

TALF: A “DEAL” FOR WALL STREET

Executive Summary

Little Risk, Healthy Reward for Investors; Large Risk for Taxpayers

The Treasury Department loaned the Fed \$20 billion from TARP funds to back \$200 billion in TALF loans. Under TALF, investors put up 5% to 16% of the value of a loan portfolio that they wish to purchase; the rest is borrowed from the Fed. The TARP Special Inspector General noted that “the taxpayer risk is many times that of the private parties, thereby potentially skewing the economic incentives.” Yields on these portfolios are expected to be around 11% to 15%.

TALF Complicates Fed’s Job of Controlling Inflation

According to one American Banking Association economist, the Fed may have difficulty controlling inflation because of the Fed’s TALF commitments.

Inspector General Says TALF Is Ideal For Money Laundering

The TARP Special Inspector General pointed out that TALF is “an ideal opportunity to money-laundering organizations.”

Insiders Favored; Potential Investors Left in the Dark

BlackRock Realty was hired to advise the Treasury Department on how to handle CMBS, and BlackRock is one of the borrowers on a troubled \$3 billion loan. The company’s CEO, Laurence Fink, is a key advisor to the Fed for the TALF program. BlackRock’s employees have given generously to Democrats.

In May, market players were displeased that they were not offered the opportunity to bid on issues because underwriters had pre-arranged to sell transactions to just a few large investors. Investors also complained that the Fed twice failed to release enough information for them to proceed with bidding.

Some Deals Already Sour; Well-Connected Company Unloads Bad Debt

Several of the Commercial Mortgage Backed Securities (CMBS) included in the TALF program are not performing well. General Growth Properties (GGP), whose employees have also been very generous to Democrats, is involved with three loans worth over \$600 million that are not performing well. **The Fed has rejected similar CMBS bonds.** GGP, still in Chapter 11 bankruptcy, filed for bankruptcy ten days after publicly denying that it knew why its stock was experiencing unusual market activity.

More Transparency, Please

Last month, one of the eligible agents for the TALF program, Barclays Capital, called on the Fed to explain the process for accepting loan requests. Analysts have been unable to determine what has caused the Fed to reject a small number of loan request bids.

TALF: A “Deal” for Wall Street

The Federal Reserve Board authorized the Term Asset-Backed Securities Loan Facility (TALF) in November, 2008. TALF is run by the New York Federal Reserve Bank; the Treasury Department loaned the Fed \$20 billion from TARP funds to back the TALF loans. As of October, there had been over \$40 billion worth of loans made.

<http://www.federalreserve.gov/newsevents/press/monetary/20081125a.htm>

<http://www.bloomberg.com/apps/news?pid=20601110&sid=aUonjouK30hU>

The program applies to credit card debt, student loans, Small Business Administration loans, car loans, commercial real estate mortgage-backed securities, and more. Since its start, the program has been expanded again and again.

<http://www.federalreserve.gov/newsevents/press/monetary/20081125a.htm>

<http://www.federalreserve.gov/newsevents/press/monetary/20090319a.htm>

<http://www.federalreserve.gov/newsevents/press/monetary/20090501a.htm>

<http://www.federalreserve.gov/newsevents/press/monetary/20090519b.htm>

<http://www.federalreserve.gov/newsevents/press/monetary/20090817a.htm>

Under TALF, investors put up a small fraction (5%-16%) of the value of a loan portfolio that they wish to purchase; the rest is borrowed from the Federal Reserve Bank of New York.

Yields on these portfolios are expected to be around 11% to 15%.

<http://seekingalpha.com/instablog/296964-living4dividends/13575-geithner-s-gift-to-wall-street-talf>

WALL STREET INVESTORS TAKE LITTLE RISK

Bloomberg stated that an investor could make a return of 14% per year on credit card loans. After paying the Fed administrative fee, the net return would be 13.2%. Since the

loans are non-recourse to the borrowers, the investors can walk away from the TALF loan if they are unable to pay it back. Furthermore, investors get to keep all of the payments they received from debtors while they stayed in the program.

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aJDiz3sQoUa8&refer=home>

For example, if you wanted to purchase \$100 million of credit card debt, you would need to put up \$6 million. You would borrow the other \$94 million from the Fed. Over the next several years, the Fed would split the payments received on the credit card debt with you.

<http://seekingalpha.com/instablog/296964-living4dividends/13575-geithner-s-gift-to-wall-street-talf>

There are several problems with the program. According to one American Banking Association economist, the Fed may have difficulty reducing the money supply when inflation increases because of the Fed's commitments under the TALF program.

I.G. SAYS IDEAL FOR MONEY LAUNDERING

The TARP Special Inspector General pointed out that TALF is "an ideal opportunity to money-laundering organizations." He also noted that "the taxpayer risk is many times that of the private parties, thereby potentially skewing the economic incentives."

http://www.sig tarp.gov/reports/congress/2009/April2009_Quarterly_Report_to_Congress.pdf

In May, market players were displeased that they were not offered the opportunity to bid on issues because underwriters had pre-arranged to sell transactions to just a few large investors.

<http://www.securitization.net/news/article.asp?id=364&aid=8975>

One investor said, "This trend toward secrecy within TALF is disturbing. It runs counter to the fact that it's a government-run program."

<http://www.securitization.net/news/article.asp?id=364&aid=8975>

Another investor said, "This is a fine line they're walking. This is a government-sponsored securitization program . . . They should be very, very careful of any whiff of impropriety."

<http://www.securitization.net/news/article.asp?id=364&aid=8975>

Investors also complained that the Fed twice failed to release enough information for them to proceed with bidding.

<http://www.securitization.net/news/article.asp?id=364&aid=8975>

But TALF is not without its fans. "I've had accounts that dropped everything they were doing to take a look at this TALF financing," one Wall Street trader explained. "It was like nothing they had ever seen. It beats any financing that the private sector could ever come up with. I almost want to say it is irresponsible."

<http://seekingalpha.com/instablog/296964-living4dividends/13575-geithner-s-gift-to-wall-street-talf>

SOME TALF DEALS ALREADY SOUR

Several of the Commercial Mortgage Backed Securities (CMBS) included in the TALF program are not performing well.

<http://74.125.113.132/search?q=cache:a9aeO45UzsJ:m.ft.com/blog/2009/09/10/71241/the-feds-enigmatic-cmbs-portfolio-an-update%3Fcatid%3D10%26SID%3Dgoogle+50180jab1&cd=4&hl=en&ct=clnk&gl=us&client=firefox-a>

BlackRock Realty is one of the borrowers on a troubled \$3 billion loan. Previously, BlackRock was hired to advise the Treasury Department on how to handle CMBS.

<http://74.125.113.132/search?q=cache:a9aeO45UzsJ:m.ft.com/blog/2009/09/10/71241/the-feds-enigmatic-cmbs-portfolio-an-update%3Fcatid%3D10%26SID%3Dgoogle+50180jab1&cd=4&hl=en&ct=clnk&gl=us&client=firefox-a>

The CEO of BlackRock, Laurence Fink, is a key advisor to the Fed for the TALF program. BlackRock's employees have given generously to Democrats.

<http://www.theepochtimes.com/n2/content/view/22511/>

<http://fec.gov/finance/disclosure/advindsea.shtml>

General Growth Properties (GGP), whose employees have also been very generous to Democrats, is involved with three other loans that are not performing well. Together, these loans are worth over \$600 million. It should be noted that the New York Fed has rejected CMBS bonds that are similar to these. GGP is currently in Chapter 11 bankruptcy. The company filed for bankruptcy ten days after publicly denying that it knew why its stock was experiencing unusual market activity.

<http://74.125.113.132/search?q=cache:a9aeO45UzsJ:m.ft.com/blog/2009/09/10/71241/the-feds-enigmatic-cmbs-portfolio-an-update%3Fcatid%3D10%26SID%3Dgoogle+50180jab1&cd=4&hl=en&ct=clnk&gl=us&client=firefox-a>

<http://ftalphaville.ft.com/blog/2009/08/28/69116/the-feds-black-sheep-cmbs-bond-herd-grows/>

<http://www.ggp.com/company/Pressreleases.aspx?mode=view&prid=450>

<http://www.ggp.com/company/Pressreleases.aspx?mode=view&prid=451>

Citigroup, which is another eligible agent for TALF, has sold billions of dollars worth of securities through the program.

<http://www.cnbc.com/id/29794971>

<http://www.americanbankingnews.com/2009/09/02/citigroup-bank-of-america-and-others-lend-15-billion-through-federal-reserve%E2%80%99s-talf-program/>

In addition to American financial institutions, TALF loans are being made available to purchase debt from foreign companies, such as Honda, Hyundai, Nissan, Volkswagen, and BMW.

<http://www.structuredfinancenews.com/news/-197296-1.html>

<http://www.bloomberg.com/apps/news?pid=20601110&sid=a35IE8fRFhF4>

<http://www.bloomberg.com/apps/news?pid=20601110&sid=aUonjouK30hU>

In September, one of the eligible agents for the TALF program, Barclays Capital, called on the Fed to explain the process for accepting loan requests.

<http://www.housingwire.com/2009/09/04/barclays-urges-fed-to-detail-talf-bid-acceptance-process/print/>

Analysts have been unable to determine what has caused the Fed to reject the small number of loan request bids.

<http://74.125.113.132/search?q=cache:a9aeO45UzsJ:m.ft.com/blog/2009/09/10/71241/the-feds-enigmatic-cmbs-portfolio-an-update%3Fcatid%3D10%26SID%3Dgoogle+50180jab1&cd=4&hl=en&ct=clnk&gl=us&client=firefox-a>

It is unclear how the eligible agents for the TALF program are compensated.

THE CHOSEN ONES

Currently, 22 companies are listed as eligible agents by the New York Fed to facilitate these deals.

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.

Cantor Fitzgerald & Co.
CastleOak Securities, LP.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Securities America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J. P. Morgan Securities Inc.
Loop Capital Markets, LLC.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
RBC Capital Markets Corporation
RBS Securities Inc.
UBS Securities LLC.
Wells Fargo Securities, LLC.
The Williams Capital Group, L.P.

Eighteen of these companies are primary government securities dealers; eleven of these companies are foreign. Three of the four new companies that were recently added to the list of eligible agents for the TALF program are minority-run firms. One of these firms is Loop Capital Markets.

http://www.newyorkfed.org/markets/talf_agents.html

Loop Capital Markets is a minority-owned boutique investment banking firm based in Chicago. This firm is very-well-connected but has been involved with questionable individuals who took part in several controversies. Both Loop and Williams Capital, another minority-owned firm that is an eligible agent for TALF, have been very generous to the Democratic Party.

TIES TO THE ADMINISTRATION

Loop Capital's management raised at least \$200,000 for Obama's presidential run. James Reynolds, Co-founder, President, and CEO of Loop Capital has been raising money for Obama for over a decade and hosted one of Obama's first fundraisers for his U.S. Senate campaign at Reynold's Chicago home.

<http://www.opensecrets.org/pres08/bundlers.php?id=N00009638>

http://www.usatoday.com/news/politics/election2008/2008-10-15-fundraisers-corruption_N.htm?csp=34

Obama's brother-in-law Craig Robinson was a partner and managing director at Loop Capital for several years.

[http://www.rightpundits.com/?p=2481Campaign Contributions](http://www.rightpundits.com/?p=2481Campaign+Contributions)

http://www.brownbears.com/sports/m-baskbl/mtt/robinson_craig00.html

Loop Capital employees have been generous to numerous Democrats, particularly black Democrats. Reynolds also gave over \$100,000 to Democrats running for federal office, including thousands of dollars for Rahm Emanuel. Between 1998 and 2004, Reynolds gave over \$100,000 to Illinois state Democrats, including \$25,000 to the state senate president, Emil Jones. Jones's family has profited handsomely during his time in office.

<http://fec.gov/finance/disclosure/norindsea.shtml>

http://www.afro-netizen.com/2004/11/firm_in_skyway_.html

<http://qconline.com/archives/qco/display.php?id=400419>

QUESTIONABLE TIES

Roland Burris's firm received a retainer fee of \$5,000 per month from Loop Capital. In 2003, Loop Capital received over \$750,000 in pension bond business from the Blagojevich administration. Burris denied that there was anything wrong with the arrangement. "We make sure that the client has access, and the client has to have a product or services that the customer can use, and that it is a competitive product," Burris said.

Reynolds continues to support Burris and recently sent his campaign a \$2400 contribution. It should be noted that only 54 other individuals have contributed to Burris, and only three have given as much as Reynolds. The *Chicago Tribune* called Burris "a prototypical Illinois politician, who put a relative on the public payroll, steered legal business to political supporters and sought to trade on his ties when he became a lobbyist."

<http://www.chicagotribune.com/news/local/chi-burris-record-08-jan08,0,2084811,full.story>

http://query.nictusa.com/cgi-bin/com_ind/C00458349/

Last year, Peter Bynoe, a managing director at Loop Capital, lobbied Chicago on behalf of a corpse-hauling firm that overcharged the city, broke its promises, and refused to pay its bills. Currently, GSSP Enterprise receives over \$900 for removing bodies in Chicago, but it performs the same duties in Dayton, Ohio for \$75. GSSP had previously operated on a contract with Chicago that paid \$200 per corpse. Cook County currently

pays \$250 for corpse-hauling services. The company was supposed to use minority contractors, but it failed to use them sufficiently and failed to pay some of them as promised. The company even mixed up two bodies and did not discover the error until one of the women had been buried. One former employee claimed that the company was understaffed, that he had received no safety training, and that protective gear and even body bags were lacking. Yet, despite numerous problems, Bynoe was successful; and GSSP received a new contract with Chicago. In 2003, Bynoe helped Tony Rezko in his fundraising endeavors. In 1989, Bynoe teamed up with the scandal-plagued Ron Brown in a deal to take over the Denver Nuggets.

http://newsblogs.chicagotribune.com/clout_st/2009/07/chicago-pays-915-per-body-for-morgue-transport-alderman-says-thats-too-much.html

http://www.usdoj.gov/usao/iln/hot/us_v_rezko_exhibits/2008_03_07/fob_chart_01.pdf

<http://life.blogg.com/stories/2009-08-23-Peter-Bynoe-for-cambridge-lee-industries/>

<http://www.highbeam.com/DocPrint.aspx?DocId=1P2:1623852>

Not only was Loop Capital involved in Chicago's corrupt politics, it was also involved in Wisconsin corruption. In 2003, when Wisconsin Governor Jim Doyle came to a Packers game in Chicago, he met with Tony Rezko and a couple of other fundraisers. Doyle and a staffer sat in a corporate box paid for by Loop Capital. Doyle's campaign later paid \$170 to Loop Capital. A deal was eventually worked out between Bear Stearns and the state of Wisconsin. Loop Capital earned about \$170,000 for its role in the deal. The lobbyist at the center of the deal, Nick Hurtgen, pleaded guilty to aiding and abetting wire fraud earlier this year for his role in a government corruption case.

<http://www.ilcampaign.org/press/2006/7-15-2006%20Indicted.htm>

http://www.huffingtonpost.com/2009/02/25/p-nicholas-hurtgen-pleads_n_169995.html

In 2003, Loop Capital retained Ronald White, a Philadelphia lawyer, to gain business with the city. White was a confidant of Mayor John Street, whose administration was beset by scandal. Loop Capital gave over \$12,000 to a scholarship fund named for White and gave \$5,000 to White's political action committee. White's retainer fee of \$5,000 per month was sent to a shell company that was nominally controlled by White's girlfriend, Janice Renee Knight. Reynolds "was recorded on FBI wiretaps arranging what prosecutors said was a 'sham' consulting contract with White's girlfriend." Loop Capital received two no-bid contracts worth nearly \$300,000. White was later indicted for bribing the city treasurer to steer business to Loop Capital, among others. Loop Capital was referred to as "Company No. 4" in White's indictment. White died before his trial.

In 2004, Loop Capital profited from its minority status on a deal to sell off the Chicago Skyway. Its public benefactor, Alderman William Beavers, said, "Loop Capital wasn't involved in the original deal." (Loop was added later as a co-financial adviser.) "I want

them to be part of it, not only Loop but other minority firms. I want to make sure minorities get their fair share of everything to come through the city."

http://www.usatoday.com/news/politics/election2008/2008-10-15-fundraisers-corruption_N.htm?csp=34

http://www.afro-netizen.com/2004/11/firm_in_skyway_.html

IMPORTANT QUESTIONS ABOUT TALF

At what rate does an eligible brokering financial institution get paid to market these debt bundles?

How do eligible brokering financial institutions get paid? Is it a percentage of the deal? A flat fee? Is it negotiated? Who sets the rules? The Fed?

How much do eligible brokering financial institutions get paid?

What formula is used to compensate investors as these loans pay out?

Do investors share equally the returns on the investments with the Fed?

How much debt has Citibank sold through the TALF program?

How much debt has BlackRock sold through the TALF program?

How much debt has General Growth Properties sold through the TALF program?

What are the names of the companies that have sold debt through the TALF program?

Have any of these companies bought their own securities?

Has Citibank, or any other company, served as an agent for itself to sell its own securities?

How were the eligible brokering financial institutions selected?

Was the process open to anyone?

Who made the selection decision?