

Bear Stearns and Ripping the Middle Class in Style

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The remarks on April 3, 2008 to the Senate Finance Committee by Bear Stearns (BSC) CEO, Alan Schwartz, are another bright example of how far removed from responsibility and the environment that some high class people have become. To suggest that rumors alone caused the near collapse of a \$30 billion company is like saying that Enron collapsed under the weight of paper. Schwartz claims that his company is solid financially and that the liquidity crisis was based upon false allegations and harsh rumors. These rumors, in his opinion, caused a self-fulfilling prophecy of collapse. This while there has been a general sell-off of BSC stock by directors and company officers especially in December of 2007 (Yahoo Finance, Apr 2008).

The fact that these guys are managing money and assets for average Americans seeking and building retirement savings and nest eggs is even more appalling since these savings were put into jeopardy by the inconsequential attitudes of the Bear Stearns leadership. To say that the rumors precipitated the collapse is to disregard facts about the complex securities underwritten by the company and risky investments that were pushed forward by the company. The company needed to be taken over, or to declare bankruptcy, because the company was over-leveraged, under secured, and poorly managed.

This collapse would have supposedly had tremendous ripple effects throughout the financial sectors due to the complexity of the securities and the investments that were mutually held or represented by Bear Stearns. What caused investors to "run on the bank" within hours of hearing Schwartz make reassurances March 12 on CNBC? Goldman Sachs decides to stop insuring BSC derivatives and credit defaults which "spooks" Wall

Street. This is not rumor. This is someone looking into the matter more thoroughly saying that I, as a cautious investor, can not risk what you are selling or telling me. This could be competitive manipulation, but others bought the story and sold as well.

This comes to light because the Federal Reserve decides to intervene by helping Bear Stearns look like an attractive take over candidate by JP Morgan. JP Morgan would not sign the deal unless the Fed underwrote a guarantee of \$30 billion of the assets said JP Morgan's Jamie Dimon. All at the same time while regular Americans foot the bill and would never have seen this quick of action on their emergency issues as Senator Christopher Dodd is suggesting. The story is being told that government is good for bailing out excessive risk but not for average working Americans trying to go to college or to pay for medical care. The officers of BSC walk away from the issue with profit taking in the millions for themselves while institutional investors and assets dependent upon Bear Stearns saw more than 87% drop in the value of the BSC security.

The housing market has only begun to show the problems in the financial markets with respect to credit and credit default securities. These same securities are backing educational and auto loans as well. As more and more people find themselves in swirling amounts of debts and rising unemployment puts more people into unstable financial situations, these securities are going to be affected as well. In addition, some private student loans are resetting which furthers the tightening credit situation for the average American.

The deregulation of financial sectors has only served to undermine the regulatory legislative efforts to avoid a similar 1929 crash by terming derivatives and derivative defaults securities as something other than insurance. Banks found ways to make money

off of securities, the sale of them, and then made "derivative" offers. They basically figured a way to sell paper that was based upon a mortgage thereby passing the liability of the mortgage or the collateral to the security rather than having to hold assets to cover the loan.

The bad thing is that mortgages are not the only thing being treated like this. Loans are being offered in the market and insured by worthless default agreements. When banks go to collect on house payments, they are finding that strapped Americans can not make payments on other items as well. These derivatives and securities are the basis for many "assets" on the books, but in fact are liabilities.

The Economist (April 3, 2008) details how the banking industry has continuously since Reagan years fought to deregulate the markets by claming too much complexity. In computer programming, one would say that a program that has too complex code to write is too complex to support. This also provides for many problems in code since problems can not always easily be identified with complex code. The same thing applies to banking instruments. If there is too much complexity, perhaps the instrument is too complex and hiding valuable required information about the security or loan. If you can not audit the security with reasonable certainty of transparency, there is an obvious attempt to deceive.

When people's livelihoods and retirements are dependant upon sound financial arrangements, deception destroys the trust and the foundation of the financial system. We, the people, are hurt by the irresponsible actions and destructive greediness.

Bear Stearns and Wall Street in general exhibit too much arrogance (or plain ignorance) over what is happening to the middle class thanks to the great devices to make

more profit when there was none. The underlying issues here pervade the entire economy not just the housing industry and may prove to be more costly than we ever anticipated thanks to greedy and careless bankers.

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