DARK TOWERS

DEUTSCHE BANK, DONALD TRUMP, AND AN EPIC TRAIL OF DESTRUCTION

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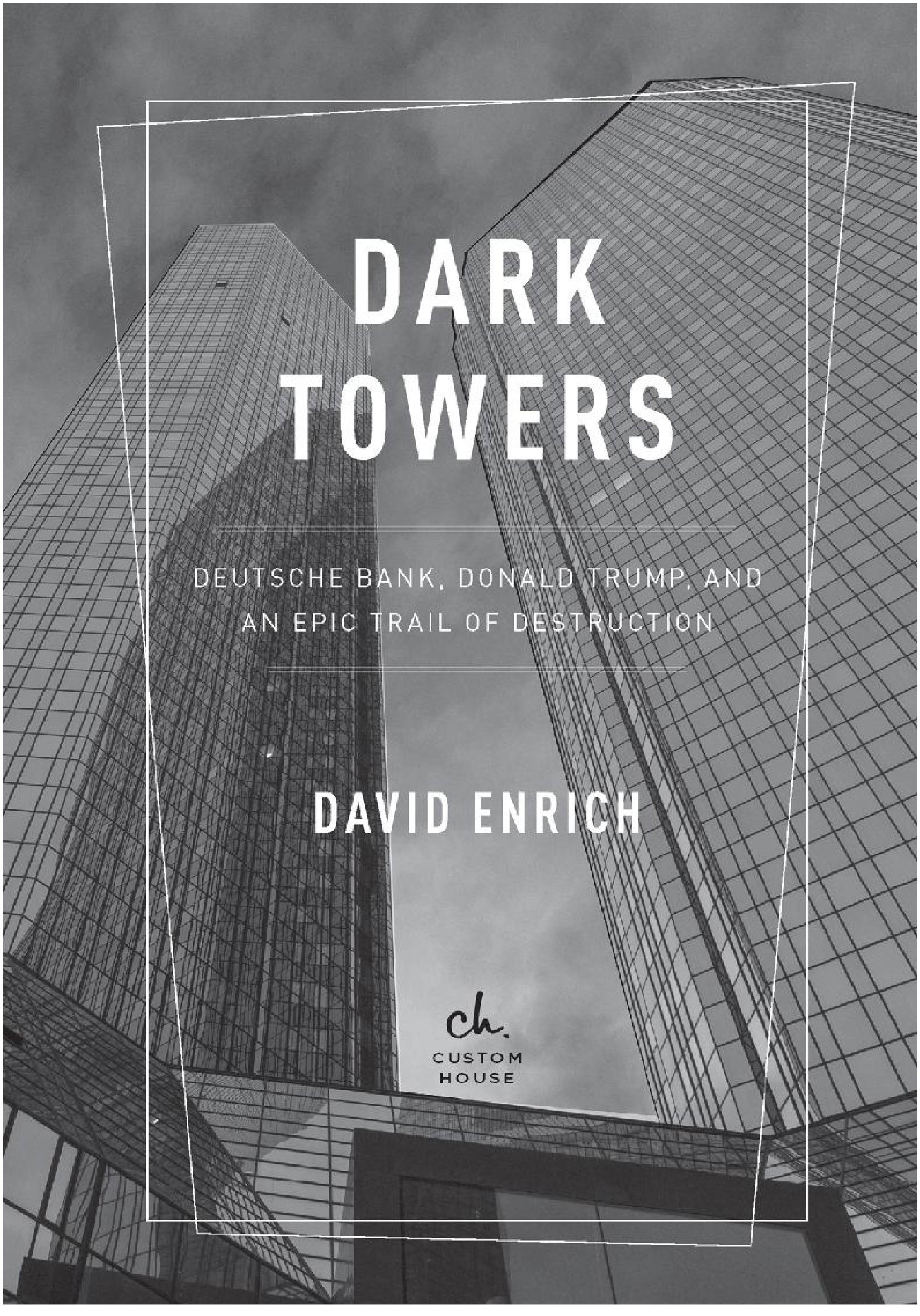
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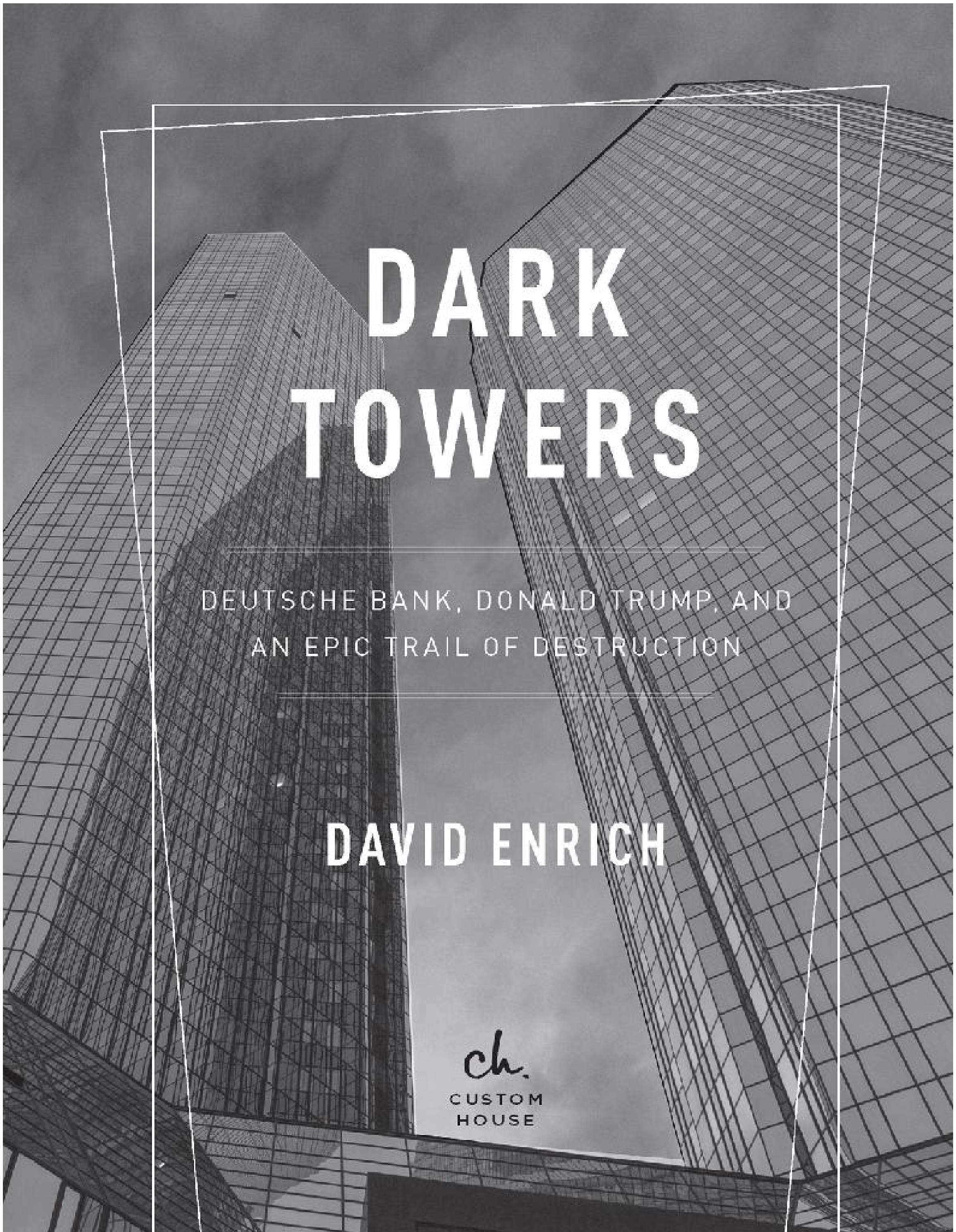

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CUSTOM HOUSE

Dedication

To everyone who has struggled with mental health issues—

and to those who have helped them.

In memory of Letty and Henry, whose lives inspire me,

and Madelyn, whose daughter inspires me.

Contents

station into a drizzle, the type of dreary January weather that earns London its reputation as a depressing place during the long winter months. The man looked around Sloane Square. Normally, even in this dark season, the block was pretty and bustling with shoppers. This Sunday in early 2014, it was desolate.

Val Broeksmit didn't feel well. He had woken up groggy from the previous night's drug-fueled jam session with his band. Then, on the crowded Underground train on his way to Chelsea, he had been jolted by a surge of negative energy, like a dark spirit had brushed past him. He lit a cigarette and trudged toward the entrance to the Saatchi Gallery, his head down in a futile attempt to stay dry. He was scheduled to have brunch at the gallery's café with his parents. The last time he'd seen them was a month earlier, in December 2013, before they'd set off for the Caribbean and then a vacation in Oman. Val had just turned thirty-eight. While he was a talented musician with thirty-four albums to his name (none, alas, were chart-toppers), he lived off the largesse of his father, Bill, who had spent many years as a senior executive at Deutsche Bank, one of the world's largest financial institutions. Tall, skinny, and scraggly—his friends sometimes told him he resembled a tramp—Val was determined on this Sunday not to get an earful from his mother about looking like a slob. He wore slacks, a blue blazer, and a black woolen cap.

At exactly one o'clock, Val arrived at the arched brick wall that snaked around the Saatchi Gallery. He was notorious in his family for never being on time, but here he was, and his obsessively punctual parents were nowhere to be seen. "Where are you guys?" he texted his mother, Alla. She didn't respond.

Val wandered across the pedestrianized street, perusing a row of boutiques and overpriced shops. He came across the Taschen bookstore, which specialized in coffee-table books about art and culture. For the past couple of years, Val had been collecting rare first editions—the older and more famous the author, the better. He was so into his hobby that he had done volunteer work for an organization that gathered unwanted books from estate sales and distributed them to needy children. Val would sift through the stacks, searching for hidden gems, and pilfer them for his own little library.

The bookstore was mostly empty. Val browsed its shelves until something caught his eye: an enormous volume with a shimmering silver cover, priced at £650 (about $1,000). It was a limited edition collection of Harry Benson's iconic photos of the Beatles, including the one of a pillow fight in a Paris hotel room. The book was signed by the photographer, and its pages were so luxuriously metallic that Val could see his reflection in them. He started to daydream about convincing his parents to buy it for him as a belated birthday gift.

Val's iPhone buzzed, interrupting his reverie. The call was from a blocked number. Val answered it. A woman with a thick accent—Val was pretty sure it was his parents' housekeeper, Belle—was on the line.

"Emergency! Emergency!" she shouted. "Your father! Your father!"

Val asked what she was talking about, but he couldn't get a coherent answer from her. The only thing he could think was that he needed to get to his parents' flat, which was about a mile away in the posh Kensington neighborhood. He put the Beatles book down, raced outside, and hailed a black cab. "Twenty-one Evelyn Gardens," he instructed the driver.

The ten-minute drive felt endless. The cab seemed to crawl through London's traffic-choked streets, past stately townhouses and brick apartment blocks and high-end restaurants and organic grocery stores. Bundled locals hurried along the rain-slicked sidewalks, nearly keeping pace with the taxi. Val went through the possible scenes he might encounter when he arrived. Maybe his father was hurt? Maybe there was a big family argument? Or maybe it was just that Bill was locked out of his computer and needed his tech-savvy son's help?

The taxi pulled onto Evelyn Gardens, a wide, quiet street that, instead of having a median, allowed cars to park in the middle as well as on the sides. Now, in addition to the BMWs and Audis and mopeds, an ambulance was stationed at the curb. Val paid the cabby and sprinted across the street.

His parents lived in a flat on the third floor of a white-trimmed redbrick building. Its heavy black door, normally opened only via a buzzer, was ajar. Val galloped up two flights of stairs. The door to his parents' apartment was wide open.

In the middle of the hallway, Bill Broeksmit was lying on his back, his eyes closed. A neck brace tilted his head back at an unnatural angle. A paramedic's plastic tube jutted from his mouth. Val's mother was curled in the fetal position on the dark wooden floor, her head resting on a pillow next to her husband's face. She was wailing. Belle kneeled beside her, stroking her hair.

"What the fuck is this?" Val screamed.

"He killed himself," his mother gasped. "He hung himself with Daisy's leash."

Two years later, in January 2016, Jacques Brand arrived at Deutsche Bank's American headquarters on Wall Street in Lower Manhattan. A former consultant and a longtime investment banker at Lehman Brothers, Brand was the CEO of Deutsche's U.S. businesses, and his mission was to instill some modicum of discipline, ethics, and control on an outfit where recklessness, chaos, and greed had long been the organizing principles. If there was one thing that Brand had learned in his years at Lehman, it was that there was no point in generating lots of revenue if you didn't understand and control the risks you were taking. That wasn't happening at Deutsche. Thus, shortly before taking over back in 2012, he had recruited Bill Broeksmit to the board that oversaw the American operations. Brand (everyone called him Jack) figured that the best way to ensure the business got cleaned up was to inject himself and folks who shared his priorities, like Bill, into more of the day-to-day activities that previously had been left to the whims of lower-level executives who had powerful financial incentives—otherwise known as annual bonuses—to prioritize short-term profits over long-term stability.

The process of combing out the bank's knots and tangles was a grueling, sometimes hundred-hour-a-week, not-always-successful slog, and by early 2016, Brand, a native of Ghana, a triathlon competitor, and a father of three with graying hair and a toothy smile, was in the early stages of negotiating his exit from Deutsche. He believed that during his nearly four years in the job, he'd developed a pretty solid grasp of what was going on, good and bad, inside his little kingdom. He'd grown accustomed to being appalled by what he found, until gradually each incremental problem was downgraded from shocking to surprising to just another day at Deutsche. It had seemed like a perpetual avalanche, but by now he thought he'd seen and dealt with everything at this crazy bank.

And then one day he walked through 60 Wall Street's cavernous marble lobby, rode the elevator up to the executive suites, and realized that no, in fact, he had not seen everything.

At a meeting with a few colleagues that morning, someone mentioned that a division of the bank in New York planned to make a large loan to Donald Trump. The proposed loan came from Deutsche's "private banking" group, which was devoted to serving the richest of the rich. The loan was ostensibly to pay for upgrade work at a golf resort, Turnberry, that Trump owned in Scotland. At the time, though, Trump was running for president, and it was hard to avoid the suspicion that the loan he was requesting might have something to do with the fact that he was burning through gobs of his own cash on the campaign trail.

Brand was stunned. Somehow, he hadn't realized that Trump—the real estate mogul, the reality-TV impresario, the race-baiting demagogue, and at that moment the front-runner for the Republican presidential nomination—

was one of his company's most important clients. In fact, for nearly two decades, Deutsche had been the only mainstream bank consistently willing to do business with Trump. It had bankrolled his development of luxury high-rises, golf courses, and hotels. The bank had doled out well over $2 billion in loans to Trump and his companies; at this moment in 2016, he owed the bank about $350 million, making Deutsche his biggest creditor. And that was despite two divisions of the bank, on separate occasions, having sworn to never again do business with The Donald because of his annoying habit of stiffing his lenders, not just Deutsche but also banks like Citigroup and JPMorgan Chase. Deutsche had become the key force allowing Trump to bounce back from multiple bankruptcies, to purchase and develop marquee properties, to recast himself as a successful businessman, to become a viable candidate for president.

Brand couldn't believe that the folks in his wealth-management division thought it would be a good idea to dispense tens of millions *more* to Trump, especially right now, in the middle of this violent brawl of a presidential campaign. For the first time in a while, he was genuinely aghast. "Why are we doing business with him?" Brand fumed. He paused and thought about the matter at hand—whether Deutsche would go further down this path. "The answer is no," he snapped to colleagues.

For the past several years, Deutsche's relationship with Trump had been managed by a banker named Rosemary Vrablic. Serving Trump and his extended family—including the Kushner clan—had become central to her job, and she wasn't about to let the opportunity to make another loan to her prized client just slip away. Vrablic, a slim, stylish woman with short gray hair, was accustomed to getting her way. She was a rainmaker, generating tens of millions of dollars in income for the bank each year. Until recently she had reported directly to one of the bank's highest-ranking U.S. executives, leapfrogging an entire level of managers. She also had enjoyed a strong relationship with the bank's co-CEO, Anshu Jain, who accompanied her on visits to rich and famous customers, including Trump. On the previous occasions when rival executives had tried to scuttle her loans to Trump, warning that he was a deadbeat and that other divisions of the bank had imposed bans on working with him, Vrablic had counted on her superiors to dismiss the objections, no matter how valid, as based on professional envy. And they had.

By 2016, though, as Vrablic tried to push through yet one more loan to Trump, she was more isolated. Her longtime boss, the man who'd hired her at Deutsche, had recently left. So had Jain, forced to resign months earlier. Vrablic appealed Jack Brand's decision to an internal committee that evaluated proposed transactions that posed potential risks to the bank's reputation. The panel, consisting of Deutsche executives, risk managers, and lawyers in the United States, met every couple of weeks. Given Trump's high profile, this was a special situation, and so an emergency meeting was convened on the twentieth floor of Deutsche's Wall Street skyscraper, around the corner from the New York Stock Exchange. After hearing a quick summary of the proposed loan, the committee unanimously voted to reject it. "It was an affront to all of our senses," recalls an executive involved in the deliberations.

That should have been the end of the matter, but Vrablic and her colleagues appealed the committee's decision to Frankfurt, where the bank was headquartered. Christian Sewing, a Deutsche lifer who had recently taken over responsibility for its international wealth-management and private-banking business, heard the proposal and he, too, balked. Sewing already knew that Trump was an important bank client, but the combination of Trump's awful business record and the fact that he was now a serious contender for the American presidency meant it was time to cut ties, or at least to stop adding to them. Sewing said no, a larger committee in charge of monitoring the entire bank's risks also vetoed it, and in March 2016 the loan died before it was born.

After decades of making expedient, easy choices with the single-minded purpose of maximizing immediate profits, Deutsche had internalized a painful lesson: Its long-standing inability to say no—to clients, to shareholders, to testosterone-fueled traders and managers—was potentially lethal. It was a big part of the reason Deutsche was teetering on the brink of financial ruin, with a sizable contingent of the financial world bracing (and in some cases hoping) for it to fall over that cliff's edge. Finally, the bank's top executives had opted to turn down a short-term business opportunity for the sake of their institution's long-term health.

It was too late.

For its first twelve decades, Deutsche Bank had been little more than a lender to German and other European companies and, more widely, a funder of infrastructure and development projects. But these activities weren't very lucrative, and starting in the late 1980s, this proud national icon was seduced by the siren song of Wall Street riches. A crew of Americans—led by a charismatic salesman named Edson Mitchell and his sidekick and best friend, Bill Broeksmit—would arrive to give Deutsche a dramatic makeover. Before long, it was competing alongside hard-charging U.S. investment banks, trading stocks and bonds and peddling complex financial products of all shapes and sizes. English replaced German as

Deutsche's official language. The locus of power shifted from Frankfurt and Berlin to London and New York. To the chagrin of the German industrialists, bankers, union leaders, and politicos who had long called the shots, American investment bankers and traders increasingly dominated the bank's upper ranks. High-risk trading became an end unto itself, rather than a means to serve clients.

This new strategy worked well—until it didn't. Deutsche's investment bankers and traders cranked out one record-breaking year after another, and soon the Wall Street division was responsible for most of Deutsche's revenue and profits. Executives and rank-and-file bankers got rich. So did shareholders.

But it was an ascent fueled by greed, sloppiness, hubris, and criminality, and when the reckoning came, it was brutal. Deutsche's risk-taking—the product of years of make-money-at-all-costs mismanagement—was out of control. Painful financial decisions had been punted far down the road. Its computer systems didn't talk to each other. Neither did its German and American executives. Managers were incentivized to shirk responsibilities. Different subsidiaries competed against each other for business. Even by the amoral standards of Wall Street, Deutsche exhibited a jarring lack of interest in its clients' reputations. It would soon become enveloped in scandals related to money laundering, tax evasion, manipulating interest rates, manipulating the prices of precious metals, manipulating the currencies markets, bribing foreign officials, accounting fraud, violating international sanctions, ripping off customers, and ripping off the German, British, and United States governments. (The list went on.) A straight line connected the corporate culture that permitted those crimes to the corporate culture that permitted the bank to become Donald Trump's chief financial enabler. By the time of his inauguration as president, Deutsche's very survival was in doubt.

This is the story of Deutsche Bank's rise and fall. It is about the men who transformed a sleepy German lender into what was, for a time, the largest bank in the world, but who also set the stage for the ensuing catastrophe. It is about one well-intentioned and honest man who tried to save the bank but couldn't save himself, and about his son, who embarked on a quest to understand his father's demise. And it is about the consequences—dead people, doomed companies, broken economies, and the forty-fifth president of the United States—that Deutsche Bank wrought on the world.

Part I

Chapter 1

A Criminal Enterprise

On September 8, 1883, a private four-coach train chugged into Gold Creek, Montana. It was packed with hundreds of American and European dignitaries—members of Congress, diplomats, high-ranking judges, Ulysses S. Grant. On its way from Chicago, the Northern Pacific Special had made a number of stops so that its passengers could admire waterfalls, scenic vistas, and President Chester A. Arthur, who had greeted the travelers in Minneapolis. In dusty Gold Creek—an old mining outpost on its way to becoming a ghost town—a contingent of Crow Indians performed war dances for men in bowler hats and women in ruffled dresses. A newly constructed pavilion, bedecked with gold-mining pickaxes and sprigs of greenery, afforded seating for a thousand spectators.

Henry Villard—slim, balding, and sporting a well-manicured brown mustache—stood before the crowd in a black coat, hat, and necktie, ready for his moment in the limelight. Thirty years earlier, Villard—then going by his given name, Heinrich Hilgard—had emigrated to America, a penniless, sickly German eighteen-year-old who spoke zero English. He had worked in wheat fields and at a lumber yard and on a wood-burning train and as a bartender before eventually landing a job for a German-language newspaper. That was the springboard for a reporting career in which he would cover Abraham Lincoln and the Civil War and, in the process, become a respected syndicated journalist. After the war, his pedigree established, Villard married the daughter of the great abolitionist and progressive William Lloyd Garrison. But all of that was not enough for Villard: He wanted fame and fortune. And the greatest fame and fortune to be had at the end of the nineteenth century were in the railroads.

Charismatic and charming, Villard exuded a fearless, infectious confidence. Like many master showmen, he also had a tendency for exaggeration and a taste for his own celebrity—not to mention blind spots when it came to weighing risks, keeping track of money, and focusing on details. Banking on his national heritage and promising riches, he convinced German institutions to entrust him with millions of dollars to invest in American railroads. Using other people's money, he refashioned himself as an up-and-coming industrial baron. He soon achieved fame and fortune—his initial investments in railroads paid off handsomely—and bought a brick mansion that stretched a full block along New York's Madison Avenue, its interior decorated in grand Renaissance style and its mahogany floors inlaid with mother-of-pearl.* It was about a quarter of a mile away from the future Trump Tower, where another rich man, needing to prove himself to the world, would live in comparable gaudiness.

In September 1883, the forty-five-year-old Villard had journeyed to southwestern Montana to mark the completion of his company's Northern Pacific Railway, a key segment of the transcontinental railroad. Always the self-publicist, he arranged for photographers to capture him swinging a large hammer to drive in the ceremonial last spike, then mounting a shiny black locomotive, festooned in American flags, like a big-game hunter standing atop his conquered prey. The audience—including a German banker named Georg von Siemens—cheered.

Yet as Villard celebrated for the crowd and cameras in Gold Creek, his overextended company was unraveling financially, crushed by a massive and unsustainable load of debt. Within weeks of the last-stake ceremony, Northern Pacific defaulted on its loans. Creditors seized Villard's Madison Avenue mansion. A group of banks bailed out his prized railroad on the condition that he resign from the company. Villard stepped down but refused to accept blame for the debacle, insisting that he was the victim of bad luck and economic forces outside his control. It was scant comfort to creditors who lost their money.

Georg von Siemens was among those losers. His fledgling bank had helped sell $20 million of bonds that had financed Northern Pacific's breakneck expansion. The bonds were now worth pennies on the dollar. At a normal bank, a customer's default typically spelled the end of the relationship, or at least the onset of a much more conservative posture. But Siemens's bank wasn't normal, and it would soon pave the way for Villard's comeback.

Thirteen years earlier, in April 1870, Siemens's tiny bank had opened for business in Berlin, chartered by "highest decree" of His Majesty the King of Prussia. Its offices were a short walk down Französische Straße from the Berlin stock exchange, inside a dilapidated shingled building, reached by a treacherous staircase. He chose an almost generic name for his new company: Deutsche Bank.

A group of German businessmen had established the bank along with Siemens to facilitate international commerce, especially between German and other European companies—and most important, to free German firms from relying on the dominant British banks to finance their international growth. Deutsche Bank didn't provide banking services to individuals; its sole focus was on rapidly growing industries. Deutsche Bank's mission was decidedly imperial. It saw its role as helping Germany's business community—and Germany itself—establish far-flung beachheads. Within two years, the bank had outposts in China and Japan. By the 1880s, it was lending money to German companies in South America and the United States and financing the czar's Russian railroads. Projects in the Balkans and the Middle East followed, including a railway stretching from Istanbul to Baghdad.

Siemens was the bank's first leader. A portly, cigar-chomping man (and a cousin of the founder of the giant eponymous electrical company), he didn't know much about banking. "I nevertheless try to look very erudite, give the occasional shrug, grin from ear to ear—this is my sneering smile—and secretly refer, when I get home, to my encyclopedia or dictionary," he confided to a family member. Siemens was boisterous and brimming with creative energy; details were not his strong suit. These shortcomings were not lost on Siemens's colleagues. "The transactions on which my brilliant colleague embarked stood on what were to some extent artificial foundations," Hermann Wallich, whose job at the bank was to serve as the check on Siemens's impulsivity, wrote in his memoirs. The public had no idea, though, "and my colleague was hailed as a genius."

The year after Northern Pacific's implosion, Villard retreated to Germany to lick his wounds. There he got to know Siemens. The two men bonded over their shared visions of progressive politics, of an electrified future, of a coming American Century. Siemens had become infatuated with the young, scrappy, and hungry country on his trip to Gold Creek, and he was dying to have his bank do more business in the United States. A few years after

Villard burned the bank, Siemens again placed his faith—and Deutsche's money—in the aspiring tycoon.

In 1886, Villard returned to New York with a mandate to scout out investments for Deutsche Bank. He quickly ginned up opportunities; Deutsche sold a total of more than $60 million of railroad securities to German investors, playing an important role financing the development of America's rail network. Soon he convinced Deutsche Bank to lend him millions to invest in his old railroad so that he could be installed, once again, as its leader. As his great-granddaughter would write in a biography more than a century later: "Armed to the teeth with German capital, Henry Villard could return to the railroad wars." Soon, American newspapers were hailing him as "The Railroad King" and a "genius of financial operations."

Villard might have been a visionary, but he was not a financial genius. He was reckless, and this became clearer each time he returned to Berlin to plead for millions of dollars in additional loans. Despite signs that Northern Pacific was once again facing financial distress, Deutsche kept backing Villard. At times Siemens even encouraged Villard to move faster to spend the bank's money. Rarely, it seems, did Siemens ask for collateral to protect the bank and its investors. "It is a little hard to understand why Deutsche Bank gave Villard such a wide berth," a biographer of the bank wrote with considerable understatement in 2008.

Partly thanks to Deutsche Bank's generosity, the Northern Pacific by the 1890s was massive: thousands of miles of track, tens of millions of acres of land. But that expansion had been bankrolled by hundreds of millions of dollars of debt. For the second time in a decade, Villard's railroad had grown dangerously overleveraged. In 1893, the interest on that debt was nearly $11 million a year, which was in addition to the company's roughly $25 million in annual operating expenses. By contrast, the railroad's annual revenue averaged $10 million. Then, on top of that irreconcilably lopsided ledger, a great financial crisis descended on the United States and Europe, and Northern Pacific went from treading water to sinking fast. Twice in 1893, Villard traveled to Germany to beg for more money, and twice the bank—by now grudgingly—threw millions of dollars of good money after bad. It wasn't enough. A defeated but unapologetic Villard, now gout-stricken and with a silver comb-over, sent a self-pitying cable to Deutsche that August to inform his sponsors that Northern Pacific was bankrupt. Once again he blamed circumstances outside his control. Deutsche was stuck with millions of dollars in losses—a painful blow at the time—and many of its furious clients, to whom Deutsche had sold Northern Pacific bonds, suffered ruinous hits.

A century later, in 1995, a German historian would write: “This was the first (but not the last) time that the bank had the wool pulled over its eyes by a man who employed great personal charm and shrewd publicity to win over investors and repeatedly mobilize fresh sources of credit, but whose business rested on thoroughly rickety foundations.”

While the Villard experience was bad, it was not catastrophic. Deutsche kept growing, propelled by the rapid industrialization of Germany, Europe, and the world. By 1903, its Berlin headquarters occupied an entire city block. A decade later, benefiting in part from acquisitions of domestic competitors, it was the world’s sixth-largest bank, with nearly 10,000 employees. A set of statues in its headquarters illustrated its global dreams: five men, each from a different continent, each chiseled with stereotypes. The North American was a cowboy with a pistol in one hand and a locomotive in the other. The African and Australian figures were dark-skinned warriors, brandishing weapons and wearing loincloths. The European was a noble-looking knight. (The ponytailed Asian just looked confused.)

When Hitler took power in 1933, the bank was transformed into a financing source for the Nazi military machine. Decades later, historians hired by the bank would explain its actions as the inevitable result of operating under a fascist regime. They would note, accurately, that most large German companies helped the Nazis and would distance the bank's management from the criminal behavior of local lenders that Deutsche took over. "He was at worst an opportunist, at best a man of character who had to practice his profession in a human system," one academic wrote of the bank's leader at the time, Hermann Abs. That sanitizes a basic fact: Deutsche Bank and its executives were parties to genocide. World War II and the Holocaust would have happened without the bank, but its participation allowed the Nazis to improve the ruthless efficiency of their military campaign and their quest to cleanse Europe of Jews. And it was not an accident. Deutsche was involved because of decisions made by the bank's leaders for reasons of expedience, if not ideology.

Once Hitler ascended, the Jewish members of the bank's board were forced to resign. The resignations had been suggested by Germany's central bank, and though some Deutsche executives worried about setting a bad precedent, they were overruled by colleagues who were inclined to remain in the good graces of the Nazis. At the bank's annual employee meeting in 1933, Nazi flags hung on the walls and podium, and the gathering began with a parade of the company's SS members. Deutsche soon started pressuring its clients to remove Jews from their boards of directors. By

1938, the bank had conducted hundreds of “Aryanizations”—taking over Jewish businesses or assets and handing them over to Aryans. In the 1940s, the bank’s annual reports were adorned with swastikas in lieu of a corporate logo.

As Germany steamrolled across Europe, Deutsche took over conquered countries’ local banks and dutifully completed the Aryanization process with those banks’ clients. Deutsche sold more than 1,600 pounds of gold the Nazis had stolen from Holocaust victims—some of it extracted from Jews’ teeth and then melted down—and the proceeds provided Hitler’s regime with desperately needed hard currency to buy weapons and raw materials. Deutsche financed the construction of the Auschwitz death camp and a new factory nearby, which was run using Auschwitz’s slave labor and which manufactured Zyklon B, the chemical used in Auschwitz’s gas chambers. The Auschwitz loans were closely reviewed by bank managers, who received regular updates on the progress of the camp’s construction.

There is no proof that Hermann Abs knew exactly what was going on inside the death camp his bank was financing. He wasn’t a member of the Nazi Party. But it is inconceivable that he was completely in the dark. In addition to his role at Deutsche, he sat on the board of I. G. Farben, the chemical company that was building the factory alongside Auschwitz. At best, there is no record of Abs raising any questions or concerns about the bank's complicity in mass murder.

So synonymous was Deutsche with German military aggression that the bank earned a cameo in the 1942 movie *Casablanca*. In a scene at Rick's Café, a German, later identified as a representative of Deutsche Bank, tries to get into the gambling room. The bouncer refuses him entry, as does Humphrey Bogart's Rick Blaine. "Your cash is good at the bar," he says.

"What! Do you know who I am?" the banker demands.

"I do," Rick responds coolly. "You're lucky the bar's open to you."

After Germany surrendered in 1945, Berlin was divvied up among the Allied powers. The ruins of the bank's headquarters happened to fall in the British quadrant. That proved fortuitous. Germany still owed England reparations from World War I. If the British had any hope of recouping that money, a strong German bank would be necessary to bring the country's economy back from the dead. Hermann Abs had fled Berlin in the back of a delivery truck on the eve of the Allied invasion, and he was now wanted as a war criminal. When he was later tried in absentia and sentenced to a decade of hard labor, the British came to his aid; Abs ended up working the fields at an upscale prison camp for a few months and then was released.

The American military did not feel as kindly. It concluded in a report that

Deutsche Bank had been “a participant in the execution of the criminal policies of the Nazi regime in the economic field.” The report recommended that the bank “be liquidated” and that top executives be barred from holding positions of power as Germany was rebuilt.

The United States didn’t get what it wanted. As part of a compromise with Britain, Deutsche was split into ten regional institutions, forbidden from operating under the name Deutsche Bank. But this was a decentralization, not a demolition. The bank’s legal structure was left basically intact, with no restrictions on the ten institutions interacting with each other. Unsurprisingly, it didn’t take long for the bank’s supporters—including Abs—to start campaigning for Deutsche to be resuscitated so that it could serve as an engine of European economic recovery and ward off the communist menace. Slowly but surely, the ten ostensibly independent banks were fused back together. By 1956, they published an annual report under the umbrella name Deutsche Bank Group. Soon after that, the ten banks were legally reunited, operating out of a three-story stone building in Frankfurt. The name *Deutsche Bank* was hung from the top of the building in large bold lettering. The bank’s directors unanimously elected Abs—the convicted war criminal—to be their leader.

What followed was an extraordinary era of growth and rebuilding in which

West Germany and its leading bank (and some of its other large corporations) quickly returned to international prominence.

In the late 1950s, Deutsche again spread its wings internationally, doing business in South Africa, Mexico, Hong Kong, and Egypt. It lent money to companies all over Western Europe—and even in the USSR, where it led a group of banks that financed a natural gas pipeline for the communist government. (Ironically, the bank was helping the country at the same time that it had regained international acceptance partly because of the need to fend off the Reds.) Abs, a master of financial minutiae, was a workaholic, often surviving for months on four hours of sleep a night. With much of the West focused on the threat of communism, the war-criminal taint faded. In 1957, Abs and his wife were invited to attend Dwight D. Eisenhower's second inaugural.

By Deutsche's centenary in 1970, it had more than a thousand branches in Germany and dozens of outposts around the world. It was one of Europe's leading banks, an extraordinary achievement for the flagship lender of a country defeated in back-to-back world wars. In 1984, the bank moved into a pair of gleaming 500-foot glass towers that dominated the Frankfurt skyline. Locals nicknamed the skyscrapers Debit and Credit.

Despite its international expansion, the bank was German through and through. It took ownership stakes in some of the country's leading businesses: the automaker Daimler-Benz, the insurer Allianz, the airline Lufthansa. Its directors sat on the boards of other big German concerns. This was a bank that held corporate retreats and invited, for entertainment, leading German actresses to recite German poetry. But that wouldn't last much longer. In 1987, a man named Alfred Herrhausen took over as the top executive, and he was determined to drag Deutsche Bank into what he saw as the promise of the modern capitalist age.

Herrhausen had grown up in a downtrodden industrial part of Germany and attended a school the Nazis had set up for gifted children. His goal was to one day be a philosopher or a teacher. When he couldn't get into a university philosophy program, he decided to study economics. In the 1960s, he worked in the finance department of a German utility company. He joined Deutsche in 1970, and he eventually gained responsibility for much of its international business before becoming its highest-ranking executive.

Herrhausen believed that if Germany were to fully return to the international stage, it needed a bank with global ambitions—not just geographically, but also in terms of the types of products and services it offered to the modern corporation. With trade barriers falling and telecommunications making the world smaller, this was the moment to pounce. Herrhausen bought banks in Spain, Portugal, Italy, and the Netherlands, and he accelerated lending in the Soviet Union, transforming his institution into Europe's only pancontinental lender. He also acquired banks in Asia. "As the world becomes our marketplace, we must be present in the world," Herrhausen told an interviewer in March 1989.

Herrhausen looked like a statesman and often acted like one, too. He had a long pointy nose and wore his fine brown hair short, parted neatly on the left, with no trace of sideburns. His skin was tan and so clean-shaven that it seemed to shine. He was a leading German voice for the economic integration of Europe and an advocate for forgiving the debts of third-world countries. He became a confidant of Helmut Kohl, the German chancellor, he dined with Mikhail Gorbachev, and he was a guest in the Connecticut home of Henry Kissinger.

Perched on the thirtieth floor of one of Deutsche's skyscrapers, the fifty-nine-year-old Herrhausen looked down on the rest of the German financial capital. In November 1989, a week after the fall of the Berlin Wall appeared to vindicate much of Herrhausen's liberal free-market ideology, a leading German newspaper, *Der Spiegel*, gushed: "Hardly ever before has one person ruled the economic scene the way Deutsche Bank chief executive

Alfred Herrhausen does at the present time. The banker is all-powerful."

Herrhausen then made a play for even more power. Back in 1984, Deutsche had purchased a 5 percent stake in a venerable British investment bank, Morgan Grenfell. It was an opportune time to dive into the investment-banking business in London, where Margaret Thatcher's deregulation of the finance industry—the so-called Big Bang—had sparked an epic boom. In the fall of 1989, though, a French company made a hostile bid to buy Morgan Grenfell. Herrhausen decided to thwart the French and buy Morgan outright, an acquisition that would catapult the German company onto a global stage like never before. On Monday, November 27, 1989, he flew to London to unveil the $1.5 billion purchase of Morgan Grenfell. "We're trying to strengthen ourselves to become a real European bank," he told reporters. It was the largest-ever acquisition of an investment bank. Deutsche Bank had become a true colossus, its shadow darkening much of the earth.

Four days later, on a chilly Friday morning, a convoy of three silver Mercedes-Benz sedans pulled up outside Herrhausen's home in the suburb of Bad Homburg to drive him the twelve miles into Frankfurt. Deutsche took security seriously, and his house, behind a white stucco wall, was under round-the-clock police protection. At 8:30 A.M., Herrhausen climbed into the middle car, with bulletproof windows and armored side panels. In front of and behind him were vehicles filled with his bodyguards. The convoy cruised along the suburb's tree-lined streets and, as was the practice, followed a different route than it had taken the day before.

A bicycle was parked on the side of the road. A satchel was strapped to the bike. Inside the satchel was a homemade bomb: forty pounds of explosives, shrapnel, and a large copper plate. An infrared beam, set up by terrorists posing as workmen, intersected the street.

At 8:34, the convoy breached the beam, and the bomb exploded.

Shrapnel and the copper plate streaked into the street, scoring a direct hit on the rear half of Herrhausen's car, where he was seated. The impact threw the car several yards into the air, smashing its windows, and blasting off its doors, trunk, and hood. The copper projectile severed Herrhausen's legs. Before fire trucks or ambulances arrived, he bled to death in the backseat.

The assassination shocked Germany, which had been in a celebratory mood following the fall of the Berlin Wall. Chancellor Kohl, visiting a Düsseldorf trade fair, cried. "It is a threat to our democracy," the future finance minister Wolfgang Schäuble told the German parliament. Some 10,000 business and government leaders from around the world showed up for Herrhausen's funeral. The site of the bombing became a shrine of flowers and burning candles.

The murder was the work of the Red Army Faction, a group of Marxist terrorists. They released a communiqué explaining the attack: Deutsche Bank “has cast its net over all of West Europe and stands at the head of the fascistic capitalist structure, against which everyone has to assert themselves.”

If the attack was intended to decapitate Deutsche, it was an unmitigated failure. At an even faster clip, the bank would soon grow bigger, more ambitious, and much more aggressive.

Chapter 2

Edson and Bill

One day in the future, Edson Mitchell would change Wall Street. For now, he was stuck on an egg farm.

The sprawling DeCoster farm in Maine was home to more than 2.8 million chickens in the 1970s. The place reeked, partly from all the birds and partly from the fumes emitted by the long-haul trucks that transported the eggs all over the country. If the smell wasn’t bad enough, the farm’s owner and operator, Jack DeCoster, had a history of mistreating his workers—many of them Vietnamese immigrants—and flouting workplace safety rules. By the time Edson started working there in 1975, DeCoster was on his way to earning the title of "Maine's most infamous businessman," a designation that would be cemented years later when his salmonella-infested eggs poisoned thousands of Americans and he and his son were sent to prison.

Mitchell, having just graduated from nearby Colby College with an economics degree, worked in the farm's accounting department. He didn't like the stench or the feeling of working for a bad man. Yet he didn't know what else to do with his life. He'd been raised in a fading Maine mill town; his father had been a janitor. There had been long stretches between jobs, and those periods were awful for young Edson—he could feel his parents' anxiety about how long they could survive without another paycheck. He was determined not to follow a similar path of financial insecurity, and he already had a young family to support. He and his high school girlfriend, Suzan, had married during their sophomore year at Colby and, living in a trailer off-campus, had a baby. Another would be on its way soon.

Finally the day came when Mitchell could no longer bear working among the chickens. He quit and enrolled in business school at Dartmouth. It was a big gamble, but he considered himself a born risk-taker and was brimming with confidence and impulsivity.

Students at Dartmouth's Tuck School of Business gravitated toward jobs in finance, and the best place to land—the destination that virtually ensured that you would quickly amass a small fortune—was Wall Street. Positions with firms like Goldman Sachs and Morgan Stanley were the real prizes, but even the scrappier, lower-tier investment banks were rolling in money in the 1980s. Edson didn't make the cut. Instead, he became a so-called commercial banker—making loans to companies—in Bank of America's Chicago office. His clients included the likes of Beatrice Foods, a huge chemical and food-processing company. It was a respectable gig, but Mitchell soon grew disenchanted. He yearned for more than a respectable life—he wanted to be extraordinary.

An opportunity soon presented itself at Merrill Lynch, known for its "Thundering Herd" of stockbrokers, so numerous that they routinely moved markets. Merrill had ambitions of becoming a well-rounded Wall Street bank, of earning the respect associated with being a player in banking's big leagues. That meant it needed to move beyond simply advising mom-and-pop clients on which stocks they should buy in exchange for peanut-sized commissions. It needed to get into the more lucrative but much riskier business of actually buying and selling bonds and other securities.

Mitchell was hired as a vice president in Merrill's Chicago offices to help with the bond-trading business. Within a year, he was promoted to a leadership role that required him to relocate to New York, where Merrill was based. He and Suzan, happy to leave Chicago, moved to a wealthy New Jersey suburb.

A short, wiry redhead, Mitchell was ferociously competitive and imbued with a frenetic energy that made him resemble a human whirlwind. He also was a charming, relentless salesman, the type of guy who could convince a vegetarian to order a steak through sheer optimistic persuasion. He took Merrill's headquarters by storm.

Mitchell had a big idea: Merrill should dive into the fledgling business of derivatives. Derivatives are products whose values are derived from something else. If you are an ice-cream maker, you might purchase derivatives whose value rises along with the price of milk. That way, as higher dairy prices eat into your ice-cream profits, your profits from the rising value of the derivatives will make up the difference.

In their simplest form, derivatives have been around for centuries, their values rising and falling along with the actual or expected prices of commodities such as tulip bulbs, oil, or pork bellies. But in the 1980s, they underwent a revolution, mutating from simple structures—tracking dairy prices, for example—to complex new breeds that, say, tracked the price of a particular type of milk in Vermont in certain months and that would gain or lose value based partly on the performance of another dairy product, in another state, in a different time period. In theory, anything could be linked—milk with car parts, orders for silicon chips with the price of peanut butter—as long as you could find parties willing to bet on both sides.

As banking became increasingly commoditized, specializing in derivatives was a way to stand out—a corner of the banking business not yet dominated by any of the established powers. Mitchell's hunch was that derivatives were the future—and if his company moved fast and decisively, Merrill had a rare chance to bust in and overtake some of the Street's biggest bond-trading houses, firms like the mighty Salomon Brothers. "I began to realize that this was an instrument that could pervade all aspects of what we did as a financial intermediary," he would explain more than a decade later, at his induction into the Derivatives Hall of Fame (sponsored, appropriately enough, by Arthur Andersen).

This was Merrill's destiny, he argued to his superiors, and they should help him fulfill it. They bought the pitch, and Edson Mitchell soon set out on a hiring spree. To help lead his charge, he looked to another young man working as a Chicago banker. His name was Bill Broeksmit.

Jack Broeksmit had graduated from Yale and then served as a lieutenant in the Navy during World War II. After the war, he married Jane, a librarian and amateur artist. They had six children; William Shaw Broeksmit, born on November 5, 1955, was the fourth. The year after Bill's birth, Jack was ordained into the ministry by the United Church of Christ, and for the next decade he was minister of the First Congregational Church in Galva, Illinois, some 150 miles west of Chicago. Reverend Jack's sermons were filled with fables about the importance of understanding other people. The key, he preached, was to try to see things from other people's vantage points. Avoid casting judgment. Ask questions. Recognize and then try to put aside your biases. Congregants would come up to Reverend Jack after his sermons or stop him on the streets of Galva and solicit his advice. Bill would later tell people that his father had instilled in him the notion that over the long term, it paid dividends to do right by other people.

The Broeksmits weren't poor, but they definitely weren't rich. "There was a certain amount of education pedigree, but there wasn't any money," the youngest child, Bob, would say. Bill was slim and had dark brown hair so thick that it was hard to comb. His bushy eyebrows cast shadows over his brown eyes. He excelled at math and had a mischievous entrepreneurial streak. He had a newspaper route and enlisted his two younger brothers to wrap up and then deliver the Sunday papers. Bill paid them less than he was earning, pocketed the difference, and eventually used the proceeds to buy a television set that his father had been unwilling to purchase. Bill's business career was under way.

He received a scholarship to Claremont Men's College, a small liberal arts school in the Los Angeles suburbs. * Finance fascinated him. He talked his roommates' ears off about the markets. Even as an undergrad, he had a knack and an appetite for complex financial instruments, seeming to have an intuitive grasp of the relationships between things like interest rates and stocks—how rising rates might lead a particular company's shares to lose value. Bill, who had a facility for writing and enjoyed it, bankrolled his occasional market bets by churning out term papers for some of his wealthier classmates.

After graduating, Bill moved to Chicago. By day, he was hardworking, quiet, and introspective. When a colleague's wife died, Bill sent a sympathy card, something that would never have occurred to the group of new graduates. "I asked him why, and he said because it's what is done, it is the right thing to do," says his girlfriend at the time, Liz Miles. "Compared to most of us, Bill was self-sufficient and responsible."

But his demons tended to come out at night—heavy drinking, hard drugs, prostitutes. Bill was the guy who, when others were ready to head home in the wee hours of the morning, would push everyone to have one more round. “He just didn’t know how to turn it off,” one of his best friends, Jon Schink, recalls. Friends could tell something—they couldn’t ever put their finger on *what*—haunted him. “Bill was wonderfully brilliant, but deeply troubled,” remembers Tom Marks, who was Bill’s roommate in a rented Chicago brownstone. “He did things by night that were in sharp contrast to his daytime behavior.”

Once, in the early 1980s, Broeksmit went to Las Vegas with Schink. After a night of drinking and gambling, the two men walked down the mostly deserted Strip toward their hotel. Two prostitutes approached Bill and started fondling him a little. As they walked away, Bill realized that the rollick had been a ruse: One of the women had stolen a wad of hundreds of dollars out of his pocket. He hollered at them, gave chase, and tackled the thief. They rolled around, fighting, on the dirty sidewalk until a pair of cops came to break it up and returned the money to Bill.

Bill got an MBA at Northwestern University and then a job at Continental Illinois, one of the country’s largest and fastest-growing banks. He set out to master derivatives, tinkering with the structures of the fledgling products and conjuring new uses by mushing together different types of derivatives. Colleagues hailed him as a financial innovator—and that reputation soon spread.

Derivatives would later become a dirty word—wreaking havoc across the financial industry and the broader economy—but when Broeksmit joined Continental Illinois, he and his peers saw them as a powerful way for businesses to operate better. Companies could insulate themselves from risks in ways never before thought of. That allowed them to produce a greater number of widgets at a lower price, and those savings would be passed on to their customers while maintaining profits for the companies. Here was a rare financial invention—right up there with cash machines and credit cards and thirty-year mortgages—that was truly helpful for a great many people and institutions.

Wall Street, of course, had plans for derivatives far removed from the original mission of helping ice-cream companies protect against rising dairy prices. Derivatives would no longer be used mainly as mechanisms for companies to play defense; now they would be vehicles for banks and others to engage in financial speculation—essentially the spinning ball on the roulette wheel. This was about to become a hugely profitable, mostly unregulated corner of the global financial system. And that meant that people with expertise in derivatives—the more complex, the better—suddenly became coveted.

In May 1984, Continental Illinois was overpowered by a tidal wave of bad real estate loans. It was the largest bank ever to fail in the United States, a record it would hold for nearly a quarter of a century.

Broeksmit, not quite thirty, narrowly escaped the sinking ship. Edson Mitchell had come knocking just as the bank was taking on a fatal amount of water, and earlier in 1984, he accepted a job as one of Mitchell's lieutenants, charged with leading Merrill into the brave new world of derivatives. Bill and his young wife—a Ukrainian divorcée named Alla—relocated to Short Hills, a New Jersey suburb filled with palatial homes. The Broeksmits couldn't afford one of those—yet. They moved into a tidy colonial-style house that was a quick walk from the commuter rail station that would shuttle Broeksmit into Manhattan every day to work alongside Mitchell.

Merrill Lynch was cleaner than the DeCoster egg farm, but just barely. The place was the embodiment of Wall Street's unbridled id in the middle of a go-go decade: cocaine in the bathrooms and strippers on the trading floor. At the time, the list of derivatives available to Merrill's clients was limited. Bill and Edson expanded the menu. Bill started dreaming up new types of a popular derivative known as *swaps* that were designed to help institutions protect themselves from changes in things like interest rates. He combined different types of swaps into mutant instruments with names like *callable interest rate swaps* and *yield curve swaps* and *swaptions*.

This was good news for clients and great news for Merrill. Each time Merrill sold a swap to a client, it pocketed a fee. What's more, Broeksmit devised clever new ways for Merrill to protect *itself* by using derivatives when it bought assets from customers. Because the derivatives were reducing the risks Merrill faced on various transactions, the firm now had a greater capacity to do more of those transactions—which meant more revenue for Merrill.

All these new types of derivatives made corporate clients more willing to issue debt. After all, if they could protect themselves, or hedge, against volatile interest rates, that effectively lowered the cost of borrowing money. Fannie Mae, the government-controlled company that was the biggest financer of mortgages in America, was one example. Because so much of Fannie's business revolved around interest rates—it was buying boatloads of mortgages, with all sorts of different interest rates and repayment terms—it had a big appetite for sophisticated products to insulate itself from future changes in rates. Broeksmit concocted a complex solution for Fannie, and Merrill became the company's go-to bank. Soon scores of blue-chip companies were flocking to Merrill not only for the swaps but also to handle their sale of the bonds. Billions of dollars in new business poured in.

Merrill suddenly was a formidable player. Mitchell got most of the credit—he was quickly becoming one of the rising stars of Wall Street—but it was thanks in large part to Broeksmit.

Decades later, grizzled veterans would look back on the changes that had transformed the banking industry and would pinpoint two catalysts. One was technology and the internet, which accelerated the business and made it more efficient. The other was the modern swaps market. Broeksmit was largely responsible for animating the latter into something resembling a living organism in its complexity. “Because of people like Bill, but maybe none more so than Bill, the derivatives business went mainstream in usage for investors as well as corporations, financial institutions, and government agencies,” explains a former colleague who would rise to the top of Wall Street.

Edson’s goal was to position the bank at the crossroads of so many different transactions that it could make tons of money by skimming tiny amounts off each. This required the bank to amass enormous positions in multiple vast markets—a risky endeavor. Edson and Bill took to describing this special place in the middle of all these flows as “the whitewater”—the place where the money moved so rapidly that it churned everything into a froth. As they saw it, at the vortex of this whitewater were derivatives—and

Merrill would be right there, floating on the turbulent waters, slurping up the profits.

On the seventh floor of the northernmost building in the World Financial Center complex, Mitchell occupied a corner office with nice views of New York Harbor and the Hudson River. Broeksmit's office was about half the size, but it was just a few paces away from Mitchell's. Colleagues noted that the hallway carpet between their two offices was literally worn thin—that's how much they and other colleagues were shuttling back and forth.

The partnership worked, and in the process the two men became friends. They bonded over their large families: Bill, one of six children; Edson, with his own five kids. They bonded over their rural roots: Bill from small-town Illinois, Edson from Maine. They bonded over the fact that they hadn't been raised in privilege, that they were both outsiders.

Edson and Bill discussed everything: their colleagues, their strategies, their clients, their futures. Mitchell didn't always agree with Broeksmit, but he sought his advice, and Bill felt comfortable giving his unvarnished opinion. They complemented each other, one man's excesses filling in the other man's voids. Mitchell was overflowing with nervous energy, unable to sit still. Some colleagues called him Fast Eddie because you rarely had time to explain anything to him in detail. Waiting for an elevator, he would repeatedly push the button—and once the elevator came, he would keep pushing the button for whatever floor he was going to, trying to speed things up. Broeksmit liked to tell stories about how small airports all over the Midwest were littered with rental cars that Mitchell had deserted outside the terminals, too rushed to return them properly.

His eternal optimism—everything was doable!—and his burning desire to prove that the janitor's son could surmount long odds and exceed expectations fostered a competitiveness that seeped into almost everything Mitchell did. He went ballistic when his employees got poached and, as a result, became very skilled at preventing them from leaving. (Once he flew to Tokyo to persuade a mid-level trader to stay put.) Unlike other executives who would outsource the job of hiring young finance nerds, Edson frequented business-school campuses, interviewing promising students and hiring them on the spot. He even pressured colleagues to buy extra Girl Scout cookies from his kids so they could earn more badges.

Where Mitchell was loud, brash, and impulsive, Broeksmit was quiet, cerebral, and thoughtful. By Merrill's frat-boy standards, Bill—with wavy jet-black hair pushed back from his forehead, rimless glasses with thick lenses, and a way of pursing his lips and narrowing his dark eyes when he listened that, if you didn't know him well, could come across as a smirk—

was a nerd. He was flabby and unathletic. He was comfortable staying silent. When he was deep in thought, he tugged his bushy right eyebrow—a tic so common that it became a family joke. (It was less endearing when his hand went to his eyebrow while he was driving. "Dad!" one of his three kids would holler from the backseat. "Both hands on the wheel!") When he spoke, it was in a way that made clear he was really hearing what others were saying. His manner in questioning wasn't aggressive; he wasn't trying to catch you or trick you. He didn't need to show off. Indeed, on more than one occasion, he turned up to interview a job candidate in clothes that were ripped—and then, while chain-smoking cigarettes, overwhelmed the bemused prospective employee with his intellect to such a degree that the person was *dying* to work with him. He also wasn't very ambitious; he preferred to manage only a few people and didn't want to climb the corporate ladder. He stood out in an industry brimming with socially maladroit math whizzes and slightly sociopathic type A personalities. Broeksmit frequently repeated the mantra "How does that help the client?"—a well-worn cliché on Wall Street, but he actually believed it. It was always tempting to make a killing by scamming customers, but the better long-term strategy, he advised colleagues, was to structure things in a way that your clients would prosper. "Everyone in banking wants to make