

ON THE MONEY

Tyson's Corner's Alaska connection

ALASKA FROM G1

income taxes and royalties.

But unlike many oil-rich countries and states, Alaska has squirreled away some of its oil riches in a tax-exempt fund for the citizens of the state. The state channels a quarter of its oil and gas royalty payments to the fund. Today, the Alaska Permanent Fund owns shares of about 2,000 public companies, domestic and international bonds, a few hedge fund investments and a vast real estate empire that includes half of Tyson's Corner.

"We average 75,000 people a day through the [shopping] center," said Mike Burns, the executive director of the fund. "I like to remind our partners that that would be the second-largest city in Alaska."

At a time when most states are scrambling to cover budget deficits, Alaska and its permanent fund are enjoying the fruits of high oil prices and years of prudent investing.

This month, the fund shelled out more than \$400 million in cash to buy a 49.5 percent stake in the 42-story North American headquarters of UBS on Park Avenue in midtown Manhattan. Last week, the fund announced the annual dividend it will pay to every Alaska resident this year: \$1,174.

Tyson's Corner Center, with more than 2 million square feet of space, is one of the fund's best investments, Burns said. The Alaska Permanent Fund's half of the property is worth about \$800 million, five times the initial investment. The decision two decades ago to move the truck port that was underneath the mall and transform that space into additional retail added value. Replacing J.C. Penney with movie theaters, a food court and new retail space added more.

Now Tyson's is poised to benefit anew from the extension of the Metro, which will stop "literally right at our front door," Burns said.

Plans to develop homes and turn Tyson's Corner into a place where people might live as well as shop could enhance the mall.

"Live, work, play" they call it in real estate terms," Burns said. But, he added, the mall's main purpose will always be shopping. "Peripheral development can enhance the retail," he said, but "the goose that's laying the golden egg is the retail, the shopping experience."

"It's probably one of maybe a handful of what they call 'fortress malls' around the country," Burns said. "There's really no place around it to build a competitor. And the demographics are just fabulous."

Investments pay off

The Alaska Permanent Fund has picked up quite a few golden eggs. During the life of the fund, it

has received \$15 billion from its share of oil revenue and paid out \$19.5 billion in dividends while building its portfolio to \$38 billion.

As of June 30, it had a \$207 million stake in Apple, about three times its initial investment. It held \$162 million worth of Exxon Mobil, 48 percent over its cost. Shares of public companies make up 36 percent of its portfolio.

Its real estate holdings are huge — 11 retail, 13 residential, 19 office buildings and 11 industrial parks. The fund owns all of the 748-unit Bent Tree apartment complex in Centerville and half of a Denver-based company that owns 18,000 apartment units around the country, including the Reserve near Tyson's.

The Alaska Permanent Fund owns only one building in Alaska: its headquarters in Juneau.

Burns said there is no pressure on the fund to plow more money into Alaska. The statute that created the fund ordained that any investment in Alaska must compete with investments elsewhere. Moreover, he said, the permanent fund is so big that if it invested even in the state's largest city, Anchorage, it would throw all the property values out of whack.

The fund has made its share of mistakes. It lost \$10 million on a currency trade when Lehman Brothers went bankrupt. It bought property in southern Tennessee only to watch Arkansas offer incentives for people to move across the river. And as of June 30, it owned \$53.5 million of Bank of America, down more than a third from its initial investment, and \$4.4 million in the National Bank of Greece, down nearly half.

It stock portfolio has followed the yo-yo market. After touching \$40 billion in early 2008, its value plunged to \$26 billion at one point before bouncing back.

"It's been a bumpy road and one I don't want to take again," Burns said.

Burns, from Illinois, moved to Alaska in 1984 to become president of Key Bank of Alaska. Eight years ago, he agreed to oversee the fund. He owns a house in Juneau, where he can watch the cruise ships come in.

While unusual for a U.S. state, Alaska's permanent fund is similar to sovereign wealth funds fueled by oil and gas money in countries such as Norway and in the United Arab Emirates' Abu Dhabi. Flush with export earnings and foreign investment, China also has a sovereign wealth fund.

The International Monetary Fund has a working group to increase the transparency of such funds, and the Treasury Department and the Alaska Permanent Fund both send representatives. "We really don't have a peer group," Burns said. "We're not a pension, where there's somebody at your front door every month seeking payment. We do pay that dividend each year to the people of Alaska, but that dividend fluctuates."

The fund pays according to a formula — 10.5 percent of the realized income over the past five years. That means that the rents paid by tenants of Tyson's Corner count, but the increase in the value of the property will not until it is sold.

"We pay out what we can rather than what we have to," Burns said. "Without that liability, we have the ability to look longer-term than most investors. It's just a huge plus for us."

The flow of oil

The source of all this money, Prudhoe Bay, is starting to run dry. That's a problem for the United States, which still needs oil supplies, and for Alaska, which depends on oil revenue. So far, high prices have made up for the sagging production levels.

"If you think back, in the early '90s there was over 2 million barrels a day coming down the pipeline" from Prudhoe Bay, Burns said. "Today it's about 650,000 a day. So clearly we're riding a high price. . . . But this is very important to the state of Alaska. It's their lifeblood. We've got to find a way to replace the oil in that pipeline through new exploration and new development."

But for the permanent fund, the flow of oil is not crucial. Burns said the fund's share of oil revenue last year was about \$875 million.

"There's no question that's a lot of money," he said. "But our income from investments was \$6.9 billion. . . . The success of the fund has much, much more to do with what happens on Wall Street than with what happens on the North Slope."

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Debt relief window is closing soon, but don't do anything rash just to avoid a tax bill



MICHELLE SINGLETARY

The Color of Money

As always, there's a catch.

The law says that only debt forgiven in calendar years 2007 through 2012 is eligible. Up to \$2 million of forgiven debt qualifies for this exclusion (\$1 million if married filing separately).

To get the relief, debt must have been used to buy, build or substantially improve a principal residence and be secured by that residence. So if you refinanced and took money out of the house to pay off credit card debt, you won't receive the exclusion. Debt forgiven on second homes, rental property, business property, credit cards or car loans also does not qualify for the tax relief.

If you're clinging to your house but it's looking as though you won't be able to hang on, the best time to get out from under the mortgage is before the sun sets on the debt relief law. This is particularly true if you are thinking about a short sale.

That's when the lender allows the borrower to sell the house for less than what is owed. Often, the borrower can negotiate to have the remaining balance on the mortgage forgiven.

Some states have made it

easier for folks to go through the short-sale process. For example, a new law in California says that if lenders agree to a short sale — whether they hold a first or second lien — they have to forgive all outstanding loan balances.

The tax rule has become particularly important as more homes are sold through short sales, which accounted for 12 percent of all housing sales in the second quarter, up from 10 percent for the same period last year, according to RealtyTrac.

However, here's the problem if you wait too long to start the process: Short sales are being dragged out for months. Talk to real estate professionals and many might suggest the term short sale be changed to "long sale." I've seen several people who wanted to buy a home through a short sale walk away because the transaction was moving too slowly.

Pre-foreclosures sold in the second quarter took an average of 245 days to sell after receiving the initial foreclosure notice, according to RealtyTrac.

In a survey released earlier this year, 71.9 percent of real

estate agents interviewed reported that a short sale could take four to nine months to complete, according to Equi-Trax Asset Solutions, a company that provides property valuations. Almost 10 percent of short-sale transactions require more than 10 months to complete.

When agents are asked to select ways to make short sales easier, 57.6 percent think lenders should move faster to close the transactions.

A short-sale survey conducted by the California Association of Realtors found similar results. More than three-fourths (77 percent) of California real estate agents reported closing short-sale transactions as "difficult" or "extremely difficult," the group said.

You shouldn't rush into a short sale or let your home go to foreclosure just to avoid a tax debt. But the impending end of the favorable tax rule on forgiven mortgage debt should be one of the things to consider if you conclude you can't afford to keep your house.

Readers can write to Michelle Singletary c/o The Washington Post, 1150 15th St., NW, Washington D.C. 20071. Or e-mail: singletarym@washpost.com. Personal responses may not be possible. Please also note comments or questions may be used in a future column, with the writer's name, unless a specific request to do otherwise is indicated.

There are no rogue traders; there are only rogue banks



BARRY RITHOLTZ

On Investing



JOEL SAGET/AGENCE FRANCE-PRESSE VIA GETTY IMAGES

SOCIETE GENERALE, 2008: Jerome Kerviel lost 4.9 billion euros — about \$6.8 billion.



CARL DE SOUZA/AFRIP VIA GETTY IMAGES

UBS, 2011: Kweku Adoboli is accused of a \$2.3 billion fraud.



ROSUN RAHMAN/AFP VIA GETTY IMAGES

BARINGS, 1995: Nick Leeson engaged in "unauthorized" trading.



KYODO NEWS VIA ASSOCIATED PRESS

SUMITOMO, 1996: Copper trader Yasuo Hatanaka lost at least \$1.8 billion.

internal technology can track what is happening, in as near to real time as possible.

This is not easy. It is a complex set of processes that requires constant vigilance. It must be reflected in the corporate culture from the top down. And it becomes more and more complex as the size of the organization grows. The assumption must be that every employee is a potential rogue trader.

Banks are supposed to have expertise in preserving capital and managing risk. If they cannot discharge those simple duties, then perhaps they should not be in the business of finance. Most of all, they should not be engaging in behavior that puts taxpayer money at risk.

Anyone who runs a shop that has a proprietary trading desk is obligated to do everything in his power to prevent that single employee from bringing down the company. It's not too hard to see that anyone who earns a bonus by risking the firm's capital is a potential disaster.

With this backdrop, how is it that we seem to have a major

rogue trader pop up every year or so? The simple answer is, a rogue trader who nets massive losses is a complete and utter failure by the bank's management. UBS was unable to track its capital on a timely basis, as its London trader hid losses for more than three years. So much for real-time supervisory tracking.

The arrest of a rogue trader is a red flag. The discovery of the fraud is a company admission of being poorly managed. The board of directors should be holding senior management just as responsible as the trader for the losses. They may not have committed the same legal fraud — hiding the trades — but they should be sacked for gross dereliction of duty.

Understand what this means within the broader context of our financial sector's not so innocent foibles: Any firm that hires "robo-signers" is just as bad as a firm that has rogue traders. Both actions are an indictment, an admission of failure and of managerial incompetence. Each illegal act represents a crucial failure of risk management, of legal

compliance, of the ability to do jobs safely and within the law.

In an era of bailouts on the backs of the taxpayer, it points to a simple reality: Firms must decide whether they are going to sacrifice profit in pursuit of safety, or sacrifice safety in pursuit of profit. Whatever they decide, it is not the responsibility or obligation of taxpayers to backstop these choices.

Consider the choices made by management: The collapse of firms such as AIG, Bear Stearns and Lehman Brothers were caused by the same sort of poor judgment as UBS's \$2 billion in losses — only the rogues gallery there included the senior-most managers of the firms. Hank Greenberg exhorting his staff to focus on reusing paper clips, while the mortgage syndication division lost billions of dollars. Dick Fuld surrounding himself with yes men while the firm's leverage and risk exposure went through the roof. Tom Savage, president of AIG's Financial Products, calling derivative underwriting free money.

Paul Volcker, arguably the greatest central banker in history, has persuasively argued that proprietary trading should not be part of the insured depository banking sector. I utterly agree with Fed governor Thomas Hoenig, who has described the banking sector as "more akin to public utilities" than independent entities. Want to be independent to pursue proprietary trading? Let's drop their FDIC insurance and see how far their reputations carry them.

The next crisis — the one after the present one in Europe — is where I expect to see the ultimate damage wreaked by rogue bankers.

The bailouts have created a moral hazard, where leveraged speculators and rogue bankers know that the state will bail them out. This is unacceptable. There is no reason that taxpayers should be responsible for any rogues, traders or bankers.

Perhaps UBS's failure to prevent this did us a favor. It points out that Volcker is right: Any firm that can blow itself up should not qualify for taxpayer guarantees. Lenders, underwriters and mortgage originators are in the business of using their capital to earn a fair return safely. That government-backed insurance should be available only to depository banks, not firms associated with speculative traders.

Ritholtz is chief executive of FusionIQ, a quantitative research firm. He is the author of "Bailout Nation" and runs a finance blog, The Big Picture.

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