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INSIGHT

IDEAS • OPINION • COMMENTARY

★★ SECTION C

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goes counter to what we've n telling people: Be careful about your debt."

p. Barney Frank, D-Mass., on resident Bush's plan to help ubled homeowners reset their mortgage rates

ali needs o know – an China o green?

By Robert Collier

s international diplomats er in Bali to try to begin nego- ng a successor treaty to the o Protocol, their toughest lenge is how to deal with Chi- fast rise as the world's leading ce of greenhouse gases.

t the talks, which began Dec. 3 continue until Dec. 14, no ing agreement is likely to be hed on cutting emissions. The h administration refuses to ider such a pact unless China does so and China says lthy nations must go first. Not ely understood, however, are underlying elements behind conflict – the degree to which na has become the central bat- ont of global warming, and reasons why China's govern- t cannot make any conces- s to U.S. demands.

ccording to several interna- al studies in recent months, na's emissions have not only ed past the U.S. level, but also growing at a rate that far out- s wealthy nations' capacity to ease theirs. Even if China met wn targets to reduce energy in- ity (consumption per unit of omic output), its emissions ld increase by about 2.5 bil- metric tons over the next five s, the data show. This total is arger than the 1.1 billion tons eductions imposed by the Kyo- rotocol on developed nations, uding the United States, which ince withdrawn from the trea-

et Beijing's leaders are not be- stubborn or in denial. To the rary, President Hu Jintao and nier Wen Jiabao seem much e aware of the global warming blem than President Bush or y members of Congress. The ial sticking point is that Bei- 's top leadership seems largely pable of complying with any ificant cutback commitments. mid China's explosive eco- ic growth of recent years, the nmunist government has lost nuch political and regulatory er that it has been unable to e provincial and municipal au- ities to obey environmental . Despite its image abroad as ll-powerful dictatorship, the ernment desperately needs regulatory clout.

or example, the central gov- ment has made high-profile lges to reduce energy intensity percent annually and to pun- local officials who fail to com- but many local authorities e blithely ignored Beijing, con- ing to pursue economic wth at all costs. As a result, the ntry cut its energy intensity by 1.3 percent last year and by 3 cent in the first nine months of year, according to official sta- cs – which are believed to be

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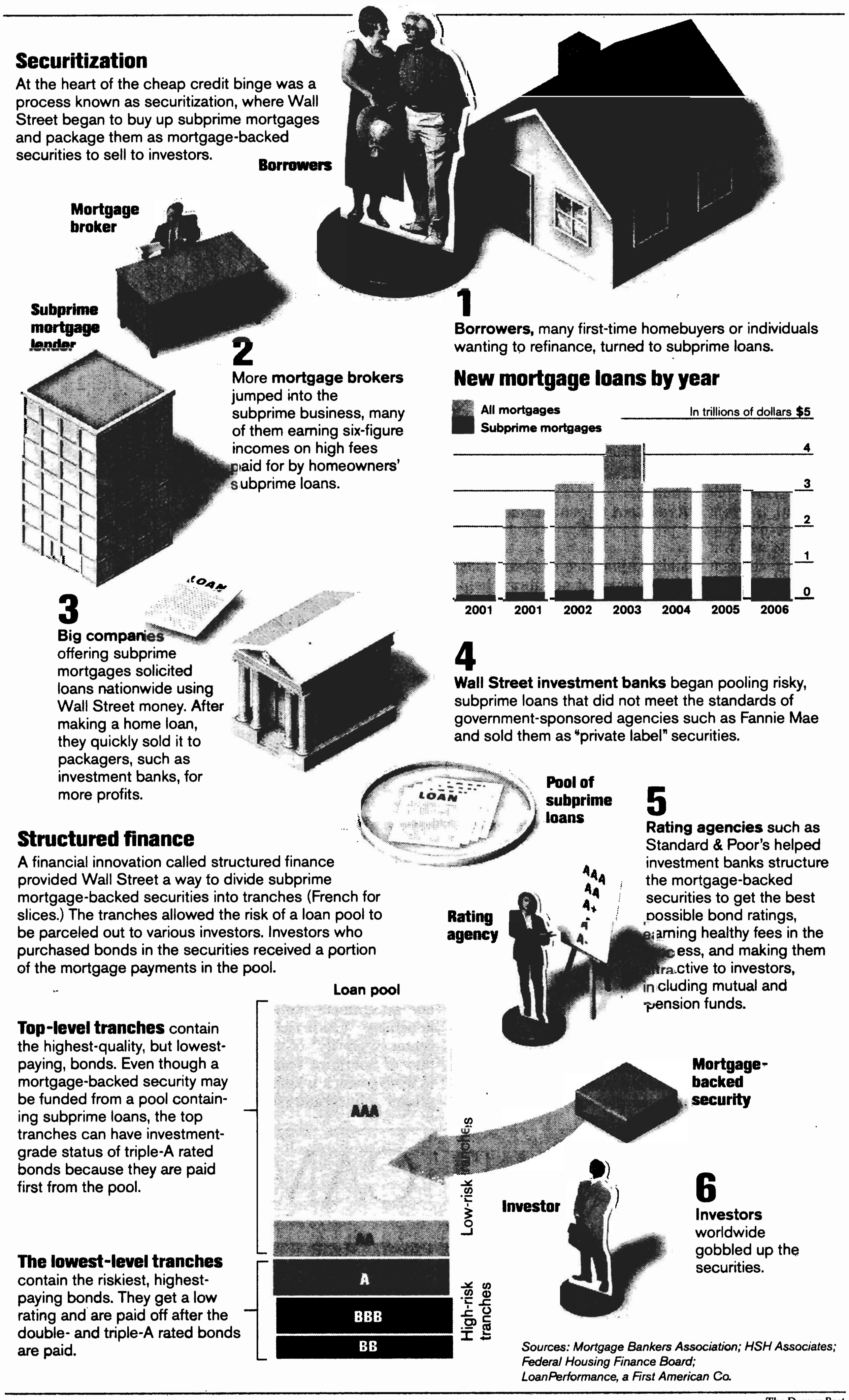
MORTGAGE MELTDOWN

INTEREST RATE 'FREEZE' – THE REAL STORY IS FRAUD



The Denver Post

Bankers pay lip service to families while scurrying to avert suits, prison

By Sean Olender

New proposals to ease our great mortgage meltdown keep rolling in. First the Treasury Department urged the creation of a new fund that would buy risky mortgage bonds as a tactic to hide what those bonds were really worth. (Not much.) Then the idea was to use Fannie Mae and Freddie Mac to buy the risky loans, even if it was clear that U.S. taxpayers would eventually be stuck with the bill. But that plan went south after Fannie suffered a new accounting scandal, and Freddie's existing loan losses shot up more than expected.

Now, just unveiled Thursday, comes the "freeze," the brainchild of Treasury Secretary Henry Paulson. It sounds good: For five years, mortgage lenders will freeze interest rates on a limited number of "teaser" subprime loans. Other homeowners facing foreclosure will be offered assistance from the Federal Housing Administration.

But unfortunately, the "freeze" is just another fraud – and like the other bailout proposals, it has nothing to do with U.S. house prices, with "working families," keeping people in their homes or any of that nonsense.

The sole goal of the freeze is to prevent owners of mortgage-backed securities, many of them foreigners, from suing U.S. banks and forcing them to buy back worthless mortgage securities at face value - right now almost 10 times their market worth.

The ticking time bomb in the U.S. banking system is not resetting subprime mortgage rates. The real problem is the contractual ability of investors in mortgage bonds to require banks to buy back the loans at face value if there was fraud in the origination process.

And, to be sure, fraud is everywhere. It's in the loan application documents, and it's in the appraisals. There are e-mails and memos floating around showing that many people in banks, investment banks and appraisal companies – all the way up to senior management – knew about it.

I can hear the hum of shredders working overtime, and maybe that is the new "hot" industry to invest in. There are lots of people who would like to muzzle subpoena-happy New York Attorney General Andrew Cuomo to buy time and make this all go away. Cuomo is just inches from getting what he needs to start putting a lot of people in prison. I bet some

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Interest rate 'freeze' — real story is fraud

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people are trying right now to make him an offer "he can't refuse."

Despite Thursday's ballyhooed new deal with mortgage lenders, does anyone really think that it can ultimately stop fraud lawsuits by mortgage bond investors, many of them spread out across the globe?

The catastrophic consequences of bond investors forcing originators to buy back loans at face value are beyond the current media discussion. The loans at issue dwarf the capital available at the largest U.S. banks combined, and investor lawsuits would raise stunning liability sufficient to cause even the largest U.S. banks to fail, resulting in massive taxpayer-funded bailouts of Fannie and Freddie, and even FDIC.

The problem isn't just subprime loans. It is the entire mortgage market. As home prices fall, defaults will rise sharply — period. And so will the patience of mortgage bondholders. Different classes of mortgage bonds from various risk pools are owned by different central banks, funds, pensions and investors all over the world. Even your pension or 401(k) might have some of these bonds in it.

Perhaps some U.S. government department can make veiled threats to foreign countries to suggest they will suffer unpleasant consequences if their largest holders (central banks and investment funds) don't go along with the plan, but how could it be possible to strong-arm everyone?

What would be prudent and logical is for the banks that sold this toxic waste to buy it back and for a lot of people to go to prison. If they knew about the fraud, they should have to buy the bonds back. The time to look into this is before the shredders have worked their magic — not five years from now.

Those selling the "freeze" have suggested that mortgage-backed securities investors will benefit because they lose more with rising foreclosures. But with fast-depreciating collateral, the last thing investors in mortgage bonds ought to do is put off foreclosures. Rate freezes are at best a tool for delaying the inevitable foreclosures when even the most optimistic forecasters expect home prices to fall. In October, Goldman Sachs issued a report forecasting an incredible 35 to 40 percent drop in California home prices in the coming few years. To minimize losses, a mortgage bondholder would obviously be better off foreclosing on a home before prices plunge.

The goal of the freeze may be to delay bond investors from suing by putting off the big foreclosure wave for several years. But it may also be to stop bond investors from suing. If the investors agreed to loan modifications with the "real" wage and asset information from refinancing borrowers, mortgage originators and bundlers would have an excuse once the foreclosure occurred. They could say, "Fraud? What fraud?! You knew the borrower's real income and asset information later when he refinanced!"

The key is to refinance borrowers whose current loans involved fraud in the origination process. And I assure you it was a minority of borrowers whose loans didn't involve fraud.

The government is trying to accomplish wide-scale refinancing by tricking bond investors, or by tricking U.S. taxpayers. Guess who will foot the bill now that the FHA is entering the fray?

Ultimately, the people in these secret Paulson meetings were probably less worried about saving the mortgage market than with saving themselves. Some might be looking at prison time.

As chief of Goldman Sachs, Paulson was involved, to degrees as yet unrevealed, in the mortgage securitization process during the halcyon days of mortgage fraud from 2004 to 2006.

Paulson became the U.S. Treasury secretary on July 10, 2006, after the extent of the debacle was coming into focus for those in the know. Goldman Sachs achieved recent accolades in the markets for having bet heavily against the housing market, while Citigroup, Morgan Stanley, Bear Sterns, Merrill Lynch and others got hammered for failing to time the end of the credit bubble.

Goldman Sachs is the only major investment bank in the United States that has emerged as yet unscathed from this debacle. The success of its strategy must have resulted from fairly substantial bets against housing, mortgage banking and related industries, which also means that Goldman Sachs saw this coming at the same time they were bundling and selling these loans.

If a mortgage bond investor sues Goldman Sachs to force the institution to buy back loans, could Paulson be forced to testify as to whether Goldman Sachs knew or had reason to know about fraud in the origination process of the loans it was bundling?

It is truly amazing that right now everyone in the country is deferring to Paulson and the heads of Countrywide, JPMorgan, Bank of America and others as the best group to work out a solution to this problem. No one is talking about the fact that these people created the problem and profited to the tune of hundreds of billions of dollars from it.

I suspect that such a group first sat down and tried to figure out how to protect their financial interests and avoid criminal liability. And then when they agreed on the plan, they decided to sell it as "helping working families stay in their homes." That's why these meetings were secret, and reporters and the public weren't invited.

The next time that Paulson is before the Senate Finance Committee, instead of asking, "How much money do you think we should give your banking buddies?" I'd like to see New York Sen. Chuck Schumer ask him what he knew about this staggering fraud at the time he was chief of Goldman Sachs.

The Goldman report in October suggests that rampant investor demand is to blame for origination fraud — even though these investors were misled by high credit ratings from bond rating agencies being paid billions by the U.S. investment banks, like Goldman, that were selling the bundled mortgages.

This logic is like saying shoppers seeking bargain-priced soup encourage the grocery store owner to steal it. I mean, we're talking about criminal fraud here. We are on the cusp of a mammoth financial crisis, and the Federal Reserve and the U.S. Treasury are trying to limit the liability of their banking friends under the guise of trying to help borrowers. At stake is nothing short of the continued existence of the U.S. banking system.

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Cambodia rising from Khmer Rouge disaste

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Sihanoukville, it may have come at the expense of what one Asian magazine last month called the brutality of evictions of local residents that have reached "alarming levels."

Bottom line:

The downsides, and the challenges they pose, are no secret. Prime Minister Hun Sen, at an investor conference last month, said as much. It's the *implementation* of needed reforms that is more problematic. Apart from vested interests, traditions and the universal instinct to take short cuts, illegal and otherwise, Cambodian society has the added burden that its most fundamental structures — governance, law, administration, education — were utterly destroyed in Year Zero, along with trust. All of which have to be painfully rebuilt. So long as the Asian economic tide continues to rise, Cambodia will probably be lifted along with it. But what if the tide ebbs, and integration gives way to more fierce competition?

As I look at my notes from the trip, peruse various economic and other reports, and pace around thinking about what I saw, heard and read, I can only come up with the vague, unsatisfactory cliche — that the country's future hangs in the balance.

But if there's any justice at all, Cambodia deserves to make it.

Online Resources

Economic and Social

World Bank Reports, *web.worl bank.org/kh*

Private-sector reports: International Finance Corporation, *links.sfgate.com/ZBSL*

Labor conditions: International Trade Union Confederation report, September 2007, *links.sfgate.com/ZBSM*

Agriculture: Oxfam reports and programs, *links.sfgate.com/ZBSO*

Center for Social Development (Phnom Penh): *www.csdcamb dia.org*

Womyn's Agenda for Change (Phnom Penh): *www.womynsagenda.org*

Phnom Penh Post: *www.phnompenhpost.com*

U.S. relations

Congressional Research Servic report, July 2007 (pdf): *links.sfgate.com/ZBSP*

Khmer Rouge/War Crimes Trials/Khmer Rouge

War Crimes Tribunal ("Extraord nary Chambers in the Courts of Cambodia"): *www.eccc.gov.kh*

Cambodia Tribunal Monitor: *www.cambodiatribunal.org*

Documentation Center of Camb dia: *www.dccam.org*

Cambodian Genocide Program Yale University: *www.yale.edu/cgp*

ANDREW S. ROSS / *The Chron*

Sok Chenda Sophea, a senior adviser to Prime Minister Hun Sen said in an interview that he is "surprised" at his countrymen's "capacity to forgive and forget" America's contribution to Cambodia's pain.

Beijing lacks clout to curb emissions

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marred by the data-fudging of local officials.

"The situation remains extremely bleak, with some work not being properly done," Xie Zhenhua, vice chairman of the powerful National Development and Reform Commission, told a Beijing press conference Nov. 29. Asked about the government's claims that local officials would be judged by their environmental performance, Xie replied, "I know one province that will take action against leaders of selected areas and enterprises if they fail to meet the final energy conservation and emission reduction target."

What's urgently needed to help China go green is a crash program of technical aid, modeled on California's 20-year record of quietly helping Chinese officials learn from the state's own success in setting standards on air quality and energy efficiency that are tighter than those required under federal law.

With virtually no publicity, scientists and specialists from the California Energy Commission, California Environmental Protection Agency, Air Resources Board, Public Utilities Commission, Lawrence Berkeley National Laboratory and the nonprofit Energy Foundation of San Francisco have traveled to China to advise the national, provincial and municipal governments. They have set up pro-conservation electricity rate

ing similar assistance. The resulting reduction in China's energy consumption has saved the equivalent of scores of coal-fired power plants and supertankers full of oil.

In contrast, the U.S. government gives little energy assistance to China, totaling less than $2 million per year, little of which will have any impact in the near term. This stinginess is partly caused by the Bush administration's preference for private sector-led programs, and partly by the sanctions imposed after the 1989 Tiananmen Square bloodshed. Most U.S. energy assistance is focused on clean coal technology, such as so-called carbon capture and storage, which is not expected to become commercially ready until about 2017.

At Bali, Chinese diplomats find it easier to beg for money than to admit that they are no longer kings of their roost. They are demanding that foreign governments create a multibillion-dollar fund to promote the spread of environmentally friendly technology to the developing world, and they also propose that wealthy nations relax patent protections on green technology.

These proposals are much needed for poor nations without enough money to go green, and China has the world's biggest foreign-exchange reserves, at $1.4 trillion and growing by about $30 billion per month. Rather than use this money to create the sort of green investment funds that the West is now expected to

an arrangement under the Kyoto Protocol that allows industrialized countries to gain emissions credits by investing in energy-saving projects in developing countries. China is the largest single recipient of these funds, and about $15 billion in credits have been registered over the past two years. Many foreign experts say these funds are largely superfluous, supporting projects that would have been built anyway without the extra money.

Another kind of help that is not needed is the confusion of global warming with Western principles of free-market democracy.

To many in Washington, the idea of helping a communist government regulate its citizens more effectively is sheer anathema. Some U.S. policymakers see the environment as a potential tool to try to support Chinese democracy activists, similar to the way citizen movements helped to transform the former Soviet bloc.

It's certainly true that the lack of democracy enables local Communist Party authorities to repress citizen complaints about pollution. But the Chinese government is already suspicious that the West is using global warming as a Trojan horse for pro-democracy plotting. Leaders of China's beleaguered but heroic environmental groups privately beg their foreign colleagues to never even mention George Soros, who is seen in the United States as an arch-liberal but is viewed by Chinese security officials as the man who almost

of democracy in China is a noble issue, but the overwhelming need to stop global warming requires that it be dealt with on a separate plane.

As in the United States, the issue of global warming brings strange bedfellows together in China. Like Washington's neoconservatives who drive Priuses to help wean the American economy from Middle Eastern oil, Beijing's own security establishment increasingly supports energy conservation for reasons that have nothing to do with the environment. In recent years, the hardliners complain, China's booming energy consumption has not only turned China into a net petroleum importer but also has made its economy totally dependent on U.S. military control of shipping lanes for oil and coal — thus severely restricting the Chinese military's strategy on Taiwan.

The uniting factor amid this kaleidoscope of self-interests is the need to develop modern, efficient regulatory enforcement. Given that, China could turn around its emissions-belching economy and adopt a clean, green development path — and in the process, give the world hope in the battle against climate change. Without it, that fight will be lost.

More than money, more than whiz-bang technological breakthroughs, China needs to gain the capacity for environmental governance. Western nations, using the tested California model, can help

Questions and answers about today's Cambodia

▶ **Q&A**
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seeks to take the country.

As for the United States, which Chhim also pointed out at one time refused to have any truck with any government associated with the Khmer Rouge, it had a 10-year ban on aid to Cambodia, which it lifted only in February. The United States is now one of the largest providers of foreign aid to Cambodia, and, according to Ambassador Joseph Mussomeli, considers its relationship with the current Cambodian government "abnormally normal."

Nobody I talked to in Cambodia brought up the idea of financial reparations.

"Many Cambodians would agree with me that no amount of financial reparation is adequate to repay for our losses, our loss of father, mother, sister, brother, child, husband, wife, etcetera," said Theary Seng, executive director of the

and viewed the United States after the B-52 bombing raids ("Operation Menu"). This seems particularly relevant question given the parallel of Vietnam an Cambodia then to Iraq and Iran now. — Ben Vasquez

Q: What is the general attitude toward Americans? We see the media stories about how we are hated in many Muslim countries am wondering how those who have had to pick up the pieces feel about us now. — Denise McGrath Wilder, Daly City

Operation Menu was the co name for the 1969-70 U.S. bombing of Cambodia, first aimed eradicating North Vietname sanctuaries inside Cambodia. U forces dropped more than 500,0 tons of bombs on the country.

As a student who had oppos the U.S. incursion into and bombing of Cambodia, U.S. Ambas dor Mussomeli, said, "I expecte reservoir of resentment" abou among Cambodians today