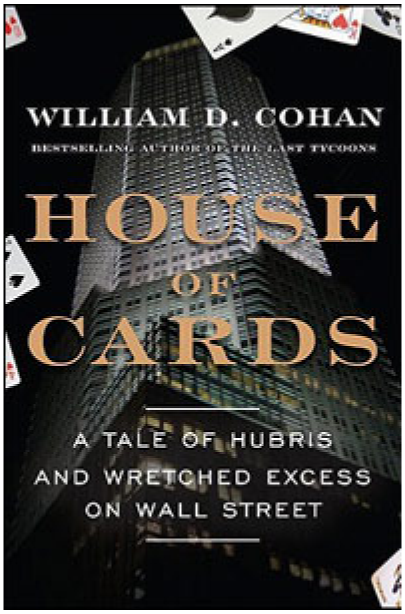


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# House of Cards

## A Tale of Hubris and Wretched Excess on Wall Street

**Author:** William D. Cohan (1960- )
**Publisher:** Doubleday (New York). 468 pp. $27.95
**Type of Work:** Current affairs, economics
**Time:** 2008
**Locale:** New York City

*A narrative of the March, 2008, collapse of Bear Stearns & Co., the fifth largest investment bank in the United States and the first victim of the subprime mortgage debacle, its fate being a harbinger of the global financial disaster later that year*

**Principal Personages**
**James A. Cayne**, chairman of the board of Bear Stearns & Co.
**Alan Schwartz**, president and chief executive officer of Bear Stearns & Co.
**James L. Dimon**, president and chairman of the board of JPMorgan Chase
**Henry M. Paulson**, U.S. secretary of the Treasury

On March 5, 2008, an investment analyst in Florida posted an opinion on his Web site that Bear Stearns & Co., the fifth largest investment bank in the United States, was effectively insolvent. On the surface this seemed strange. In 2007, *Fortune* magazine praised Bear Stearns as the most admired securities firm in the United States. The company had an $18 billion cash reserve and was about to announce a profit for the previous quarter. Nevertheless, the analyst was right. Ten days later, the eighty-six-year-old firm no longer existed. Fearing its bankruptcy might threaten the stability of the global financial system, the Federal Reserve and U.S. Treasury forced the company to sell itself to JPMorgan Chase for a pittance.

The first third of William D. Cohan's *House of Cards: A Tale of Hubris and Wretched Excess on Wall Street* consists of a riveting day-to-day, blow-by-blow account of those dramatic ten days. The next three hundred pages examine the history of the firm, describing its success and the reasons that it found itself so badly exposed in the early days of the economic downturn of 2008.

The Florida analyst was not the only one to view Bear Stearns with suspicion. Rumors that the firm faced a liquidity crisis swept Wall Street. Oblivious to the impending storm, the top management left town. On March 6, president and chief executive officer (CEO) Alan Schwartz went to a media conference in Palm Beach, Florida; chairman of the board James A. Cayne, a championship-level bridge player, was in Detroit taking part in a major tournament.

On Friday, March 7, a European bank informed Bear Stearns that it would no longer provide short-term financing. This was a major blow because investment banks depended on short-term loans to finance their operations. Often these were overnight "repo" (repurchase agreement) loans in which Bear Stearns "sold" securities that it held to a lender promising to buy it back the following day and pay interest on the loan. Normally these loans could be renewed easily—if the borrower seemed certain to repay.

Readers of *House of Cards* need not worry if they do not understand the various financial terms such as "repo," CDO, and credit default swaps with which the book is strewn. On the evidence of this book, neither did financial experts at the biggest investment houses on Wall Street. At Bear Stearns, the operating capital of the firm depended on short-term (mostly one-day) loans, often using subprime mortgage bonds as collateral. No one seemed aware of or concerned about the risk that the firm could become insolvent in twenty-four hours if its reliability was questioned.

On Monday, March 10, Bear Stearns assured customers that it faced no problems; the statement only increased market rumors and anxiety. Hedge funds began withdrawing cash; lenders demanded more collateral. On Wednesday, CEO Schwartz, interviewed on television from Palm Beach, uttered vague reassurances that convinced no one. The run on the bank continued. At the start of the day Thursday, March 13, the firm had $18 billion in cash. At the close of trading, this amount had dwindled to $2-3 billion, not enough to open the next day. Incredibly, Thursday night was the first time the chairman of the board, busy playing bridge in Detroit, or any other member of board of directors, was informed that the firm had a problem.

Fearful that the failure of Bear Stearns would set off a worldwide market panic, the Federal Reserve Bank of New York and JPMorgan Chase advanced sufficient cash for Bear Stearns to open Friday. News of the rescue brought increased pressure on Bear Stearns. The Federal Reserve and U.S. Treasury concluded that Bear Stearns needed to sell itself to another firm. They would guarantee $30 billion of Bear Stearns's assets but insisted that the deal had to be completed before Asian markets opened Monday (7 P.M. Sunday night in New York).

The brokerage firm hired to find a buyer (paid $20 million for its efforts) could locate only one bank willing to take on the burden—JPMorgan Chase, whose president