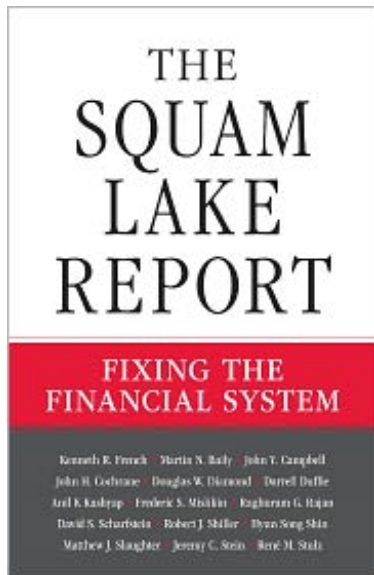


Crisis Resolution for Firms and Countries: A U.S. Perspective

René M. Stulz



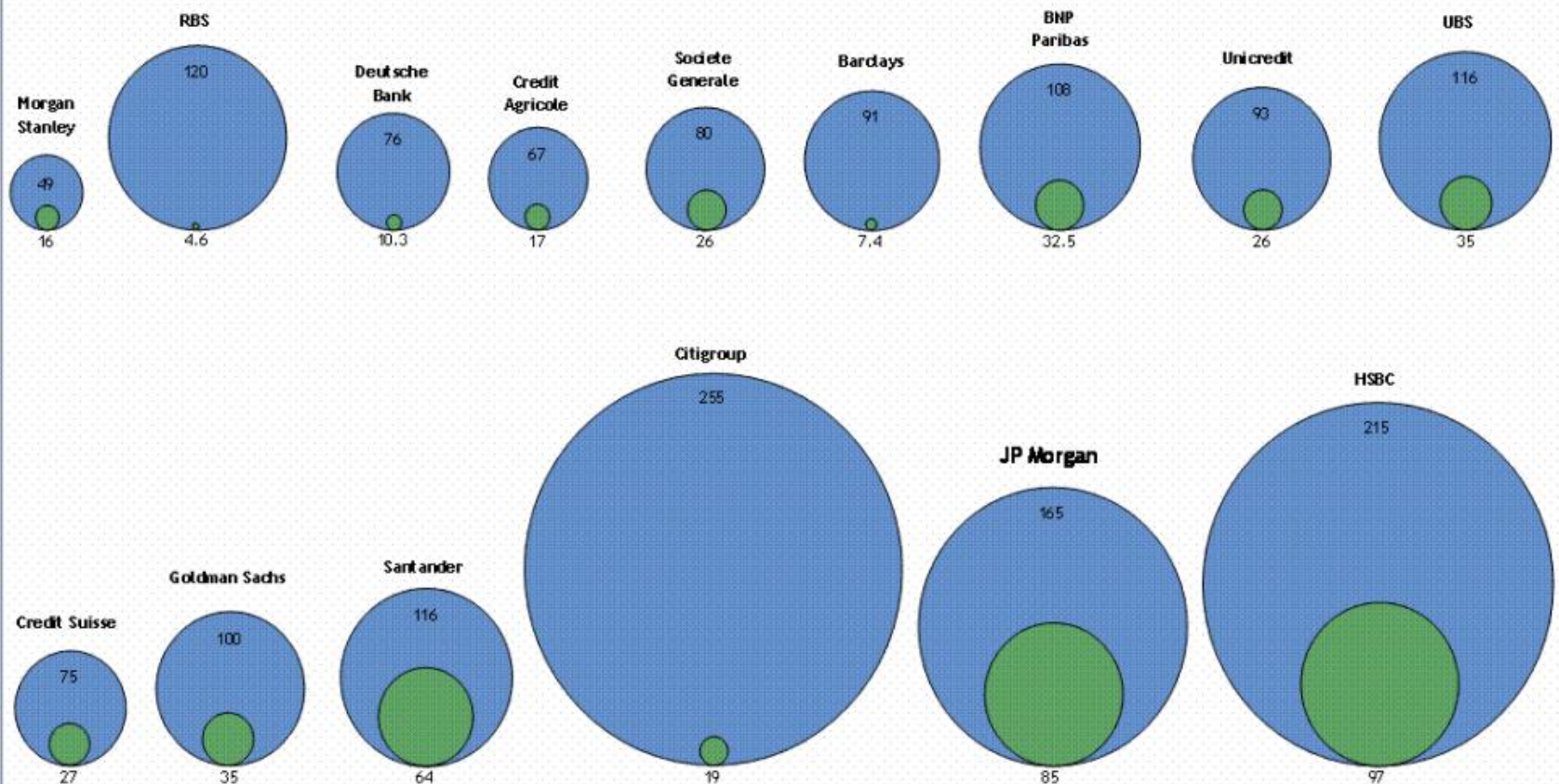
Roadmap

- The U.S. experience on resolution at the financial institution level
- Implications for Europe

Banks: Market Cap

● Market Value as of January 20th 2009, \$Bn

● Market Value as of Q2 2007, \$Bn



J.P.Morgan

While JPMorgan considers this information to be reliable, we cannot guarantee its accuracy or completeness

Source: Bloomberg, Jan 20th 2009



Purchased by JPM + Bailout

Seized by FDIC

Nationalized



Bankruptcy

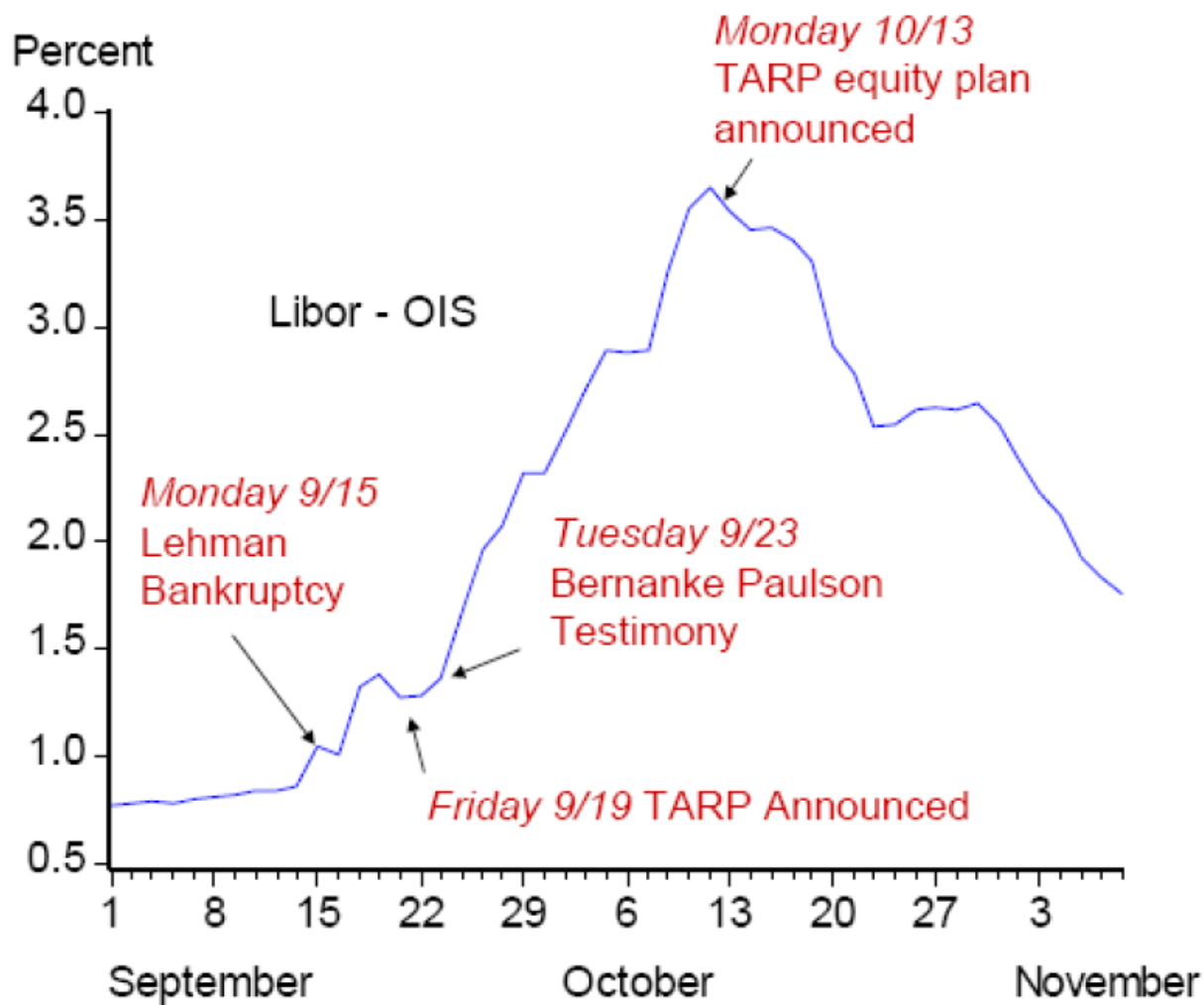
Purchased by BoA

Bailout



Bankruptcy of holding company; sale to JPM

Sale to Wells Fargo



"All the News
That's Fit to Print"

The New York Times

Late Edition

Taking mostly sunny, afternoon
travels, high 75, tonight, mostly
clear, partly fog, low 63. Tomorrow,
mostly sunny and cooler, high 67.
Weather map appears on Page D4.

VOL. CLVIII • No. 54,437

© 2008 The New York Times

NEW YORK, THURSDAY, SEPTEMBER 18, 2008

\$1.50

McCain Seen as Less Likely To Bring Change, Poll Finds

Margin in Race About Same as Before Conventions

By **STEVE TORRES** and **ADAM NAGENBENT**

WASHINGTON — Despite an intense effort to distance himself from the way his party has done business in Washington, Senator John McCain is seen by voters as far less likely to bring change to Washington than Senator Barack Obama. He is widely regarded as a "typical Republican" who would continue or expand President Bush's policies, according to the latest New York Times/CBS News poll.

Polls taken after the Republican convention suggested that Mr. McCain had enjoyed a surge of support — particularly among white voters after his selection as Gov. Sarah Palin of Alaska as

his running mate — but the latest poll indicates "the main effect" was, at least so far, a faded burst of interest. The contest appeared to be roughly where it was before the two conventions and before the vice-presidential elections. Mr. Obama had the support of 41 percent of registered voters, compared with 40 percent for Mr. McCain, a difference within the poll's margin of sampling error, and statistically unchanged from the tally in the late July New York Times/CBS News poll, in mid-August.

The poll showed that Mr. McCain had more enduring strengths, including a substantial advantage over Mr. Obama as a personal commander in chief. It found that for the first time, 60 percent of those surveyed in the Times/CBS News poll said they considered the White House in this, a policy that Mr. McCain championed from the start, had made things better than they

The poll also underscored the extent to which Mr. McCain's convention, and his selection of Ms. Palin, had excited Republican base voters about his candidacy, which is no small thing in a contest that continues to be so tight. 47 percent of Mr. McCain's supporters described themselves as confused about the Republican Party's presidential ticket, a stark increase when it was before the conventions. An earlier poll by a

Continued on Page A12

U.S. Court, a Longtime Beacon, Is Now Guiding Fewer Nations

By **ADAM LEPAGE**

WASHINGTON — Judges around the world have long looked to the decisions of the

AMERICAN EXCEPTION

At a time of turmoil

of States Supreme Court about a

NEW PHASE IN FINANCE CRISIS AS INVESTORS RUN TO SAFETY



GLOBAL REACTION

Credit Markets Suffer
— Borrowing Costs
Soar as Result

By **TORRES BARR**

The financial crisis entered a potentially dangerous new phase on Wednesday when many credit markets stopped working normally as investors around the world frantically moved their money into the safest investments, like Treasury bills.

As a result, the cost of borrowing spiked for many companies, while the price of Wall Street firms like Goldman Sachs and Morgan Stanley (the only company of weeks ago were considered relatively strong) came under assault by frantic selling. Investors were so worried that they swapped up three-month Treasury bills with virtually no yield and they pushed bid to six top-end one-day cash in nearly 10 years' time to bid by nearly 1 percent in New York.

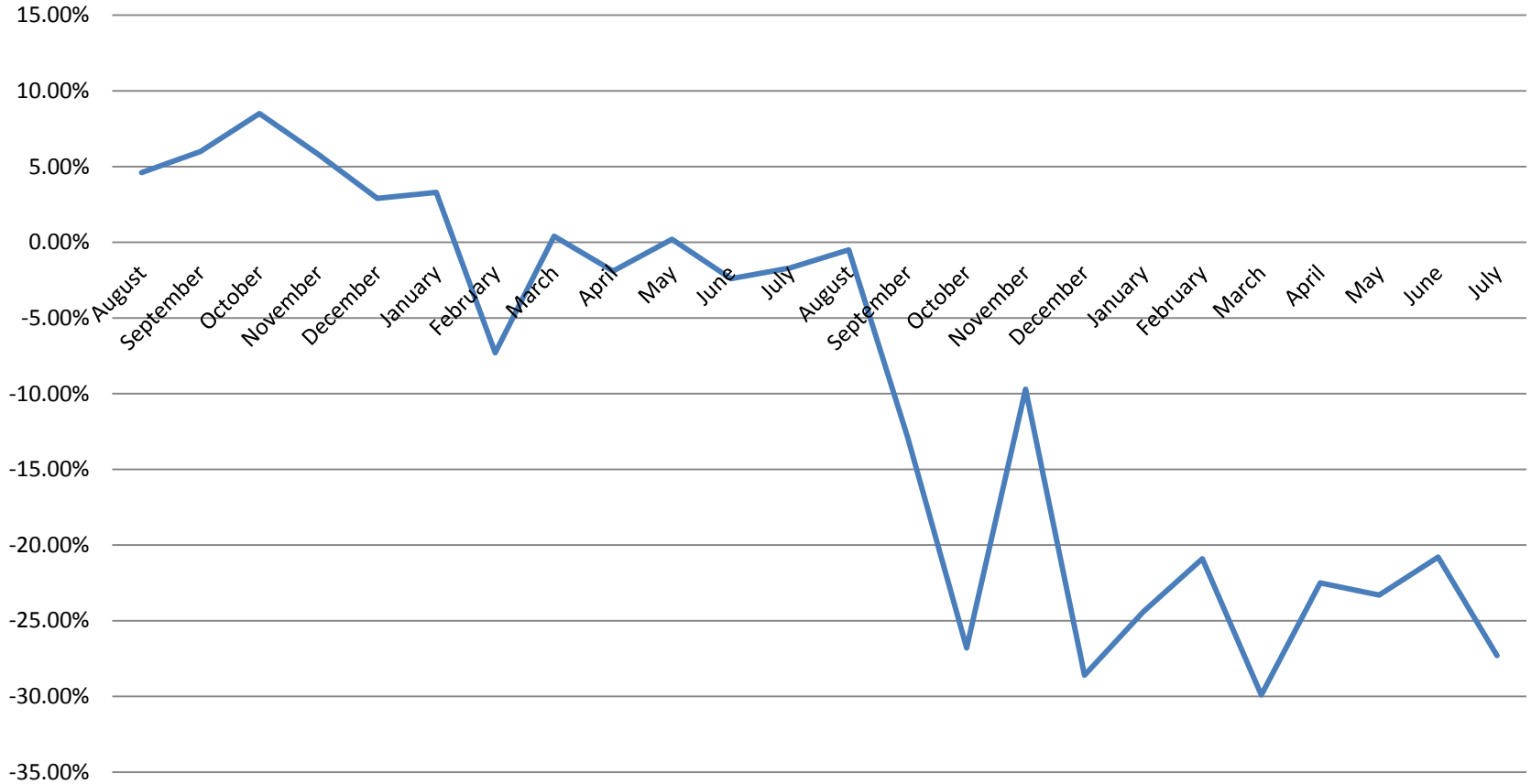
The widening gap in rates, away from what kinds of debt are well as the risk, could cause serious damage to an already weakened economy by making it more expensive for businesses to finance their daily operations.

Some economists worry that a psychology of fear has gripped investors, not only in the United States but also in Europe and Asia. While investors' decisions to pressure themselves may be partly rational, the crowd behavior could cause a downward spiral with broader ramifications.

"It's like buying a fire in a stadium," said Ryan King, chief economist professor at Princeton. "Everybody is rushing to the door. You are rushing to the door because everybody is rushing to

The Post-Lehman Debacle

Neiman Marcus Sales YoY From August 2007



Why the post-Lehman Debacle?

- Unexpected lack of federal support to an institution more systemic than Bear Stearns?
- Lack of preparation at Lehman?
- Money market fund losses?
- No resolution mechanism?
- Lack of transparency on exposures?
- Fire sales and contagion?
- CDS?
- Other?

Dodd-Frank

- Resolution mechanism run by FDIC similar to the one run for depository banks
 - Gives huge discretion to the regulators
- Increases transparency in exposures through the use of clearing mechanisms and data warehouses
 - Danger to financial innovation
- Makes it more difficult to support systemic institutions with taxpayer money
 - What if there is no other solution?
- Still need for living wills (one of the Squam Lake recommendations)

Turning to Europe

- Direct exposures are not life-threatening for banks
- The problem is that a restructuring with material losses changes expectations about bailouts.
- In this sense, such a restructuring could be a Lehman moment.

Turning to Europe: Direct Exposures are not Scary

- According to Deutsche Bank, 7 banks have sovereign risk exposure amounting to more than 15% of total bank value:
 - Société Générale (15.7%)
 - Commerzbank (41.7%)
 - Dexia (83.9%)
 - Bank of Ireland, Alpha Bank, EFG Eurobank, National Bank of Greece

So, what is the problem?

- Back to the Lehman situation: A default leads to a reassessment of the likelihood of a bailout.
- However, it does so for a much more unstable system.
- De Grauwe's analysis and others: An attack on a country's bonds leads to insolvency for a solvent country.

Did Europe Learn from Lehman?

- Too little; too slowly.
- Reuters, Aug. 12, 2011: “Four years to the week since global financial markets totally seized up, European bank funding is again in short supply.”
- Two largest banks in Germany need to roll over 17% of GDP this year and next; two largest banks in U.S. only 1.6%.
- The problem: How to limit reliance on short-term finance without hurting growth.



Creditanstalt,
Vienna, 1931

