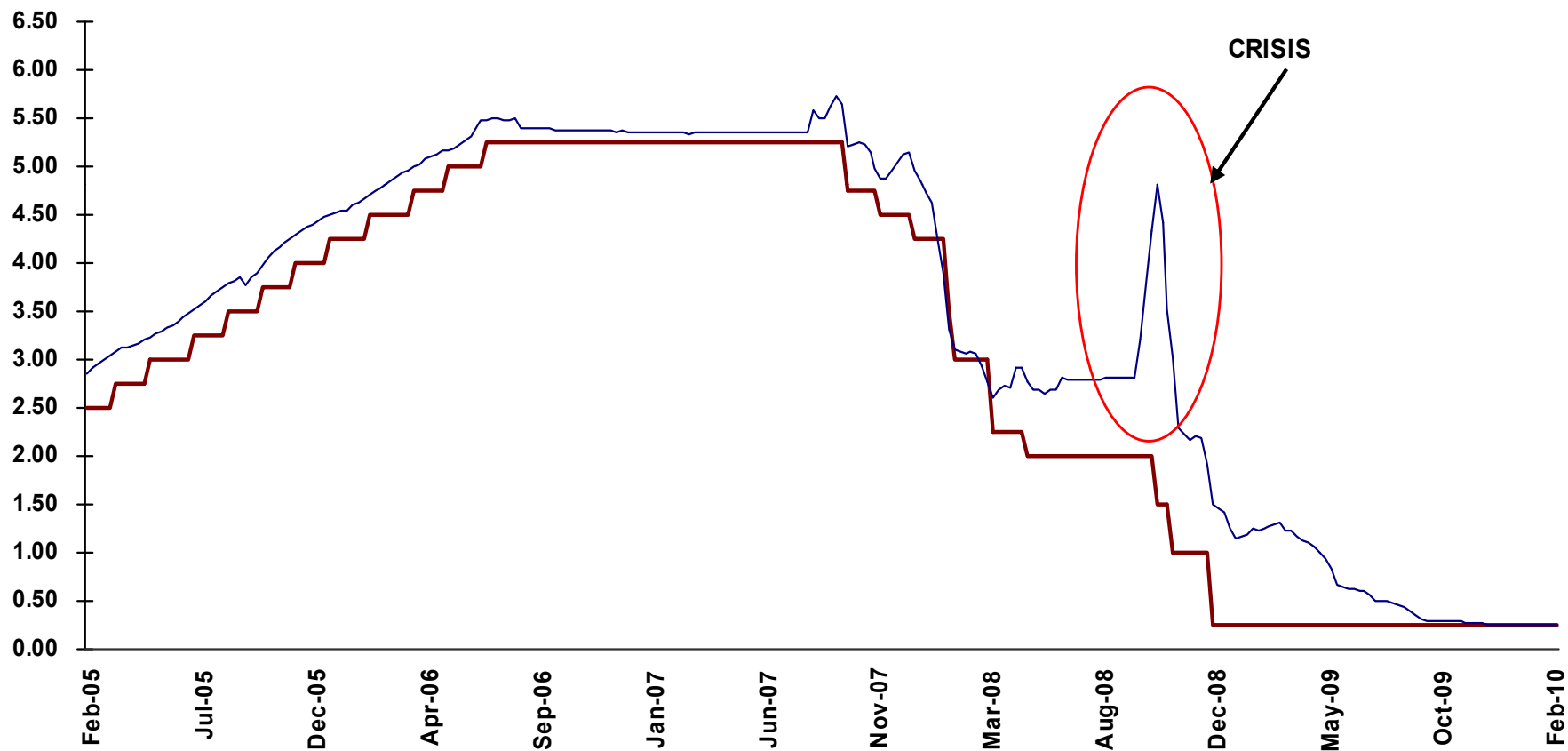
Shaded areas indicate US recessions.  
2010 research.stlouisfed.org

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# LIBOR (Credit Markets) Back to Normal

WEEKLY 3 Month LIBOR & Fed Funds Rate Feb 2005 - Feb 2010



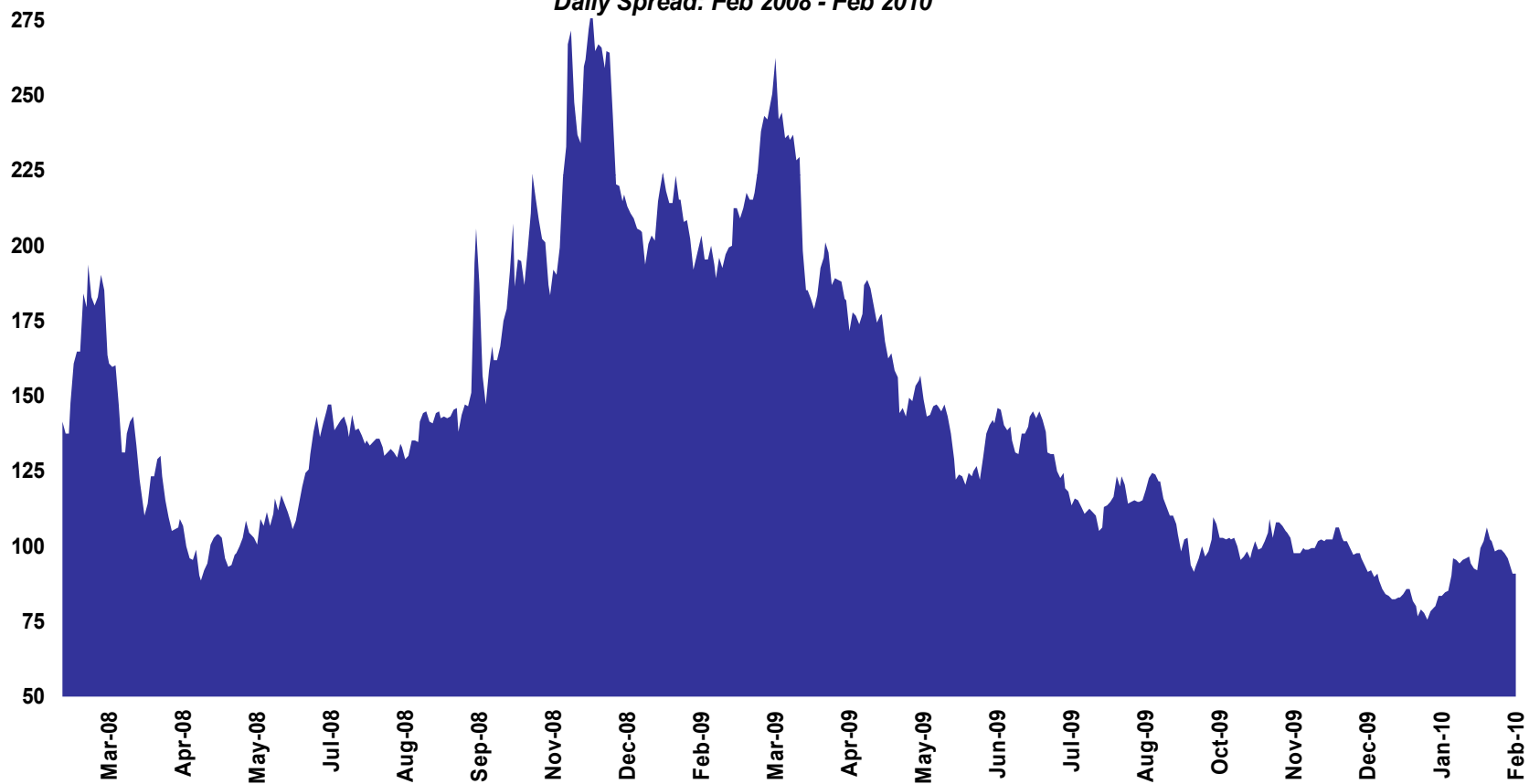
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# CDS Down From Peak → Crisis is Past

CDS Index North America Investment Grade Credits 125 Investment Grade Companies (5 Year Tenor)

*Daily Spread: Feb 2008 - Feb 2010*



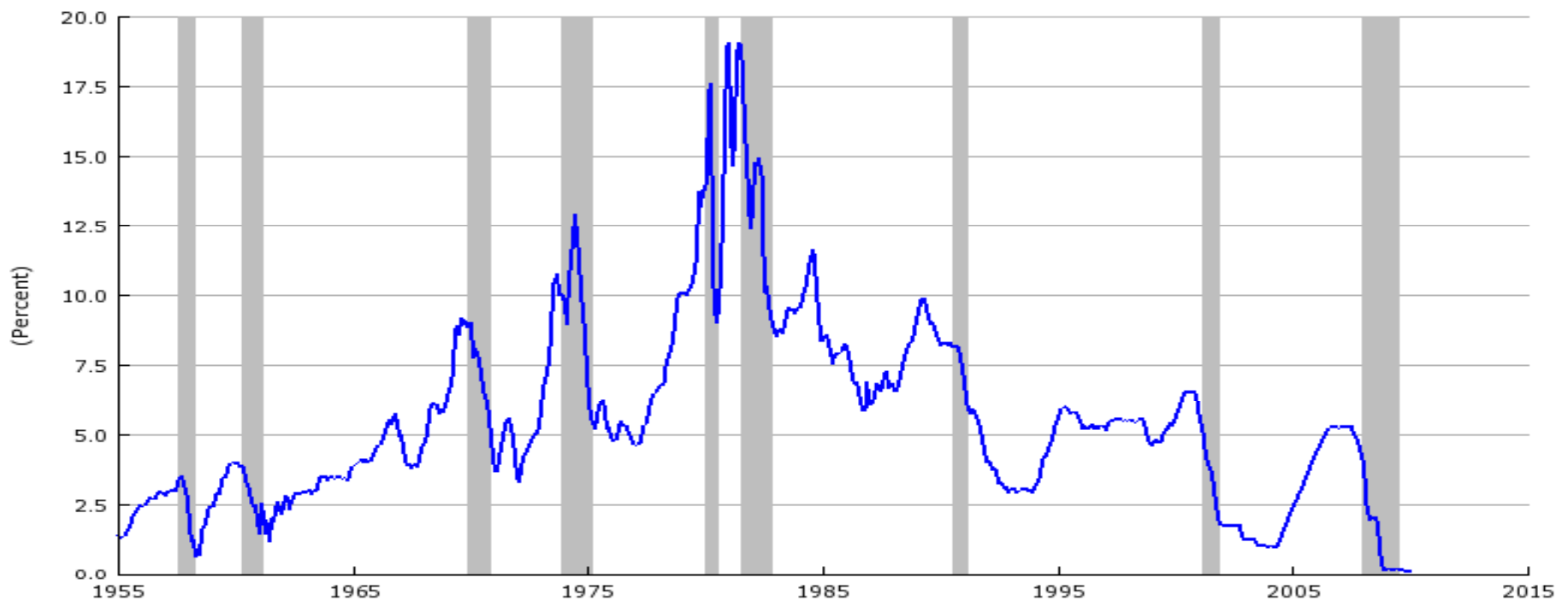
*Courtesy of Stone & Youngberg LLC*



## Fed Funds Rate Can't Go Lower

- Funds rate declines until well after the end of recession
- Funds rate should stay low

Effective Federal Funds Rate (FEDFUNDS)  
Source: Board of Governors of the Federal Reserve System



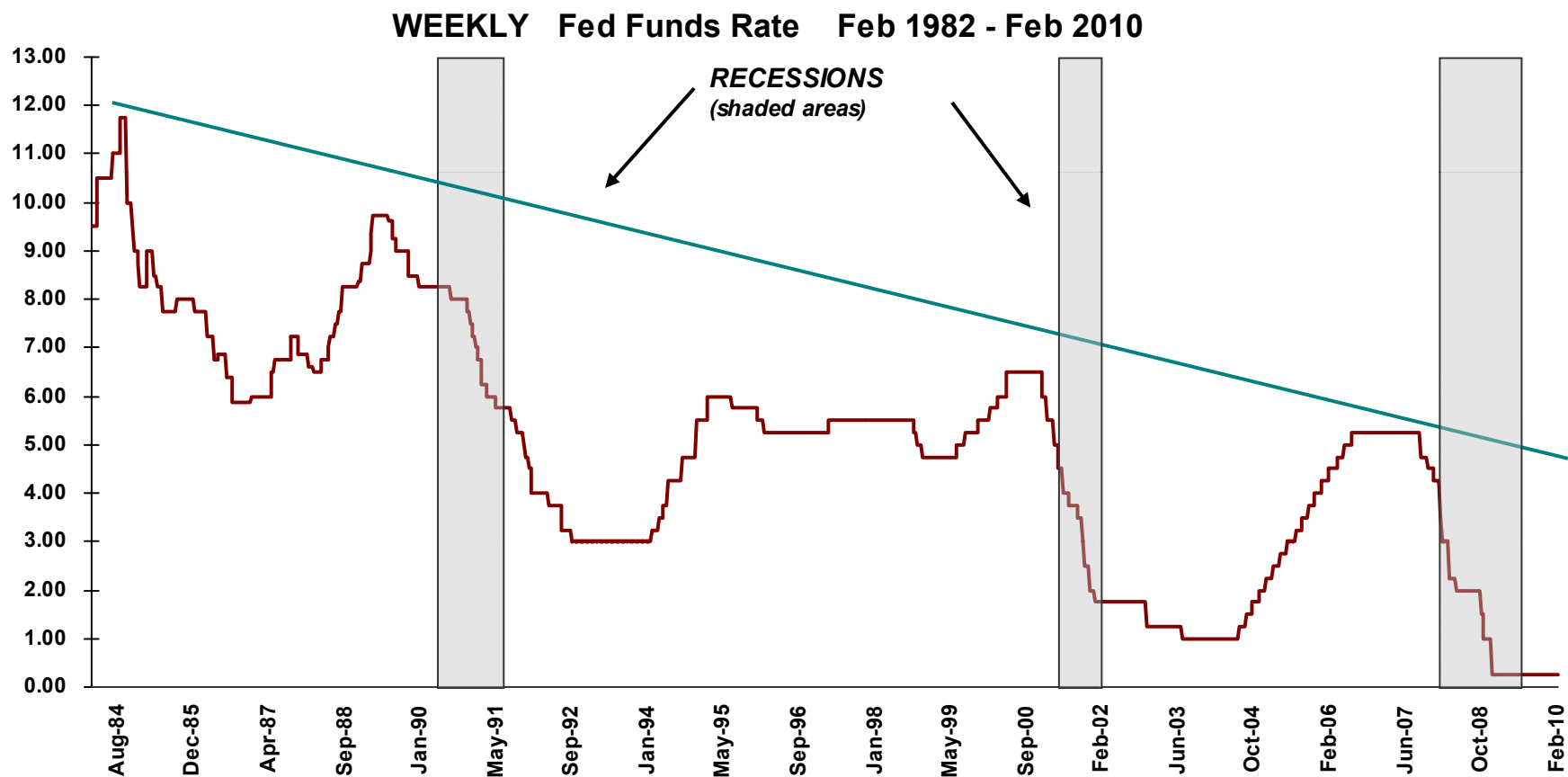
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# Fed Funds Rate Can't Go Lower

- Long-term trend is down



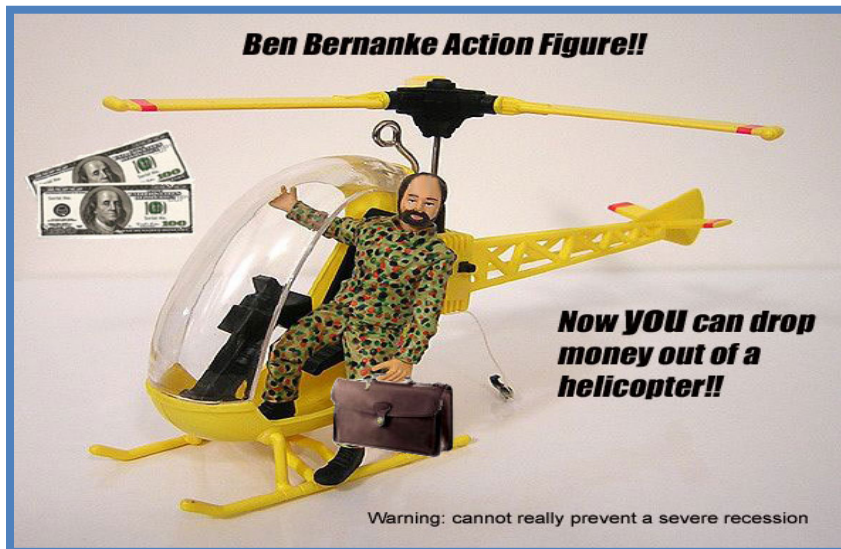
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# Where Do We Go From Here?

## *Bernanke and The Fed*



*“The economic repercussions of a stock market crash depend less on the severity of the crash itself than on the response of economic policymakers, particularly central bankers.”*

- **Ben Bernanke,**  
Federal Reserve Chairman

*Courtesy of Stone & Youngberg LLC*



## Financial Markets

- Unfettered Capitalism → System Failure
- Credit Markets – Functioning Again
  - **But...**
    - Obtaining Credit Difficult
    - Banks Deleveraging
    - Bank Focus is on Quality – Profit is Secondary
- Regulators Are Heavy-Handed
- Even More Onerous Regulation is Imminent

*Courtesy of Stone & Youngberg LLC*



## Loans = Recovery

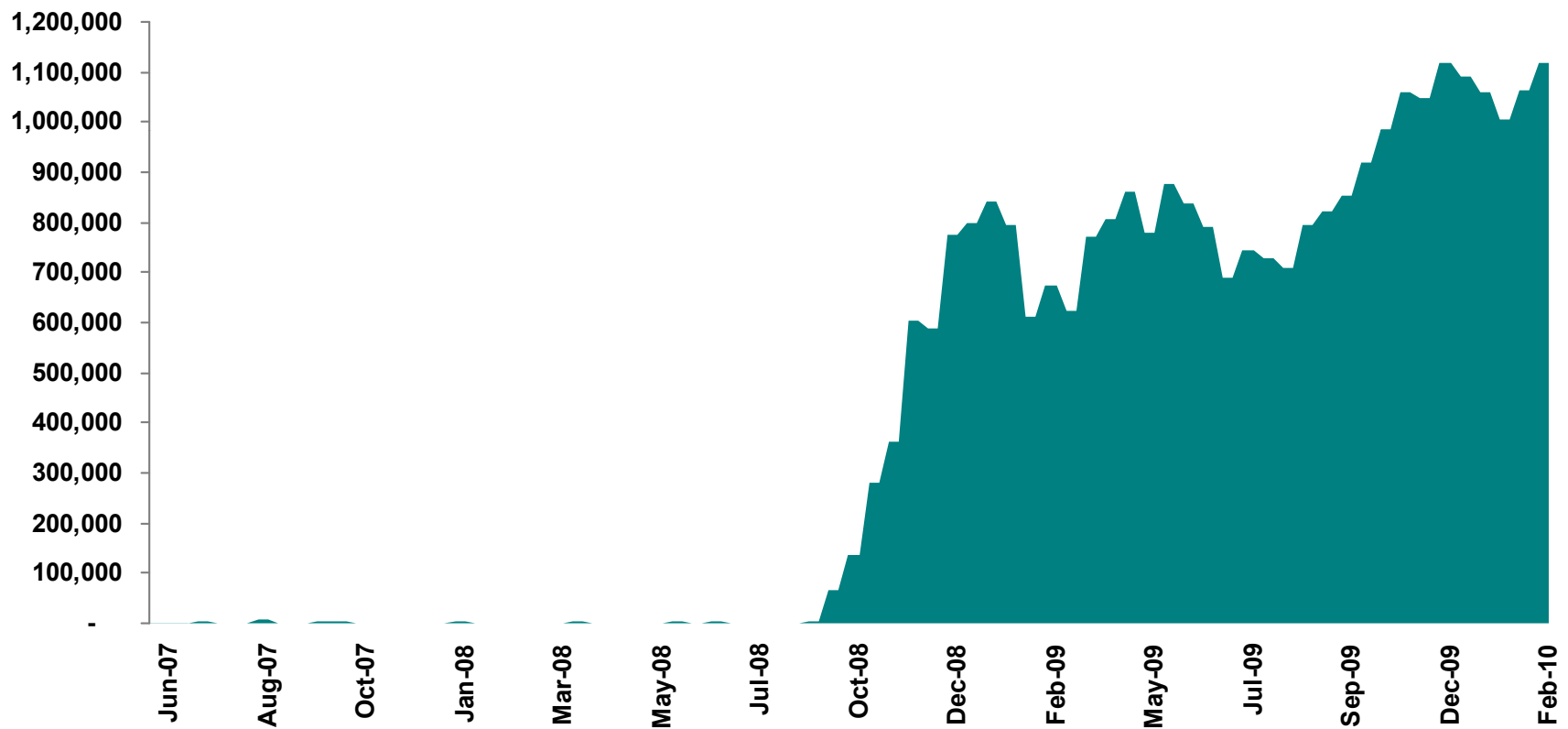
- Number of FDIC Insured Banks:  
1990 = 12,243 2009 = 6,839
- Economic Recovery Desperate Needs New Loans
- Banks → Write-offs, Low Capital and Lack of Earnings
- Regulatory Demands Make Banks Reluctant to Lend
- FDIC Insurance Fund Balance:  
2007 = +\$53 Billion 2009 = -\$21 Billion
- Moribund Jumbo Mortgage Market

*Courtesy of Stone & Youngberg LLC*



# Fed's Liquidity Boost → Staying Idle

**Excess Reserves (Idle Bank Deposits at the Fed) \$ millions**

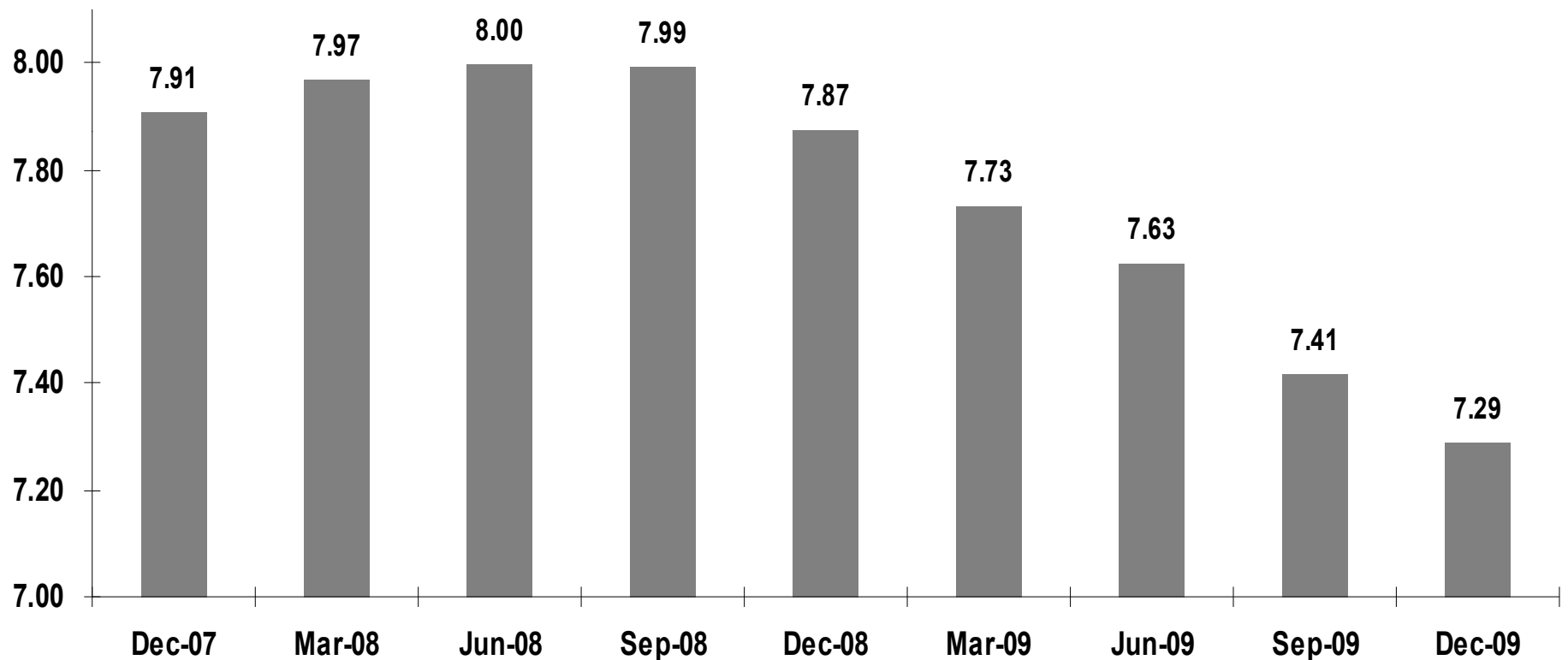


*Courtesy of Stone & Youngberg LLC*



# Lack of Bank Lending Inhibits Recovery

Gross Loans at FDIC Insured Banks \$ trillion



*Courtesy of Stone & Youngberg LLC*



# Regulatory Repair

## *Economic History*

*“Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.”*

- **John Maynard Keynes**,  
as quoted in *Moving Forward:  
Programme for a Participatory Economy* (2000)

*Courtesy of Stone & Youngberg LLC*



## “Free Markets” Out of Favor

- Mortgage Market Controlled by Treasury Via Fannie & Freddie
- TARP, TLGP, etc. Government as Lender/Guarantor
- BAB – Subsidy
- CDS Regulation
- New “Costs” to Financial Industry

*Courtesy of Stone & Youngberg LLC*



## Markets → No Easy Fix

*“For every complex problem, there is a solution that is simple, neat, and wrong.”*

- **H. L. Mencken,**  
American Writer

*Courtesy of Stone & Youngberg LLC*





## Bailout Implication: Deficit/Money/Prices

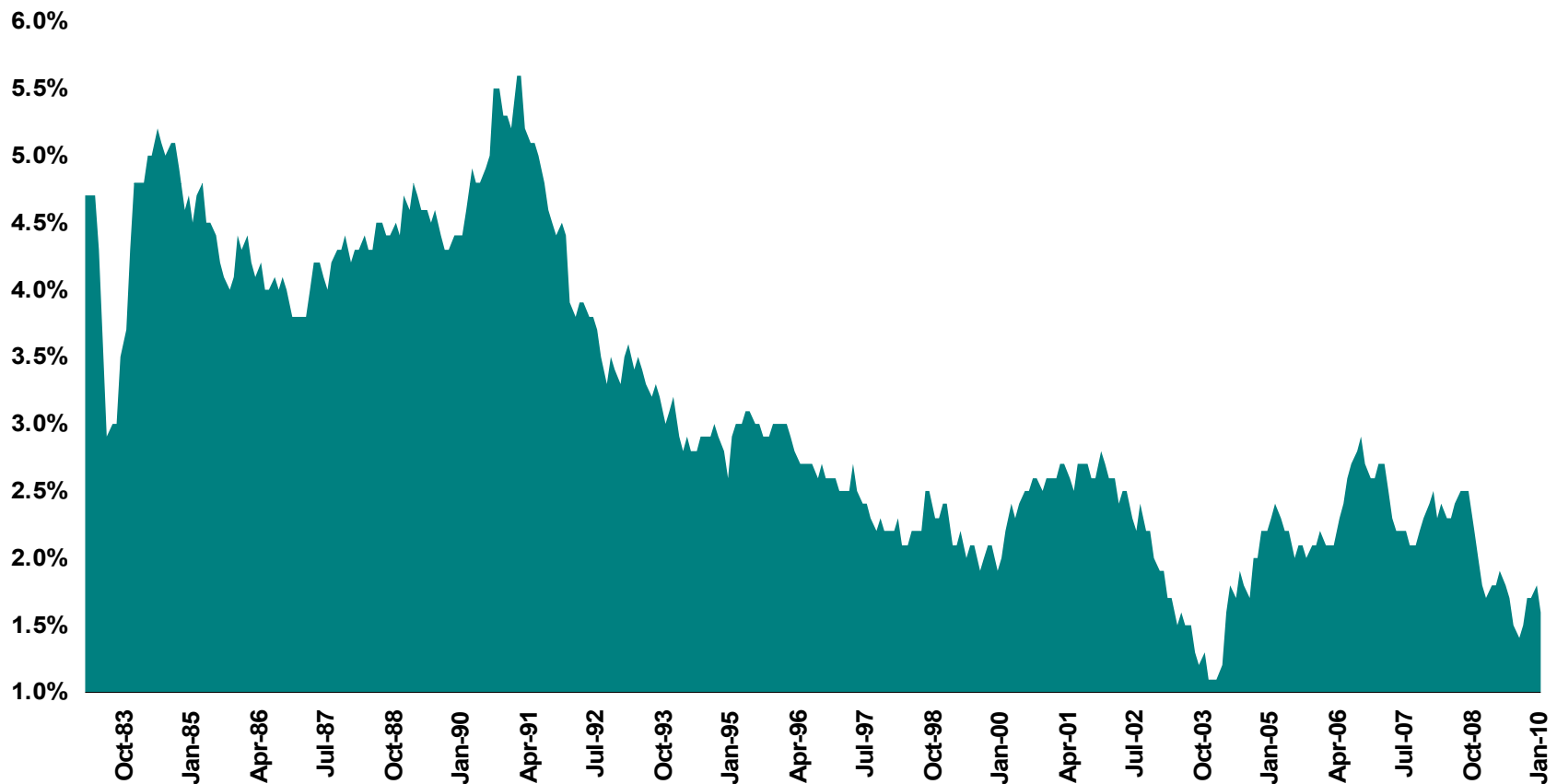
- US Deficit/Debt – Off the Charts
- Money Supply – “Normal” for Recession
- Inflation – Nonexistent
- Economic Growth – Far Below Potential
- Re-regulation – Inevitable
- Accounting – Mark to Market Still an Issue

*Courtesy of Stone & Youngberg LLC*



# Monthly CPI Year-Over-Year Change

Monthly CPI (ex food & energy) Year over Year Change Jan 1983 to Jan 2010



Courtesy of Stone & Youngberg LLC



# PRICES: Commodities

Commodities Research Bureau (CRB) Index Weekly: Feb 1990 - Feb 2010



*Courtesy of Stone & Youngberg LLC*

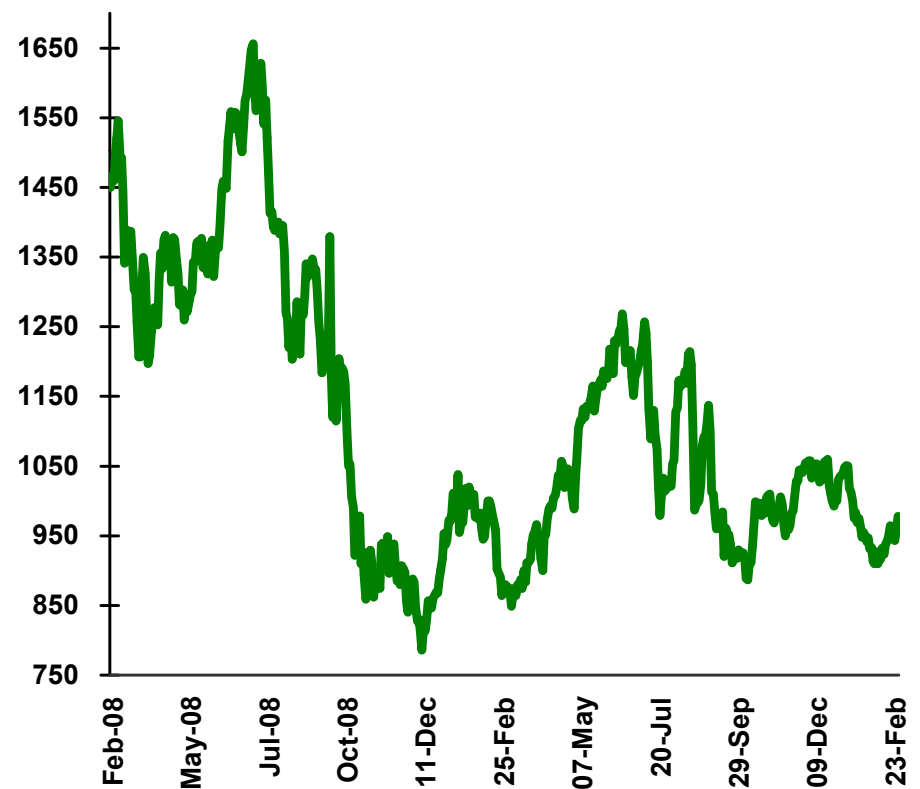


## PRICES: Oil/Food

**\$\$ Barrel of Oil Feb 08 - Feb 2010**



**Bushels of Soybeans Feb 08 - Feb 10**



*Courtesy of Stone & Youngberg LLC*



# Where Do We Go From Here?

*Tomorrow's Economy → Riskless?*



*“Never make predictions - especially about the future.”*

- **Casey Stengel**  
American Baseball Player  
and Manager

*Courtesy of Stone & Youngberg LLC*



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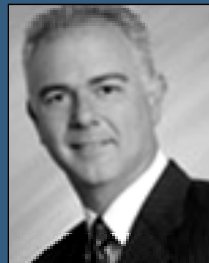


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