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## Run on Big Wall St. Bank Spurs Rescue Backed by U.S.

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Just three days ago, the head of [Bear Stearns](#), the beleaguered investment bank, sought to assure Wall Street that his firm was safe.

But those assurances were blown away in what amounted to a bank run at Bear Stearns, prompting [JPMorgan Chase](#) and the [Federal Reserve Bank of New York](#) to step in on Friday with a financial rescue package intended to keep the firm afloat.

The move underscores the extreme stresses that the credit crisis has imposed on the financial system and raises the once-unthinkable prospect that major Wall Street firms might fail.

The developments may only postpone the eventual sale of all or part of Bear Stearns, which has had crippling losses on mortgage-linked investments. To keep the 85-year-old firm solvent, JPMorgan, backed by the New York Fed, extended a secured line of credit that gives Bear Stearns at least 28 days to shore up its finances or, more likely, to find a buyer.

News of the bailout ignited fears that other big banks remain vulnerable to the continuing credit crisis, and stocks tumbled in another rocky day for the markets. Financial shares led the way, with shares of Bear Stearns plunging 47 percent. Hours after the rescue was announced, another Wall Street firm, [Lehman Brothers](#), said it had secured a three-year credit line from banks. Its stock fell 15 percent.

Policy makers are likely to spend the weekend dealing with the fallout in the financial system, and potential buyers are already circling Bear Stearns.

As the Wall Street drama unfolded, [Ben S. Bernanke](#), the Federal Reserve chairman, added fresh warnings Friday about a gathering wave of home foreclosures bearing down on American communities.

President Bush, meantime, made his most striking acknowledgment yet of the country's economic troubles, even as he defended his administration's responses so far and warned against more drastic steps by the government to intervene.

"Today's events are fast moving," he said, "but the chairman of the Federal Reserve and the secretary of the Treasury are on top of them and will take the appropriate steps to promote stability in our markets."

The rescue effort began late Thursday evening, when Alan D. Schwartz, Bear Stearns's chief executive, placed an urgent call to [James Dimon](#), his counterpart at JPMorgan Chase. Mr. Schwartz said Bear Stearns was struggling to finance its day-to-day operations, according to several people briefed on the negotiations, a situation that would threaten its survival.

Because JPMorgan settles transactions for Bear Stearns as its main clearing bank, it was in a good position to assess the collateral that Bear Stearns could provide against a loan. But Mr. Dimon insisted on the support of Timothy F. Geithner, president of the New York Fed. Mr. Geithner quickly agreed to the plan.

Assisted by Gary Parr, a top investment banker at Lazard specializing in financial companies, Mr. Schwartz and Mr. Dimon spent the night negotiating the deal, which was not sealed until the early hours of Friday.

The size and terms of the credit line were not disclosed. JPMorgan will borrow the money from the Fed and lend it to Bear Stearns, and the Fed will ultimately bear the risk of the loan.

Meetings between Bear Stearns and prospective suitors have already begun. Interested parties include J. C. Flowers & Company, the private equity investor, and [Royal Bank of Scotland](#), according to people who were briefed on the discussions.

The Fed's intervention highlights the problems regulators face as they contemplate the prospect that investment banks, saddled with toxic securities tied to subprime mortgages, are losing the trust of their lenders and clients — the kiss of death on Wall Street, where confidence has always been the most precious asset of all.

Traditionally regulators have helped commercial banks in financial panics, but not investment banks, which do not hold customer deposits. But the 1999 repeal of the Glass-Steagall Act, the Depression-era law that separated investment banks and commercial banks, led to consolidation within the financial industry that has made such distinctions harder to make.

“I don't remember a Fed action aimed at a noncommercial bank; this is the kind of thing you see in this post-regulatory environment,” said Charles Geisst, a Wall Street historian at [Manhattan College](#).

The developments represent a devastating blow to Bear Stearns, which has carved a niche by mastering the financial arcana of the mortgage market. But after two of its hedge funds that specialized in the subprime mortgage market collapsed last summer, Bear Stearns's area of strength became a millstone.

In a conference call on Friday, Mr. Schwartz, who succeeded [James E. Cayne](#) as chief executive early this year, sounded frustrated as he described the run on Bear Stearns over the previous 24 hours, and raised the possibility that the firm's days as an independent bank were numbered.

“This is a bridge to a more permanent solution and it will allow us to look at strategic alternatives that can run the gamut,” he said. “Investors will be able to see the facts instead of the fiction. We will look for any alternative that serves our customers as well as maximizes shareholder value.”

Only days earlier, Mr. Schwartz, a well-connected investment banker who has been at Bear Stearns since the early 1970s, appeared on television to try to calm market fears that the bank was in trouble. Skittish lenders were already calling in loans made to Carlyle Capital, a bond fund sponsored by the Carlyle private equity group, as well as [Thornburg Mortgage](#), a major mortgage firm. Soon the attention spread to Bear Stearns as market players began to question the firm's ability to finance itself, sending its stock into a tailspin.

By late Thursday, Bear Stearns's top lenders and its hedge fund clients were calling the firm and demanding

their cash back, perhaps encouraged by Mr. Schwartz's comments that the firm's capital and liquidity were strong.

Mr. Schwartz said on Friday that he hoped to find a long-term solution as soon as possible. At its closing price of \$30 a share on Friday, Bear Stearns was trading at a gaping discount to its reported book value of \$80 a share. Mr. Schwartz said that Bear Stearns, which moved up the reporting of its first-quarter results to this Monday, is still likely to have a result in the range of analyst estimates, suggesting a profit and a slight expansion of its book value, the truest measure of its financial condition.

Questions persist, however, concerning the real value of its remaining assets.

While Bear Stearns has valuable businesses like its hedge fund servicing and back office unit, as well as aspects of its real estate operations, they are unlikely to command a high price given the current market. But Mr. Dimon, despite having expressed reservations on buying another investment bank, could bid for all or part of Bear Stearns at a discounted price. Bear Stearns might accept his offer if it cannot solicit a competing bid.

The troubles at Bear Stearns have come quickly and savagely and hurt some of the putatively smartest money in finance. From Joseph Lewis, the Bermuda-based billionaire who bought \$1 billion of Bear Stearns shares last summer, when the stock was trading at \$100 and above, to William Miller, the vaunted value investor at [Legg Mason](#), those who have wagered on a turnaround at Bear Stearns are many.

As the smallest of the major Wall Street banks, Bear Stearns disdained the big bets that its larger competitors made and shied away from trendy markets like Internet stocks in the 1990s.

But as its core mortgage business flourished during the housing boom from 2003 to 2006, Bear Stearns, under the guidance of Mr. Cayne, succumbed to the fervor of the time. Bear Stearns's stock price soared and hit a high of \$171, making Mr. Cayne, who owns 5 percent of Bear Stearns, a billionaire for a brief moment.

The demise of the hedge funds began a slow but persistent loss of market confidence in the bank. Such an erosion can be devastating for any investment bank, especially one like Bear Stearns, which has a leverage ratio of over 30 to 1, meaning it borrows more than 30 times the value of its \$11 billion equity base.

"The public has never fully understood how leveraged these institutions are," said Samuel L. Hayes, a professor of investment banking at Harvard Business School. "But the market makers understand this inherent risk. This is a run on the bank, just like Long-Term Capital Management, Kidder and Drexel Burnham."

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