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### Statement by Former President and the Chief Executive Officer of Bear Stearns, Alan D. Schwartz, Before the FCIC

Alan D. Schwartz

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**STATEMENT OF ALAN D. SCHWARTZ  
BEFORE THE FINANCIAL CRISIS INQUIRY COMMISSION  
May 5, 2010**

Good Morning, Chairman Angelides, Vice-Chairman Thomas, Members of the Commission.

My name is Alan Schwartz. I appreciate the opportunity to testify before the Commission, and look forward to assisting the Commission in its very important work. People from Wall Street to Main Street have suffered as a result of the financial crisis, and Americans deserve answers to the vital questions your Commission is exploring.

I was the President and the Chief Executive Officer of Bear Stearns from January 2008 until March 2008, when it became the first firm to fall victim to the credit and liquidity crisis. Bear Stearns was my professional life for over 32 years. I joined Bear Stearns in 1976 at age 25, and worked my way up through the research, sales and investment banking side of the business. I served on the firm's Executive Committee since 2001. My colleagues at Bear Stearns were among the finest groups of people I have ever been associated with and I will always be proud to have been part of that organization.

Throughout the period when I held these positions, Bear Stearns' management in my view attempted to manage the firm prudently to meet the difficult financial conditions as it foresaw them.

One step that we took during my tenure at Bear Stearns was to increase our secured funding lines and reduce Bear Stearns' reliance on unsecured financing. We took this step because we believed that secured funding was more reliable and that financing against liquid, high quality collateral would enable Bear Stearns to finance itself even in a challenging economic environment.

Over the course of 2007, the stress of the mortgage markets expanded beyond sub-prime and began to impact other areas of the market. We took markdowns of \$700 million for the third quarter of 2007 and \$1.9 billion for the

fourth quarter in connection with the declining values of our mortgage-backed assets. Although 2007 was a profitable year for the firm, we reported a net loss for the fourth quarter, the first quarterly loss in the firm's long history. Despite the firm's profitability that year, we made the decision that no member of the Executive Committee would be paid a bonus for that year.

It is important to note that even as it negotiated this stormy economic environment, Bear Stearns was well-capitalized and had liquidity well in excess of regulatory standards. We had taken steps to build up our parent company liquidity pool in 2007 and by early 2008 we had a significant liquidity cushion. Bear Stearns also raised at least \$2.5 billion in financing during 2007. At all times, Bear Stearns was compliant with the SEC's Consolidated Supervised Entities program's capital and liquidity requirements. As we closed the books on the first quarter of 2008, that quarter was projected to be a profitable one.

Despite these facts, during the week of March 10, 2008, unfounded rumors and attendant speculation began circulating that Bear Stearns was in the midst of a liquidity crisis. Due to the stressed condition of the credit market as a whole and the unprecedented speed at which rumors and speculation travel and echo through the modern financial media environment, the rumors and speculation continued throughout the week. The rumors thus became a self-fulfilling prophecy: there was, simply put, a run on the bank.

On Thursday of that week our liquidity cushion dropped precipitously and we worked through the night to find emergency funding of sufficient duration to stabilize Bear Stearns and to give us an opportunity to find a partner willing to enter into a transaction to salvage the Company. Our efforts ultimately resulted in a transaction pursuant to which JP Morgan Chase agreed to acquire Bear Stearns for \$10 a share. Through that transaction, we were able to preserve Bear Stearns' value to the greatest extent possible under the circumstances for our shareholders, our 14,000 employees, and our creditors.

I have given much thought to the events that led up to that fateful week in March 2008, and believe that we took all the appropriate steps that we could to try to survive the storm that was breaking upon us. In the end, however, it was not enough, although I wish it were otherwise. I believe that we did not foresee the extent to which housing prices had been driven to unsustainable levels. We, like many other financial institutions, relied on the belief that the market for highly rated tranches of structured securities, including those supported by Fannie Mae

and Freddie Mac mortgages, would remain liquid but when the markets for those securities became frozen it left the firm susceptible to rumor and speculation. Despite all of our efforts, Bear Stearns was unable to weather this period of unprecedented market dislocation. I am optimistic that policymakers will consider regulatory solutions that minimize these kinds of risks in the future.

Thank you for your time. I am here to answer any questions you may have.