



# THE SITUS COMPANIES

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Professor Elizabeth Warren  
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*“The hope of the twentieth century rests on its recognition that war and depression are man-made, and needless.” Tragedy & Hope, Dr. Carroll Quigley, Georgetown University 1966*

Dear Madam Chairwoman,

I would like to introduce our company to you and the Congressional Oversight Panel. We are currently advising Senator Hutchison's office and have spoken with Rep. Hensarling's and Rep. Peterson's offices regarding our view of the current financial situation, the COP and H.R.977 (proposed changes in OTC derivatives). In that regard, I would like to commend your committee on a marvelously well written and insightful report of 7 April. We concur that a clear and certain path to resolution has not been fully identified and several questions remain unanswered. We also understand that metrics denoting causal results of TARP actions along with variables and other phenomena would need to be inspected and quantified to determine the program's ultimate workability. As your report indicates, this would be inclusive of analyses of *proposed regulatory changes* and of component programs such as PPIP, which itself has fundamental differences in various aspects when compared to the "RTC" program of the 1980's.

As a note, several times I have visited the offices of Houston Endowment, whose lobby houses a retrospective of Jesse H. Jones. Much can be learned from his **certainty** and **precision** during The Great Depression. I have included a link to a brief biography for your convenience, with emphasis on the fourth page. <http://www.houstonendowment.org/aboutus/founders4.htm>

We have been devising a research program which importantly, contemplates reviewing a hierarchy of causes of the current financial turmoil to determine which were most contributive. This would be inclusive of recommendations toward resolution for the chief ones identified done from both an understanding of the historical events of the past 20 years coupled with a pragmatic understanding of what occurs in the daily world of these types of financial transactions. Please see a description of this program below and additionally, a brief synopsis of our firm.

## Genesis and Evolution of a Turmoil

The current financial turmoil or upheaval that is with us today and will continue for an indeterminate amount of time – needs to truly be understood. Re-tracing specific events leading up to a complex series of problems is especially important in fully grasping the situation before embarking on devising a strategy and tactical plan toward a comprehensive vanishment or resolution.

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All systems need essential policy guidance and rules causing behavior to function optimally. The inclination toward deregulation in the mid 1980's began various processes that although lofty, were never intended to supplant any "built in stabilizers" or importantly prudential regulation and monitoring. Without regulatory schemes and mechanisms put into place for risk management, anomaly and turmoil are subject to a high probability of occurrence and with severity.

Confidence, to be restored, would embrace very determined and decisive action. Moving to the beginning of these evolutionary processes one might consider, 'What policy actions could have been instituted that might have created systemic regulatory and prudential framework control?' These regulatory frameworks are still capable of acting positively today. The categories contained in the frameworks could be carefully defined and enumerated.

Additional comments regarding prudential regulation can be found in the enclosed commentary regarding papers issued by the Bank for International Settlements ("The financial Turmoil of 2007 - ? : a preliminary assessment and some policy considerations" and "Central bank operations in response to the financial turmoil").

Embracing these concepts, we would propose delivering a position paper to assist the Committee in conducting a review, which would contain the following attributes and components:

- A. A concise historical timeline of causal events which led up to this severe economic crisis in the United States and globally.
- B. An analysis and re-definition of capitalism by breaking it down to its component parts viz., a) free market theory and b) "financial capitalism" (banking and financial services). These two concepts are in the main mutually exclusive and need not necessarily be synthesized as one theory—thus providing additional insight to the situation.
- C. Regulatory anomalies which have occurred over the past 25 years or so which portray a confusing system of financial regulatory frameworks and legislation and have led to a *mindset* that has been difficult to transcend.
- D. A review of derivatives, especially the *unregulated* swaps markets, and how their existence has acted to magnify the bursting of an otherwise severe but manageable series of "asset bubbles" into a complexity at a higher "order of magnitude" than has been contemplated—which have frozen and stultified the capital markets. These instruments have created potential or un-quantified anomalies in real economies. Theories of diversification did not necessarily intend this type of latent and layered leverage.
- E. The adverse effects of unplanned international support systems in terms of credit, interest rate and foreign currency derivatives and the roles played by various participants.
- F. The concept of super anti-efficient markets and SPE's as they relate to the current dilemma.
- G. Overview of the inventory and potential default severity of credit instruments (by asset class) held by financial institutions.
- H. Recommendations for remedial actions in an effort to assuage the current turmoil at its core, and restore a sense of normalcy to the United States economy, and to the global markets.

The construction of this particular turmoil is un-paralleled in its scope. If it were rendered in something analogous to a set of architectural plans it would indeed look like the creation of a perfect financial crisis—confusing and not easily confronted. The brightest minds argue over solutions which simply indicate that the whole is not yet defined. However, it is definable; it is "man-made..." A full statement of its construction would tend to open up the door to resolution.

Situs Strategic Advisors

Situs Strategic Advisors is a research and consulting group that engages in economic and real estate advisory solutions. Our goal is to provide comprehensive investment analysis which takes into consideration economic conditions both domestically and internationally with a view towards projecting future trends and then applying those trends to individual portfolios.

Strategic Advisors is a division of The Situs Companies, an integrated global consulting firm which specializes in real estate advisory and derivative support services. Situs is a family of companies which provide support services to institutional clients, pension funds, investment managers, and commercial and investment banks. Situs is a rated Primary and Special Servicer and works for industry leaders in the fields of institutional organizations, real estate and structured finance.

We have relationships with leading academic institutions that would participate in the research and production of any position papers.

We look forward to discussing these issues with the COP.

Respectfully,



Stephen R. Ganns  
Managing Director  
Situs Strategic Advisors

Enc.      Comments on BIS WP No 251 & BIS CGFS No 31  
             Situs – Commercial Real Estate Securities Advisory and Derivative Support Services May 2009