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Bernanke Lays Out Plan for Tighter Money

Federal Reserve Chairman Ben Bernanke unveiled a blueprint Wednesday for pulling back the trillions of dollars the central bank has provided to prop up the nation's economy. "These programs, which imposed no cost on the taxpayer, were a critical part of the government's efforts to stabilize the financial system and restart the flow of credit," Bernanke wrote in testimony for a Capitol Hill hearing that was postponed due to snow. "As financial conditions have improved, the Federal Reserve has substantially phased out these lending programs." But Bernanke also emphasized that the U.S. economy still needs the support of easy money policies. He wrote that "at some point" in the future the Fed will "need to tighten financial conditions" by raising short-term interest rates and reversing programs that pumped liquidity into the markets. The markets have been waiting to hear an inkling of how the Fed plans to start raising rates and pulling back on the trillions the Fed has pumped into the financial system since it started teetering on the edge of collapse back in late 2008. For the last 18 months, the Fed has bought mortgages, long-term Treasurys and the debt of mortgage finance firms Fannie Mae and Freddie Mac. Currently, the Fed holds $2.29 trillion on its balance sheets, up from $934 billion in September 2008, when the financial crisis really kicked into gear. On Wednesday, Bernanke laid out a plan to sell some of those mortgages, Treasurys and debt, by offering what's called reverse repurchasing agreements. Under those agreements, the Fed sells its securities to a third party while agreeing to rebuy them at some point in the future. The second way the Fed plans to soak up money is to sell banks and financial firms the equivalent of certificates of deposit. In this case, the Fed gets a chunk of the bank's reserves in exchange for paying interest at a steady rate. Dubbed a "term deposit facility," these deposits would be auctioned off and banks couldn't count their investment in the Fed as cash or reserves. "Reverse repos and the deposit facility would together allow the Federal Reserve to drain hundreds of billions of dollars of reserves from the banking system quite quickly, should it choose to do so," Bernanke wrote. Bernanke said he planned to start testing out such programs this spring. But he added that the "firming" of exit strategy policy would start with an increase in the interest rate paid on reserves, adding that the Fed could always take a more "rapid exit," by increasing the rate paid on reserves if the economy needed it. Bernanke was supposed to testify before the House Financial Services Committee about unwinding emergency Fed liquidity programs. The hearing fell victim to the snow that has blanketed the nation's capital over the past five days, and has yet to be rescheduled. Instead, the Fed released Bernanke's statement. Two weeks ago, the Fed left interest rates unchanged at near zero percent, pointing to improvement in business spending but adding the recovery is likely to be "moderate" for some time. But one member, Kansas City Fed President Thomas Hoenig, voted against the Fed's latest action, saying he thought economic conditions had improved enough so that low rates were "no longer warranted." He was the first dissenting vote among Fed policymakers since January 2009. **(CNN Money)**

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Commercial Real Estate to Continue to Drag Economy, Experts Predict

Commercial real estate is expected to remain a drag on the U.S. economy this year and beyond. "You do see stress in the market. We've seen delinquency rates increasing; we've seen by a whole variety of measures increased stress in the

commercial real estate market," said Jamie Woodwell, the vice president of commercial real estate research for the Mortgage Bankers Association. Commercial real estate encompasses everything from shopping malls and storefronts to industrial parks and hotels. Delinquencies on bonds backed by pools of commercial real estate loans continue climbing to record levels. At the end of last year,4.9 percent of all pools of these loans -- called commercial mortgage-backed securities -- were delinquent. That's a fivefold increase over the year before, Moody's Investors Service said in a mid-January special report. The rating agency's "delinquency tracker" found that at year's end, more than 8 percent of the bonds for apartment-complex mortgages and more than 9 percent of bonds for hotel mortgages were delinquent. Even New York City isn't immune. In one of the biggest commercial real-estate deals yet to unravel, an investor group said last Monday that it had defaulted on the debt used to finance its $5.4 billion purchase in 2006 of the huge Peter Cooper and Stuyvesant Town apartment complex in Manhattan. The 11,000-unit, 56-building property is now valued at less than half its purchase price. "2009 saw delinquencies on all property types and in all regions surpass previous highs" in the history of the tracker, Moody's analysts wrote. "We expect loan performance to deteriorate further in 2010 and project that the (tracker) will reach 8-9 percent by the end of 2010." In a note last week to investors, Fitch Ratings said that default rates on commercial mortgages could reach 12 percent by 2012. The report said U.S. insurers, which invested heavily in bonds backed by commercial mortgages, stood to lose$20 billion. In an emerging trends report last month with consultant PricewaterhouseCoopers, the Urban Land Institute, a research center, said that respondents to its survey predicted that "commercial real estate vacancies will continue to increase and rents will decrease across all property sectors before the market hits bottom in 2010 and projects value declines of 40 percent to 50 percent off 2007 market peaks." In something of a silver lining, the commercial real estate sector's problems are proving to be less of a drag on the economy than experts had expected. Fears that they would rise to the magnitude of the subprime crisis, with some analysts predicting 60-percent plus default rates, appear to be waning. "It's not going to be the thing that undoes the economy," said Mark Zandi, chief economist for Moody's Economy.com, a forecaster in West Chester, Pa. These problems, he said, were expected as the economy soured and were quantifiable. They didn't sneak up on the nation as the subprime mortgage crisis did. **(The Buffalo News)**

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Colorado Loves California All Over Again: Marketing Push Targets Golden State

It's complicated. But Colorado, which loved California a year ago, is loving the Golden State all over again. Last Valentine's Day, the Metro Denver Economic Development Corp. unleashed a marketing push called "COlovesCA," focused on California companies in growth mode and ripe for expansion. The message: Do that growing and expanding in Colorado, with its lower taxes and living costs, high quality of life and educated workforce, instead of in pricey, over-regulated, budget-befuddled, earthquake-and-mudslide-prone California. The EDC last year hired a plane towing an 80-foot-long "Colorado loves CA" banned to fly over Los Angeles. It ran ads in California newspapers, inviting companies to expand to Colorado. And it sent Valentine-style marketing pieces to senior executives at hundreds of California companies. Friday, Metro Denver EDC chief Tom Clark says Colorado is professing its affections for California once again:

• It's running an ad in the business pages of the Los Angeles Times touting Colorado's virtues.
• It's sending Valentines and chocolate hearts to executives of Fortune 500 and "clean tech" companies.
• And a street team of "Colorado Cupids" are in Los Angeles Friday, handing out candy. The cupids will pass out hugs and kisses outside Saturday's Colorado Avalanche-Los Angeles Kings hockey game.

"I hope our light-hearted campaign does convey that we are in this for the long run," Clark said in a statement. "The entire West needs California. It is the innovation hub of the nation and the source of many jobs that are spun out to the Western states." Colorado Gov. Bill Ritter issued a proclamation declaring Friday "Colorado Loves California Day" (and really, nothing says love quite like a gubernatorial proclamation). Local eco-devo boosters can point to several recent "gets" of California companies, including the recent headquarters relocation of kidney-care company DaVita to Denver, SPG Solar's decision to open a regional office in the metro area, and local expansions by such California firms as Charles Schwab, SolarCity, SunRun and Intuit. Of course, there's also Oracle's recent takeover of Sun Microsystems, which could lead to layoffs in Colorado. (Business, like life, is like a box of chocolates; you never know what you're gonna get.) Last year's campaign triggered a healthy degree of self-criticism in California. "This is a wake-up call, a wake-up Valentine, that tells us we've got to get sharp about how we treat companies," Terry Connelly, business school dean at San Francisco's Golden Gate University, told KGO-TV, the ABC station in the city, in its report on the Denver initiative. "In California, the economic climate isn't conducive to expanding," Janet Fritz, Metro Denver EDC's director of marketing, told the Contra Costa (Calif.) Times newspaper (which, by the way, is owned by a Colorado company, MediaNews Group Inc.) "Other Western states are taking note of California's unhealthiness," San Francisco Chronicle columnist Andrew S. Ross noted. But Jack Kyser, chief economist for the Los Angeles County Economic Development Corp., said last year that Colorado and other states that try to lure California business are missing the point behind what makes California companies so successful. "It's the attitude, especially in Southern California. You have a lot of talent and a whole array of industries. We're very open to new things," Kyser told the Contra Costa Times. "A lot of people don't realize that's one of the keys to our survival." The Metro Denver EDC says it will follow up on this weekend's marketing blitz by setting up meetings with California companies, site selectors and news media. **(Denver Business Journal)**

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Vectra Bank's Small Business Index for Colorado Jumps in January

The Vectra Bank Colorado Small Business Index for the state jumped to 81.5 in January, up from a revised 74.5 in December, buoyed in part by higher unemployment numbers, which represent greater labor availability for small businesses, and by more robust U.S. economic growth. “Colorado’s Small Business Index has been climbing noticeably over the past several months, thanks to renewed U.S. economic growth, an improving regional economy and a slowing in the rate of Colorado job losses,” Jeff Thredgold, corporate economist for Vectra Bank Colorado, said in a statement. “However, the state is still struggling to climb out of the economic hole it has been in the last couple of years. The ride may be bumpy during the next several months, but we expect to see continued progress over the balance of the year.” Colorado’s unemployment rate was estimated at 7.5 percent in the

latest month, up from the prior month’s 6.9 percent rate. Total employment fell by 87,700 jobs during the past 12 months. Colorado’s small business sector has seen business conditions deteriorate since the recession began in December 2007, with a sharply higher jobless rate and weaker consumer spending. Neighboring states have experienced similar business challenges. The Vectra Bank Colorado Small Business Index measures business conditions from the viewpoint of the Colorado small business owner or manager. A higher index number is associated with more favorable business conditions for Colorado’s small businesses. The index uses 100 for calendar year 1997 as its base year. **(Denver Business Journal)**

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Qwest Won't Renew Lease on Downtown Denver Headquarters Building

The Denver-based telecommunications company has notified the landlord of its headquarters at 1801 California St. that it will not renew the existing lease, which runs through June 30, 2012. That agreement includes the rights to the high-profile signage atop the 52-story building. But it requires Qwest to lease the entire building, which the company is refusing to do as it continues to search for ways to shed costs amid declining revenue. The company had until the end of 2009 to renew. For now, Qwest is preparing to move 1,200 of the 2,600 workers at 1801 California to nearby, company-owned buildings. Once completed, the move is expected to shave $12 million in annual office costs. Qwest is responsible for paying the lease on the entire headquarters building under the existing agreement. It occupies 850,000 square feet of the roughly 1.3 million-square-foot building and subleases much of the rest. Qwest has not decided whether it will relocate its headquarters when the lease expires, said spokeswoman Diane Reberger. "We're looking at our options, and remaining at 1801 California is one option," Reberger said. "The other option is to move to a different headquarters location within the Denver metro area." Qwest and its predecessor companies have occupied 1801 California since 1982. The company plans to move employees from its primary business divisions — business markets, mass markets and wholesale — and IT services to buildings at 930 15th St. and 931 14th St. The 800 workers who are currently at those buildings will move to the company's Littleton office. Senior management, corporate communications, human resources and other departments will remain at the current headquarters for now. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	.25
3 MONTH LIBOR	.25	.25	1.23
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.69	3.79	2.77
30 YEAR TREASURY	4.66	4.70	3.51