

Sony Pictures Classics Presents

INSIDE JOB

A film by Charles Ferguson

Official Selection: 2010 Cannes Film Festival

Official Selection: 2010 Toronto International Film Festival

TRT: 108 min | MPAA: Rated PG-13

Release Date: (NY) 10/8/2010 | (LA) 10/15/2010

East Coast Publicity

Rubenstein Communications, Inc.
Emily Bear
Jayna Zelman
1345 Avenue of the Americas
New York, NY 10105
Phone (212) 843-8000

West Coast Publicity

Block-Korenbrot
Ziggy Kozlowski
Melody Korenbrot
110 S. Fairfax Ave., Suite 310
Los Angeles, CA 90036
Phone (323) 634-7001

Distributor

Sony Pictures Classics
Carmelo Pirrone
Lindsay Macik
550 Madison Avenue
New York, NY 10022
Phone (212) 833-8833

SYNOPSIS

From Academy Award® nominated filmmaker, Charles Ferguson (“No End In Sight”), comes INSIDE JOB, the first film to expose the shocking truth behind the economic crisis of 2008. The global financial meltdown, at a cost of over \$20 trillion, resulted in millions of people losing their homes and jobs. Through extensive research and interviews with major financial insiders, politicians and journalists, INSIDE JOB traces the rise of a rogue industry and unveils the corrosive relationships which have corrupted politics, regulation and academia.

Narrated by Academy Award® winner Matt Damon, INSIDE JOB was made on location in the United States, Iceland, England, France, Singapore, and China.

DIRECTOR’S STATEMENT

This film attempts to provide a comprehensive portrayal of an extremely important and timely subject: the worst financial crisis since the Depression, which continues to haunt us via Europe’s debt problems and global financial instability. It was a completely avoidable crisis; indeed for 40 years after the reforms following the Great Depression, the United States did not have a single financial crisis. However, the progressive deregulation of the financial sector since the 1980s gave rise to an increasingly criminal industry, whose “innovations” have produced a succession of financial crises. Each crisis has been worse than the last; and yet, due to the industry’s increasing wealth and power, each crisis has seen few people go to prison. In the case of this crisis, *nobody* has gone to prison, despite fraud that caused trillions of dollars in losses. I hope that the film, in less than two hours, will enable everyone to understand the fundamental nature and causes of this problem. It is also my hope that, whatever political opinions individual viewers may have, that after seeing this film we can all agree on the importance of restoring honesty and stability to our financial system, and of holding accountable those to destroyed it.

“THE CAST”



William Ackman – Managing partner, founder, and CEO of hedge fund Pershing Square Capital Management. He is known as an activist investor whose 2007 presentation “Who Is Holding the Bag?” was one of the first warnings about the impending crisis.



Daniel Alpert – Founding Managing Director of Westwood Capital with more than 30 years of investment banking experience, and a frequent commentator on economic policy and financial regulation.



Jonathan Alpert - Jonathan Alpert is a Manhattan psychotherapist and advice columnist. He has a full time practice where he sees, among others, Wall Street executives, professionals, and women who formerly worked as escorts and prostitutes.



Sigrídur Benedíksdóttir – Yale economics lecturer who was tapped by the Icelandic government following the collapse of their banking system to be one of the three members of the Icelandic Parliament’s Special Investigation Commission analyzing the causes and consequences of Iceland’s financial and banking crisis. The Commission recently issued a 2,000 page report. Partly as a result of the Commission’s investigation, several of Iceland’s senior banking and investment group executives are now facing prosecution and/or lawsuits. Jon Asgeir Johannesson, the former investment group executive featured in the film, recently had his assets frozen by British courts as the result of a lawsuit filed by the new management of Glitnir bank.



Willem Buiter – Chief economist for Citigroup. Prior to this appointment, Buiter was professor of European Political Economy, London School of Economics and Political Science; former chief economist of the European Bank for Reconstruction and Development (EBRD), former external member of the Monetary Policy Committee (MPC); advisor to international organizations, governments, central banks and private financial institutions. He has been published widely on subjects including open economy macroeconomics, monetary and exchange rate theory, fiscal policy, social security, economic development and transition economies. His Mavercon blog ran on FT.com until December 2009.



John Campbell – Department chair of Harvard University’s Department of Economics. Campbell has received various honors including President, American Finance Association, 2006; Fellow, American Academy of Arts and Sciences, 2000–present; Fellow, Econometric Society, 1990–present, Honorary Fellow, Corpus Christi College, University of Oxford, 2008



Patrick Daniel – Former director of Ministry of Trade and Industry for Singapore government’s Administrative Service. Named editor-in-chief of the English and Malay Newspaper Division of Singapore Press Holdings in 2007, is chairman of three SPH subsidiaries and is president of the Singapore Press Club.



Satyajit Das – Das is a former trader who worked for CitiGroup and Merrill Lynch as well as a former corporate Treasurer. He is a global authority on, and author of several key reference works on, derivatives and risk management. He is the author of *Traders, Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives – Revised Edition* (2006 and 2010, FT-Prentice Hall), an insider’s account of the financial products business filled with black humor and satire, described by the Financial Times, London as “fascinating reading ... explaining not only the high-minded theory behind the business and its various products but the sometimes sordid reality of the industry”. In the 2006 book and in subsequent public speeches and articles published before the crisis, he pointed out the dangers of derivatives and financial products and the risk they constituted to the financial system.



Kristin Davis – Best known as the “Madam” to countless investment bankers, Davis was convicted of promoting prostitution and served 4 months on Riker’s Island.



Martin Feldstein – The George F. Baker Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research where he served as President and CEO from 1977-1982 and 1984 – 2008. He was chairman of the Council of Economic Advisors in the Reagan Administration. Under George W. Bush’s administration, he was appointed to the President’s Foreign Intelligence Advisory Board. He served on the board of both AIG and AIG Financial Products from 1988 -2009.



Jerome Fons –Served as Managing Director of Credit Policy at Moody’s Investor Services, where he was also a member of the Credit Policy Committee. He is currently a consultant specializing in credit risk applications and litigation support.



Barney Frank – Democratic Representative for the state of Massachusetts who has served in the 4th congressional district since 1981. Frank became the Chairman of the House Financial Services Committee in 2007 which oversees the entire financial services industry including the securities, insurance, banking, and housing industries.



Robert Gnaizda – General Counsel, Policy Director, and former President of the Greenlining Institute in Berkeley, California. A graduate of Columbia College and Yale Law School, he has been known as an advocate of social justice for over 40 years.



Michael Greenberger - Since July 2001, Michael Greenberger has been a professor at the University of Maryland School of Law where he teaches a course entitled "Futures, Options and Derivatives." He serves as the technical advisor to the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. He was a partner for more than 20 years in the Washington, D.C. law firm, Shea & Gardner, where he served as lead litigation counsel before courts of law nationwide, including the United States Supreme Court. In the Clinton Administration, Greenberger was Director of Trading & Markets for the Commodity Futures Trading Commission, reporting to its Chairwoman, Brooksley Born, when Born attempted to regulate derivatives.



Eric Halperin – Special Counsel for Fair Lending at the U.S. Department of Justice and former director of the Washington Office and Litigation at Center for Responsible Lending.



Samuel Hayes – Hayes holds the Jacob H. Schiff Chair in Investment Banking Emeritus at the Harvard Business School. He has taught at Harvard since 1970, prior to which he was a tenured member of the faculty at Columbia University Graduate School of Business. His research has focused on the capital markets and on the corporate interface with the securities markets. He has consulted for a number of corporations, financial institutions and government agencies, including the Justice Department, the Treasury Department, the FTC and the SEC, where he served on the Tully Commission in 1994-1995 to examine the compensation arrangements for stock brokers.



Glenn Hubbard – Chief Economic Advisor during the Bush Administration and current Dean of the Columbia University Business School. A supply-side economist, Hubbard was instrumental in the design of the 2003 Bush Tax cuts. The design was heavily opposed by economists. Hubbard is on the board of Met Life, was previously on the board of Capmark, and has consulted to many financial services firms. He has written many articles advocating deregulation of financial services.



Simon Johnson – An expert on financial and economic crises, Johnson is the Ronald A. Kurtz Professor of Entrepreneurship at the MIT Sloan School of Management and a senior fellow at the Peterson Institute for International Economics in Washington DC. From March 2007 – August 2008, he was Chief Economist at the International Monetary Fund (IMF). He is co- of the book 13 Bankers: The Wall Street Takeover and The Next Financial Meltdown and a co-founder of baselinescenario.com.



Christine Lagarde – The French Minister of Finance, Economic Affairs, Industry and Employment. She has also served as France’s Minister of Agriculture and Fishing, as well as Trade Minister. She was the first woman to ever become the Economic Minister of a G8 nation.



Jeffrey Lane – CEO of Modern Bank, and former Chairman and CEO of Bear Stearns Asset Management. Former VP of Lehman Brothers, a member of the Office of the Chairman, Co-Chairman of Lehman Brothers Asset Management and Alternatives Division, and Chairman and CEO of Neuberger Berman, Inc.



Andrew Lo – Harris & Harris Group Professor of Finance at the MIT Sloan School of Management and the director of MIT's Laboratory for Financial Engineering. He is the author of Hedge Funds: An Analytic Perspective and co-author of The Econometrics of Financial Markets and A Non-Random Walk Down Wall Street.



Lee Hsien Loong – The current Prime Minister of Singapore, a position he has held since 2004. Previously, he was the Chairman of the Monetary Reserve of Singapore and he also served as Deputy Prime Minister, Minister of Trade and Industry, and Minister of Finance.



Andri Magnason – An Icelandic filmmaker and the author of Dreamland: A Self-Help Manual for a Frightened Nation, and producer of “Dreamland,” a documentary about Iceland’s environmental and financial problems.



David McCormick – Former Under Secretary for International Affairs at the U.S. Department of Treasury from 2007-2009. Prior to that, he served as Deputy National Security Advisor to the President for International Economic Affairs. Before that, he had been the Under Secretary of Commerce for Industry and Security, and he is currently on the faculty of Carnegie Mellon's Heinz College as a Distinguished Service Professor of Information Technology, Public Policy and Management at the Washington, DC campus. He graduated from West Point, served in the first Gulf War, and then became a software executive before entering government.



Lawrence McDonald - McDonald is a co-writer of “A Colossal Failure of Common Sense,” a book on the fall of Lehman Brothers. From 2004 to 2008, McDonald served as Vice President of Distressed Debt and Convertible Securities Trading at Lehman Brothers.



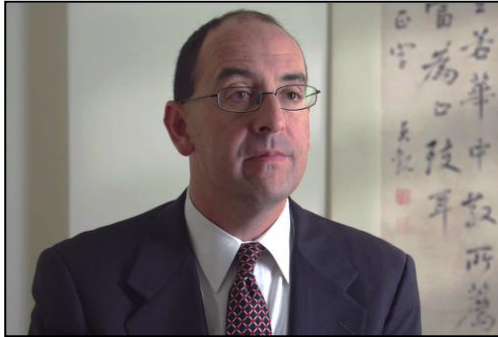
Harvey Miller – Called “the most prominent bankruptcy lawyer in the nation” by the *New York Times*, Miller is a partner at Weil, Gotshal and Manges, LLC, where he created the firm’s Business Finance and Restructuring Department specializing in distressed business entities.



Frederic Mishkin – American economist and professor at Columbia Business School, Mishkin was a member of the Board of Governors at the Federal Reserve from 2006 to 2008. In 2006, he was paid \$124,000 by the Icelandic Chamber of Commerce to write a report praising Iceland’s financial sector.



Charles Morris – Author of The Trillion Dollar Meltdown: Easy Money, High Rollers and the Great Credit Crash, which analyzes the sub-prime mortgage crisis and the economy as a whole. He was the one of the people who predicted the crisis before it happened.



Frank Partnoy – Professor of Law at the University of San Diego specializing in corporate law, corporate finance and financial market regulation. Partnoy previously worked as an investment banker at Credit Suisse First Boston and Morgan Stanley. He is the author of The Match King: The Financial Genius Behind a Century of Wall Street Scandals.



Raghuram Rajan – An economist and Eric J. Gleacher Distinguished Service Professor of Finance at the Booth School of Business, University of Chicago. In 2005, while serving as chief economist of the International Monetary Fund (IMF), he delivered a controversial paper criticizing the financial sector entitled “Has Financial Development Made the World Riskier” which argued that disaster loomed. The paper, which proved accurate, was aggressively criticized by Larry Summers, then the president of Harvard, and currently director of the National Economic Council in the Obama Administration.



Kenneth Rogoff - Thomas D. Cabot Professor of Public Policy and Professor of Economics at Harvard University and the co-author of Foundations of International Macroeconomics. Rogoff has previously worked as Economic Counselor and Director of the Research Department of the International Monetary Fund and served as an economist on the Board of Governors of the Federal Reserve System.



Nouriel Roubini – Professor of Economics at the Stern School of Business at New York University and chairman of Roubini Global Economics, an economic consultancy firm. Once called “Dr. Doom” by *The New York Times*, Roubini first predicted the forthcoming economic crisis back in 2006. He is the author of Crisis Economics, an analysis of the global financial crisis.



Andrew Sheng – Chief Advisor to the China Banking Regulatory Commission. He was the former Deputy Chief Executive responsible for both the Reserves Management and External Affairs Departments at the Hong Kong Monetary Authority. He also worked at senior levels in the World Bank.



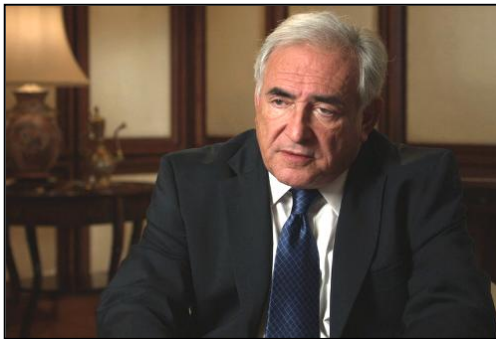
Allan Sloan – Journalist who wrote for *Fortune Magazine* about the market, the crisis, and the wrongdoing that led to the financial crisis.



George Soros- is a Hungarian-American currency speculator, stock investor, businessman, philanthropist, and political activist. He became known as "the man who broke the bank of England" after he made a reported \$1 billion during the 1992 Black Wednesday UK currency crisis. He is founder and chair of the Open Society Institute / Soros Foundation.



Eliot Spitzer – Lawyer and former politician. He served as the 54th Governor of New York (Democrat) from January 2007 until his resignation on March 17, 2008. Prior to being elected governor, Spitzer served as New York State Attorney General. While serving as attorney general, Spitzer initiated a series of major lawsuits against all of the major U.S. investment banks, alleging fraud in their handling of stock recommendations, which resulted in settlements totaling \$1.4 billion.



Dominique Strauss-Kahn – Current Managing Director of the International Monetary Fund and former Minister for Finance, Economy and Industry, France.



Scott Talbott – Top lobbyist for the Financial Services Roundtable. The Roundtable lobbies on behalf of 100 of the top banks, credit card companies, insurance and securities firms operating in the U.S. Its membership includes many bailed-out banks including Citigroup, JP Morgan Chase, Bank of America, Wells Fargo and PNC.



Gillian Tett – British and award-winning journalist at the *Financial Times*, where she is the U.S. managing editor. She is the author of Fool’s Gold, which traced the development of the CDO market and its role in the financial crisis.



Paul Volcker – An American economist who served as Chairman of the Federal Reserve under Presidents Carter and Reagan from 1979 – 1987. He currently serves as Chairman of the Economic Recovery Advisory Board under President Obama.



Martin Wolf – Associate Editor and Chief Economics Commentator at the *Financial Times*.



Gylfi Zoega – Faculty Chairman of the Department of Economics at the University of Iceland.

TIMELINE:

How Deregulation and the Evolution of Wall Street Culture Led to the Financial Crisis

A chronological re-ordering of the events and arguments of INSIDE JOB

Post-Great Depression – 1979

TRADITIONAL AMERICAN FINANCE:

Bankers/traders earned salaries in line with the rest of the country. The financial sector was well-regulated.

1980s

REAGAN ERA: The Reagan Revolution – Deregulation Starts, Wall Street Culture Evolves

Spurred by the deregulation and supply-side capitalist ideology of the 1980s, Wall Street culture evolves.

The fuse on the time bomb is lit...the motivating ideology and the laissez-faire government attitude for all to come is set...

AMORALITY

Traders feel invincible and pursue financial gain at the expense of all other values. They fail to take into account the effects of their strategies on their trading partners (institutional investors, other firms, etc.) and the rest of society. The culture encourages

EXCESSIVE RISK-TAKING, COMPLEX FINANCIAL INNOVATION

Trusting in ideological theories and spurred by an ultra-competitive environment this Wall Street underestimates risk and fails to properly account for complexity and the unsustainable nature of certain strategies. This leads to questionable financial innovations, such as “portfolio insurance” (implicated in the 1987 stock market crash),

A “REVOLVING DOOR” BETWEEN WALL STREET AND WASHINGTON

The halls of power and business are increasingly linked, such that the elite shuttle back and forth between Washington and Wall Street positions. Many of those entrusted with making financial policy or regulating the financial world come from Wall Street itself. Some stand to benefit later from the policy/regulatory actions they take.

S&L SCANDAL

EXAMPLE OF:

- *Amoral Culture
- *Consequence of deregulation (the 1982 Garn-St. Germain Act)
- *Financial Innovation
- *Revolving Door Culture- Alan Greenspan involved as advisor to Keating

Complex computer-augmented strategies with unpredictable effects come into use. Example: “Portfolio insurance” implicated in the crash of 1987

EXAMPLE OF:

- *Failure of Regulation
- *Financial Innovation

1990s

CLINTON ERA: The revolving door spins faster, deregulation accelerates
...Financial scandals increase on Wall Street. Economic inequality rises...

CITIGROUP ALLOWED TO MERGE WITH TRAVELERS

Clinton administration members with Wall Street backgrounds help pass “Citigroup Relief Act”

INTERNET BUBBLE BURSTS

Encouraged by poor regulation, amoral Wall Street

Absent Federal regulation, Eliot Spitzer pursues Wall Street cases. Sues stock analysts for recommending stocks they personally thought were junk.

LAW BANNING REGULATION OF DERIVATIVES PASSED

With “13 bankers” in his office, Larry Summers prevents the CFTC from regulating derivatives

BUSH ERA: Tax cuts reaffirm the Reagan ideology, deregulatory philosophy hits its peaks

2000s

...the ratings agencies each fail in their critical roles. Each is corrupted by money from Wall Street, ideological belief, sense that if everyone’s making money, they must be right. Also true of academics...

Fannie Mae caught overstating earnings since 1998; headed by ex-Clinton staffer.

Bush: “Everyone should be able to own a nice home...”

At the request of the banking industry, SEC regulators unanimously roll back limits on leverage.

CRITICS ARE IGNORED!

Warnings from consumer advocate Gnaizda, Roubini, IMF analyst Rajan, Fortune writer Sloan, etc. are ignored by Wall Street and government

THE NEWEST CROP OF FINANCIAL INNOVATIONS:
SECURITIZATION of MORTGAGES, SPECULATIVE CREDIT DEFAULT SWAPS

*CDOs: Investment banks bundle “slices” of diverse streams of consumer debt and sell them to investors. These CDOs are rated by the agencies (as it turns out, without adequately accounting for the risk

*Credit Default Swaps: Originally intended as insurance on certain investments, speculators begin to use them to bet on securities they don’t themselves own.

2008

...the time bomb lit by the Reagan Revolution explodes!...and the clean-up is mishandled because the Wall Streeters are running the government.

 **FINANCIAL CRISIS** 

Lehman
Brothers
collapses;
government
stands by

Housing market deflates;
foreclosure starts on
thousands of homes in
the US...

A.I.G. collapses;
government bails
out. Billions of
bail-outs go
straight to
Goldman Sachs

OBAMA ERA: The revolving door continues; regulatory philosophy TBD
2008- present

**CRASH RIPPLES AROUND THE
WORLD**

...the Icelandic economy (which represents a
microcosm of the US experience since 1989)
collapses...
...millions of jobs are lost in China and

*Why are there no Wall Street prosecutions for what
has happened? Why do the creators of the crisis
walk away with bonuses? Why are there no
substantive regulatory changes?*

***BECAUSE THE GOVERNMENT CONTINUES TO
BE RUN BY WALL STREET...***

CHARLES FERGUSON (Director)

Charles Ferguson, the founder of Representational Pictures and the director of *Inside Job*, is a filmmaker, writer, and political scientist. A native of San Francisco, California, Ferguson obtained a B.A. in mathematics from the University of California, Berkeley in 1978 and a Ph.D. in political science from M.I.T. in 1989. Following his Ph.D., Ferguson was a postdoctoral researcher at M.I.T. for three years, focusing on interactions between high technology, globalization, and government policy, and frequently consulting to U.S. government agencies including the White House staff, the Defense Department, and the U.S. Trade Representative. Then from 1992 to 1994 Ferguson was an independent consultant to high technology companies including Apple, Xerox, Motorola, Intel, and Texas Instruments. In 1994 Ferguson founded Vermeer Technologies, a software company which developed FrontPage, the first end-user Web site development tool, which he sold to Microsoft in 1996. Subsequently he spent several years as a Senior Fellow at the Brookings Institution and a visiting scholar at M.I.T. and U.C., Berkeley.

In mid-2005, Ferguson formed Representational Pictures and began production of his first film, *No End In Sight: The American Occupation of Iraq*, which premiered at the Sundance Festival in 2007. *No End In Sight* won the Special Jury Prize at Sundance, the Best Documentary prizes of the New York and Los Angeles Film Critics circles, and was nominated for an Academy Award for Best Documentary. Ferguson has authored several books including High Stakes, No Prisoners: A Winner's Tale of Greed and Glory in the Internet Wars, and Computer Wars: The Post-IBM World (co-authored with Charles Morris).

FILM GLOSSARY

Asset Backed Security (ABS)

An asset-backed security is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt. An ABS is essentially the same thing as a **mortgage-backed security**, except that the securities backing it are assets such as loans, leases, credit card debt, a company's receivables, royalties and so on, and not mortgage-based securities.

Bank Holding Company

Bank holding company is broadly defined as any company that controls one or more banks. Becoming a bank holding company makes it easier for the firm to raise capital than as a traditional bank. The holding company can assume debt of shareholders on a tax free basis, borrow money, acquire other banks and non-bank entities more easily, and issue stock with greater regulatory ease. It also has a greater legal authority to conduct share repurchases of its own stock. The downside includes responding to additional regulatory authorities, such as the Federal Reserve and the Securities and Exchange Commission.

NOTE: Goldman, Sachs and Morgan Stanley became Bank Holding Companies during the 2008 crisis in order to benefit from the federal government's Troubled Assets Relief Program (TARP).

Capital Structure

This refers to the way a company finances its assets and operations through a combination of equity (stock), debt (loans), or hybrid securities. A company's capital structure is then the composition or 'structure' of its risks and liabilities. The company's ratio of debt to total financing is referred to as its **leverage**.

Collateralized Debt Obligation (CDO)

CDOs are a type of structured **asset-backed security** whose value and payments are derived from a portfolio of fixed-income underlying assets. CDOs are split into different risk classes, or **tranches**, whereby "senior" tranches are considered the safest securities. Interest and principal payments are made in order of seniority, so that junior tranches offer higher coupon payments (and interest rates) or lower prices to compensate for additional default risk.

NOTE: Each CDO is made up of hundreds of individual residential mortgages. CDOs that contained subprime mortgages or mortgages underwritten because of predatory lending were at greatest risk of default. They are blamed for precipitating the global crisis and have been called "weapons of mass destruction."

Commercial mortgage-backed security (CMBS)

CMBS are a type of **asset-backed security** that is secured by commercial and multifamily properties (such as apartment buildings, retail or office properties, hotels, schools, industrial properties and other commercial sites). The properties of these loans vary, with longer-term loans (5 years or longer) often being at fixed interest rates and having restrictions on prepayment, while shorter-term loans (1–3 years) are usually at variable rates and freely pre-payable.

NOTE: *Commercial loans are often predicted as the next security class to default. Fitch, one of the three largest ratings agencies, estimates that defaults on the loans behind U.S. CMBs will continue to rise through 2010 and the overall rate of default for deals it has rated to exceed 11 percent by year-end.*

Credit Default Swap (CDS)

A CDS is an insurance contract in which the buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if a **security** (typically a bond or loan or a collection of loans such as a CDO) goes into default.

NOTE: *CDOs are widely thought to have exacerbated the financial crisis, by allowing investors who did not own a security to purchase insurance in case of its default. AIG almost collapsed because of these bets, as it was left on the hook for tens of billions of dollars in collateral payouts to some of the biggest U.S. and European financial institutions. AIG paid Goldman Sachs \$13 billion in taxpayer money as a result of the CDSs it sold to Goldman Sachs.*

Credit Rating Agency (CRA)

A **CRA** is a company which assigns credit ratings for issuers of certain types of debt securities (such as bonds, ABS and CDOs) as well as the debt instruments themselves. In most cases, the issuers of the debt securities are companies, special purpose entities, state and local governments, non-profit organizations, or national governments issuing debt-like securities (i.e., bonds) that can be traded on a secondary market. A credit rating for an issuer includes the CRA's opinion of the issuer's ability to pay back the loan. (In contrast to CRAs, a company that issues credit scores for individual credit-worthiness is generally called a credit bureau or consumer credit reporting agency.)

NOTE: *The three largest and most influential credit ratings agencies are Moody's, Standard & Poor's and Fitch. The 2008 crisis highlighted the inadequacies of the ratings agencies when troubled companies retained their investment grade ratings until days before their collapse.*

Deposit Taking Institution

Banks, building societies, credit unions and other organizations which accept customers' funds, either at call or for fixed periods, and pay interest on the amounts. Deposit-taking institutions are identified with 'savings' and differ in purpose from investment institutions which actively manage their customers' funds in the pursuit of profits, or from corporations which 'borrow' money from the public by issuing debentures or bonds.

Deregulation

Deregulation is the removal or simplification of government rules and regulations that constrain the operation of market forces. Deregulation does not mean elimination of laws against fraud, but eliminating or reducing government control of how business is done and securities are regulated. Tools of deregulation include the reduction of laws and regulations pertaining to taxation of securities transactions and removing restrictions around mergers and acquisitions within industries. Deregulation supports the efficient market theory in economics that states that financial markets are "informationally efficient" with prices accurately reflecting the value of a company of stock, the less taxes and regulation the more accurately price reflects value.

NOTE: *This began in the Reagan Administration and it became known as Reaganomics which refers to*

the economic policies promoted by the U.S. President Ronald Reagan during the 1980s. The four pillars of Reagan's economic policy were to:

- 1. Reduce government spending,*
- 2. Reduce income and capital gains marginal tax rates,*
- 3. Reduce government regulation of the economy,*
- 4. Control the money supply to reduce inflation.*

Derivatives

A derivative is an agreement between two parties that is contingent on a future outcome. In finance, a derivative is a financial contract with a value linked to the expected future price movements of the asset it is linked to - such as a share, currency, commodity or even the weather. Derivatives allow risk about the price of the underlying asset to be transferred from one party to another. Options, futures and swaps, including **credit default swaps**, are types of derivatives.

NOTE: A common misconception is to refer to derivatives as assets. This is erroneous, since a derivative is incapable of having value of its own as its value is derived from another asset.

Fixed Income

Fixed income refers to any type of investment that makes a predetermined or “fixed” return at recurring intervals, such as bonds or annuities. Fixed income securities are a loan to the entity that issues the bond. Investors are repaid their interest through interest payments at set intervals and the face value of the loan is repaid at the maturity date. The term fixed income can be misleading because some bonds have interest rates that are linked to an index, such as inflation or the US Federal Funds Rate. Examples of bonds include simple securities such as sovereign bonds issued by national governments, municipal bonds issued by local governments and corporate bonds issued by companies. More complex fixed income securities include preferred bonds, hybrid securities, **asset backed securities** and **collateralized debt obligations**.

NOTE: Fixed-income securities can be contrasted with variable return securities such as stocks that have no guarantee of a return for the investor.

Gramm-Leach-Bliley Act (GLBA):

This has also come to be known as the Financial Services Modernization Act of 1999. This Act allowed commercial banks, investment banks, securities firms, and insurance companies to consolidate.

Historically, these industries have been known collectively as the "financial services industry".

NOTE: This act repealed the Glass-Steagall Act which prohibited any one institution from acting as any combination of an investment bank, a commercial bank, and an insurance company. This Act was also known as the Citigroup Act as it allowed the merger of Citicorp, a commercial bank holding company, and Travelers Group, an insurance company, in 1998.

Hedge Fund

An aggressively managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment. Investments in hedge funds are illiquid as

they often require investors keep their money in the fund for at least one year. Because hedge fund managers make speculative investments, these funds can carry more risk than the overall market.

NOTE: Hedge funds (unlike mutual funds) are unregulated because they cater to sophisticated investors who are thought to have more resources in making investment decisions. In the U.S., laws require that the majority of investors in the fund be accredited. That is, they must earn a minimum amount of money annually and have a net worth of more than \$1 million, along with a significant amount of investment knowledge. Hedge funds are considered to be mutual funds for the super rich. They are similar to mutual funds in that investments are pooled and professionally managed, but differ in that the fund has far more flexibility in its investment strategies.

Hedging

To hedge is to make an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

NOTE: While it is important to note that hedging is actually the practice of attempting to reduce risk, the goal of most hedge funds is to maximize return on investment. The name is mostly historical, as the first hedge funds tried to hedge against the downside risk of a bear market by shorting the stock market (mutual funds generally can't enter into short positions as one of their primary goals).

Investment Bank

A financial institution that assists corporations and governments in raising capital by underwriting and acting as the agent in the issuance of securities. An investment bank also assists companies involved in mergers and acquisitions, divestitures, etc. For traditional investment banking services such as underwriting, securities issuance and mergers and acquisitions, investment banks receive a fee, usually a percentage of the transaction. They also provide ancillary services such as market making and the trading of derivatives, fixed income instruments, foreign exchange, commodity, and equity securities. The largest investment banks include Goldman Sachs, JP Morgan Chase, Bank of America, Morgan Stanley and Deutsche Bank.

NOTE: Unlike commercial banks and retail banks, investment banks do not take deposits. By 1998, the largest investment banks went public and changed from a private partnership ownership structure to an exchange traded company with thousands of shareholders. This dislocation between the firm managers and the owners of the company was one of the reasons investment banks took larger risks and exotic securities were issued without appropriate risk assessments.

Investment Grade Ratings

A bond is considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's, Baa3 or higher by Moody's or BBB- or higher by Fitch. The **credit rating agency** rate the bond based upon its likelihood of meeting its payment obligations.

NOTE: *Mutual funds, pension funds and sovereign funds are often limited by their prospectus to investment grade securities. When Lehman declared bankruptcy, their bonds were downgraded below investment grade causing a mass sell-off by mutual funds legally restricted to investment grade securities in their portfolio.*

Moody's		S&P		Fitch		
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Aaa	P-1	AAA	A-1+	AAA	A1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		High grade
Aa3		AA-		AA-		
A1		A+	A-1	A+	A1	Upper Medium grade
A2	A	A	A			
A3	P-2	A-	A-2	A-	A2	Lower Medium grade
Baa1		BBB+		BBB+		
Baa2	P-3	BBB	A-3	BBB	A3	Lower Medium grade
Baa3		BBB-		BBB-		
Ba1	Not Prime	BB+	B	BB+	B	Non Investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly Speculative
B2		B		B		
B3		B-	B-			
Caa		CCC+	C	CCC	C	Substantial risks
Ca	CCC	Extremely speculative				
C	CCC-	In default with little prospect for recovery				
/	D	/	DDD	/	In default	
/			DD			
/			D			

Leverage

Leverage is the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. Leverage is also used to describe the amount of debt used to finance a company's assets. Leverage helps both the investor and the firm to invest or operate. A company with significantly more debt than equity is considered to be highly leveraged. Leverage can be created through options, futures, margin and other financial instruments. Leverage is most commonly used in real estate transactions through the use of mortgages to purchase a home.

NOTE: Leverage comes with greater risk. If an investor uses leverage to make an investment and the investment moves against the investor, his or her loss is much greater than it would've been if the investment had not been leveraged - leverage magnifies both gains and losses. In the business world, a company can use leverage to try to generate shareholder wealth, but if it fails to do so, the interest expense and credit risk of default destroys shareholder value.

Mortgage Backed Securities (MBS)

A MBS is a type of **asset-backed security** that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited **credit rating agency**, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.

NOTES: Investors in a mortgage-backed security are essentially lending money to a home buyer or business. An MBS is a way for a bank to lend mortgages to its customers without having to worry about whether the customers have the assets to cover the loan. Instead, the bank acts as a middleman between the home buyer and the investment markets.

Residential mortgage-backed securities (RMBS)

A RMBS is a type of security whose cash flows come from residential debt such as mortgages, home-equity loans and subprime mortgages. This is a type of mortgage-backed securities that focuses on residential instead of commercial debt. Holders of an RMBS receive interest and principal payments that come from the holders of the residential debt. The RMBS comprises a large amount of pooled residential mortgages.

Security

An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives). A security is a negotiable instrument representing financial value. The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securitization

Securitization is the process through which an issuer creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors. The process

can encompass any type of financial asset and promotes liquidity in the marketplace. Securitization distributes risk by aggregating debt instruments in a pool, then issues new securities backed by the pool.

Short Selling

Short selling, also known as shorting or going short, is the practice of selling assets, usually securities, that have been borrowed from a third party (usually a broker) with the intention of buying identical assets back at a later date to return to the lender. The short seller hopes to profit from a decline in the price of the assets between the sale and the repurchase, as the seller will pay less to buy the assets than the seller received on selling them. Conversely, the short seller will incur a loss if the price of the assets rises.

NOTE: Selling short is the opposite of going long. That is, short sellers make money if the stock goes down in price. In the summer of 2008, Morgan Stanley's CEO John Mack was vocal in his attack of short sellers in contributing to the fall in share prices on financial services stocks. The low market capitalization of investment banks the week of September 15, 2008, diminished their valuation in the eyes of potential investors and was a contributor to their conversion into bank holding companies.

Subprime

Subprime is a classification of borrowers with a tarnished or limited credit history. Lenders will use a credit scoring system to determine which loans a borrower may qualify for. Subprime loans are usually classified as those where the borrower has a credit score below 640. Subprime loans carry more credit risk, and as such, will carry higher interest rates as well. Approximately 25% of mortgage originations are classified as subprime. Subprime lending encompasses a variety of credit types, including mortgages, auto loans, and credit cards.

Synthetic CDO

In technical terms, the synthetic CDO is a form of **collateralized debt obligation** (CDO) that invests in **credit default swaps** (CDSs) or other non-cash assets to gain exposure to a portfolio of fixed income assets. Synthetic CDOs are a modern advance in structured finance that can offer extremely high yields to investors. Synthetic CDOs are typically divided into credit **tranches** based on the level of credit risk assumed. Initial investments into the CDO are made by the lower tranches, while the senior tranches may not have to make an initial investment. All tranches will receive periodic payments based on the cash flows from the credit default swaps. However, synthetic CDOs enable potentially unlimited bets on the performance of other securities, without any new real loans being created. Each synthetic CDO, unlike a real CDO, requires that one party take the "short side," i.e., must be betting that the referenced investment will fail. In the bubble preceding the financial crisis, several investment banks including Goldman Sachs and Morgan Stanley are known to have created synthetic CDOs with the explicit intention, in advance, of betting against their customers. It is also known that in at least some cases, the investment banks did not disclose this fact to the customers to whom they sold these synthetic CDOs, many of which received AAA ratings. These instruments are the focus of the SEC's fraud case against Goldman Sachs, several private lawsuits, and also, it is believed, several ongoing criminal investigations.

Tranche

A tranche is a piece, portion or slice of a deal or structured financing. This portion is one of several related securities that are offered at the same time but have different risks, rewards and/or maturities. "Tranche" is the French word for "slice". Tranche also describes a specific class of bonds within an offering wherein each tranche offers varying degrees of risk to the investor. For example, a partitioned **MBS** portfolio might have mortgages (tranches) that have one-year, two- year, five-year and 20-year maturities. It can also refer to segments that are offered domestically and internationally.

CREDITS

PRODUCED, WRITTEN, AND DIRECTED BY Charles Ferguson

PRODUCED BY

Audrey Marrs

EXECUTIVE PRODUCERS

Jeffrey Lurie

Christina Weiss Lurie

ASSOCIATE PRODUCERS

Kalyanee Mam

Anna Moot-Levin

EDITORS

Chad Beck

Adam Bolt

CO-WRITTEN BY

Chad Beck

Adam Bolt

GRAPHICS BY

Bigstar

RESEARCH

Kalyanee Mam

DIRECTORS OF PHOTOGRAPHY

Svetlana Cvetko

Kalyanee Mam

MUSIC SUPERVISOR

Susan Jacobs

MUSIC BY

Alex Heffes

NARRATED BY

Matt Damon

ADDITIONAL RESEARCH & ARCHIVAL ACQUISITION

Carola Mamberto

Christopher Murphy

Rosemary Rotondi

SECOND UNIT DIRECTOR OF PHOTOGRAPHY

Mariusz Cichon

AERIAL CINEMATOGRAPHY

Gray Mitchell

HELICOPTER PILOT

Al Cerullo

LOCATION SOUND MIXERS

David Hocs

Michael Jones

David Mendez

DIGITAL IMAGING TECHNICIANS

Mariusz Cichon

Artur Dziewczynski

Tomasz Gryz

Matthew Schroeder

GAFFERS

Arthur Aravena

John Frisbie

Jason Hubert

Stephen Kaye

Geir Magnússon

Robert McKenna

GRIPS

Carter Bissell
Bill Dixon
John Dunkin
Sam Krueger
Adam Macbeth
Aaron Randall
Seth Uhlin

ADDITIONAL LOCATION SOUND

Richard Fleming
John Levy
Brenda Ray
Nelson Stoll

POST-PRODUCTION SUPERVISOR

Alan Oxman

FIRST ASSISTANT EDITORS

Eugene Yi
John Woo

ASSISTANT EDITOR

Sheila Shirazi

POST-PRODUCTION INTERN

Isaac Urwin

DIGITAL INTERMEDIATE COLORIST

Will Cox

DIGITAL INTERMEDIATE ONLINE EDITOR

Ben Laffin
Joseph Lee

DIGITAL INTERMEDIATE PRODUCER

Caitlin Tartaro

POST-PRODUCTION FACILITY

Final Frame

SOUND SUPERVISOR & RE-RECORDING MIXER

Tom Efinger

SOUND DESIGN

Abigail Savage
Rich Bologna

ASSISTANT SOUND EDITOR

Jeff Seelye

DIG IT IN-HOUSE PRODUCER

Alicia Loving

AUDIO POST FACILITY

Dig It Audio, Inc.

RECORDING FACILITY FOR NARRATION

Sync Sound, Inc.

RECORDING ENGINEER

John Bowen

MACHINE ROOM OPERATOR

Matt Stanford

SET DESIGN

Mariko Marrs

STILL PHOTOGRAPHY

Mariusz Cichon

LOCATION SCOUT

Jeffrey King

PRODUCTION ASSISTANT

Chris Knight

ADDITIONAL PRODUCTION ASSISTANTS

Kristin Bye
Andrew Houchens
Brittany Kaplan
Stacy Mandel-Sonner
Alec Modzeleski
Marvin Ruffin