

2008:
Global Financial Crisis



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Important Notes:

1. **Note:** This committee will require a minor bit of reading or watching Too Big to Fail. A proper understanding of your role as either a regulator or a banker is critical for your performance in this committee.
2. **Note:** While I have put a lot of time into this guide, I am no expert! If you actually wish to research this topic further, please consult my resources. People win nobel prizes from researching and discovering new theories from this topic. Even today we don't have a complete understanding of the entire crisis.
3. I absolutely encourage you to bring props, gadgets, or whatever you think is gonna help you stand out. Email me if you want to bring something, and I'll most likely be cool with it.
4. Don't forget to have fun during this committee!

Letter From Your Chair

I'm Mike, your chair. I'm a senior at Lane Tech, and although it's my first year doing MUN, I've got more experience than you think. (Sorry for bragging but I'm trying to make up for the fact that this is my first year doing MUN) I'm captain of the Academic Decathlon team here at Lane and we've won our division nationally for the past 2 years. I'm also captain and founder of the rocketry team here. We launch big rockets and win big awards. I'm also president of the environmental club, we manage the school's recycling and cooperate with a local non-profit called EcoShip. I'm also co-pres of the Econ team. We compete in some competitions and compete with other schools in giving presentations before the Chicago Fed. I also am a founder of a business I run with 3 friends called Slickwing where we build control boards for model airplanes.

That aside, Here's some actually fun facts about me. I'm a Scuba diver, I am a huge biker, I build rockets, I like to write short sci-fi stories, and I am developing a video game at the moment. If you couldn't tell by the topic of the committee I'm also a bit of a history guy. I chose this topic since I was reading Too Big to Fail by Andrew Ross Sorkin and I honestly thought it was an incredible read.

Historical Context:

To figure out why the Global Financial Crisis happened we have to go back all the way to when jazz was new and hats were in style, the 1930s. In 1933, under the New Deal, Congress passed the Glass-Steagall Act, a landmark piece of legislation that forced a separation between commercial banks¹ and investment banks². What this meant in practice was that average banks such as JPMorgan Chase or Citigroup (Citibank) wouldn't be able to put their depositors' money into risky or unstable investments. For the banks, this meant much lower profit margins, and a technically massive untapped profit potential.

Between 1933 and 1999, banks would continuously stretch what was and what wasn't a security, with several court cases suggesting a more lenient interpretation of the law. As a result, some people argue that by 1999, the law was effectively dead.

So in 1999, under the Gramm-Leach-Bliley Act, the Glass-Steagall Act was repealed, allowing banks the unrestricted ability to buy, sell, and create whatever securities they pleased. With this newfound power, banks began issuing mortgages like they were candy. Amid a booming housing market ushered in by a construction boom, millions of Americans were becoming homeowners, with low interest rates buoying them up.

With the mortgages in hand, the banks decided to get creative. In a very complicated process that I will oversimplify, the banks securitized³ these mortgages. What this means is that they took a ton of their mortgages, pooled the collective debt owed on them, and sold chunks of that pool to others. To help, imagine if you had a job that paid you \$100,000 dollars a year. However you want money now, so what you could do is sell your future earnings of 100 grand in exchange for 90 thousand today. So for the banks, this meant selling the interest owed on the mortgages in exchange for money today. These are what is known as Mortgage-backed Securities (MBS).

¹ A bank where a depositor places their money to save, and then that money is loaned out to other clients as the primary business of the bank.

² A bank where creditors entrust their money to the bank in exchange for the bank purchasing securities.

³ Securitization is a very complicated concept and if you are interested I suggest doing some outside research.

So what's wrong with MBSes? Well in theory, nothing. In fact it's very likely that your mortgage (if you own your home) has been sold as a part of a MBS. The issues arose with the aggression with which mortgages were issued by the GSEs⁴ and the banks. The GSEs, or more specifically the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), were given a task by the Bush administration to rapidly improve home ownership amongst the middle to low class by giving out stable mortgages and low down payments.

Before we get to how MBSes clash with the GSEs, it's important to understand the process the bank goes through before a mortgage is valued and given out. When a potential homeowner applies for a mortgage, someone known as an underwriter assesses the risk value on 3 criteria. Default risk, interest rate risk, and pre-payment risk. The important one for the mortgage crisis is default risk. Defaulting, or the act of declaring bankruptcy due to an inability to pay off debts, is when the lender loses out on all profit on the money or asset the loaned out due to the lendee being unable to pay back. An accurate assessment of a lendee's ability to repay the loan is critical in determining the interest rate and health of the loan being given out.

That in mind, there are 2 principal entities that underwrite mortgages. The investment/commercial banks giving out the mortgage or the GSEs giving out the mortgage. The problem was that due to deregulation both the GSEs and the private institutions were competing as to how many mortgages they could give out. The lax regulation of MBSes and the federal mandate of increased home ownership disincentivized either institution from properly underwriting their mortgages. This led to the creation of subprime mortgages where buyers who realistically could not afford their mortgage were given one regardless. A common phrase in the wake of the crisis was "NINJA loan" which stood for "No Income, No Job, No Assets".

This cycle was allowed to perpetuate for several years due to an ongoing housing boom and a default avoidance by homebuyers by taking out lines of credit on their now higher-valued homes. This

⁴ Government Sponsored Entity

led to a rapidly inflating economy and a massive amount of money loaned out by GSEs and investment banks.

In late 2006, as the economy continued to grow, the Federal Reserve (the Fed) decided to raise interest rates to slow down the growth of the economy to avoid inflation. Reasonable enough, however, what the Fed didn't seem to realize was that the entire housing market was relying on cheap and easy credit to fuel homebuying. By raising interest rates, credit became more expensive, making it harder to take out loans and harder to pay back debt.

With interest costs higher than they'd been in the preceding 10 years, many people with subprime mortgages suddenly found themselves without the means to pay their debts, sending them straight into default. As more homeowners defaulted, the value of these MBSes began to tank as there were no longer future earnings to be made off mortgages. As market confidence in real estate tanked, the MBSes tanked in value, leading the major investment banks and GSEs responsible for these mortgages to have to post a lot of collateral. On top of this, the falling value of homes combined with higher interest rates allowed even more subprime mortgages to go into foreclosure, leaving the banks with an even larger issue, and the MBSes with even less value. See Figure 1 for a diagram of this cycle.

Now you may be wondering, how on Earth did anyone at these banks trust these assets? The long answer is very complicated and summed up well in Figure 3 (yes I know the figures are out of order). In short however, many brokerages and dealers relied on the trust they had in other dealers and banks and the system as a whole. In what would go on to become a leading cause of the global crisis, the complex structuring of MBSes and the way in which they were securitized led to an inability to properly value them. We will come back to this when we get to the collapse of Bear Stearns.

For now, the collapse of these mortgages led to the collapse of many smaller mortgage brokers in 2007. These mortgage brokers were supported by and were the liabilities of our 5 major players in the coming crisis. These players were Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns. In 2007 they were the 5 largest investment banks in the entire world, fueling the engine of modern finance.

Despite their status as some of the largest companies on Earth, these banks had obligations to many of the smaller mortgage brokers, which meant that when they went under, the big 5 were on the hook. What this means in practice is that the banks had to pay for and assist in the bankruptcy filings of many of the mortgage holders. By late 2007, the big 5 began to report some of their first quarterly losses ever due to their newly posted collateral⁵ and the sinking value of their MBSes and CDOs⁶.

So the big 5 had their assets devaluing, what gives? The answer is leverage⁷. At the time of the crisis, the least leveraged of the big 5, Goldman Sachs, was still leveraged 25x on their assets. Putting two and two together, this meant that the banks, who held billions in MBSes and CDOs, suddenly had to put up billions in collateral against the debt they took out to leverage their assets.

By March of 2008, the problem had completely come to a head. To understand why it took so long though, we have to introduce a new character. American International Group, or AIG for short was and is one of the world's largest insurers. Starting in the late '90s they began selling an asset known as a Credit Default Swap.

Fortunately, CDSes are the easiest asset to understand out of this crisis. Invented in the '90s, CDSes were were a bank or insurer would sell a CDS to insure a buyer's asset against default. In exchange, the buyer would make quarterly payments to the CDS seller. When a "credit event" would happen, the CDS seller would be forced to post up compensation for the buyer. In essence, a CDS buyer bet that their assets were going to default, and a seller bets that the asset will not default.

Throughout the 2000s, AIG would become the number 1 seller of CDSes across the globe, betting in immense growth worldwide, from Asia to Europe to the Americas. As a result, many banks and businesses used the CDSes they bought as collateral for their loans as they were seen as a relatively secure asset. On top of this, due to a poor legal decision in the wake of the Enron case, CDSes were

⁵ Collateral is an asset or capital used to insure a bank against losing all of their money on a loan if the lendee is at risk of defaulting.

⁶ A CDO or Collateralized Debt Organization is sort of similar to an MBS, but in the case of 2008, they were a vehicle for securitizing MBSes and other assets that were back by mortgages to be back by a belief in reducing risk due to complicated asset structuring. In summary, finance inception. This is why people couldn't figure out how to value many MBSes.

⁷ Leveraging is the practice of taking on debt when buying a stock to increase future returns. To give an example if I wanted to 3x leverage 100 dollars of stock I would take on 300 dollars of debt, buy 400 dollars of stock, and pay back the debt when I sell the stock. If the value ends higher, you make 4x the returns. If it's lower, you lose 4x the losses.

completely unregulated. AIG and other insurers are the final puzzle piece that created the coming financial crisis. Their structuring can be seen in Figure 2.⁸

So in March 2008, investors had completely lost their confidence in the housing market, leaving these banks with billions of dollars that they needed to pay. It would be on the 14th of March that the first of the Big 5 would collapse. Bear Stearns, who had consistently been the most leveraged, and most exposed to MBSes, could no longer afford to pay out investors and creditors who had holdings with them.

In an infamous deal, the Federal Reserve Bank of New York orchestrated a 14 billion dollar deal wherein they would absorb Bear Stearns' toxic assets (the MBSes and CDOs) and have JPMorgan Chase buy the remainder of Bear Stearns at \$2 a share. For reference, Bear Stearns was \$179 a share in January of 2007. This was the first of what would become several bailouts used by the government and the Fed to alleviate the crisis.

This bailout marks where our committee begins, and where it is up to you all to finish the story on your own. It is my intent that this history has given you the information to explore what happened to AIG, Lehman Brothers, Merrill Lynch, JPMorgan Chase, Morgan Stanley, and all the other players involved in this story that still affects us today. **If you're still confused, watch *Too Big to Fail*.**

⁸ An important note about credit is something known as credit ratings. These are ratings from D at their lowest to AAA at their highest. They represent a creditor's ability to pay back loans and maintain a healthy balance sheet. Think of it as a company's or nation's credit score.

Appendix

Figure 1:

Subprime Mortgage Crisis: "Vicious Cycles" of Foreclosure and Bank Instability

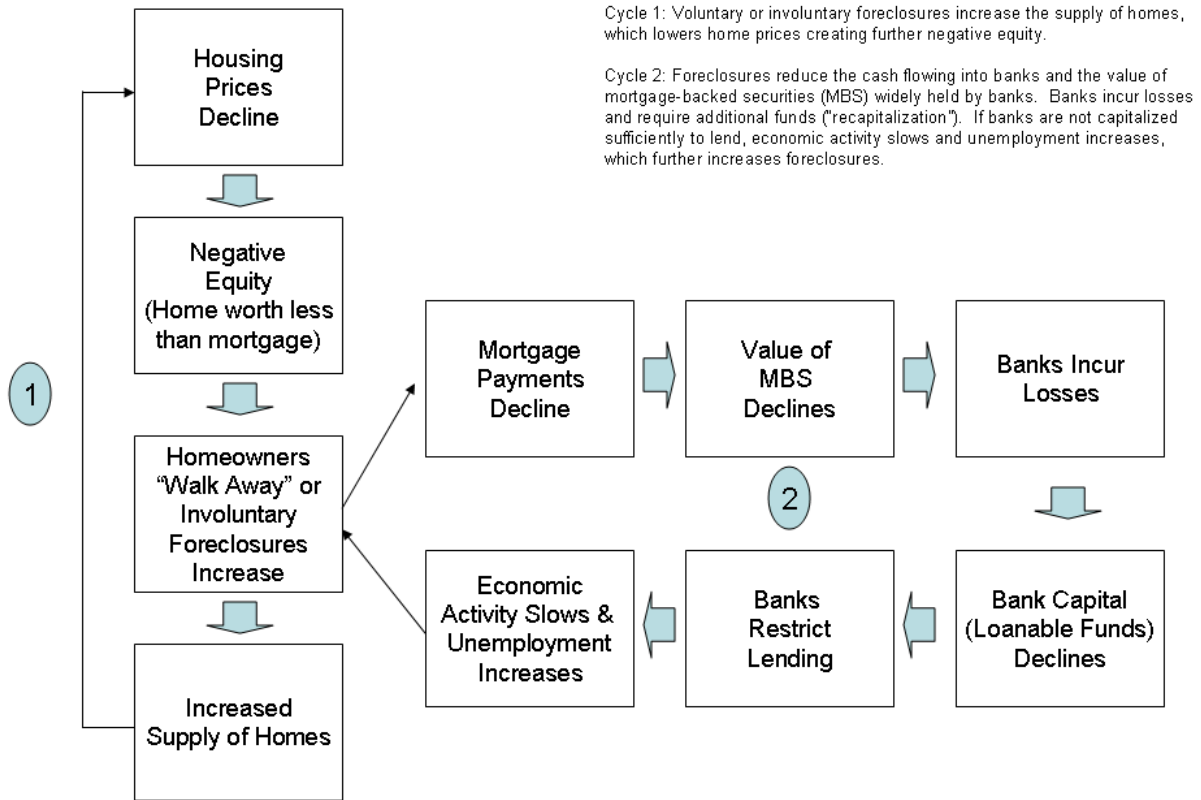


Diagram showing the vicious cycle of home foreclosures during the mortgage crisis.

Figure 2:

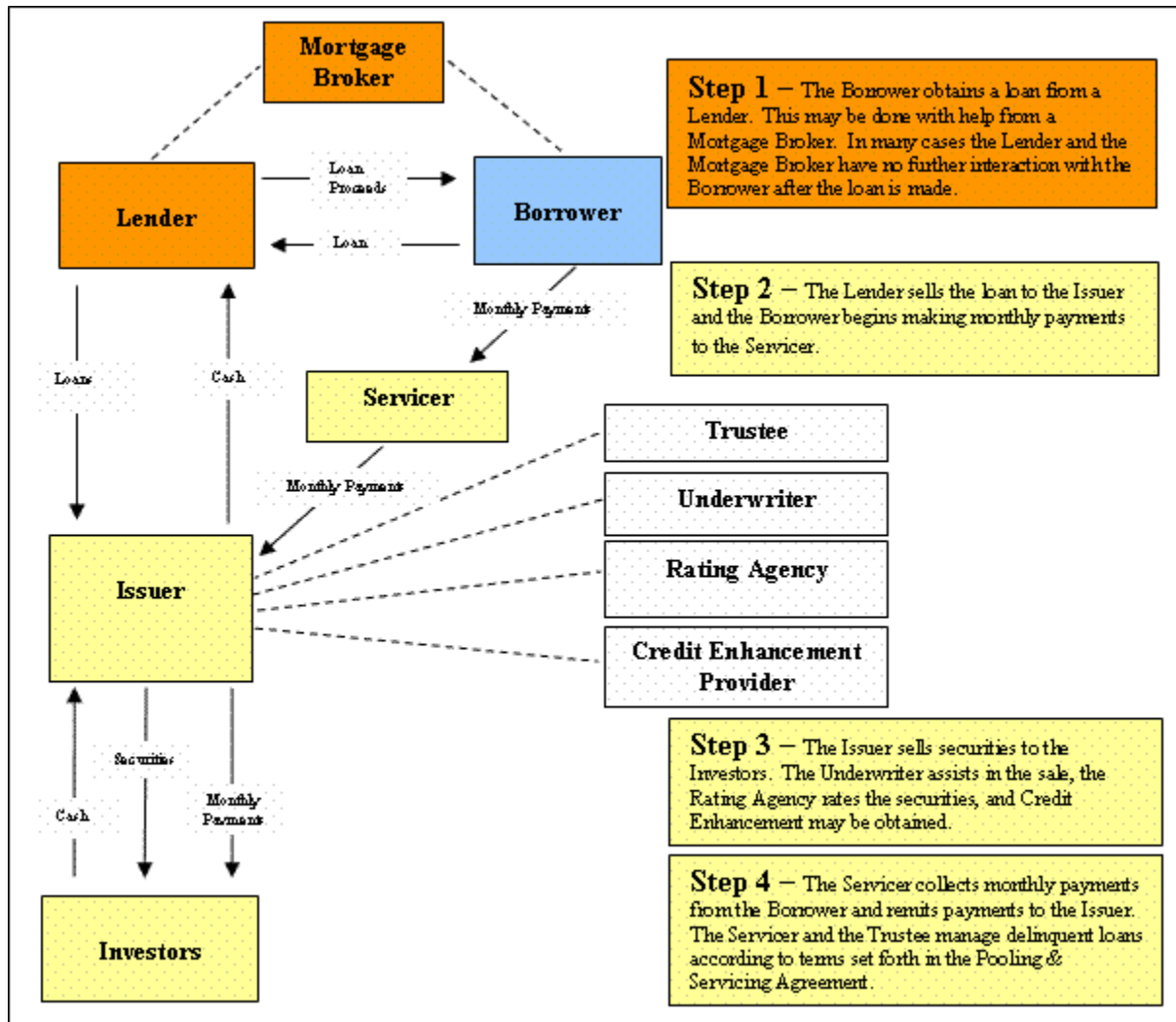


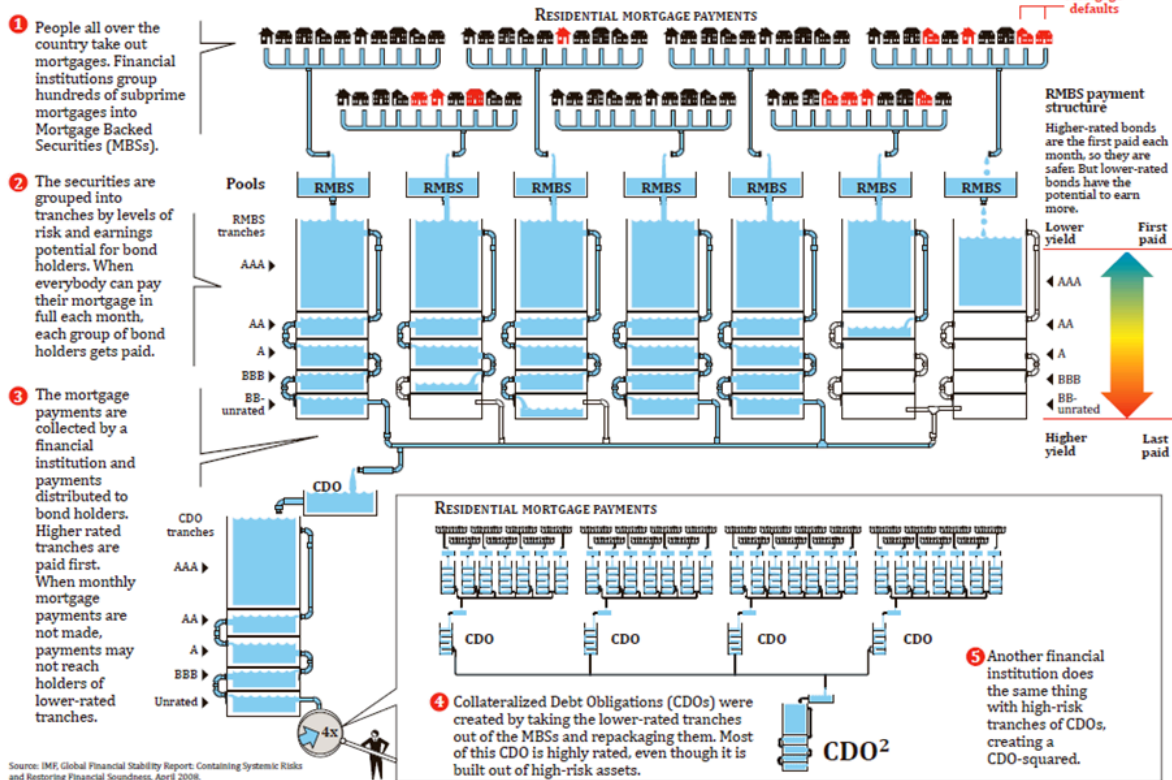
Diagram showing a small summary of the banking system that led to the collapse of the housing market in 2007.

Figure 3:

THE THEORY OF HOW THE FINANCIAL SYSTEM CREATED AAA-RATED ASSETS OUT OF SUBPRIME MORTGAGES

In the financial system, AAA-rated assets are the most valuable because they are the safest for investors and the easiest to sell. Financial institutions packaged and re-packaged securities built on high-risk subprime mortgages to create AAA-rated assets. The system

worked as long as mortgages all over the country and of all different characteristics didn't default all at once. When homeowners all over the country defaulted, there was not enough money to pay off all the mortgage-related securities.



The leading theory as to how financial institutions came to trust MBSes.

Topic A: Too Big to Fail

In the wake of the 2007 mortgage crisis, the whole global financial system is beginning to feel the pinch. In what has been a decades long failure of regulation and oversight, the whole system is unravelling. The collective goal of all parties at this committee is to save themselves. What that means for each person is different though.

It is March of 2008 and the clock is running out. JP Morgan has just gotten a “Jamie deal” and has secured Bear Stearns. There remain 4 major investment banks. From strongest to weakest it goes Goldman Sachs, Morgan Stanley, Merrill Lynch, and Lehman Brothers. Now that Bear is gone, Lehman is on the chopping block.

Our whole financial system is built on trust in banks to give us our money when we need it. Bear’s demise has dented this trust dramatically, and now investors are losing that trust in Lehman. For now Lehman is in hot water, the other 3 investment banks know they’re next.

It is not just the investment banks that are in trouble though. The commercial banks represented here are Wells Fargo, Bank of America, Wachovia, JP Morgan, Citigroup, Mitsubishi UFJ, and Barclays. Each of them has weathered the storm differently. But the prevailing theme is that the collapse of MBSs has been detrimental to their credit ratings and liquid capital. Some banks are in no position to invest, while for others they couldn’t have an easier time trying to invest.

Then there are the wild cards. Starting with the biggest and baddest, we have Fannie Mae and Freddie Mac. Considered by many to be a lost cause, there is little hope for these institutions. Having underwritten or owned a combined 6 trillion dollars worth of mortgages, the mortgage crisis has all but wiped out your value. To survive this crisis would take a miracle. However the assets they control are in desperate need of saving lest the economy collapse.

The next wildcard is the short seller. Represented by Mr. Einhorn, the short sellers are the enemies of the Wall Street banks. If you’ve ever seen the Big Short, you know who they are. The banks will be on a crusade to stop you. You’re sole goal is to work with the banks, while still undercutting them on the side.

The last and most dangerous of all the wildcards though is AIG. For now they seem to be ok, but as explained with CDSs, they're in for a reckoning. Like Fannie Mae and Freddie Mac, they must be saved. However this time, they're not a GSE. As AIG you must find a way to convince other banks or the government to step in to save you.

Important Guide on How to Play the Private Positions:

Investment Banks:

Secure funding from the government or other banks

Commercial Banks:

Depending on balance sheet, invest into banks or secure funding

Wildcards:

AIG: Similar to commercial bank.

Fannie and Freddie: Similar to commercial bank.

David Einhorn: Avoid getting short selling banned, and try to gain provisions protecting it.

Fortunately, there are regulators to save the day. From Senators to bureaucrats to central bankers, there are multitudes of people in place to help assist the economy. But like any good democracy, none have sweeping powers to intervene.

The Federal Reserve, the central bank of the US, acts as what is known as a lender of last resort. In the case where a bank is unable to lend from other banks, they can lend from the Fed. This prevents bank runs by guaranteeing cash to pay out depositors. However only the commercial banks based in the US (WF, BoA, Wachovia, JP Morgan, and Citigroup) qualify for these funds, not the investment banks. While this may seem like a great way to quickly solve the crisis, injecting too much money would be disastrous. While it would save the banks in the short run, it would lead to inflation and long term instability. There is also immense internal pressure to not bail out any bank.

The Treasury, or the executive's purse, is the arm through which the government may intervene and help bail out, assist, or fund institutions. Unlike the Fed, you are at the political whims of the

American people. And let me tell you, no one likes bailing out banks. Your goal is to try and work out a private solution as best you can. However you must be able to use your power as the Treasury when needed.

Congress, the most insufferable branch of the American government. The pinnacle of our democracy is at the same time a pinnacle of incompetency. For any government bailout or spending to be approved in this committee, 3 of 5 congressional members must be signatories and/or sponsors. Furthermore, to limit the power of congress, as they theoretically could just give infinite funds, there are certain political power thresholds that must be met for certain actions to occur. They will be outlined below.

The most boring of the jobs may seem to be a regulator's job, however this is far from true. In order for any merger/buyout of any company to occur, at least 2 regulators must be signatories on any proposal that involves a merger/buyout. It is also the regulators who are able to ban short selling outright. For Barclays and UFJ specifically, you must have one of the two UK regulators if you are to perform a deal. **IMPORTANT NOTE ON BANKRUPTCIES:** If the insurance fund of the FDIC goes below 0 (If I think the resolution is too harsh), the topic automatically switches to topic B as the global economy collapses.

Important Guide on How to Play the Public Positions:

Treasury:

Use your funding power wisely,
convince congress to give you money.

Federal Reserve:

Assess the health of the banks and approve/deny funds,
make sure the banks work together.

Regulators:

Make sure the banks behave sustainably
Stop the banks from being greedy

Congressmen:

Have the interests of America at heart.
Ensure that not too much money is spent.

Questions to Consider at Committee

- **Questions:**

- **How do we stop Lehman from going bankrupt?**
- How do we stop Fannie Mae from going bankrupt?
- How do we stop Freddie Mac from going bankrupt?
- How do we stop Merrill Lynch from going bankrupt?
- How do we convince Congress to bailout banks?
- **How do we get investment banks and AIG access to Fed funding?**
- **How do we stop AIG from going bankrupt?**
- Who is going to pay/invest/buy/bailout these banks?
- **How can we resolve this with minimal government intervention?**

- **Goals:**

- **Prevent as many institutions from going bankrupt as possible.**
- Prevent the banks from taking too much government money.
- Pass legislation stimulating the economy.
- **Prevent a bank panic by ensuring the FDIC doesn't run out of money.**
- Attempt to get the banks to work together to fund one another.
- **Make sure the banks and government don't overstep their power.**

Topic B: Re-Regulation

Congratulations! You all have completely upended the banking system. Let's all take a moment to revel in the smoldering ash pile that remains. No matter how pungent, the smell of bankruptcy and foreclosure is the only comfort you'll have.

In the case that this topic is voted first, then the committee will take place in October of 2007. In the case that this topic was reached global financial collapse, it is September of 2008. In the case that this topic begins after the conclusion of topic A, it is April of 2009 when the DJIA bottomed out.

Amidst the ashes of the banking system the public is absolutely outraged. The country either has or has nearly plunged into the second great depression. Only this time they have people they can point fingers at.

If I were a banker, I would run. Unfortunately you all are trapped here. Of the 15 representatives of the hydra that is finance, the public wants at least half of your heads. At the same time, every party in the room knows that a long term solution must be reached.

By arresting the leadership of all these banks, the expertise needed to rebuild the Wall Street engine disappears entirely. Barring personal feeling about Wall Street bankers, the US is in no position to dismantle Wall Street. Despite being the very system that has broken the economy over and over again, it is that same system that has launched it to astronomical highs.

There is immense pressure on how the people gathered at this committee will rebuild. For the Congressman, never before has he been so unpopular. For the banker, he fears for his life. For the regulator, today is his wet dream to sculpt new legislation out of the ashes.

Give one party too much power though, and you risk repeating all the same mistakes again. The economy has always been a balancing act, but too much neutrality also risks a failure to change the system. Now is the time for action, no matter who are.

As a banker, you know the public wants your head. It is up to you to pin the problems on everyone else. Convince everyone that you were guilt-free during the mortgage crisis, and just maybe you might be spared. However you also must work with the government to rebuild yourselves.

Without their support, your banks are as good as dead. A deadly game of tug and war is about to start between Wall Street and Main Street.

As the representatives of Main Street, there are principally two factions amongst you. Represented by much of the federal government, the Republicans offer a conservative, business-friendly approach to rebuilding the crisis. Their argument is a preservation of the existing neoliberal world order. Represented by much of Congress though are the Democrats. Their argument is that the banks are wholly responsible for this disaster. In pushing for legislation and action against the banks they only seem to grow in popularity each day.

NYC and DC are about to become the battlegrounds over which a new world economic order will be fought for. May you all stand on the right side of history.

Questions and Goals to Consider at Committee

- **Questions:**

- Who should be named responsible for this crisis?
- How do we punish them?
- How do we regulate the banks in the future?
- What limitations should be put on the banks?
- What should the government's role in the economy be?
- What should be done with the toxic assets?

- **Goals:**

- Arrest and prosecute the bankers responsible.
- Pass legislation to regulate the banks.
- Get the derivatives market under control.
- Stimulate the American economy.

Position List

- **Robert B. Willumstad - CEO, American International Group (AIG)**

Starting Balance: Negative

Status: Systemically Important Financial Institution

AIG, the largest of the American insurance institutions, headed by Willumstad and co. Will they stand to live through the crisis? Certainly not. To say AIG's leadership was incompetent would be an understatement. While Willumstad has had hardly half a year on the job, the company is far from saving. Holding several trillion dollars in insurance policies globally, many banks use your CDSes as part of their credit rating. But now the market has crashed and there's a hole in your balance sheet the likes of which the world has never seen. If your company fails, the world goes down with it. You must figure out how to pay off your debts, by hell or by highwater.

- **Kenneth D. Lewis - CEO, Bank of America (BoA)**

Starting Balance: Good

Status: Systemically Important Financial Institution

In our time, Ken Lewis was named 2008 Banker of the Year, or in lay terms, the smallest loser. The ultimate outsider to investment banking, Mr. Lewis has always held a certain grudge against the Big 5. You certainly wouldn't mind seeing the other banks collapse, but you recognize that now's the time to get in and swoop up a bank or two while they're on sale. Going into this crisis, you may just be healthier than JP Morgan, but you could still mess it all up. In our timeline, you bought Merrill Lynch, which after costing you 20 billion, led to a 2.4 billion dollar lawsuit and your early retirement. So tread lightly.

- **Warren E. Buffett - CEO, Berkshire Hathaway (BH)**

Starting Balance: Good

Status: Good Creditor

The Oracle of Omaha, and arguably the wisest man to have ever played the game. Your company, Berkshire Hathaway, is famous for consistently having a large liquid capital reserve (cash). As an ardent dealmaker, you are interested in getting in on the discount prices these banks are being sold for. However be wary, for buying too bad of a bank might mean the end of your company.

- **Lloyd C. Blankfein - CEO, Goldman Sachs (GS)**

Starting Balance: Neutral

Status: Systemically “Important” Financial Institution

Despite being the biggest of the Big 5, Blankfein certainly doesn't have a blank check. Goldman is coming into this crisis with the best fortunes out of any investment bank. Having some of the best staff on Wall Street, and a smartly hedged portfolio, it is not the inherent collapse of the housing market that's killing you. Rather it's a lack of trust and faith from investors and clients. If the other 4 investment banks go, you're done for. Call it egotistical altruism, but to save yourself you must save the rest of Wall Street.

- **Jamie Dimon - CEO, JPMorgan Chase (JPM)**

Starting Balance: Good

Status: Systemically Important Financial Institution

Where does one begin with Jamie Dimon? I think it's fitting to say that he's the only man in the last 100 years to have come close to the power that the name sake of his company, John Pierpont Morgan, once had over the world banking system. If a deal happens on Wall Street, he knows about it. He's out to save JPMorgan Chase at any and all costs. As it stands, he's the only man on Wall Street who saw this coming, and still his company is beginning to feel the pinch. As JPMorgan, you are by far the healthiest of all the banks coming into and out of the financial crisis. However, if you mess up you might just lose it all.

- **Richard S. Fuld Jr. (Dick "The Gorilla" Fuld) - CEO, Lehman Brothers (LB)**

Starting Balance: Atrocious

Status: Systemically Collapsing Financial Institution

This gorilla is running out of time and he knows it. Though he thanks god he's not Bear Stearns, Dick Fuld knows he's next and he's scrambling. There's hole in your balance sheet the size of Jupiter and you can't fix it by yourself. As Dick Fuld you have two options, get help or die.

- **John A. Thain - CEO, Merrill Lynch (ML)**

Starting Balance: Bad

Status: Systemically Crumbling Financial Institution

The raging bull of Merrill Lynch was admittedly a little too bullish, and now the bears are closing in. While nowhere near as doomed as Bear Stearns or Lehman Brothers, you must begin preparing for the end. For now, you are taking notes from the Bear Stearns crisis, and are desperately trying to raise capital. While your share prices are fine now, you may just break the buck by year's end if you're not careful. Like Lehman, you're looking for a creditor to swoop in and save the day. Who that'll be though, it's tough to say.

- **John Mack - CEO, Morgan Stanley (MS)**

Starting Balance: Poor

Status: Systemically Worried Financial Institution

One of the three remaining Houses of Morgan, you and Goldman reign as king and queen over the investment banking world. Despite those under you crumbling under the weight of the subprime mortgage crisis, you think you can ride out this crisis. On top of this, you refuse to get fully bought out by anyone. But still, you need cash, fast. Luckily you have more time than Bear, Lehman, or Merrill. So start looking for creditors, because the way things are looking, the government ain't doing nothing for you.

- **Vikram S. Pandit - CEO, Citigroup (CG)**

Starting Balance: Poor

Status: Systemically Important Financial Institution

Of all the banks in the City of New York, Citigroup is the second largest but the most unstable. Vikram Pandit, a former Morgan Stanley employee, now heads the second largest commercial

bank in the US. Unfortunately for him he's the head of a rotting snake. After overloading on CDOs and MBSes, Citigroup is teetering on the brink of collapse. It'll take a miracle to save Citi, and the government doesn't seem too happy about it.

- **Daniel H. Mudd - CEO, Fannie Mae (FNMA)**

Starting Balance: Apocalyptic

Status: Systemically Super-Important Financial Institution

Fannie Mae is stuck in the Mudd and it's sinking, fast. Alongside Freddie Mac, you own or insure 6 trillion dollars worth of mortgages. The mortgage crisis has hit you incredibly hard and you have all but dropped the ball. Unless you play hard and fast, the end is near for you. You need money, fast. In our timeline, Fannie Mae and Freddie Mac were put into Federal Conservatorship. However with fast and cunning action, you might just be able to convince the government to bail you out instead of destroying you. It is highly recommended that you work with Freddie Mac, as this situation is very difficult to escape.

- **Richard F. Syron - CEO, Freddie Mac (FHLMC)**

Starting Balance: Apocalyptic

Status: Systemically Super-Important Financial Institution

At Freddie Mac the alarm Syrons are sounding and a crisis is at hand. Alongside Fannie Mae, you own or insure 6 trillion dollars worth of mortgages. The mortgage crisis has hit you incredibly hard and you have all but dropped the ball. Unless you play hard and fast, the end is near for you. You need money, fast. In our timeline, Fannie Mae and Freddie Mac were put into Federal Conservatorship. However with fast and cunning action, you might just be able to convince the government to bail you out instead of destroying you. It is highly recommended that you work with Freddie Mac, as this situation is very difficult to escape.

- **Robert E. Diamond - CEO, Barclays (BC)**

Starting Balance: Great

Status: Foreign-Investor

One lantern by land, two by sea, and three by bank. The British are coming and Barclays is leading the charge. Bob Diamond, an American running a British bank, has been looking for an in on Wall Street for a long time. You have by far the largest cash pool to invest into these banks. The banks are bleeding and are willing to bargain for a fire sale deal. However you are tied down by British banking regulations and need to fight your way into the American market.

- **Richard Kovacevich - CEO, Wells Fargo (WF)**

Starting Balance: Good

Status: Systemically Important Financial Institution

Wells Fargo is the most steadfast of any of the rank and file banks. Having run a tight ship for much of the 2000s, your company is by no means in a bad spot, however you have yet to win much glory. Like many others at this time, you want to buy in. However you can't afford to take very much risk. Find a bank that looks just right for you and start fighting for it.

- **David M. Einhorn - Chairman, Greenlight Capital (GL)**

Status: Short-seller

The clear odd man out on this list of hotshot bankers and CEOs, Mr. Einhorn stands far away from the horns of the Wall Street bull. While no man can stand as the head of the short-sellers, David Einhorn is certainly one of the most prominent. You're a shark in the financial waters and you smell blood. You stand to make a fortune if the banks fail, but the bankers hate you. Your goal is to somehow stay alive and make as much money as possible before the banks try to pummel you.

- **Nobuo Kuroyanagi - CEO, Mitsubishi UFJ Financial Group (UFJ)**

Starting Balance: Good

Status: Foreign-Investor

A modern day Zaibatsu of the Japanese financial system, you are itching to get into the American economy. However Japanese regulation has slowed you down a lot. While you don't have as big a cash pool as Barclays or any of the other American banks, you still have money to

invest. Pick a failing bank and run for it. However be careful to not get blown over by many of the larger investors at play.

- **Robert K. Steel - CEO, Wachovia (WA)**

Starting Balance: Bad

Status: Systemically Important Financial Institution

With Mr. Steel we take some liberties with our timeline. In 2008 he switched from being an assistant secretary to the Treasury to being CEO of Wachovia. For the purposes of our committee he will be solely CEO of Wachovia. That aside, as Wachovia, you are secretly suffering from a gigantic debt problem after inheriting billions in subprime, adjustable rate mortgages. You need to be bailed out, either by another bank or by the federal government.

- **Hillary R. Clinton - Senator (D-New York)**

From atop the Hill, Hillary Clinton can only watch as this crisis unfolds. Having the weight of years of political authority behind you, your words can command a sizable portion of the Democratic response to this crisis. Your constituents do not want you to bail out the banks. The less you help the banks, the stronger your political willpower will be.

- **Christopher J. Dodd - Senator (D-Connecticut), Chairman of the Banking Committee**

As one of the two sponsors of what would become the Dodd-Frank Act, you have established yourself for years as a strong candidate on topics of business and economics. However you have lost a lot of credit by claiming that institutions such as Fannie Mae and Freddie Mac were “fundamentally strong”. As of now you have little political power, however as chairman of the Banking Committee, you have control over how the government treats the banks during the crisis.

- **Barnett "Barney" Frank - Representative (D-Massachusetts), Chairman of the Committee on Financial Services**

A staunchly progressive man for 2008, you are one of the few gay politicians within Congress. While your standing may not be so high with the public at large, you are arguably one of the most powerful people in Congress. As chairman of the Committee on Financial Services, you

have the legislative tools in your hands to help or destroy the banks. Much of any government action will have to have your name on it.

- **Mitch McConnell, Senator (R-Kentucky), Republican leader of the Senate**

With a Republican presidency at the helm of this disaster, it's hard to get much credit as a Republican these days. Instead of being pro-business, your soapbox of the day is fiscal balancing. Already beginning to seem out of touch, you must convince your fellow senators that we need to balance the budget. That way you can hold onto your slipping power. Beware though, go too far, and a failed bank might just cost you all your political power.

- **Nancy Pelosi, Representative (D-California), Speaker of the House**

An absolute veteran on the Hill, you have an immense amount of political power. At this junction you are both Speaker of the House and of the people. Public sentiment is strongly against the banks. However you don't have enough information to make an informed decision on how to solve the crisis. Any action in favour of the banks will be looked down upon, and will cost you power. As a Democrat you serve the interests of the common man, which often contradict what is in his best interest. Weigh the two carefully.

- **Henry M. "Hank" Paulson Jr. - Secretary of the Treasury (Treasury)**

Hank Paulson, a fitting hero for modern America. If you had to point to one man as to who saved the world from a second great depression it would be him. Before taking the head Treasury post in 2006, Hank Paulson was the CEO of Goldman Sachs. Normally this wouldn't be an issue, but you signed a tight (but not airtight) contract saying that you wouldn't contact or work with your former employer. On top of this, as a Republican, you have to run a very fiscally tight ship or risk ruining the party's reputation and yours. Bailing out banks will never and has never been popular, so you'll be begging with bankers and legislators to work together and give you money.

- **James R. "Jim" Wilkinson - Chief of Staff, Department of the Treasury (Treasury)**

A propaganda master for our time, Jim Wilkinson had a lifeline to the public consciousness during the Iraq invasion. Having receded into your role as Chief of Staff of the Treasury, you still hold a very powerful voice in the Treasury. You stand as a formidable advisor to Paulson. Make your will and desires for the Treasury known, even if they align with Paulson.

- **Callum McCarthy - Chairman, UK Financial Services Authority (FSA)**

Amongst this list of executives and regulators, McCarthy stands out as an academic. You lead Britain's much younger equivalent of the SEC, the FSA. While you can mostly only advise and attempt to persuade the Americans of certain policies and actions, you do have one important card up your sleeve. Barclays, who stands looking to buy at least one American bank, is convinced of circumventing British banking laws. Your goal is to catch them without letting the situation get too out of hand.

- **Alistair M. Darling, Chancellor of the Exchequer (UK)**

Though the name implies it, Sir Darling is by no means a darling. Despite seeming like a mostly American issue, the mortgage crisis has hit the UK hard. While not represented in this committee, the Royal Bank of Scotland is on its last legs. Helping the Americans fix their crisis will be critical to determine how the UK moves forward. Furthermore, you have the ability to and must deny any large moves Barclays makes given the right precedent (in our timeline Barclays was unable to buy Lehman Brothers at the 11th hour because of this).

- **Sheila C. Bair - Chairwoman, Federal Deposit Insurance Corporation (FDIC)**

The Bair is coming to bear with the bears on Wall Street. Responsible for insuring depositors against bank failures, the last year and a half has been a struggle for the FDIC. Collapsing mortgage lenders and banks have led to an unprecedented number of bank runs. The FDIC does not have enough cash to insure any of the major banks' deposits. If even a single commercial bank goes bankrupt, the ramifications will be immense. NOTE: this money cannot be used to bailout/buy banks.

- **Ben S. Bernanke - Chairman, Federal Reserve (The Fed)**

Despite an impressive academic career, Ben Bernanke's Fed chair career leading up to 2008 was considerably less than impressive. But now's your chance to turn your reputation around and save the nation from its own problems (that you helped create). You have control over who is allowed to access Fed funds. However there are limitations on who you can give money to. Investment banks, at this current moment, do not qualify for funding. However this may change given the necessary changes by the banks.

- **Donald Kohn - Vice Chairman, Federal Reserve (The Fed)**

A steady workhorse of the Federal Reserve, it would be best if you and Bernanke work together to fix this. Not being tied to Bernanke's mistakes, now could be your time to assert your views on how the Fed should be saving the global economy. While you may not have as much say as Bernanke, your experience and wisdom is more easily accepted by the banks. Like Bernanke though, you have control over who the Fed allows access to funds. However there are limitations on who you can give money to. Investment banks, at this current moment, do not qualify for funding. However this may change given the necessary changes by the banks.

- **Timothy F. Geithner - President, Federal Reserve Bank of New York (NY Fed)**

Only 47 years old, you are funnily enough one of the youngest people here. However, youth was not wasted on this young man. You are one of two people here who saw this coming. Privately you have already orchestrated a deal with JP Morgan and Bear Stearns. It is time for you to wrangle the egos of Wall Street and get them to work together. The more successfully you get the banks to work together, the easier it will be to get the banks to solve the crisis. As the President of the NY Fed, you control who has access to Federal Reserve funds.

- **Charles C. Cox - Chairman, Securities and Exchange Commission (SEC)**

A markedly timid man, Mr. Cox is not the best Coxswain of the SEC. Being more afraid than his colleagues to actually create or enforce guidelines for the financial markets, a lot of unscrupulous activity has gone on behind your back. As chairman of the SEC, you have the power to ban short selling, only given enough political power. In the wake of the crisis, your

job is to wrangle as much of the unregulated derivatives market back into your control as possible.

- **Kevin I. Fromer - Assistant Secretary, Department of the Treasury (Treasury)**

If Congress is the hand that feeds, then you are the man stopping Hank Paulson from biting it. Unfortunately you are the least famous of all the regulators on this list. However you are the link between the Treasury and Congress. You are the interpreter of the Treasury's wishes to Congress. If you are to succeed in this role, you need to sway congress to whatever the Treasury wants. At a time like this, Congress will be hanging off each word you say.