Long-Term Capital's Partners Got Big Loans to Invest in Fund

WSJ

10/6/98 By ANITA RAGHAVAN C1
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Four Long-Term Capital Management LP partners, including famed bond-arbitrage trader Lawrence E. Hilibrand and currency trader Hans U. Hufschmid, personally borrowed a total of nearly $43 million to make equity investments in the now-beleaguered hedge fund, people familiar with the situation say.

Messrs. Hilibrand and Hufschmid – who both gained notoriety in the early 1990s for their fat pay packages while trading at then-Salomon Brothers Inc. – were the biggest borrowers, by far, taking out personal loans of $24 million and $14.6 million, respectively, these people say. Two other partners, Arjun Krishnamacher and Gregory D. Hawkins, are also on the hook personally, borrowing $2.7 million and $1.3 million, respectively, these people say.

The loans were designed to help the partners boost their investments and, as a result, their potential gains, or, in this case, losses in the hedge fund.

A spokesman for Long-Term Capital said Messrs. Hilibrand, Hufschmid, Krishnamacher and Hawkins declined to comment. Telephone calls to all four partners weren't returned.

The borrowings underscore the extent to which Long-Term Capital partners are personally on the hook for the heavy losses at the once-high-flying hedge fund. The loans also show the degree to which the partners' interests are aligned with the Wall Street securities firms and commercial banks that ultimately bailed them out in $3.6 billion rescue effort hammered

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TAPEWATCH

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out with the help of the Federal Reserve.

Most of the personal loans were taken out from Credit Lyonnais, one of the 14 banks and brokerage firms involved in the rescue, people familiar with the situation say. A small portion of the loans was drawn from Bear Stearns Cos., which didn't participate in the bailout, these people say. Some of the loans were drawn three years ago, while others were taken out just a year ago, these people say.

"It's very unusual at hedge funds or anywhere in financial services to borrow significant amounts of money" to make equity investments, said Alan Johnson, a compensation consultant at Johnson Associates. "And the reason most people don't do it is the downside that the Long-Term Capital partners are looking at now."

Mr. Johnson said that if the partners aren't able to restructure the debts, "the firm could be destabilized" as senior partners spend their time fretting about their personal losses.

Mr. Hilibrand gained fame on Wall Street eight years ago when he received a 1990 pay package of $23 million as a bond arbitrage trader at Salomon.

Nowadays, Wall Street is buzzing about the $24 million in personal loans that Mr. Hilibrand racked up to boost his investment in Long-Term Capital. Because Mr. Hilibrand's loans are only secured by investments in the hedge fund – which are now worth a fraction of what they were worth earlier this year – the former Salomon trader is scrambling to renegotiate his debts in a bid to stave off personal bankruptcy, these people say.

Indeed, Mr. Hilibrand was so concerned about how the bailout would affect his personal investment in the fund that he had president of Merrill Lynch & Co., one of the 14 firms involved in the bailout of Long Term Capital, people familiar with the matter say.

Mr. Hufschmid, the other big borrower, also took out his personal loan of $14.6 million to make equity investments in the fund, people familiar with the situation say.

Mr. Hufschmid was Salomon's foreign-exchange head who gained prominence for his 1993 pay package whose size exceeded that of Salomon's chief executive officer, Deryck C. Maughan (currently the co-chief of now-named Salomon Smith Barney). Mr. Hufschmid left Salomon for Long-Term Capital soon after receiving the package, which totaled more than $20 million in salary, bonus and other compensation.

Both Messrs. Krishnamacher and Hawkins also worked for Salomon before joining Long-Term Capital. Mr. Krishnamacher was a derivatives trader in Tokyo while Mr. Hawkins was known for his expertise in bond arbitrage, particularly in the mortgage arena.

Separately, questions continued to be raised about the Warren Buffett-led bid for Long-Term Capital. Mr. Buffett, the billionaire investor from Omaha, Neb., along with **American International Group Inc.**, headed by Maurice Greenberg, and **Goldman, Sachs & Co.** offered $250 million for the Greenwich, Conn., hedge fund in a bid that would have required the ouster of founder John Meriwether.

During last week's congressional hearing on hedge funds, some congressmen questioned why the Buffett bid – formally submitted by Mr. Buffett's **Berkshire-Hathaway Inc.** – wasn't accepted, and yesterday **Travelers Group** Chairman Sanford I. Weill said he would have preferred if the

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