

Merrill Lynch writes off \$15B in subprime losses

January 18, 2008

THE ASSOCIATED PRESS

NEW YORK

John Thain, presiding over his first set of earnings yesterday as the new leader of Merrill Lynch & Co., cleared the decks with some \$15 billion US of subprime mortgage-related writedowns that led to the largest quarterly loss since the brokerage was founded 94 years ago.

And, while it was among the most aggressive moves on Wall Street to deal with bad bets on subprime mortgages, Thain's still not ready to say the worst of the credit crisis is over.

With a possible recession looming, the world's largest brokerage and other Wall Street investment houses might still be saddled with unforeseen turmoil. While taking steps to minimize future disruptions, Thain is still wary about challenges that face the global financial markets.

"We will continue to take risks -- you don't make money if you don't take risk," Thain said. "But the risk will be sized appropriately for the business. Nobody should be taking risks that wipe out the entire annual earnings of a business, and certainly not the entire firm."

That's exactly what happened under former chief executive Stan O'Neal, whose heavy bets in subprime mortgage securities backfired as homeowners defaulted on their loans at an alarming rate. That strategy led to a nearly \$10-billion loss during the fourth quarter, on top of \$2.31 billion during the previous period.

Merrill Lynch posted a net loss after preferred dividends of \$9.91 billion, or \$12.01 per share, compared to a profit of \$2.3 billion, or \$2.41 per share, a year earlier. It also recorded negative revenue of \$8.19 billion, down from revenue of \$8.39 billion a year earlier.

The New York-based brokerage marked down \$11.5 billion from mortgage-backed securities, and an additional \$3.1 billion in adjustments to hedge positions on them.

Exposure to risky collateralized debt obligations, or CDOs, was \$4.8 billion at the end of 2007, down from \$15.8 billion three months earlier.