

## MEMORANDUM

To: Interest Parties  
From: Abe Dyk, Meek Campaign Manager  
Re: Meek Campaign Memo on Jeff Greene's False Claims  
Date: May 6, 2010

Since announcing his candidacy for the U.S. Senate, Jeff Greene has publicly stated a number of times that he has taken on Wall Street and that he only invested in credit default swaps (CDS) to protect his other investments.

As a campaign, we are compelled to respond to these claims before the same false statements are captured and aired via millions of dollars of misleading television commercials. In reality, Jeff Greene pioneered trading uncovered credit default swaps and started an arms race between big banks that ultimately led to a collapse that has been catastrophic for this country.

### **GREENE CLAIM #1**

"I've worked hard for every penny I have. No one has ever given me a thing," Greene said. "I saw where the housing market was going, and I knew I could be heading into a lot of trouble, and so I wanted to find a way to protect my investments and that's what I did."  
[Miami Herald, 5/1/2010]

### **REALITY #1:**

First, betting on credit default swaps is not "hard work." That's just nonsense. As the lives of hardworking middle class Florida families were being damaged, in many cases for generations to come, Jeff Greene told [Forbes](#) in October 2008, "I've never had more fun than now."

Second, if Jeff Greene was, as he says, only worried about protecting his investments, he had options. He could have pulled his money out of the market or bought traditional insurance on his investments. Instead, Greene convinced banks to allow him to short uncovered CDS - betting that other peoples' mortgages would collapse. Greene was speculating by betting against the middle class and contributed to the underlying conditions that helped fuel the financial meltdown that wrecked our economy. That's an objective economic fact.

### **GREENE CLAIM #2**

Greene claims, "I've taken on Wall Street and won."

### **REALITY #2**

Jeff Greene did not take on Wall Street. He worked with Wall Street to make himself a tremendous amount of money and pioneered a risky product that played a big role in the economic collapse. Let's review Greene's Record:

**Greene was the first to trade these risky derivative products.** "In April 2006, just as the housing market was peaking, Greene convinced Wall Street banks to allow him to trade credit default swaps; he is believed to be the first individual to do so." [Forbes, 10/6/2008].

**Greene convinced Big Banks to short mortgage-based bonds through credit default swaps.** Greene got the idea from his friend Hedge-Fund Manager John Paulson, of the recent Goldman Sachs scandal. CNBC reported: "I [Greene] asked him, 'John, can I do this on my own?'" He says Paulson told him, 'You won't get approved.' Greene tried anyway, finally convincing Merrill Lynch and JP Morgan to let him short bonds backed by risky mortgages through these swaps. It took a lot of convincing". [CNBC, [2/29/2008](#)]

**Greene didn't stand up to Wall Street, he was in cahoots with them in a scheme to get rich.** Greene's purchase of uncovered CDS set an example for the industry. **Warren Buffet called Greene's CDS "financial weapons of mass destruction."** Buffet knew that they could harm the whole economic system. Once banks began selling uncovered CDS and making short-term gains, other banks joined in the arms race for quarterly profits. The example that Mr. Greene and other pioneers set led directly to the proliferation of uncovered CDS that brought down the financial system, resulted in the credit crunch, and further damaged the housing market. In addition, with the big banks having sustained great damage to their capital reserves, the bailout was used to shore up these financial institutions that were on the hook to pay people like Jeff Greene.

## **THE BOTTOM LINE FOR FLORIDA**

Despite Jeff Greene's pledge to spend whatever it takes to buy Florida's Senate seat, his position as a player in the economic collapse makes him virtually unelectable, especially in a state as hard hit as Florida.

## **BACKGROUND – THE MECHANICS OF JEFF GREENE'S INVESTMENT IN RISKY PRODUCTS AND HOW IT LED TO THE FINANCIAL MELTDOWN**

A CDS is the transfer of the risk of owning debt (like a bond) from one party to another. Essentially, the seller of the CDS is insuring the owner of the debt in case the debtor does not repay the loan. Covered CDS were created for corporate bonds on companies where the risk of default was low and thus protected investors while improving liquidity in the credit market. Then, banks soon began packaging risky home mortgages together into bonds and investors bought covered CDS on those mortgage packages. The problem occurred when banks took CDS one step further, allowing trading of uncovered CDS (uncovered because the buyer of the CDS did not own the bonds made up of those mortgage packages and is instead shorting the debt of others).

Since, no actual mortgages needed to be packaged into bonds for uncovered CDS, packaging uncovered CDS instead of covered CDS reduced banks overhead and allowed them to create CDS more quickly since they did not actually have to acquire the mortgages to package into a bond. Uncovered CDS spread like wildfire. In 2003 the market size was 3.7 trillion dollars and grew to 62.2 trillion by 2007. That growth was possible because the value of the total CDS market was no longer pegged to actual debt. Greene was the pioneer of uncovered CDS.

When the actual mortgages failed (because of the housing market's decline) sellers of uncovered CDS owed a tremendous amount of money to cover the short. When the sellers of CDS could not cover the amount that they owed, they went into default themselves. This accelerated and exacerbated the financial collapse and worsened the housing crisis as credit markets rapidly contracted. This was compounded by the proliferation of uncovered CDS throughout the financial system and all of the major banks, meaning that one default could lead to a comprehensive collapse. The money that was paid to people including Jeff Greene to cover their risky bets came out of the banks' capital reserves and the lack of available capital caused a panic and the economic collapse. Government bailouts were then needed to replenish the capital reserves of the sellers to stabilize the financial market. The bailouts of the banks were needed because the banks had to pay people like Jeff Greene.

The Wall Street Journal said, **"If Mr. Paulson is the pensive, low-key mastermind of the lucrative bearish bet, 53-year-old Mr. Greene is the strategy's most flamboyant exemplar."** [Wall Street Journal, 1/15/2008]. Remember, that Mr. Paulson is at the center of the transaction described in the SEC's case against Goldman Sachs, where he put together a package of mortgages designed to fail and then had Goldman Sachs find entities to invest in the CDO success. The only difference between Mr. Greene and Mr. Paulson is that Goldman Sachs sold the sellers position on the uncovered CDS to their investors without disclosing Mr. Paulson packaged the uncovered CDS and in Mr. Greene's case that did not happen. And certainly no one could ever say that Mr. Paulson stood up to Wall Street.