



***Bear Stearns:
An Innovative Disaster***

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Bear Stearns – A Little Background

- Was one of the largest global investment banks and brokerage firms
- Employed more than 14,000
- 2005-2007 was on Fortune's most admired companies for quality of management and business innovation
- Total assets in 2006 equaled \$395 billion

•"Bear Stearns." Answers.com. <http://www.answers.com/topic/bear-stearns>

•"Five Facts on Bear Stearns and JP Morgan. Reuters." <http://www.reuters.com/article/topNews/idUSN1461674220080314>





Bear Stearns – A Little Background (Cont.)

- They were at the forefront in the asset-backed securities market
- As losses began in 2006, they increased their exposure to mortgage-backed securities

•“Bear Stearns.” Answers.com. <http://www.answers.com/topic/bear-stearns>





What Went Wrong?

- In 2007 Bear had \$13 trillion in derivative instruments
- They had \$11 billion in equities that supported \$400 billion in assets
- This means they were leveraged 35 to 1





Subprime Mortgages

- July 2007 two large subprime mortgages were valued at almost zero
- September 2007 they wrote down \$1.2 billion in mortgage-related securities

• "Bear Stearns Profit Plunges 61% on Subprime Woes", *New York Times*, 2007-09 21, <http://www.nytimes.com/2007/09/21/business/20cnd-wall.html>.





Where It All Went Wrong ...

- The Fed provided a 28-day loan to Bear Stearns to prevent a complete crash
- Companies wouldn't lend to one another because of the fear of insolvency
- This led to the “Credit Crunch”

•[FRONTLINE: Inside the Meltdown - You Have a Weekend to Save Yourself](#)





Mortgage Backed Securities (MBS)

- Grouped a bunch of B-rated mortgages together



- Claimed that risk was now diversified and that same group was now rated much higher



Bear Stearns Today



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BEAR
STEARNS

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- March 2008- Fed's backed the purchase of Bear Stearns by JP Morgan
- Feb 2008 share price was \$93/share
- Sale price= \$2/share
- Lawsuits followed shortly after

• Ross, Andrew (March 17, 2008). "JP Morgan Pays \$2 a Share for Bear Stearns". <http://www.nytimes.com/2008/03/17/business/17bear.html>.

• [Fed Aided Bear Stearns as Firm Faced Chapter 11, Bernanke Says](#). Bloomberg.

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How Financial Innovation Killed Bear Stearns

- Real estate price decline hurt their mortgage-related business
- Leveraged assets began to lose value making it impossible to properly back up securities





Questions

