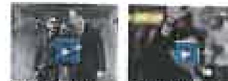
DOC. N.º 74

Cars Auto Financing Event Tickets Jobs Real Estate Online Degrees Shopping
Search
How do I find it?
Subscribe to paper



RESERVA AHORA

Subprime loans kill two Bear Stearns funds

Updated 7/18/2007 8:14 AM | Comment | Recommend

E-mail | Print |

By Joe Bel Bruno, Associated Press

NEW YORK — Bear Stearns (BSC) told clients Tuesday that a meltdown in the subprime mortgage market has made the assets of two of its flagship hedge funds almost worthless.

Both funds were squeezed after Bear Stearns made wrong-way bets on the home mortgage market and was caught as loans to risky investors began to default. The assets in one of the funds are essentially worthless, while another is worth 9% of its value at the end of April, according to a document obtained by The Associated Press.

Bear Stearns, the nation's fifth-largest investment bank, began disclosing in March that the two hedge funds had sustained heavy losses tied to subprime loans extended to risky borrowers. At the time, its High-Grade Structured Credit Enhanced Leveraged Fund was worth about $638 million — and now has no value.

The larger and less-leveraged High-Grade Structured Credit Fund lost 91% of its value. It was worth about $925 million before taking on losses in March.

"In light of these returns, we will seek an orderly wind-down of the funds over time," Bear Stearns said in a letter that will be sent to clients who might have questions about the funds. "This is a difficult development for investors in these funds, and it is certainly uncharacteristic of Bear Stearns Asset Management overall strong record of performance."

A spokeswoman for Bear Stearns didn't return calls seeking comment.

In June, Bear Stearns said it would spend $1.6 billion to bail out the High-Grade Structured Credit fund. About $1.4 billion of that remains outstanding, Bear Stearns said in the letter.

Meanwhile, the investment bank has been trying to unwind about $1.1 billion from the other fund.

It said in the note to clients that the fund's "performance, in part, reflects the unprecedented declines in the valuation of a number of highly rated securities" and that it "has taken action to restore investor confidence."

Bear Stearns, considered the pre-eminent Wall Street firm dealing in mortgage-backed securities, won a reprieve from lenders clamoring for more collateral. Wall Street firms including Merrill Lynch and JPMorgan Chase decided to hold back on auctioning off fund assets.

James Cayne, Bear's longtime chief executive, has said the bailout would not have "any material adverse effect" on the company's business.

The problems began when the funds' assets — mostly securities backed by risky mortgages to investors with less than prime credit, known as subprime loans — lost value amid rising defaults in a persistent housing slump.

Defaults have been rising quickly, and a large volume of subprime loans with variable interest rates are slated to reset at higher levels in the next two years.

Meanwhile, securities regulators have started a dozen inquiries related to how hedge funds place a value on the complex securities called collateralized debt obligations, many of which are underpinned by subprime loans.

Contributing: Jeremy Herron

Copyright 2007 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Share this story:

Digg del.icio.us Newsvine Reddit Facebook What's this?

Posted 7/18/2007 8:12 AM

Updated 7/18/2007 8:14 AM

E-mail | Print |

To report corrections and clarifications, contact Reader Editor Brent Jones. For publication consideration in the newspaper, send comments to letters@usatoday.com. Include name, phone number, city and state for verification.

Conversation guidelines: USA TODAY welcomes your thoughts, stories and information related to this article. Please stay on topic and be respectful of others. Keep the conversation appropriate for interested readers across the map.

Mixx it
Other ways to share:
Digg
del.icio.us
Newsvine
Reddit
Facebook
What's this?

Featured video
Royal family
Charlie Sheen
Actor seeks custody of twins
More: Video

SEE YOUR CAREER SOAR TO NEW HEIGHTS TODAY.
FIND OUT MORE
NUS NUS

What's this?
Real estate
Real solutions for your real estate needs.
Choose from the selections below:
• Customized financial solutions
• Search properties nationwide
• Full service relocation assistance
• Apartments for rent in your area
• Home improvement options
Click here to begin
powered by Real estate
Financing Options:
Need help financing or refinancing a home?
Click here

Descubre la fiabilidad de la Nueva Gama Toyota Yaris
por 120 €/mes*
TOYOTA
* Ver condiciones en la web

Newspaper Home Delivery - Subscribe Today

Home • News • Travel • Money • Sports • Life • Tech • Weather

About USATODAY.com: Site Map | FAQ | Contact Us | Jobs with Us | Terms of Service
Privacy Policy/Your California Privacy Right | Advertise | Press Room | Developer | Media Lounge | Reprints and Permissions

News Your Way: Mobile News | Email News | Add USATODAY.com RSS feeds | Twitter | Podcasts | Widgets

Partners: USA WEEKEND | Sports Weekly | Education | Space.com | Travel Tips

Copyright 2011 USA TODAY, a division of Gannett Co. Inc.