

# Risk Returns With a Vengeance

*For years big players ignored obvious dangers and reaped rich rewards. Now they are paying the price for their recklessness—and so is everyone else.*

BY SHAWN TULLY



FOR THE PAST five years risk has been the invisible man on Wall Street. Banks, hedge funds, and lenders behaved as if home prices always rise, borrowers never miss a payment, and companies never blunder into bankruptcy. Now a crisis of confidence that began with subprime mortgage defaults is sweeping the Street, and risk is invisible no more. Banks are wobbling, markets are quaking, and ordinary investors are wondering how badly they'll be hurt. Risk, as always, will exact its revenge.

Already signs of carnage abound. Nervous lenders have driven up interest rates on all debt other than U.S. Treasuries, making it hard for many financial companies to fund their operations. In mid-August the nation's largest mortgage lender, Countrywide Financial, was forced to tap its lines of credit to stay solvent, a dire move that rattled investors. KKR Financial, an affiliate

Volleys of bad news and rumors have roiled the markets.

