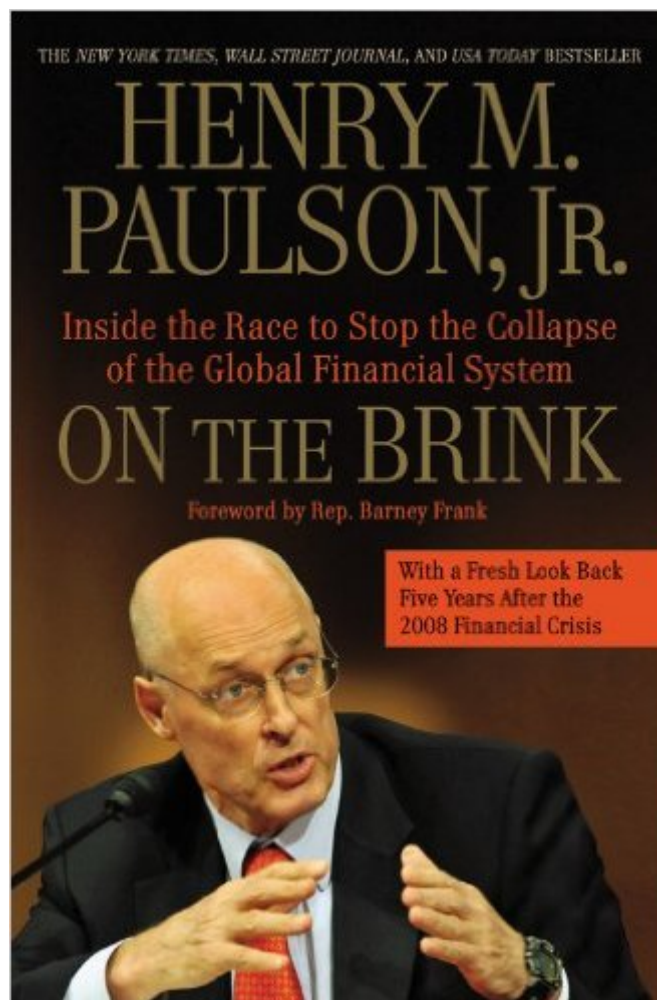


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On The Brink: Inside The Race To Stop The Collapse Of The Global Financial System -- With Original New Material On The Five Year Anniversary Of The Financial Crisis





Synopsis

Former Secretary of the Treasury Hank Paulson -- who was at the very epicenter of the crashing financial markets -- provides a startling, first- person account of what really happened during this time of global financial crisis - and this revised edition features fresh and original material from Paulson on the five-year-anniversary of the 2008 financial crisis. From the man who was in the very middle of this perfect economic storm, Paulson puts the reader in the room for all the intense moments as he addressed urgent market conditions, weighed critical decisions, and debated policy and economic considerations with all the notable players-including the CEOs of top Wall Street firms as well as Ben Bernanke, Timothy Geithner, Sheila Bair, Nancy Pelosi, Barney Frank, presidential candidates Barack Obama and John McCain, and then-President George W. Bush. More than an account about numbers and credit risks gone bad, *ON THE BRINK* is an extraordinary story about people and politics-all brought together during the world's impending financial Armageddon.

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"Between March and September 2008, eight major U.S. financial institutions failed - Bear Stearns, IndyMac, Fannie Mae, Freddie Mac, Lehman Brothers, AIG, Washington Mutual, and Wachovia --- six of them in September alone.....This, the most wrenching financial crisis since the Great Depression, caused a terrible recession in the U.S. and severe harm around the world. Yet it could have been so much worse." Thus Hank Paulson summarizes, in the Afterword, the major challenges

he faced as Secretary of the Treasury, a post he assumed on July 10, 2006 and left on January 16, 2009. And this does not mention other institutions that would have failed had they not been propped up (GE Capital, Chrysler, GM, and the entire money market industry after the Reserve Primary Fund broke the buck). In the recently released "Bailout: an inside account of how Washington abandoned Main Street while rescuing Wall Street", Neil Barofsky, the former Special Inspector General in Charge of Oversight of TARP, details his efforts to constrain the Geithner Treasury from unconditional dispersal of hundreds of billions of TARP funds to the largest banks with no oversight. Former FDIC Chief Sheila Bair recently said of Geithner, "Tim seemed to view his job as protecting Citigroup from me, when he should have been worried about protecting the taxpayers from Citi." While Geithner did much to accelerate what the New York Times called a "no-strings windfall to bankers", the first \$350 billion was dispersed under Paulson. Was he a hero who kept the world from falling over the "brink", or was he just rescuing his inept investment banker buddies and sending the tab to the taxpayer as some would contend? What evidence does *On the Brink* offer? One indeed can make the case that Paulson was the right man at the right time since only a former CEO of Goldman Sachs had the necessary knowledge of financial markets and the professional gravitas to demand attention from the likes of Jamie Dimon of JP Morgan, John Mack from Morgan Stanley, Lloyd Blankfein from Goldman Sachs, Vikram Pandit from Citigroup, John Thain from (then) Merrill Lynch, Brady Dougan from Credit Suisse, and Robert Kelly from Bank of New York Mellon. But, one can also argue that, having drunk the Goldman Sachs kool-aid, Paulson saw only one response to the crisis - save the big banks, everything is secondary. As the crisis unfolds, it seems that Paulson and his team move heaven and earth to accommodate financial institutions but underwater homeowners are given short shrift and then only to get more money for the banks: "...devising one [a mortgage mitigation plan] would be critical to getting congressional approval to release the final tranche of TARP." Paulson summarizes, "As first responders to an unprecedented crisis that threatened the destruction of the modern financial system, we had little choice [but to take the actions they did]." He repeatedly invokes images of "market panic", "grave distress throughout the world", "financial catastrophe", "serious risk", "the world falling apart", "all hell [breaking] loose", "[threats to] the entire financial system", etc, etc as justification for his actions. But, throughout this crisis, many members of Congress asked Paulson to delineate the consequences of NOT bailing out the big banks, and, for the most part, he seems to duck the issue then and now. In one instance, he explains, "[Florida representative Adam Putnam] suggested that I needed to tell people more explicitly how bad it would be if the financial system collapsed....but scaring the public to win support would only make things worse economically." And, "...this dilemma

haunted me throughout the crisis - how to make the public understand the grave situation we faced without inflaming the markets even further."But what about now, in this Copyright 2010 book? Wasn't this the great opportunity to explain the Sum of All Fears and spell out how the dominoes could have fallen? The only clue we get here is that hundreds of billions were dispersed so that credit would continue to flow ("..if credit stopped flowing, businesses would shut down across America and many, many jobs would be lost."). But, you can't help but hear Eartha Kitt singing "Santa Baby" as you read about the fortune lavished on the big banks who promptly sat on the funds and provided no sugar for Daddy. Whether you agree with his actions or not, ultimately the nation owes a debt of gratitude to Paulson for stabilizing a chaotic situation and you have to admire his fortitude in dealing with wave after wave of staggering problems. However, given the strong residue of resentment that still exists over how TARP (and related programs) were handled, *On the Brink* represents a missed opportunity to dispel some of that resentment. A final note: the Afterword makes for interesting reading as Paulson lists his recommended actions for preventing another similar crisis. Guess how many of his recommendations have been implemented?

A book like this should be read only along with books like *The Failure of Risk Management: Why It's Broken and How to Fix It* or *The Black Swan: The Impact of the Highly Improbable*. These books are about the much broader topics of risk management and risk in finance, respectively, but they do put *On the Brink* in context. Paulson has written a detailed, blow by blow, narrative account of several specific meetings leading up to and during the financial crisis. Less of the book deals with stepping outside of these meetings to analyze other specific causes, but there is some of that. The reader has to be careful of an attempt by Paulson to recast his own role in a more favorable light, but I haven't seen anything detailed enough to specifically contradict him, yet. Paulson does mention an interesting and almost complete list of players in this crisis - Freddie, Fannie, Bernanke, Bush, etc. But he is almost silent on some of the more subtle players like the mathematical models that underestimated these risks (Taleb and Hubbard do an excellent job of this). He reiterates throughout the book that the events seemed "impossible" and yet they are events that seem to happen once or twice a century (Especially considering some of the relaxed regulation and oversight that preceeded it). He does mention the role of Credit Default Swaps in the crisis but not, say, the Gaussian Copula, Options, or Value at Risk. The use of such methods are at least partly to blame. The reader has to assume Paulson's agenda of getting history to come out the way that casts him the way he would like to see it. But it is still an excellent account. We should like to see the accounts of Bernanke and Geithner someday and compare them side-by-side.

Like so many "over the shoulder" assessments of major historical events, Mr. Paulson's account is very self-serving. He doesn't bother to address why - when the government had tremendous leverage in working out the bailout of AIG - it did next to nothing in holding banks like Goldman Sachs accountable for their poor decision-making. So AIG, propped up by American taxpayers, paid 100 cents on the dollar for the credit default swaps purchased by Goldman Sachs. These swaps in themselves were a suspect approach to managing risk. Moreover, the government never required the investment firms - whose senior management made atrocious gambles - to replace these inept executives (such as GS's Lloyd "We're doing God's work" Blankfein) although they didn't hesitate to take out the head of GM (Rick Wagoner) when we bailed out the auto industry. So how to explain Mr. Paulson's role in all this and his self-justifying apologies for greed? Well here's an astonishing coincidence: he's the former CEO of Goldman Sachs. Surprise, surprise! And another tidbit about where Mr. Paulson acquired his ethical compass: he was a special assistant to John Ehrlichman in the Nixon White House. I invite people to read this book, but I would advise against attaching any credibility to Mr. Paulson's view of the near collapse of our financial system.

I am impressed with Paulson's efforts at saving the economy even though his old firm, Goldman Sachs, helped to fuel the problem. Paulson's side of the story is interesting. I can't imagine trying to solve all the sudden crises that he and others did, but we owe him. I rated the book a 3 because it seemed dry. It probably wanted to be accurate and cover the situation factually. He accomplished it but I was so turned off with the greed on Wall Street, it probably affected my outlook. I appreciated his side. Great effort on his part.

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