

a review of "too big to fail" by andrew ross sorkin essay sample

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**ASSIGN
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In this engaging and captivating book Sorkin describes the events that led to the collapse and restructuring of major parts of the US investment, insurance and banking sectors, and the immediate aftermath of this restructuring. The story starts briefly in 2007 and then ends before President Obama's election in 2008. It looks at how the major investment and brokerage firms played with toxic assets that were tied to subprime mortgages and other collateralized debt, and the inflated housing market in general, and how when the housing market burst, subprime mortgage market collapsed, credit rating agencies who had previously ignored holding toxic assets suddenly downgraded their credit worthiness, and investors started turning away from financial firms who held these assets, the "house of card" came tumbling down. Finally, the entire investment model was scrapped and remade, and the federal government became a stakeholder in all of the major financial firms in the nation.

In effect, the general public saved the private financial market from destroying itself, and this book narrates the drama from the perspectives of the major financial and regulatory players involved as well as their institutions. I identified seven major themes in the book, which I describe in detail below. There are many themes in the book. One of the main themes that was initially introduced dealt with the fact that even though Wall Street was celebrating record profits coming precisely from the subprime mortgage market (collateralized debt obligations) and credit default swaps, academics, President of the NY Federal Reserve Tim Geithner, and certain business leaders were warning of the inflated housing market and the danger of trading in these toxic assets. These calls were unheeded because Wall Street

was making huge profits with no down side, from what essentially was kind of a huge ponzi scheme: taking bad debt, chopping it up into smaller bad debt so that risk is spread out, and buyers of these debts (in turn) chopping it out even more to be given to others, etc.

I am very surprised that these financial giants, (run by some of the most astute people in high finance), did not see the inherent dangers in these practices. Even Ben Bernanke, who warned of the dangers, was not much wiser according to Sorkin since he thought that the risk was contained. Sorkin does not give judgment where I feel judgment should be meted out: the financial companies were too greedy and in their greed were blinded to the catastrophe that was inevitable. A second theme that emerges from the book is the seeming inconsistency of the government response to the crisis. The government stepped in to save Bear Stearns by negotiating and backing a deal with JP Morgan, stepped into save AIG, but did not do so in the case of Lehman Brothers. In fact, most of the action in the book revolves around the fate of Lehman Brothers and its CEO Richard S. Fuld.

The book's narrative offers a few reasons, both personal and institutional, of why this could have been the case, (even though Sorkin does not seem to connect these dots explicitly in the book). Institutionally, Lehman vastly inflated their numbers; much like AIG did, which made it difficult to assess the true trouble Lehman was in till too late. I think that this was the main reason that the government was not willing to step in unlike in the case of Bear Stearns. In the case of the latter, the government was able to backstop US\$29 billion debt so that the deal with JP Morgan would go through but in

the case of Lehman Brothers there was no way of knowing exactly how much was needed to stabilize sale of the firm. Also, AIG was rescued since they were primarily an insurance firm with an investment wing that caused them trouble, unlike Lehman. Also Lehman had a history of recent fraud at the time and this was another cloud that hung over it in the negotiation deals with the government, as it was with other prominent investors like Warren Buffett.

Also, from an institutional perspective, why Lehman was not rescued had to do with the leadership. The leadership at Lehman Brothers seemed to be more ignorant of the impending doom and therefore less willing to change and compromise than leaders of the other financial firms. Fuld's stubbornness and personality clashes left him unpopular among the decision makers who decided the fates of the financial firms in trouble. This was especially clear early on when negotiations with Warren Buffett fails: Buffet could have helped salvage the company initially when the bleeding started, like he did with Goldman Sachs, but Fuld's personality and stubbornness prevented the deal from happening. He issues assurance after assurance that all was well even though every week there was more trouble for the firm. The CFO Erin Callan was also oblivious to what was happening and finally had to step down along with the President Joe Gregory for bad management.

Fuld also valued loyalty over competence, as was evidenced by his inability to fire Lehman President Joe Gregory as was urged by Lehman heads, most notably Skip McGee, who was the head of Lehman's investment banking

operations, or of Callan. This and other instances showed that Fuld wanted people who were loyal to him over those who knew what to do, which was another possible reason why Lehman Brothers was mismanaged at the top. From a personal perspective, I feel that one of the main reasons that Lehman was not bailed out was because of Fuld. In the book it seems that he was the least liked character and his actions and personality affected the final negotiations that determined the fate of Lehman Brothers. He comes across as the least liked person among the Wall Street financiers mentioned in the book: he was excluded from quite a few negotiations that took place among financiers and between financiers and the government, while other members of Lehman Brothers participated. I have a feeling that his intransigence proved to be a key reason why Lehman Brothers suffered a fate different to Bear Stearns.

He also seems to be in denial and blaming others for Lehman imminent fall as he does with blaming short sellers as the source of the problem and not the fact that Lehman had too much CDOs and CDS' and that they had fraudulent book keeping. A third theme that emerges from the book is that from the perspective of the financiers they were only interested in their own self interests and the interests of their companies, while the federal regulators and members of the Fed were mostly interested in the overall well being and strength of the economy and the nation, in addition to that of these companies. This almost contradictory motivations play out over and over again in the book where Sorkin outlines how Senate committees and

other government officials question the regulators about the precedence set in the bailout attempts and the logic and nature of the bailouts themselves.

Partisan politics also plays a role and finally when TARP is approved on the second attempt after the toxic asset bailout plan is dropped, it is clear that the federal government acted decisively to bail out all of Wall Street's major players, to the opposition of some. This government takeover of the financial market, though temporary, was a monumental feat and one that I felt Sorkin did not elaborate upon enough. A fourth theme that comes out from the book is the snowballing effect the fall of Bear Stearns and Lehman Brothers had on all of Wall Street and the banking system. Sorkin talks of how Merrill Lynch seemed like it was falling, then was thrown a lifeline by Bloomberg, but then bought out by Bank of America at the end. AIG, an insurance giant on Wall Street, who had an investment wing (AIG Financial Products, Co., FP) that had run into a lot trouble, was next to fall. If AIG fell then JP Morgan, Goldman Sachs, and Morgan Stanley would have fallen, as Sorkin says, so saving AIG was of great value to the regulators and Wall Street financiers.

So the government saved AIG and provided it with \$85 billion, took 79.9 percent of ownership, and changed head management at AIG, while insisting that they pay back the government at a higher rate of interest. Fannie Mae and Freddy Mac were in deep trouble before being bailed out by the government. Washington Mutual Bank collapsed and was taken over by the Federal Deposit Insurance Corporation. Goldman Sachs, who was in one of the best positions out of all of the firms in the book, still had significant risk since they used securities as collateral to borrow money for their

investments. As the market for CDOs fell and rating agencies downgraded these assets, companies that owned them demanded more collateral from AIG, most notably Goldman Sachs (who were not given this collateral). Overall mismanagement among the financial giants was a fifth theme that emerges from the book. In addition to mismanagement at Bear Stearns and Lehman Brothers, Sorkin mentions that there was mismanagement and irregular reporting at AIG.

A sixth theme that was prominent in the book was how interconnected the banks and financial players were, and are, in today's economy. The toxic assets and what was happening in the housing, CDO, and CDS markets affected all of the players in finance and banking, as Sorkin painstakingly points out. Banks like Wachovia, Citigroup, Wells Fargo and Bank of America either merged with investment firms, with each other, or contemplated merging to decrease some of the effects of the market collapse, again showing how reliant they are on one another today. Banks in Korea, China, Japan and England considered or acquired large shares of US financial institutions to keep them afloat, again showing the interconnectedness of high finance. The seventh and final major theme that I saw in the book was the major restructuring that followed because of the events mentioned by Sorkin in the financial and banking world.

In addition to the changes mentioned above, Goldman Sachs and Morgan Stanley became bank holding companies and abandoned their older investment only driven model that had served them well thus far, and that they had advocated quite strongly to others. As Sorkin outlined, the five

major financial players on Wall Street collapsed, converted into bank holding companies or were sold to larger companies. President Bush signed the Emergency Economic Stabilization Act of 2008, which allocated 700 billion for the Troubled Asset Relief Program (TARP). As part of TARP the government owned all of the major financial players partly initially. The financial landscape changed very dramatically forever due to these events. Reflecting on 2008, I will try to briefly articulate the climate and how I felt prior to reading Andrew Ross Sorkin's Too Big To Fail. In 2008, I was clearly a novice when it came to business, economics and politics. I can recall having an extremely elementary viewpoint about the situation that was occurring.

I remember watching the newly elected president address the public and I said this can't be a good thing. I remember hearing people making a plethora of statements that were on different sides of the spectrum. These statements ranged from "The world was going to end" to "Will Marital Law begin if this doesn't get fixed and money becomes irrelevant" and "What is going to happen to the wealth I have accumulated in my investments or my 401k?" Professional Reflection The fact is at the time many employees from all industries were losing their careers. Initially, our medical center didn't feel the repercussions from the initial events but management speculated that we would feel the effects a few months later due to the fact 90 percent of our services are paid for through company provided medical benefits. In a company wide conference call management addressing the fact that losses in jobs due from a shrinking economy would be very harmful to us company

wide. If the individuals that used our core services did not have medical insurance then they would have no way to pay for our services; we would be drastically effected from this scenario.

About two-three months later, the assumption became reality at our specific center and the organization as whole were not meeting quarterly forecast but more importantly insurance carriers were vacillating on the coverage dates due to the influx of employees that were being terminated from their former company's healthcare plan. This led to Insurance providers denying our company payment for already services rendered to customers that were on the cusp of their termination date in an attempt to not be liable for the fees. These two events combined hindered the company in reference to efficiency, resource allocation, profits, and growth. Due to these issues cut backs started at the medical center management started to terminate, lay off employees and began to explore the option for employees the take buy outs in an attempt to reallocate resources and provide stability. Directly after management started to make these strategic decisions, the work environment that was mostly a positive flourishing one but more importantly highly customer centric began to change.

The morale and discipline of the work force started to deteriorate; many of the employees were faced with personal issues such as severe anxiety and depression cycles that prevented them from efficiently doing their jobs. Work force call outs were on the rise, which effected productivity, and once again the bottom-line, management then had to reallocate more finite resources in an attempt to combat these unforeseen issues. Shorty after the organization

started to outsource a lot of our support services abroad resulting in more job losses and when that initiative didn't provide the overall stability they desired employee benefit packages were drastically reduced. Lastly, management considered streamlining our essential patient care services that once were noted as our core services and our differentiators that attracted our former customer base. From my professional reflection jobs were being lost, people were losing a grip on their perceived American dream and it was not a comforting feeling to anyone at the medical center during the financial crisis.

Personal Reflection The personal real-estate issue was problematic for most Americans. As the novel stated most of the creative financial products were repackaged with mortgages that were noted as toxic assets. This led banks after the bailout to have numerous undervalued or hard to value real-estate assets. Many Americans whom I encountered at the time had two basic reactions to the bailout program, the first was they were appreciative the country avoided a total financial collapse despite the fact the major institutions practiced unethical and greed fuelled behaviors. The second was that the bailout was supposed to help Americans prosper and return to a quality of life pre the financial crisis. The problem that surfaced were these bailed out organizations and the banks began withholding funds. A large percentage of credit lending companies began restricting or denying credit, refinancing opportunities or new mortgages to even tier one applicants.

Many of my co-workers, family members and peers were rapidly losing their occupations and were trying to restructure their monthly cash flow by

borrowing against the equity of their homes or just by refinancing homes based on a lower rate to secure a more affordable payment. People wanted to simply restructure their mortgage in an attempt to utilize monies on other monthly budgeted items that were essential at the time. Due to the shrinkage of these once easily available resources the prior mentioned circle of co-workers, family members and peers had to rationalize the notion of mortgage default, short-selling or eventually walking away from their home became a reality. In conclusion, in reflecting on the financial crisis despite being a hardship for most individuals (including myself) I can only look at it as a learning experience.

As we leaned in economics class this semester these recessions in the economy are cyclical. From the macro level large banking organization and equity firms such as the ones that were pushed to the brink should abstain from the practices that almost lead to the collapse of our financial structure. To prevent the possibility of an almost depression like occurrence again, I believe the government will play a larger role in governing the practices of companies similar and financial industries that could potentially effect the American way of life. Proactive measurements and monitoring the ways these firms create wealth in an attempt to prevent firms from creating cleaver investments that create enormous short-term profits but in the end are bad for the economy as a whole. From a micro level, moving forward I believe that most individuals will be taking more conservatory measures when it comes to their personal finances in an attempt to have a more secure future for the next time a recession occurs.