



Bloomberg

Deutsche Bank Subprime Trader Greg Lippmann May Leave (Update3)

February 24, 2010, 5:58 PM EST

By Jody Shenn, Pierre Paulden and Jacqueline Simmons

Feb. 24 (Bloomberg) -- Greg Lippmann, the Deutsche Bank AG trader whose bets against subprime securities helped Germany's largest lender weather the financial crisis, may leave to join a new investment firm, three people with knowledge of the talks said.

The company is being started by Fred Brettschneider, Deutsche Bank's head of global markets in the Americas, according to the people, who declined to be identified because the discussions are private. Brettschneider's departure and plans were announced internally in a memo today, according to Deutsche Bank spokeswoman Michele Allison.

Lippmann, 41, helped create the market for betting against subprime mortgage bonds in 2005 and then profited along with hedge funds when home prices declined and defaults soared to records two years later, sparking the worst financial crisis since the 1930s. Brettschneider's leaving and the potential departure of Lippmann come after the Frankfurt-based bank posted four straight quarters of profit and lost 4.8 billion euros a year earlier.

"He's one of the best residential-mortgage traders out there," said Gustavo Dolfino, senior managing director at Accretive Solutions Inc., a New York-based executive recruitment firm, whose clients include banks, of Lippmann. "You can't go wrong with him."

'Seamless Transition'

Brettschneider, 44, will stay with the bank for the "foreseeable future" to "ensure a seamless transition" in his group, which "accounts for a significant portion of our revenues and clients," Allison said. "We wish Fred well in his new venture and look forward to working with him in the future."

Brettschneider didn't return a phone call seeking comment. Lippmann declined to comment on his plans. Deutsche Bank hired Brettschneider and Lippmann in 2000 from Credit Suisse Group AG as part of a push to boost investment banking.

Brettschneider initially ran asset-backed trading, a position Lippmann took over in 2006, according to Bloomberg data. Two years later Brettschneider became head of global markets in the Americas, overseeing debt and equity sales and trading after running the institutional client group in the region, according to a Deutsche Bank statement at the time. The bank was ranked third for U.S. fixed-income market share last year in a survey by Greenwich Associates, a research firm located in Stamford, Connecticut.

Limited Bank's Exposure

Lippmann limited Deutsche Bank's exposure to mortgage defaults as financial institutions globally recorded \$1.73 trillion of losses and writedowns caused by the credit crisis.

After Lippmann's team made almost \$2 billion for Deutsche Bank in 2007, he complained to his bosses that his \$50 million bonus for the year was too small a reward and interviewed with hedge funds and other firms, according to "The Greatest Trade Ever: The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Financial History" (Broadway Books, 2009) by Greg Zuckerman, a Wall Street Journal reporter. He stayed with the lender in part because his shares would have been forfeited if he left, according to the book, which also said his superiors and co-workers didn't always agree with his strategy.

"It is hard to be right, to be derided for it over an extended period of time, and to continue working for and/or with those same people after you've been proven right," Michael Burry, head of Cupertino, California-based Scion Capital Group LLC, said in an e-mail today. Burry, a doctor turned hedge-fund manager, was among the first to bet on subprime defaults.

No 'Secret Knowledge'

In a 2007 Bloomberg interview, Lippmann said he didn't have "any secret knowledge" of the events that were about to unfold in the U.S housing market. The risks of a downturn were significant enough to justify the millions of dollars it would cost to "short," or wager against, subprime securities, he said.

"If we're right, we're looking at a sixfold gain. And since a housing market slowdown is not as big a long shot as that, we should take the risk," Lippmann said he told Deutsche Bank's executives at the time.

The standardized contracts for credit-default swaps on mortgage bonds he helped create as a part of a group of bankers -- which securities firms packaged into so-called collateralized debt obligations -- didn't cause the subprime crisis, he said.

"The problems in subprime are what they are and derivatives did not cause them," Lippmann said. "Derivatives enabled more CDOs to be created and the stakes to be bigger. But the transparency made people realize the problem faster."

--With reporting assistance by Saijel Kishan in New York. Editors: William Ahearn, Steve Geimann

To contact the reporters on this story: Jody Shenn in New York at +1-212-617-2380 or jshenn@bloomberg.net; Pierre Paulden in New York at +1-212-617-3759 or ppaulden@bloomberg.net; Jacqueline Simmons in Paris at +33-1-5365-5055 or jackiem@bloomberg.net

To contact the editors responsible for this story: Alan Goldstein at +1-212-617-6186 or agoldstein5@bloomberg.net; Edward Evans at +44-20-7073-3190 or eevans3@bloomberg.net