Too Big to Fail (2011) - Reading Notes

August 27th, 2018

Content Notes:

- Begins with news reports describing sale of Bear Stearns to JPMorgan Chase
- Next major bank with potential to collapse: Lehman Brothers
  - Henry Paulson, treasury secretary, continually struggles with how to keep banks afloat
    - Otherwise, has no choice but to buy the banks out to prevent economic collapse (like definition of "Too big to fail")
    - After assistance with buyout of Bear Stearns, many banks (including Fuld) became increasingly reliant on support from government
  - Offer from Buffett to purchase represents significantly lower (yet realistic) amount from months previous, leading CEO Dick Fuld to reject
  - New President/COO negotiates deal with Korean investors, warning Fuld to stay behind
    - Fuld arrives unexpectedly, warning investors that their deal is undervalued
    - Immediately leave due to poor attitude of Fuld, ending deal
- Paulson makes clear announcement that the government will subsidize no more acquisitions of other banks, turning to other banks for Lehman acquisition
  - Calls CEOs of major banks together, requesting that all assist in BoA purchase of Lehman
    - BoA had agreed to only assist in purchase with federal support
  - Merill Lynch, firm in a position nearly as dangerous as Lehman, privately requests acquisition from BoA
    - Agreed to, ending possibility for Lehman deal
  - Lehman only acquirable by Barclays (who had been a potential buyer from the start)
    - British banking regulator prevents involvement of Barclays
    - Leads to complete bankruptcy of Lehman
- Collapse of Lehman has other dramatic effects on the stock market, leading to the decline of international insurance firm AIG
  - GE unable to do business with freefalling stock market
  - AIG's decline is responded to with $85 billion loan
- Paulson's solution to continual drying up is purchase of toxic assets
  - Receives support from Congress on second try
    - Earned with emphasis on possibility of second Great Depression
  - Not supported heavily by president
- Time to purchase toxic assets revealed to be too great, leading to final option: capital injections
  - Banks given large amounts of money
  - Paulson's staff's suggests that banks' use of money be regulated
    - Inability of banks to agree forces Paulson to give money without any strings attached