In this file photo, a sign for a Wall Street subway station is shown. (AP)

RBS says 'planning for worst' in Brexit

The Royal Bank of Scotland warned Sunday that it is planning "for the worst" amid increased talk of no deal over Brexit.

Chief executive Ross McEwan said RBS is setting up a new European subsidiary in Amsterdam to serve customers on the continent, but is awaiting for approval of its licences.

With Britain and the European Union yet to agree on what their future relationship should look like, McEwan told the BBC that RBS may lose business without a deal.

"If we don't get the right licences, and we don't get them in time, that could create major problems for our customers and for the bank," McEwan said.

"We are planning, unfortunately, for the worst." McEwan said RBS had already deployed 150 staff to Amsterdam, and if regulators failed to approve trading licences for the operations, it would stop offering services to some of its European customers.

"In the next couple of months, we're going to have to make some decisions... we're going to have to think about which European customers we may not be able to bank," he said.

Britain is set to leave the EU on March 30, 2019.

The two sides want to reach a divorce deal by October or November to give their parliaments time to endorse it.

In July, Prime Minister Theresa May put forward a blueprint for future trade ties that envisages a free trade area for goods, agriculture and food through a customs agreement and common rulebook. (AFP)

Business Plus

Authorities widely criticized for sacrificing Lehman Brothers but saving other banks, such as Goldman

'Lehman Weekend': the biggest bankruptcy in American history

In this file photo taken on Sept 15, 2008 two men hug outside Lehman Brothers headquarters in New York. It was 'Lehman Weekend'. The moment in September 2008 when the 150-year-old investment bank Lehman Brothers collapsed, precipitating the worst global economic crisis since the 1930s. On Monday, Sept 15, 2008, at 1:45 am, Lehman Brothers filed for bankruptcy, taking the world by surprise leaving well over $600 billion in debt, as well as 25,000 employees in shock. (AFP)

> 'Lehman was terribly weak even relative to the other weaker institutions in this context. The world was terrifically fragile'

By Virginie Montet

It was "Lehman Weekend". The moment in September 2008 when the 150-year-old investment bank Lehman Brothers collapsed, precipitating the worst global economic crisis since the 1930s.

After failing to find buyers for the troubled financial giant, that was weighed down by risky debt holdings made up of at subprime mortgages, US authorities declined to offer a bailout and allowed the institution to fail.

Monday, September 15, 2008, at 1:45 am, Lehman Brothers filed for bankruptcy, taking the world by surprise leaving well over $600 billion in debt, as well as 25,000 employees in shock.

It was the biggest bankruptcy in American history. On Wall Street, the Dow Jones plunged 500 points, the largest drop since the attacks of September 11, 2001. Stunned traders streaming out of the building carrying boxes of their belongings became a symbol of the crisis.

Some were caught by surprise. But others, like Lawrence McDonald, a former trader and co-author of a 2009 book on the collapse -- "A Colossal Failure of Common Sense: The Incredible Inside Story of the Collapse of Lehman Brothers" -- said management had long been alerted to the excessive risks they took to increase short term profits.

The top Lehman leadership, housed on the bank's 31st floor, "drove us 162 miles (261 kilometers) an hour... right into the biggest subprime iceberg ever seen," he told AFP in 2009.

"It was 24,992 people making money and eight guys losing it," he said, lamenting that the management "bet the ranch" on toxic assets.

From 2005 to 2007, at the height of the real estate bubble, when mortgages were given to many homebuyers who could not afford them, and then packaged into securities and sold off, Lehman Brothers bought several mortgage brokerages and posted record profits.

But in mid-2007, the losses began to build. The knockout punch came nine months later, March 16, 2008, with the near bankruptcy of another investment bank, Bear Stearns.

Bear Stearns was on the verge of bankruptcy also because of its massive bets on subprime mortgage securities, and was bought for a pittance by JPMorgan, in a sale brokered by the Federal Reserve. The deal shakes markets, which are now betting on Lehman's demise.

The Fed and Treasury tried to find a buyer, negotiating in vain with a South Korean bank, then with Bank of America and Barclays.

But while the government just a week earlier took over mortgage giants Fannie Mae and Freddie Mac – government-sponsored private enterprises that guarantee more than $5 trillion in home loans – in the end officials choose to abandon Lehman.

A few days later, Uncle Sam would rescue insurance giant AIG for $180 billion, before providing another $700 billion dollars in a controversial recapitalization plan to prop up banks: the Troubled Asset Relief Program (TARP) to try to shore up the teetering financial system.

Authorities found themselves between a rock and a hard place and have been widely criticized for sacrificing Lehman Brothers but saving other banks, such as Goldman Sachs.

"The thing we get the most criticism for is letting Lehman go down," said Henry Paulson, who served as Treasury secretary under then President George W. Bush and was at the helm at the start of the crisis.

"Many people say well they were able to save Bear Stearns, they were able to save AIG, why couldn't they save Lehman? We answer it and most people don't believe us," he complained to National Public Radio.

Officials concluded that Lehman was so weak, and had so little collateral, that a bailout would be simply unworkable.

Timothy Geithner, who lead the New York Fed during that time and late became Treasury secretary under President Barack Obama, said officials had very few options.

"Lehman was terribly weak even relative to the other weaker institutions in this context. The world was terrifically fragile," he told NPR.

"It was very hard to find someone strong enough in that moment of peril that was going to be capable of taking on the vast bulk of that risk."

But others, including Laurence Ball, head of the economics department at Johns Hopkins University, said in a 2016 report on Lehman that the reasons given do not add up and it was more likely there was political pressure on the Fed to allow the bank to fail.

"Another factor is that both Paulson and Fed officials, although worried about the effects of a Lehman failure, did not fully anticipate the damage that it would cause," Ball argued. (AFP)

'European banking system remains undercapitalized'

Eisman, the 'big short' investor who bet on the crash

> 'It's very hard to argue with someone who thinks he is God because he makes a lot of money'

NEW YORK, Sept 2, (AFP): The global financial crisis devastated American communities, wiped out savings and brought banking giants to their knees.

But it also enriched a handful of investors who had bet that the financial house of cards behind American real estate lending would collapse.

Steve Eisman is among this exclusive circle of Wall Street Cassandras, with a bank account and investment portfolio that grew as bankruptcies piled up among homeowners who had taken out adjustable-rate subprime mortgages.

His audacious gamble is recounted in the 2015 movie "The Big Short," in which the actor Steve Carell plays a Mark Baum, a fictionalized version of Eisman.

Between 2004 and 2007, Eisman, who is married to an ex-banker, ran an investment portfolio at the hedge fund FrontPoint Partners.

His job was to invest wealthy clients' money in the banking sector, which was riding high on the success of lending to higher-risk, or "subprime," borrowers.

The banks spread this risk across the world, selling pieces of it in the form of complex instruments known as collateralized debt obligations, or CDOs, and securities backed by residential mortgages.

In this file photo taken on April 12, 2018, US businessman Steve Eisman speaks during an interview with AFP, in New York City. Eisman is among an exclusive circle of Wall Street Cassandras, with a bank account and investment portfolio that grew as bankruptcies piled up among homeowners who had taken out adjustable-rate subprime mortgages. (AFP)

But, even with a Harvard Law degree, Eisman understood little about such exotic financial products with bewildering acronyms. And at a 2004 conference in Las Vegas, he learned he was not the only one.

He soon learned, after traveling next to Florida, California, Nevada and Arizona, epicenters of the subprime crisis, about the loose lending standards applied by mortgage originators and banks.

With graying hair and a square, athletic build, the middle-aged financier's frank talk contrasts sharply with the typical Wall Street jargon.

"How could someone make a mortgage loan when the customer can only afford to pay for the first 3 years?" he asked during an interview with AFP at the Manhattan offices of Neuberger Berman, his new employer.

He reached out to the ratings agency Standard & Poor's, which had stamped its vaunted 'AAA' rating, the highest possible, on CDO and RMBS (residential mortgage-backed securities) assets.

They said their models did not include negative scenarios.

But Eisman identified a set of dubious loans and decided to bet they would fall, convincing Goldman Sachs and Deutsche Bank to issue Credit-Default Swaps, which are insurance policies against borrower defaults.

"When you are short, the whole world is against you," he said.

Early in 2007, mortgage defaults began to pile up as investors who had been speculating that real estate prices would rise suddenly pulled out, causing prices to tumble.

In eight months, 84 real estate lenders in the United States went bankrupt. But the value of Eisman's portfolio powered higher, rising from $700 million to $1.5 billion and higher.

"I told someone I felt like Noah," he said, referring to the Biblical patriarch who foresaw the global flood.

"Do you think Noah was happy?"

In Eisman's view, the guilty ones are the bankers and traders convinced of their own omniscience.

"It's very hard to argue with someone who thinks he is God because he makes a lot of money," said Eisman.

Now one of the most influential voices on Wall Street, Eisman is also a fierce critic of former Federal Reserve Chairman Alan Greenspan, a longtime proponent of deregulation.

Prior to reforms enacted in 2010, regulators had two tasks: keeping the banking system sound and protecting consumers from bad actors in the financial sector, said Eisman.

"They did as bad a job as anybody could do anything in the history of planet earth," he said.

Others frequently ask what the next "big short" will be, Eisman says, but "the truth is I simply do not have an answer and do not want to have an answer to this question."

"For the first time in my working life, which is more than 30 years, I would regard the financial system as safe," he said, adding that he had recently bought bank stocks.

But he cannot say the same for banks across the Atlantic.

"The European banking system remains undercapitalized," said Eisman.

And he recently made a profit-betting shares in Deutsche Bank would fall as the bank's financial difficulties worsen.