

MIDWEST DIGEST

Howie Picks Running Mate For S.D. Governor

SIoux FALLS (AP) — State Sen. Gordon Howie, a Republican candidate in the South Dakota governor's race, has chosen a former state senator and Sioux Falls city councilman as his running mate. Howie, of Rapid City, on Wednesday announced Kermit Staggers as his pick. Staggers served eight years in the state Senate and eight more as city councilman. He recently lost in the Sioux Falls mayoral race. Howie is among five Republicans facing off in the June 8 primary. There's one Democrat in the race, state Senate Democratic leader Scott Heidepriem.

Woman Pleads Innocent To Husband's Murder

PIERRE (AP) — A Blunt woman has pleaded not guilty to first-degree murder in the death of her husband. Forty-seven-year-old Connie Hirsch appeared at an arraignment hearing Wednesday at the Hughes County courthouse to answer to the charge. Authorities say she shot her 65-year-old husband, Jerold, on May 9 at a home near Pierre where she worked as a caregiver for three developmentally disabled people. Court documents say Hirsch told authorities that her husband had abused her. Hirsch could face the death penalty or life in prison if convicted.

S.F. Effort Aims To Help Indian Students

SIoux FALLS (AP) — School officials in Sioux Falls plan to include American Indian culture in the elementary curriculum in an effort to improve the classroom performance of Indian students. Administrators say they hope to replicate the success of a similar effort in Montana that they say produced significant gains in math and reading test scores. The Sioux Falls School District already has stand-alone Native American Connections classes at the middle and high schools. The elementary school program that will be developed over the next two years will be different, incorporating Indian history and traditions into regular classes. School Board member Doug Morrison said it makes sense to extend the efforts into the elementary grades. "The earlier we can get to them, the better," he said. "If we're going to make inroads here we need to get into the elementary schools." Gail Swenson, who oversees the district's Office of Indian Education, said students do better academically when they feel connected to the school. She expects providing more classroom materials and activities with elements of Native American culture will make those students more interested. "Once you get a novel that's engaging for you, you're going to read it," she said. "Any reading they do is naturally going to help their reading scores." A committee will spend the next school year updating social studies, language arts and fine arts materials. A review of the math and science curriculum will take place the following year. The Office of Indian Education also will create a list of people in the community who can give classroom presentations, and promote outside activities to students and families.

College Presidents' Housing Money Questioned

LINCOLN, Neb. (AP) — Presidents of two state-funded colleges in Nebraska get thousands of dollars called "housing allowances," yet they already have houses provided to them by the colleges. Government watchdog group Common Cause says the allowances are really slush funds. But the Nebraska State College System's board of trustees is expected to again approve the allowances on Thursday. The presidents of Chadron and Peru State Colleges are each expected to get \$9,000 for what their contracts call housing allowances. Nebraska State College System Chancellor Stan Carpenter defended the funds, saying presidents are expected to use the money to host events benefiting the colleges. No accounting is done to see if that is what the money is used for.

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FINANCIAL CRISIS

Buffett Defends Credit Rating Agencies

BY STEVENSON JACOBS
AP Business Writer

NEW YORK — Billionaire investor Warren Buffett on Wednesday defended credit rating agencies that gave overly positive grades to mortgage-related investments before the housing bust. He said the agencies were among many who missed warnings signs of the crisis. "They made the wrong call," Buffett acknowledged. But he said he counted himself among those who failed to foresee the collapse of the housing bubble. Buffett called it the "greatest bubble" he had ever seen. "The entire American public was caught up in a belief that housing prices could not fall dramatically," Buffett told a congressional panel investigating the financial crisis. Had he known how bad it would get, Buffett said he would have sold his company's stake in rating agency Moody's Corp. Buffett's investment firm is Moody's largest shareholder. He testified before the Financial Crisis Inquiry Commission alongside Moody's CEO Raymond McDaniel. The FCIC is a bipartisan group created by Congress to examine a range of issues surrounding the financial crisis. Rating agencies have been criticized for giving high ratings to complex investments backed by risky mortgages. When homeowners defaulted, the agencies downgraded billions of dollars of investments at once. That helped spark the financial crisis. Lawmakers have accused the industry of having a conflict of interest because the agencies are paid by the banks whose investments they rate. Congress is considering new rules for the industry as part of the broader financial regulatory overhaul. Rep. Barney Frank's, D-Mass., legislation would get rid of laws and regulations that require businesses to obtain credit ratings. His proposal would make many business transactions less reliant on rating agencies' involvement. In addition, it would force credit raters to register with the Securities and Exchange Commission and allow investors to sue them for assigning recklessly high ratings.

Sen. Al Franken, D-Minn., wants to let a new regulatory board choose the rating agencies that analyze each bank deal. His proposal was included in the Senate bill. House and Senate negotiators still must reconcile differences between the two financial overhauls. McDaniel told the panel that "Moody's is certainly not satisfied with the performance of these ratings" and is taking steps to improve its rating process. Still, McDaniel said in written testimony that investors should use ratings as a tool, "not a buy, sell or hold recommendation." Despite his company's stake in Moody's, Buffett said he doesn't rely on credit ratings when making investment decisions. He makes his own judgments on companies. "What we hope for is mis-rated securities because that would give us a chance to make a profit if we disagree with the ratings agencies," Buffett told the panel. The FCIC subpoenaed Buffett after he declined to testify voluntarily. Buffett looked relaxed during the hearing and jokingly thanked the panel for the order to appear. But the Berkshire Hathaway CEO later took pointed questions from the commissioners about whether he personally should have done more to hold Moody's accountable as the company's largest shareholder. "If we can't count on corporate shareholders, who can we count on?" FCIC chairman Phil Angelides asked Buffett. Buffett replied that Berkshire invests in many companies and can't know everything that goes on inside them. Asked if rating agencies' model pose risks today, Buffett voiced concern over their ability to grade the debt issued by state and municipal governments. "I don't think Moody's or S&P or I can come up with anything terribly insightful about how state and municipal finances will be five years from now, he said. Angelides noted during his opening remarks that Moody's profited greatly from rating mortgage-backed securities. Revenue soared from \$600 million in 2000 to \$2.2 billion in 2007, just as the housing bubble peaked.

But as the company profited, "the investors who relied on Moody's ratings didn't do very well," Angelides said. Asked why Moody's ratings failed leading up to the housing crisis, the company's former managing director Eric Kolchinsky blamed a "factory mentality." Resource-strapped employees were pressured to rate as many deals as possible to grow the company's market share, he said. Bankers, in turn, knew they could get their investments rated quickly, even without providing Moody's sufficient advance notice, Kolchinsky said. "Bankers knew we couldn't say no to a deal," he said. "They took advantage of that." Asked to respond, McDaniel said the company declined to rate hundreds, if not thousands of mortgage-backed securities during the housing bubble because of "credit concerns." One transaction that has focused attention on rating agencies is a Goldman Sachs deal called Abacus, a complex mortgage-related investment that later plunged in value. Both Moody's and Standard & Poor's gave the Abacus deal a AAA rating, the safest rating they offer. The government has filed civil fraud charges against Goldman, alleging it failed to tell investors that one of its clients, hedge fund Paulson & Co., was betting against the securities. Standard & Poor's has not escaped scrutiny. The FCIC focused on Moody's for Wednesday's hearing because commissioners believe the company provides a useful perspective on the broader credit rating industry, FCIC spokesman Tucker Warren said. "It's not always necessary for us to look at every institution within an industry to get the insight we need," Warren said. Standard & Poor's provided documents to FCIC staff. Some of that information could end up the FCIC's final report due Dec. 15, Warren said. It is not the first time the FCIC has singled out a company as a "case study" of the broader industry. An April hearing focused on the role of Citigroup Inc. in spreading toxic mortgage debt through the financial system.

Judge Retires Before Vote On Indian Trust Lawsuit

HELENA, Mont. (AP) — The federal judge who presided over a class-action lawsuit accusing the government of mismanaging Indian trust funds has retired before the Senate could vote on the \$3.4 billion settlement negotiated after 14 years of litigation. Judge James Robertson's retirement as a senior judge in the U.S. District Court in Washington, D.C., took effect on Tuesday, said Robertson's secretary, Marlene Taylor. The judge is in his 70s. Robertson oversaw the negotiations that led to the settlement between the Department of the Interior and the plaintiffs — some 300,000 to 500,000 Indians who own property the government holds in trust for them. The Department of Interior leases that land to others to farm or develop resources and by agreement is supposed to pay the Indians the money generated by the land into Individual Indian Money trust accounts, or IIMs. The plaintiffs claim the government mismanaged those trust accounts for more than a century. The U.S. House of Representatives has approved the settlement, but it also must

be accepted by the Senate. The parties have agreed to extend the May 28 deadline until June 15 for approval mandated by a federal court. Bill McAllister, spokesman for lead plaintiff Louise Cobell of Montana, said Robertson's retirement was a surprise to all but a few, but it is not expected to affect the settlement. The case has been reassigned to District Judge Thomas Hogan, who will preside over a fairness hearing if the Senate approves the settlement. Hogan will be the third judge to preside over the case. A panel of judges from the U.S. Court of Appeals for the District of Columbia Circuit ordered the first judge, Royce Lamberth, removed from the case in 2006, saying he lost his objectivity. The proposed agreement calls for the Interior Department to distribute \$1.4 billion to the plaintiffs. It also requires the government to spend \$2 billion to buy back and consolidate tribal land broken up in previous generations, and create a \$60 million Indian Education Scholarship fund.

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Illustration by Katie Hauser

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