

STATEMENT OF ALAN SCHWARTZ
PRESIDENT AND C.E.O. OF THE BEAR STEARNS COMPANIES, INC.
BEFORE THE U.S. SENATE BANKING COMMITTEE
April 3, 2008

Good Morning, Chairman Dodd and Ranking Member Shelby.

My name is Alan Schwartz. I am the President and Chief Executive Officer of The Bear Stearns Companies. Bear Stearns and its 14,000 employees provide global investment banking services, securities and derivatives trading, clearance and brokerage services, and asset management services world-wide. I have been a part of, and have grown with, the Bear Stearns family for over 32 years. I am saddened by the fast-moving events of the past several weeks that bring me here today.

During the week of March 10, even though the firm was adequately capitalized and had a substantial liquidity cushion, unfounded rumors and attendant speculation began circulating in the market that Bear Stearns was in the midst of a liquidity crisis. The Company assured the public that our balance sheet, liquidity, and capital were strong, but the rumors and conjecture persisted.

Due to the stressed condition of the credit market as a whole and the unprecedented speed at which rumors and speculation travel and echo through the modern financial media environment, the rumors and speculation became a self-fulfilling prophecy. Because of the rumors and conjecture, customers, counterparties, and lenders began exercising caution in their dealings with us -- and during the latter part of the week outright refused to do business with Bear Stearns. Even if these counterparties and institutional investors believed -- as we did -- that we were stable, it appears that these parties were faced with the dilemma that if the rumors proved true, they could be in the difficult position of having to explain to their clients and others why they continued to do business with Bear Stearns. As the week progressed, unfounded rumors grew into fear and our liquidity cushion dropped precipitously on Thursday, as customers withdrew cash and repo counterparties increasingly refused to lend against even high-quality collateral. There was, simply put, a run on the bank.

I want to emphasize that the impetus for the run on Bear Stearns was in the first instance the result of a lack of confidence, not a lack of capital or liquidity.

Throughout this period, Bear Stearns had a capital cushion well above what was required to meet regulatory standards. However, by Thursday of that week, a tipping point was reached on liquidity. The market rumors became self-fulfilling and Bear Stearns' liquidity pool began to fall sharply.

At that point, we needed to find a source of emergency financing to stabilize the situation and calm our clients and counterparties. On Thursday, we reached out to JP Morgan, among others, in part because JP Morgan served as our clearing agent and was therefore already familiar with our collateral position. We also informed the S.E.C. and the Federal Reserve as to what was happening.

We worked through the night and on Friday morning, March 14th, JP Morgan agreed to make a short-term loan available to Bear Stearns, supported by a back-to-back loan from the New York Federal Reserve Bank. We believed at the time that the loan (and the corresponding back-stop from the New York Fed) would be available for 28 days. We hoped this period would be sufficient to bring order to the chaos and allow us to secure more permanent funding or an orderly disposition of assets to raise cash, if that became necessary.

However, despite the announcement of the JP Morgan facility, market forces continued to drive and accelerate our precipitous liquidity decline. Also, that Friday afternoon, all three major rating agencies lowered Bear Stearns' long-term and short-term credit ratings. Finally, on Friday night, we learned that the JP Morgan credit facility would not be available beyond Sunday night. The choices we faced that Friday night were stark: find a party willing to acquire Bear Stearns by Sunday night, or face what my advisors were telling me could be a bankruptcy filing on Monday morning, which could likely wipe out our shareholders and cause losses for certain of our creditors. Therefore, we set out to find a potential purchaser to acquire Bear Stearns that had the wherewithal to provide the backing we needed – an arrangement we hoped would reassure our constituencies and curtail the flight of our clients and counterparties. And we needed to find and reach agreement with such a party over the weekend.

On Sunday, March 16th, after an intense effort to find the best transaction possible, we reached the first agreement with JP Morgan, which has been much-discussed in the press. JP Morgan would acquire Bear Stearns for \$236 million, or \$2 a share. Significantly, JP Morgan also agreed immediately to guarantee the trading obligations of Bear Stearns and its subsidiaries. As part of this deal, JP Morgan obtained an agreement from the New York Fed to loan up to \$30 billion to

JP Morgan, secured by certain of Bear Stearns's assets. While we at Bear Stearns had some understanding that JP Morgan was seeking this commitment, we were not directly involved in the negotiations between JP Morgan and the government.

The following week, due to market uncertainty about the guarantees and the successful completion of the deal, the agreement between Bear Stearns and JP Morgan was renegotiated. In the end, JP Morgan agreed to pay \$10 a share for Bear Stearns in a stock-for-stock merger, enhancements were made to JP Morgan's guarantee of our operating and certain other obligations, and a number of other changes were made to give greater certainty of closing. At the same time, we understand that JP Morgan's agreement with the New York Fed was modified to make the terms more favorable to the New York Fed.

In sum, before unfounded rumors began circulating in an already precarious credit market, leading to the run on Bear Stearns, the Company had adequate capital and liquidity, and a book value of approximately twelve billion dollars. Facing the dire choice of bankruptcy or a forced sale under exigent circumstances, we salvaged what we could to avoid wiping out our shareholders, bondholders, and 14,000 employees.

Federal officials and JP Morgan are in a better position than I to discuss their rationale and motives for participating in the transaction. I can only say that, as devastating as these events have been for the Bear Stearns family, the failure of Bear Stearns could have had an even more extensive, devastating impact on the stability of the financial markets as a whole. And it may have triggered a run on other investment banks, with potentially disastrous effects on the nation's economy. Like all of us, I am certainly glad such a disaster did not occur.

Thank you for your time. I am prepared to answer any questions you may have.