

Part III - 9/11/2001 The World Changes

25

From September 11, 2001, to December 15, 2001, there is no way for me to separate fact from fiction, so I won't even try. It's all just a blur, but so real at the same time. There is no way to explain it rationally. A month or so after the attacks, I remember sitting in a funeral service at a church in my town, and actually visualizing tanks rolling through the church walls. Whose tanks? How the fuck should I know? Not ours.

On the morning of September 11, I'm pretty sure we all remembered what we thought was the loudest subway train ever running under our building. We talked about it later. It must have been the first plane screaming down 6th avenue. Others said they were in the shitter and the water splashed up onto their thighs as the building swayed from the rumble. They thought it was a subway also. Who knows what's real? At some point early on, one of my brokers from the World Financial Center next to the World Trade Center screamed over the hoot & holler that a bomb had gone off in their building and they were leaving. We heard later it was not a bomb, but an engine that was thrown from one of the planes that hit the World Trade Center. I still have no idea.

We were all standing up, watching the first tower burning on TV, when the second plane hit. Watching the second plane hit may have been the single most traumatic second of my life. Because at that second everyone KNEW it was an attack. Knew it. I had also spent three months next door at 130 Liberty and had commuted through the World Trade Center for eight years, so it was a living, breathing thing for me.

After the second plane hit, people on the trading floor with me in mid-town started to panic. Many just left. Picked up a few things from their desk and hustled out the door. At least half of the trading floor did not show up for a week or two. I guess they went and huddled with their families or grabbed their families and drove out to the boonies where they felt safer. For the rest of the day hundreds of rumors of how many planes were hijacked and where they were heading were reported on the news, as well as through email and message systems. People were trying to make sense of the situation and regain control, and the exchange of information was how they tried to do it. Probably twenty percent of those rumors were true, the rest totally false.

Fifty planes are unaccounted for.

Seventeen planes coming across the Atlantic from Europe have been hijacked and are on the way to the East coast.

Fighter planes have shot down six planes headed for the White House.

A plane was shot down over Jersey City.

You get the picture. Chaos. Before that day, I had always assumed that fighter jets were always up in the air as a defense against this. Wrong again. As it was happening I would have believed fighters were shooting down planes left and right and some were getting through. Around four in the afternoon, when it was confirmed there were no more planes in the air, people started to focus on the next thing. Car bombs and suicide attacks.

The rumors shifted from one thing to another all week. There must have been rumors of ten car or truck bombs in New York City in the next few days. Some of the rumors were very detailed too. Like this one:

Five suicide bombers blew themselves up at Penn Station an hour ago.

Penn Station was pretty close to us. It took at least a day for all the phone lines to come back, mostly it was cell phone service that was down. That probably made the rumor mill worse because of the extra stress of not being able to reach out and confirm your loved ones are okay.

A few hours after the towers went down, the people who were left on the trading floor tried to regain their senses and busy themselves by doing their jobs as best they could. Since my group had a huge part in the payment systems and funding of the bank, we were integral to the solvency and survival of Deutsche Bank. About this time the big Australian yells over the hoot & holler from London to our group. "Not one penny leaves this bank without my express approval. Not one wire goes out." He was still learning. That's the exact opposite of what banks are supposed to do in a crisis. I ignored him.

There is a Funding/Treasury group at every bank. I am sure we all feel the same way and we proved it through the 9/11 attacks. Our first responsibility is the survival of our own bank and our second responsibility is the functioning of the overall system and every bank's well being. It has to go together because all banks inevitably extend credit to each other in hundreds of ways each day. It is a delicate ecosystem where every decision is crucial and one misstep can touch off a falling line of dominoes. We always felt we were a finger on the hand of the Federal Reserve and our actions should always have the consequences of benefitting the system as a whole and that, in turn, would help our bank survive any crisis. Through every crisis, we would have tons of contact with the Federal Reserve; they would bounce ideas off of us and we would bounce ideas off of them. The Federal Reserve had a market operations desk which handled the nuts and bolts of the day-to-day functions and they also had an administrative side. Deutsche Bank was structured almost the same way. My desk was the market operations side and our Treasury Group was the administration side. Our combined job was to make sure when people went to an ATM machine that the damn machine spit out cash. We went to ridiculous lengths over the next week to keep those machines spitting out bills.

The Fedwire payment system is the main money system within the US. Each big bank has an account with the Fed and solvency is when that account is funded every single night when that wire closes. The Fedwire operated normally I think from 12:30AM to 6:30PM every business day. The 6:30PM close could be pushed to later if a bank was having system problems or problems structurally making payments, but this was pretty rare. From the Tuesday of the attacks to Friday, the Fedwire stayed open until midnight and then was "turned over" and started the

next day's operations a half hour later. It was insanity and the pressure on the people working at the Federal Reserve must have been enormous.

When the Fedwire closed the night of the attacks it was too late to get home and every hotel was already packed with people in the same situation. We were all going to sleep at our desks until Europe opened in four hours. As it turns out, 007 (our Global boss) was in New York for another big shot conference called to sort out turf wars over global or local control of the businesses. He sat at our desk the whole week until planes were allowed back in the air when he could fly home. He was a godsend to us that week. 007 was well connected and had friends all over. A friend of his owned a hotel nearby, so he set us up with rooms for the week. No questions asked, no bills. We even had the presidential suite. Too bad it was not to be enjoyed that week. We were all a mess.

All rules were suspended that week, so the bars that were open just stayed open twenty-four hours a day, until there were no patrons. My first real memory of later that day is standing at the hotel bar that night with a few of the guys from work after the Fedwire closed. We conjectured on how many people died in the tower collapse. We had thought ten thousand to fifteen thousand at least. I am sure we were all wondering how many of those were our friends. I know I was. We drank down some beers then went for a couple of hours' sleep and then got back in the office by 5AM to touch base with Europe. At least we could shower, but then we Xeroxed. That term describes a person who stayed out all night and came right into work in the same clothes (hence copied from the day before), or Xeroxed. Smelly, bad breath and all, is a real Xerox. I had a few

of them and was actually sent home early one day in the 80's, my Xerox was so offensive. Hey, I showed up for work on time though. I got points for that.

We were all concerned when we got in the next morning and saw what was happening in the funding markets. By the time the attacks started on Tuesday, Europe had mostly funded itself for the day. When European funding markets opened on Wednesday, they were a mess. We were so concerned the previous night with staying alive and solvent as the wire closed, we could not even look to the next day. We got our coffee and started calling around. One guy called the brokers, one guy called Frankfurt, and I called London. Confirmed clusterfuck. At the time the Fed funds target was 3.50% and 1-day funds were trading at 7% or higher in Europe for US Dollars. That was a bad sign. Even worse, when we canvassed those branches for their cash positions, they all came back with the same answer. "We are extremely short dollars." I'll explain how this happens and especially when the market is under strain.

Even all the way back in 2001, Deutsche Bank had a huge balance sheet of assets and liabilities. Most of its stable bank deposits were in Euro currency after Europe converted to the Euro. The only deposits the bank had in US Dollars was the twenty billion dollars that by law (23-a) we had to keep separate and could not use. Once again, thank you dumb fuck who missed that little detail when we bought Bankers Trust. Since the US has the biggest economy and uses the most debt to fund in the world, by far the best quality and most liquid assets are denominated in US Dollars. The bulk of Deutsche Bank's assets around the world were in US Dollars and therefore needed US Dollar funding. There was no way we could possibly source that many dollars as a bank on a daily basis. So every day Frankfurt would take their huge Euro deposit

balance and use Foreign Exchange Forwards (F/X swaps) to swap their Euros into US Dollars. They would use these dollars to fund their own dollar assets and move the rest over to London to help them fund their dollar assets.

To refresh, an F/X swap is just a loan in one currency versus a deposit in another for the same amount of time. Other banks, such as US banks, might have massive US Dollar balances and need to swap it into Euro to fund their European balance sheets. So most days it was very liquid and easy to swap currencies in and out. Because F/X swaps are not a real market with real securities, but more of a cash derivative with many moving parts, they tend to freeze up first in times of crisis.

If the F/X forwards which Deutsche Bank needed desperately were not working, it meant that New York would have to make up the shortfall. So not only did we have no idea which companies were still afloat and which people at those companies were alive or dead, we would have three times the cash to source in a market that was frozen in panic in New York. The stock market did not even open up. It looks like I picked a bad day to stop sniffing glue.

One of the things that did not sit well with me all day was the fact that the Fed Funds target was 3.50% and funds were trading in the markets above 7%. Not only would the Federal Reserve want to get that rate back down to the target rate to settle things down, but from a patriotic point of view, I wanted that rate back down to the target because panic, disruption and chaos were all signs the terrorists had won. I was going to find a way to help settle things down. I was not alone in those thoughts, I was to find out.