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### **Bear Stearns Asset Management : Time line and Merrill Lynch Exposure**

Bank of America Corporation/ Bank of America Merrill Lynch

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## Bear Stearns Asset Mgm't: Timeline & ML Exposure

### Timeline of Recent Events

<b>June 8</b>	Enhanced Fund suspends redemptions, ML credit speaks with Ralph Cioffi. Fund continues to meet margin calls	<b>June 18</b>	ML withdraws bid list from the open market and participates in two separate Creditors meeting. ML speaks to Blackstone post the call to articulate terms that may make the deal "stick".
<b>June 12</b>	BSAM puts out a \$4BN bid list of securities representing both Enhanced and High Grade positions	<b>June 19</b>	Blackstone holds creditors call on revised plan. ML makes counter proposals to BSAM/Blackstone. ML determines plan is unacceptable & issues default notice on High Grade.
<b>June 14</b>	In creditors meeting, BSAM communicates funds lack cash to meet street margin calls. Requests 60 day reprieve. ML determines plan is unacceptable. ML meets with BSAM to explain rationale for sending default notices	<b>June 20</b>	ML/BSAM discuss voluntary unwinds. Unable to reach agreement
<b>June 15</b>	Several firms serve default notices to BSAM. Margin calls not met. ML issues default notice to Enhanced Fund & prepares bid list of collateral. ML calls BSAM to explain delivery of default notice. Bid list submitted to the open market	<b>June 22</b>	BSAM announces recap plan for High Grade – no bailout for Enhanced Leverage. ML/BSAM discuss voluntary unwinds. Unable to reach agreement.
<b>June 17</b>	ML holds call with BSAM on work out proposals. BSAM informs ML they hired Blackstone to work on restructuring plan	<b>June 29</b>	ML sends a "Demand for Payment Notice" to both BSAM funds demanding payment for all amounts owed.

### Positions with Merrill Lynch (\$MMs)

Fund	Product	Due to (from) ML	Collateral	Claim to BSAM	Unwind & Financing Costs	True Net Exposure
Enhanced Leverage	Derivatives	40	12	28	20	8
	Repo	541	543	(3)	<1	(3)
High Grade Structured Credit	Derivatives	39	13	26	15	11
	Repo	275	262	13	<1	13
<b>TOTAL</b>		<b>895</b>	<b>830</b>	<b>64</b>	<b>35</b>	<b>29<sup>(1)</sup></b>

(1) We expect to receive full payment from High Grade fund which has positive NAV. Expected net shortfall for Enhanced Leverage fund has been reserved



## Bear Stearns Asset Mgm't: What Went Wrong

### Funding

- Funds were structured to allow equity holders redemptions every month while fund...
  - Held illiquid assets with opaque marks
  - Was exposed to regular mark to market and margin calls
  - Had no term funding – exacerbating the redemption / call situation

### Leverage

- Enhanced was 12:1 and High Grade was 6:1 leverage
  - Dramatic market movement
  - Hedges did not perfectly offset asset movement
  - The situation quickly grew out of control as a result of the leverage being carried

### Crisis Management

- “...Bear Stearns did too little too late...”
  - Naively assumed Wall Street creditors would hold off on margin calls (especially once the big investment banks were able to discount fears of systemic risk)
  - Failed to move quickly to back the less-troubled High Grade Fund
  - Bear Stearns should have been more sensitive to the expectation that since its name was on the funds' door, it could not just stand by



## Bear Stearns Asset Mgm't: How Merrill Lynch Was Protected

- Portfolio Margin Agreements were critical
- Good understanding of our position
- Moved quickly & decisively – while maintaining constructive dialogues and making counter-proposals
- Efficient with respect to collateral call and margin processes
- Net exposure is against the High Grade fund which has positive Net Asset Value
- Moving through final stages (week of July 15) to resolve High Grade claim

