



Credit Crisis Cost Tops \$1 Trillion With Morgan Stanley's Loss

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By Elisa Martinuzzi

Dec. 17 (Bloomberg) -- Losses and writedowns from the credit crisis surpassed \$1 trillion today, and show little sign of ending, as Morgan Stanley marked down the value of mortgages and leveraged loans.

Morgan Stanley and Goldman Sachs Group Inc.'s markdowns this week bring losses by financial firms in the U.S. to \$678 billion since last year, while European banks and insurers have written down a further \$300 billion, according to data compiled by Bloomberg. Firms have raised about \$928 billion to replenish capital, and cut about 239,000 jobs across the industry.

The losses have caused bank failures from the U.S. and the U.K. to Germany and Iceland, forcing governments to increase borrowing and buy stakes in financial companies. The U.S. alone is spending \$700 billion, almost half of which will go directly into banks and insurers, in what has become the worst financial crisis since the Great Depression.

"You're up to \$1 trillion now and this is still going to run for some time," said **Charles R. Morris**, a former banker and software company executive whose book "The Trillion Dollar Meltdown" was published in March. In Sept. 2007 "the first back-of-the-envelope calculation I did came up with \$1.1 trillion and this was using really low-default estimates."

Morgan Stanley today reported fourth-quarter mortgage related losses of \$1.2 billion, which were more than offset by net revenue of \$2.7 billion from the widening of Morgan Stanley's credit spreads. The firm had mark-to-market losses of \$1.7 billion on leveraged loans and leveraged-loan commitments, and writedowns of \$800 million on securities in the firm's subsidiary banks. Those losses were offset by gains of \$1.1 billion related to debt hedges.

Goldman Sachs, Wachovia

Goldman Sachs had \$1.3 billion of writedowns on leveraged loans, or \$1 billion including the effect of hedges, in the fiscal fourth quarter that ended Nov. 28, the New York-based bank said yesterday. The company also took \$700 million of losses on commercial mortgage loans and securities.

Wachovia Corp., the bank that came within hours of collapse before agreeing to a takeover by Wells Fargo & Co., leads the losses having written down \$96.5 billion, the data show. Citigroup Inc., the second-biggest U.S. bank by assets, posted writedowns of \$67 billion, while UBS AG, with \$48.6 billion of markdowns, is the European bank with the biggest losses.

The \$1 trillion of charges reflect writedowns of mortgage assets that aren't subprime, as well as losses taken on leveraged-loan commitments.

Governments are introducing measures to spur growth now that the U.S. and Eurozone countries are in recession and others on the brink. Meanwhile, central banks have cut interest rates to the lowest levels on record.

[Back to Basics](#)

The U.S. Federal Reserve yesterday cut interest rates to as low as zero, the lowest ever, while the Bank

of England on Dec. 4 reduced rates to 2 percent, the lowest since 1951, citing "extremely difficult" conditions.

The banking industry needs to return to basics, including careful investigation of borrowers' creditworthiness and less reliance on statistical calculations, Morris said.

"Banking should be dull, banking should be about credit and it should not be about financial engineers," he said. "Only do loans you can get repaid for."

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