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Transcript of Alan Schwartz on CNBC Squawk

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**Alan Schwartz on CNBC's Squawk on the Street
Wednesday, March 12, 2008 at 9:06AM**

David Faber (DF): It's been a hard week for shares of Bear Stearns as the firm has been buffeted by the constant rumors of the liquidity problem. Bear maintains that they're strong. The stock, which rallied yesterday, is still down 17% over the last five trading sessions. Joining me now first on CNBC is Alan Schwartz, Bear Stearns' President and CEO. Thanks so much for being here this morning.

Alan Schwartz (AS): Good morning, David.

DF: Good Morning. Let me start off with this broad idea that's been in the market now for a few days and pressuring your stock, namely that counterparty risk is something -- new counterparty risk -- is something that a number of firms on Wall Street no longer want to take in terms of dealing with Bear Stearns. Is that true?

AS: No, it's not true. We are -- there's been a lot of volatility in the market, a lot of disruption in the market and that's causing some pressure administratively on getting some trade settled out. We're working hard, getting that done. We're in a constant dialogue with the major dealers and the counterparties on the Street. We are not being made aware of anybody who is not taking our credit as a counterparty.

DF: When I'm told by a hedge fund I know well that last night they tried to close out a mortgage credit protection, mortgage position with Goldman Sachs that they had bought a year ago, Bear was the low bid. And I'm told that Goldman would not accept the counterparty risk of Bear Stearns. You're saying you're not aware that would be the case?

AS: I'm not aware of a specific trade from one counterparty to another. And where you're a third party, we have direct dealings with all of these institutions and we have active markets going with each one and our counterparty risk is not been a problem.

DF: Why is all this out there to begin with? You know, what do you think is causing these rumors? The stock recovered after being down as much as 11%. It's been quite weak. The company has denied, you're saying there are no problems. Where does all this come from?

AS: Well, you know, it's very hard to say. Why do rumors start? If I had to speculate, I would say last week was difficult time in the mortgage business. There was talk about problems at GSEs. There were certainly some problems with some funds that were invested in very high quality instruments but on a lot of leverage and there were some problems there. And, you know, some people could speculate that Bear Stearns might have some problems in there since we're a significant player in the mortgage business. None of those speculations are true. But if the market -- is concerned about things.

Erin Burnett: I'm sorry to jump in here. I just want to jump in here. Breaking news though we do want you to know, New York City officials confirming that New York governor Eliot Spitzer will resign today. Formal resignation, we don't have it. It is confirmed the governor of New York will resign today. More headlines as we get them. David, let's hand it back in to you now.

DF: Thank you for that perhaps not unexpected news. Sorry to cut you off, Alan.

AS: That's okay, David. Maybe I could just say this. I think that part of the problem is that when speculation starts in a market that has a lot of emotion in it and people are concerned, about the

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volatility, then people will sell first and ask questions later. And that creates its own momentum. You know, we put out a statement. I did, that our liquidity and balance sheet are strong. Maybe I should expand on that a little bit.

DF: Why don't you? When you say something like that, give me some examples. You had said an interview about two months ago. You had just taken the job. You were fairly positive in terms of bear taking the marks you thought were necessary, having treated its balance sheet conservatively in terms of level three assets. Have things changed over the last two months, have they gotten worse?

AS: The markets have certainly gotten worse. But our liquidity position has not changed at all. The balance sheet hasn't weakened at all. What I did say to you a few months ago is we had spent last year moving away from any reliance on the unsecured markets into secured facilities. Using our collateral to borrow against and we finished the year and we reported that we had a \$17 billion of cash sitting at the parent company as a liquidity cushion. As the year has gone on since year-end, that liquidity cushion has been unchanged. We still have many, many billions, 17 billion or so, of excess cash sitting on the balance sheet. At the holding company as a liquidity cushion, that's in addition to billions of dollars of cash and unpledged collateral that are at our subsidiaries. We don't see any pressure on our liquidity, let alone a liquidity crisis.

DF: We have a couple of minutes left. You can't talk specifically about earnings. I think they'll be reported in nine days. The estimates are out there that you're going to earn money. 97 cents I think is where the analysts are for your fiscal first quarter. Does that seem accurate? Is there anything you want to tell us broadly here about whether Bear Stearns is going to earn money for the first quarter?

AS: Well, let me say, as we put together, we closed the books; I don't want to comment too specifically on earnings. Let me just say there's a range of estimates out there, all of them that were profitable for the quarter. I think there's a range of estimates that I am aware of and I think as we close the books I'm comfortable with the range of estimates that are out there for us currently. It was a difficult quarter. We talked about having marked our positions appropriately. We also talked at year-end, David, about having put on hedges against those positions.

DF: Right.

AS: To protect against further spread widening. What happened in the quarter was clearly some of the markets got worse. Some of our inventory did have to be marked down again to reflect changes in the marketplace. Fortunately, you know, our hedges have worked reasonably well in that regard. And so while there have been difficulties continued in some areas of Fixed Income, there's also been strong activity across the board in our Global Equities business and in the Rates business in some areas. So, you know, it's been a difficult environment but I'm comfortable we'll be in the range of the estimates.

DF: Yesterday the Fed's move, market reacted positively. Do you think it's enough? What's your sense in terms of, are things going to worsen or are they going to start to get better in terms of the de-leveraging and the credit crisis?

AS: I think there will be a bunch of volatility. I think the Fed's moves, as opposed to making any one of them so much better. They understand it's not just the level of interest rates and the technicals of the market that have been difficult. I think they're looking at a variety of ways to make sure that liquidity is available to all of us as dealers to be able to finance appropriately our customer activities. I think we'll continue to do that. And I think the situation with time will stabilize.

DF: Alan Schwartz, thank you so much for being here this morning. Appreciate it.

AS: Thank you, David.