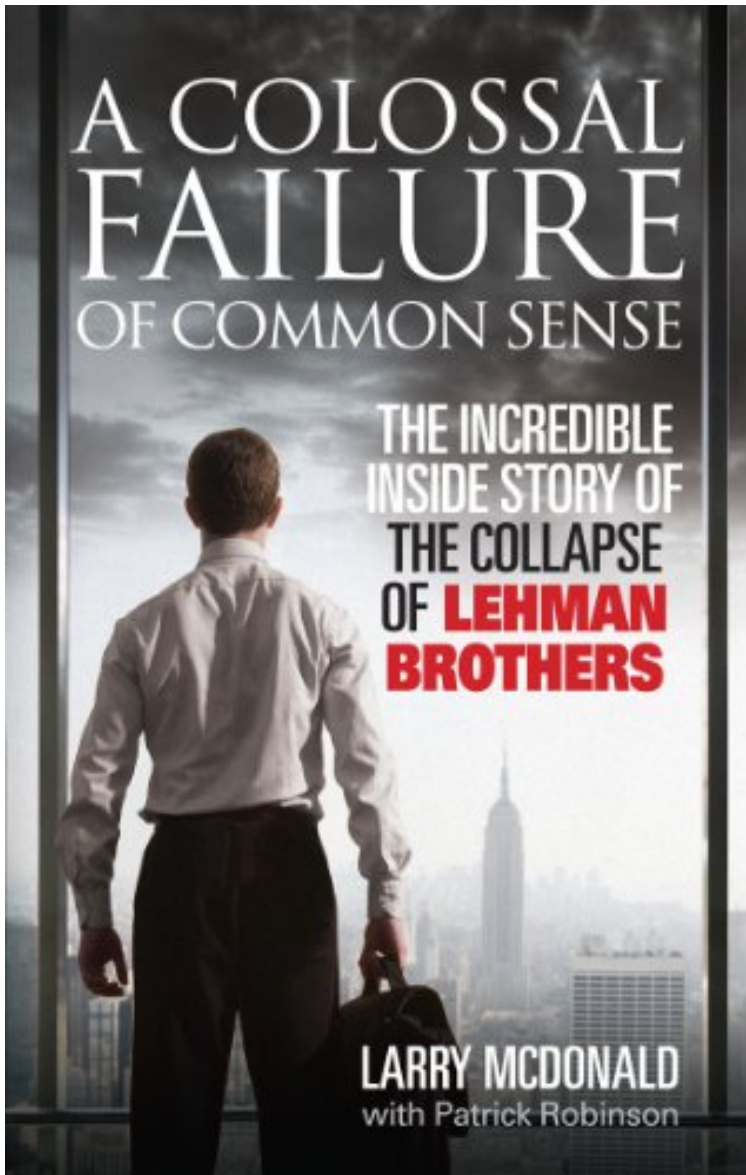


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A Colossal Failure of Common Sense: The Incredible Inside Story of the Collapse of Lehman Brothers



Par Larry McDonald
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Description :

Prsentation de l'diteurWhen Lehman Brothers bank went under, the world gasped. One of the world's biggest and most successful banks, its downfall was the event that sparked the slide of the world economy toward a Great Depression II.This is the gripping inside story of the dark characters who ruled Lehman, who refused

to heed warnings that the company was headed for an iceberg; the world-class, mid-level people who valiantly fought to get Lehman off its disastrous course; the crash that didn't have to happen. A news-breaking explanation that answers the question everyone still asks: "why did it happen?" Larry McDonald, a former vice-president at Lehman Brothers in charge of distressed debt trading and convertible securities, was right at the centre of the meltdown of the company and gives an intimate look at the madhouse that Lehman became. This book shows beyond a doubt that Richard Fuld, the long-time CEO of Lehman, and his top executives, were totally out to lunch, allowing Lehman's risk profile to reach gargantuan proportions. While the traders, like Larry McDonald, clearly predicted more than two years in advance that the market for packaged subprime mortgages and credit default swaps would evaporate, the high-flying Lehman bosses pushed hard on the gas pedal until the very end.

Extrait Prologue I still live just a few city blocks away from the old Lehman Brothers headquarters at 745 Seventh Avenue six blocks, and about ten thousand years. I still walk past it two or three times a week, and each time I try to look forward, south toward Wall Street. And I always resolve to keep walking, glancing neither left nor right, locking out the memories. But I always stop. And I see again the light blue livery of Barclays Capital, which represents for me, at least the flag of an impostor, a pale substitute for the swashbuckling banner that for 158 years was slashed above the entrance to the greatest merchant bank Wall Street ever knew: Lehman Brothers. It was only the fourth largest. But its traditions were those of a banking warrior the brilliant finance house that had backed, encouraged, and made possible the retail giants Gimbel Brothers, F. W. Woolworth, and Macys, and the airlines American, National, TWA, and Pan American. They raised the capital for Campbell Soup Company, the Jewel Tea Company, B. F. Goodrich. And they backed the birth of television at RCA, plus the Hollywood studios RKO, Paramount, and 20th Century Fox. They found the money for the Trans-Canada oil pipeline. I suppose, in a sense, I had seen only its demise, the four-year death rattle of twenty-first-century finance, which ended on September 15, 2008. Yet in my mind, I remember the great days. And as I come to a halt outside the building, I know too that in the next few moments I will be engulfed by sadness. But I always stop. And I always stare up at the third floor, where once I worked as a trader on one of the toughest trading floors on earth. And then I find myself counting all the way up to thirty-one, the floor where it all went so catastrophically wrong, the floor that housed the royal court of King Richard. That's Richard S. Fuld, chairman and CEO. Swamped by nostalgia, edged as we all are by a lingering anger, and still plagued by unanswerable questions, I stand and stare upward, sorrowful beyond reason, and trapped by the twin words of those possessed of flawless hindsight: if only. Sometimes I lie awake at night trying to place all the if-lys in some kind of order. Sometimes the order changes, and sometimes there is a new leader, one single aspect of the Lehman collapse that stands out above all others. But it's never clear. Except when I stand right here and look up at the great glass fortress which once housed Lehman, and focus on that thirty-first floor. Then it's clear. Boy, is it ever clear. And the phrase if only slams into my brain. If only they had listened Dick Fuld and his president, Joe Gregory. Three times they were hit with the irredeemable logic of three of the cleverest financial brains on Wall Street those of Mike Gelband, our global head of fixed income, Alex Kirk, global head of distressed trading research and sales, and Larry McCarthy, head of distressed-bond trading. Each and every one of them laid it out, from way back in 2005, that the real estate market was living on borrowed time and that Lehman Brothers was headed directly for the biggest subprime iceberg ever seen, and with the wrong men on the bridge. Dick and Joe turned their backs all three times. It was probably the worst triple since St. Peter denied Christ. Beyond that, there were six more if-lys, each one as cringemakingly awful as the last. If only Chairman Fuld had kept his ear close to the ground on the inner workings of his firm both its triumphs and its mistakes. If he had listened to his generals, met people who formed the heart and soul of Lehman Brothers, the catastrophe might have been avoided. But instead of this, he secluded himself in his palatial offices up there on the thirty-first floor, remote from the action, dreaming only of accelerating growth, nursing ambitions far removed from reality. If only the secret coup against Fuld and Gregory had taken place months before that clandestine meeting in June 2008. If the eleven managing directors who sat in ostensibly treasonous but ultimately loyal comradeship that night had acted sooner and removed the Lehman leaders, they might have steadied the ship, changing its course. If only the reign of terror that drove out the most brilliant of Lehman's traders and risk takers had been halted earlier, perhaps in the name of common sense. The top managers might have marshaled their forces immediately when they saw giants such as Mike Gelband being ignored. If only Dick Fuld had kept his anger, resentment, and rudeness under control. Especially at that private dinner in the spring of 2008 with Hank Paulson, secretary of the United States Treasury. That was when Fuld's years of smoldering envy of Goldman Sachs came

cascading to the surface and caused Paulson to leave furious that the Lehman boss had disrespected the office he held. Perhaps that was the moment Hank decided he could not bring himself to bail out the bank controlled by Richard S. Fuld. If only President George W. Bush had taken the final, desperate call from Fuld's office, a call made by his own cousin, George Walker IV, in the night hours before the bank filed for Chapter 11 bankruptcy. It might have made a difference. If only . . . if only. Those two words haunt my dreams. I go back to the fall of Lehman, and what might have made things different. For most people, victims or not of this worldwide collapse of the financial markets, it will be, in time, just water over the dam. But it will never be that for me, and my long background as a trader and researcher has prompted me many times to burrow down further to the bedrock, the cause of the crash of 2008. I refer to the repeal of the Glass-Steagall Act in 1999. If only President Clinton had never signed the bill repealing Glass-Steagall. Personally, I never thought he much wanted to sign it, but to understand the ramifications it is necessary to delve deeper, and before I begin my story, I will present you with some critical background information, without which your grasp might be incomplete. It's a ten-minute meadow of wisdom and hindsight, the sort of thing I tend to specialize in. The story begins in the heady, formative years of the Clinton presidency on a rose-colored quest to change the world, to help the poor, and ended in the poisonous heartland of world financial disaster. Roberta Achtenberg, the daughter of a Russian-born owner of a Los Angeles neighborhood grocery store, was plucked by President Clinton from relative obscurity in 1993 and elevated to the position of assistant secretary of the Department of Housing and Urban Development. Roberta and Bill were united in their desire to increase home ownership in poor and minority communities. And despite a barrage of objections led by Senator Jesse Helms, who referred to Achtenberg as that damn lesbian, the lady took up her appointment in the new administration, citing innate racism as one of the main reasons why banks were reluctant to lend to those without funds. In the ensuing couple of years, Roberta Achtenberg harnessed all of the formidable energy on the massed ranks of United States bankers, sometimes threatening, sometimes berating, sometimes bullying anything to persuade the banks to provide mortgages to people who might not have been up to the challenge of coping with up-front down payments and regular monthly payments. Between 1993 and 1999, more than two million such clients became new homeowners. In her two-year tenure as assistant secretary, she set up a national grid of offices staffed by attorneys and investigators. Their principal aim was to enforce the laws against the banks, the laws that dealt with discrimination. Some of the fines leveled at banks ran into the millions, to drive home Achtenberg's avowed intent to utilize the law to change the ethos of providing mortgage money in the United States of America. Banks were compelled to jump into line, and soon they were making thousands of loans without any cash-down deposits whatsoever, an unprecedented situation. Mortgage officers inside the banks were forced to bend or break their own rules in order to achieve a good Community Reinvestment Act rating, which would please the administration by demonstrating generosity to underprivileged borrowers even if they might default. Easy mortgages were the invention of Bill Clinton's Democrats. However, there was, in the mid- to late 1990s, one enormous advantage: amid general prosperity, the housing market was strong and prices were rising steadily. At that point in time, mortgage defaults were relatively few in number and the securitization of mortgages, which had such disastrous consequences during the financial crisis that began in 2007, barely existed. Nonetheless, there were many beady-eyed financiers who looked askance at this new morality and privately yearned for the days when bank policies were strictly conservative, when credit was flatly denied to anyone without the proven ability to repay. And at the center of this seething disquiet, somewhere between the persuasive silken-tongued members of the banking lobby and the missionary zeal of Roberta Achtenberg, stood William J. Clinton, whose heart, not for the first time, may have been ruling his head. He understood full well the goodwill he had engendered in the new home-owning black and Hispanic communities. But he could not fail to heed the very senior voices of warning that whispered, There may be trouble ahead. President Clinton wanted to stay focused with the concerns of the bankers, many of whom were seriously upset by Achtenberg's pressure to provide shaky mortgages. And right before the president's eyes there was a related situation, one that had the deepest possible roots in the American financial community. This was the fabled Glass-Steagall Act of 1933, the post-Wall Street crash legislation that prevented commercial banks from merging with investment banks, thus eliminating the opportunity for the high-rolling investment guys to get their hands on limitless supplies of depositors' money. Glass-Steagall was nothing short of a barrier, and it stayed in place for more than sixty years, but the major U.S. banks wanted it abolished. They tried but failed in 1988. It would take another four years for this Depression-era legislation to come once more under attack. President Clinton understood the ramifications, and he was wary of the reform, wary of seeming to be

allied with the power brokers of the biggest banks in the country. He understood the complexities of the Glass-Steagall Act, its origins, and its purposes principally to prevent some diabolical investment house from plunging in big on a corporation like Enron and going down with a zillion dollars of small depositors cash. No part of that did President Bill need. On one hand was the belief of the main U.S. clearing banks that such mergers would strengthen the whole financial industry by increasing opportunities for hefty profits. But there were many people running small banks who were fearful that a repeal of Glass-Steagall would ultimately lead to large conglomerates crushing the life out of the minnows. President Clinton always kept a weather eye on history, and he was aware the commercial banks, with their overenthusiastic investments in the stock market, had essentially taken the rap for the crash of 1929. They were accused of crossing a forbidden line, of buying stock in corporations for resale to the public. It had been too risky, and the pursuit of huge profits had clouded their judgment. The man who had stood firmly in the path of the gathering storm of the 1930s was Virginia senator Carter Glass, a former treasury secretary and the founder of the U.S.

Federal Reserve System. The somewhat stern Democratic newspaper proprietor was determined that the commercial banks and the investment banks should be kept forever apart. He was supported by the chairman of the House Banking and Currency Committee, Alabama congressman Henry Bascom Steagall, and it was their rigid legal barricade that did much to solve Wall Streets greatest-ever crisis. The biggest banks were thenceforth prevented from speculating heavily in the stock markets. But even then, a lot of people thought it was a harsh and restrictive law. With President Clinton in office for only three years, the major banks once more marshaled their forces to try for a third time to repeal Glass-Steagall, and once more it all came to nothing, with the nations small banks fighting tooth and nail to hold back a system they thought might engulf them. But in 1996 they failed once more. In the early spring of 1998, however, a Wall Street detonator exploded, sending a sharp signal that the market was willing to go it alone despite the politicians.

On April 6 Citicorp announced a merger with Travelers Insurance, a large corporation that owned and controlled the investment bank Smith Barney. The merger would create a vast conglomerate involved with banking, insurance, and securities, plainly in defiance of Glass-Steagall. The House scrambled to put a reform bill together, but the issue died in the Senate after it became clear that President Clinton had many concerns and was almost certain to veto it. The \$70 billion merger between Citicorp and Travelers went right ahead regardless. The result was a banking giant, the largest financial conglomerate in the world, and it was empowered to sell securities, take deposits, make loans, underwrite stocks, sell insurance, and operate an enormous variety of financial activities, all under one name: Citigroup. The deal was obviously illegal, but Citigroup had five years to get the law changed, and they had very deep pockets. Senators harrumphed, and the president, concerned for the nations smaller banks, worried. However, the most powerful banking lobbies in the country wanted Glass-Steagall repealed, and they bombarded politicians with millions of dollars worth of contributions. They cajoled and pressured Congress to end this old-fashioned Depression-era law. Inevitably they won. In November 1999, the necessary bills were passed 5444 in the Senate and 34386 in the House of Representatives. In the ensuing days the final bipartisan bill sailed through the Senate, 908 with one abstention, and the House, 36257 with fifteen abstentions. Those margins made it vetoproof. I remember the day well. All my life my dad had been telling me that history inevitably repeats itself. And here I was listening to a group of guys telling me it was all different now, that everything was so much more sophisticated, doorstep of the twenty-first century and all that, so much more advanced than 1933. Oh, yeah? Well, I never bought it. Its never different. I knew that Glass-Steagall had been put in place very deliberately to protect customer bank deposits and prevent any crises from becoming interconnected and forming a house of cards or a row of dominoes. Carter Glasss bill had successfully kept the dominoes apart for more than half a century after his death. And now that was all about to end. They were moving the pieces, pressing one against the other. I remember my concern as I watched the television news on November 12, 1999. The action on the screen was flying in the face of everything my dad had told me. I was watching President Clinton step up, possibly against his better judgment, and sign into law the brand-new Financial Services Modernization Act (also known as Gramm-Leach-Bliley), repealing Glass-Steagall. In less than a decade, this act would be directly responsible for bringing the entire world to the brink of financial ruin. Especially mine. *Revue de presse...* gives the readers a visceral sense of what it was like to work at Lehman Brothers and the fateful decisions and events that led to the companys death spiral... Michiko Kakutani, *The New York Times* Highly readable A Colossal Failure of Common Sense largely rings true. It expresses the anger that many former Lehman employees still feel toward Mr. Fuld. And it convincingly characterizes the investment bank as a house divided against itself, between the bears who had foreseen bubbles and the bulls who

wrongly believed that this time was different. The Economist ... describes a CEO acting as if his firm was too big to fail. Wall Street Journal ... poignantly told... from an insider [who] witnessed, often in amazement and disgust, the corporate dysfunction and hubristic leadership that led to [Lehmans] demise. BusinessWeek ... engaging and even funny. Fortune From the Hardcover edition.