CORRECTIONS FOR THE CARNAGE ON WALL STREET

Strategic Planning Initiatives Offers Five Critical Tips For Correcting The Carnage On Wall Street Press Release 09/22/08

THE ENRON-LIKE SYSTEM MUST STOP: **T**he Current state of the market place has an "Enron-Like " system in place. This Carnage On Wall Street makes a mockery of our system of good governance. If this Enron-Like Repeat system is not gutted from the Financial and Banking Community, transparency and stability will not return to the market place. Market erosion will continue. It is a shameful and a grave insult to the American public and the free market system principles and institutions.

5 CRITICAL "CHECKS AND BALANCES" FOR STOPPING THE CARNAGE ON WALL STEET:

1) **L**everage rules have to be applied stringently

2) ***Structured Investments Vehicles**** should not exist off the balance sheets
Wherein, structured investment vehicles not on the balance sheet create leverage

3) **H**aircuts should be attainable on all securities
Haircuts are down payments on an investment just like the down payment consumers need for a home

4) **T**he Up-tick rule has to be enforced on short sales
The Up-tick rule prevents short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines. The SEC eliminated the rule on July 6, 2007.

5) **T**he Wrap - Around packages [e.g., Structured Investment Vehicles] need to be transparent and cleared on the regulated exchange such as the NYMEX Clearport.

* **A** ***Structured Investment Vehicle [SIV]*** makes loans to various lenders then securitizes them in an entity that is funded through an implicit guarantee of a sponsoring bank. The entity is not on the balance sheet of the bank. The entity is off the books. The bank does not have to hold capital against their capital ratio – creating a cascading Enron on steroids "House of Cards" effect throughout the banking, financial and insurances industries.

ISSUE AND PROBLEM WITH THE CARNAGE:

The Organization that holds the loan does not have inherent risks in the portfolio.

How could this gravy train "domino carnage effect" in the market place occur from level 1 [less risky] to level 3 [risky] assets? By not making rules absolutely clear and to the point, supervision and enforcement by the banking and financial institutions was lax as well as that by the Federal Reserve, SEC and CFTC. Standards, practices, supervision and enforcement procedures already in place were not exercised with “due diligence.” The “moral compass” was thrown out the window. Everybody was tacitly ignorant, neglectful or “being an opportunist” by going along with or playing the game. This includes lawmakers and corporation executives who handled the Fannie Mae and Freddie Mac expansion or participated in its dealings.

THE FORCE THAT GAVE MOMENTUM TO THIS CARNAGE:
“The Fannie Mae [FMAE] and Freddie Mac [FMAC] situation was a result of their unique roles in the economy. FMAE and FMAC were set up to support the housing market. They helped guarantee mortgages (provided they met certain standards), and were able to fund these guarantees by issuing their own debt, which was in turn tacitly backed by the government. The government guarantees allowed Fannie and Freddie to take on far more debt than a normal company. In principle, they were also supposed to use the government guarantee to reduce the mortgage cost to the homeowners, but the Federal Reserve and others have argued that this hardly occurred. Instead, they appear to have used the funding advantage to rack up huge profits and squeeze the private sector out of the “conforming” mortgage market. Regardless, many firms (Wall Street) and foreign governments considered the debt of Fannie and Freddie as “a substitute for U.S. Treasury securities” eagerly snapping them up. This quasi-backing emboldened firms to embark on morally hazardous behavior.” ***Consequently, this leads to OFF-BALANCE SHEET OPAQUENESS COUPLED WITH INCESTUOUS COUNTER-PARTY RISK that dominoed into a FINANCIAL TSUNAMI.*** □

“FANNIE AND FREDDIE WERE WEAKLY SUPERVISED AND STRAYED FROM THE CORE MISSION”: “Fannie and Freddie began using their subsidized financing to buy mortgage-backed securities which were backed by pools of mortgages that did not meet their usual standards (this is where Countryside chaos first began). Over the last year, it became clear that their thin capital was not enough to cover the losses on these subprime mortgages. The massive amount of diffusely held debt would have caused collapses everywhere if it was defaulted upon; so the Treasury announced that it would explicitly guarantee the debt. □ But once the debt was guaranteed to be secure (and the government would wipe out shareholders if it carried through with the guarantee), no self-interested investor was willing to supply more equity to help buffer the losses. Hence, the Treasury ended up taking them over.” (SOURCE: NYT 09/18/08 Steve Lewitt, Article: ***Diamond and Kashyap on the Recent Financial Upheavals***.)

We need radical reform from a Bi-Partisan group. There is plenty of blame to go around for both sides of the aisle, on Wall Street and the USG, itself. This includes Lobbyist reform. The American People are not being represented in Washington.

In conclusion, people in the financial community should not be rewarded for making bad decisions. People who are now embarking on rectifying this huge problem, are not heroes for correcting the problems they directly and indirectly created. Wall Street principals, banking officials, law makers and government officials are given a Sacred Trust to respect and honor our tax dollars, savings, investments, retirement accounts / funds and social security. This Sacred Trust has been broken and must be restored.

Bruce J. Moran is the Founder & Co – Chair Strategic Planning Initiatives [SPI] a Chicago / D.C. based [Think Tank] consulting group. SPI actively works with the Executive Branch, on the Hill, and with various Think Tanks addressing urgent and critical matters of National Security.