

Eeyore Gets Over Extended AKA Credit Default Swap House Of Cards

Hi Pooh, wanna invest in my clown company?

I would love too Piglet but your company is new and I can't trust I will recoup my investment and I really need a new honey jar.

Oh, I guess if you pay me a small percentage, I can insure your investment. That way you can support your capitalist swine friend without risking the whole hog.

I already gave Eeyore a AA rating which means he is very solid to put your money with. If he is insuring Piglet, it means that the investment has a AA rating too.

Everybody wins. This "Credit Default Swap" thing makes investing a sure bet and all it takes is a small cut off the top. We love you Eeyore, you have made our lives so much better and safer. And it is all legal cuz Christopher Robin said so.

Eeyore, I was thinking, I could buy one of your Credit Default Swaps. You insured Pooh's investment. But, what if I paid you and if Piglet's business goes bankrupt, you pay me.

2 months later...
Hi Eeyore, how is the insurance business?

Alright, half the forest is insured with me now & I'm selling Swaps.

I built a new house and bought a diamond studded bow for my tail..

Okay.

3 months later...
Hi Pooh, I brought you flowers.

Flowers?! I already had my birthday.

Well I wanted to say I am sorry...

My clown company folded but, don't worry, Eeyore insured your investment.

Well, thanks for the flowers. Bees like flowers and then there is more honey. I better go talk to Eeyore now.

Hi Eeyore, Piglet's business went belly up. Can I get my insurance money so I can get a new honey jar?

Wish you would have got here sooner. Nothing I can do for you now. I had to pay Roo on Owl's sub-prime collapse and there is nothing left. I can't pay Rabbit too.

But Eeyore, you insured so many debts, where is all that money?

Spent it.

Why didn't you save enough to cover what you insured?

Christopher Robin didn't make me. See my new tail ribbon?

What about me and my honey jar?

I'll see if Christopher Robin will give me some tax money in order to keep me in business, then I might be able to give you some money.

As leader of this great forest, It is my duty to work for economic prosperity for everyone in it. Eeyore plays a crucial role in our forest's financial sector and without him, animals will not feel secure in investing which would threaten our forests entire business sector. That is why I have decided to use tax payer money to assist Eeyore through these tough times.

Here is half of your money Pooh.

Eeyore I am so mad! Hey why do I only get 1/2 when you have new balloons?

It is my annual bonus. It is in my contract.

I am so mad! I am going to talk to Tigger about this!

Tigger, Eeyore didn't cover his insurance policy to me.

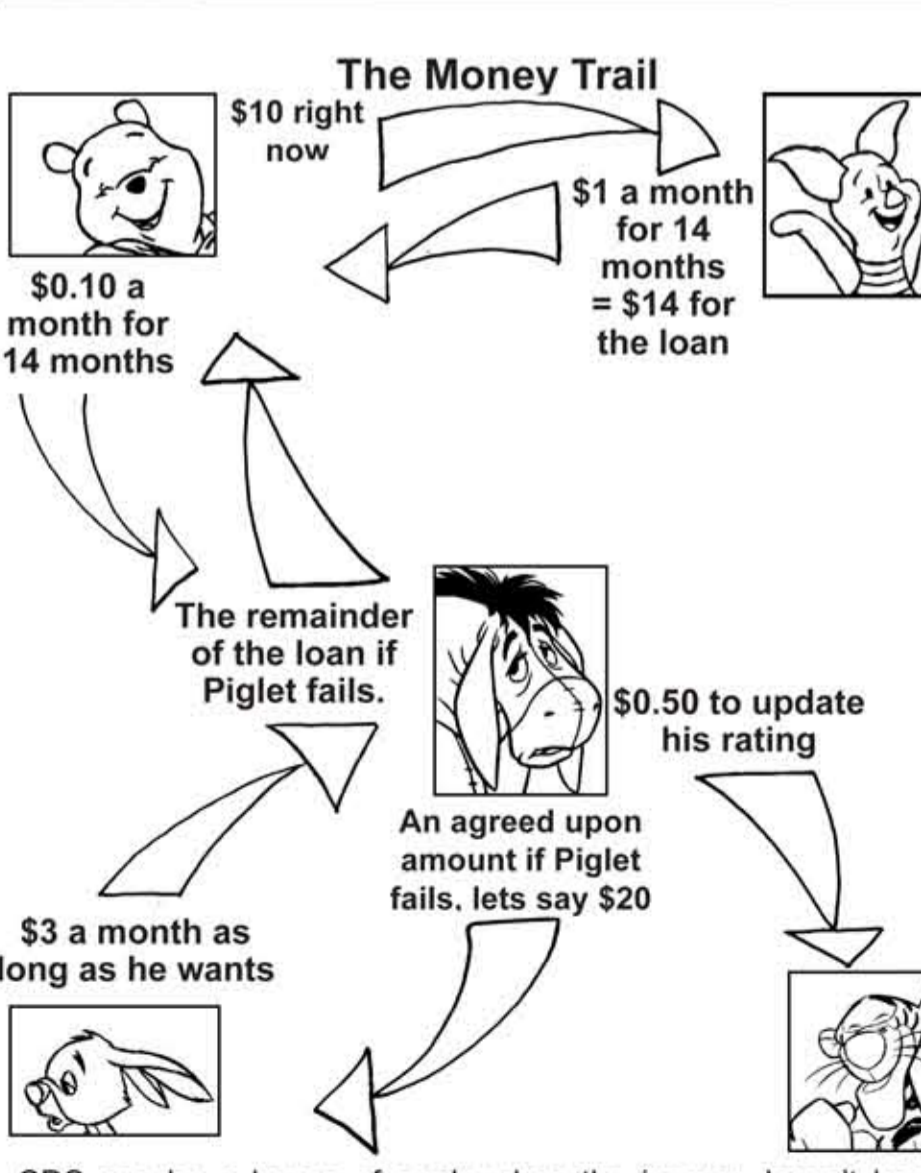
That's what you get for trusting an ass.

Why did you go and rate him AA?

What do I know about investment? He paid me money to give him a rating and that is what I did. TTFN.

WHO IS WHO?

- Investor - could be anyone but usually is a pension, foundation or corporation that has rules against too risky investments
- An investment bank or insurance company like AIG
- A company - could be any business that needs an investment
- Government
- Private Rater - could be Moodys or another company.



CDS can be a house of cards when the insurer doesn't keep enough assets aside to cover all its bets. Eeyore owes Rabbit \$20 and Pooh \$11 when Piglet fails after 3 months but has only made \$9.30 so far on that loan. If several companies that he has insured or sold CDS on fail, he can't pay any of his obligations. Another scenario is that if Eeyore had to pay out money for a few losses, Tigger could lower his rating and then Pooh would have to sell his loan to someone because his rules say he has to have a highly rated investment. If enough people are selling loans and not a lot of people are buying, they may have to sell them at a loss. It really is a house of cards. In real life, when GM was worth \$15 billion, there was \$1 trillion worth of bets on its success or failure.