

LOAN STAR

— a novel —

By Lance Mason

For loan oft loses both itself and friend – Shakespeare, Hamlet, Act 1

Power tends to corrupt, and absolute power corrupts absolutely – Lord Acton, 1867

The State of Play

In 2015, researching material for his MBA thesis at the Booth School of Business, Chicago, on financial catastrophes of the western world, Cornelius “Neil” Manley turned up the following cause-and-effect summary:

Abstract:

Factors, Global Financial Crisis, 2008-2011

Of the world’s largest economies, only US lenders offer 30-year, fixed interest home mortgages. Because all investors value, even worship, such predictability, global markets pursued these mortgages as the gold standard for long-term investments.

In the 1980-90s, widespread deregulation reduced the protection that, for decades, US banking law had provided for these loans. Still, despite the lessened security, international investment in US mortgages thrived, reaching \$300 billion a year by 1990. But this climate also bred short-term, low-interest home loans, a.k.a. subprime lending, that would undermine the very predictability that the markets so admired.

By the early 2000s, these 1- to 3-year cut-rate loans had mushroomed, even as banks and others world-wide were investing trillions in US mortgages—which then began to fail. Too many naïve borrowers had gone too deep in debt for too long, and now began to default on their loans. It started slowly, but perceived risk of widespread losses began to snowball, destroying confidence as it grew. This “gorilla in the room” bred panic, stress, and aggression in banks and boardrooms world-wide, and US property values plummeted, bringing on the Great Recession.

What had caused this? Thousands, then tens of thousands of sub-prime loans expired in a short period, converting to market rates and a 200-400% rise in payments. Unable to meet the increase, borrowers defaulted, and a million-plus US loans failed, many in excess of \$500,000. With no underlying protection for the loans, hundreds of large investors fled the market, liquidating mortgage portfolios at drastic discounts, and crippling home valuations across America.

Manley printed a photocopy, filing it with his thesis. Little did he realize its future value.

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Now, it is Spring, 2021, and Manley is relating to his fiancée, Tina Perez, this history and its possible impact on the "green lending" bill, HJ 462, that his bosses are currently pushing through Congress.

"We know trillions of dollars in unprotected loans vaporized in this crisis more than ten years ago." She nods, and he continues. "Instead of banks having no protection against that massive loss in value, imagine that all of those loans had been guaranteed by the US taxpayer."

It is this radical proposition, of past damage versus future devastation, of danger in sight versus danger unseen, that will lead to deceit, blackmail, bankruptcy, and murder.

PART I

CHAPTER 1

On the western outskirts of Los Angeles, two men take seats at a small, marble-topped table, a drinks tray between them, their fourth-floor terrace facing east to the San Gabriel Mountains. Julian Gossard, the taller of the two, is an athlete gone to bulk, his gray hair rough-cut and trendy, his eyes vacant, nerveless.

Less imposing, yet polished in manners and dress, David Ashton-Brown looks like what he is, a seasoned international banker who moves unnoticed in crowds. "Renovations are getting on?" he asks. His diction is English Public School—*Rinnavaytions ah gedding orn*—and he's referring to the terrace's office complex, which they own, a project undergoing a \$20 million facelift. He waves a waiter over, they order lunch, and both pass comments on the building's progress, but seem focused on bigger things.

Ashton-Brown wears a professional smile. "Any hiccups with our boy in Malibu?"

Squinting at the mountain view, Gossard shakes his head—no hiccups. "Manley is the best for our strategy. He'll do a competent job or better on the work in DC."

"And your young woman? We can rely on her?" Ashton-Brown knows more about this employee than he has revealed.

Gossard takes a pull on his drink. The on-the-rocks whiskey dilutes the noontime haze from his previous night's excess. "She's settled in well enough, and ready to move when we are."

Ashton-Brown refills his own glass, straight Perrier, no ice, no lemon. "Overseas interest is queuing up—Lahore, Tunis, Beirut. Any commitment from Mitchell?"

Two waiters arrive with food, cutlery, and fresh drinks.

"She wants in, but will resist us on Manley doing the first draft. She's dreaming. Thinks she can drive us on other terms, too." Gossard is confident when assigning character defects to others. "Regardless, she's a player."

"But by whose rules?"

Gossard's eyes, grim and seawater green, settle again on the Englishman. Despite their years together, he is constantly assessing Ashton-Brown. "Our rules—if she wants her interests served."

"And Hughes?"

"A few weeks out. Mitchell will kick that off. The main worry is our pitch to Manley."

After a pause, Ashton-Brown nods. "And you're comfortable he'll take the offer?"

Gossard talks through his food, cold roast-duck salad with fennel. "Yes. His options are limited."

Both smirk, but they know how serious this is. Ashton-Brown says, "He's a smart lad, always has been. Might be dangerous, though, if he gets too headstrong."

Pausing first to swallow, Gossard replies. "I'll see that he doesn't."

Prodding the air with his fork, Ashton-Brown puts on a naïve face. "In the overall, Jules, with this kind of funding, what do you see here as the biggest risk? Any weakness?" He has his own answers, but wants to hear Gossard's.

Gossard presses a finger to his lips, thinking. He knows a miscalculation overlooked—in tactics, timing, co-conspirators—would cripple the operation, or worse. "Losing our nerve. That's always the risk in ground-breaking deals." Holding one's nerve is a core belief in Gossard's life. "Most doubters will go along if you're forceful enough, even with this much on the table."

Both men are acutely aware that what's "on the table" in this case carries a significant price tag—\$350,000,000,000.00.

"But the brave opponents," Gossard says, "the ones with guts and principles? They'll put up a fight." He drains his whiskey. "You have to be ready to push those people aside."

CHAPTER 2

Monday, a month later --

Today's significant pain in the ass began for Manley at 9 AM on the walk from his desk up a half-flight of stairs to his boss's office—short in distance, but long because of the threat of getting on the wrong side of Christophe Santoni, the CEO of Malibu Bank & Trust. That threat felt sharper with every step because Manley wasn't in a position to take risks. Approaching thirty and barely a year into the job, he had a precarious living situation—renting a 1950's tract house with Kenzie and her children in a dodgy part of Oxnard an hour's drive from work, and no upgrade in sight, job or house.

Manley knew that the intel he carried was speculative stuff. If it proved useless, that would aggravate Santoni, a man brittle and unforgiving to those who wasted his time. But if this information had a big upside for MB & T—and for Santoni especially—and Manley *didn't* show it to him, then the CEO could work up the kind of rage that might endanger Manley's entire future.

Life had brought Manley plenty of trouble over the past year, and he needed a break, any break. If the bank benefited from this news, it could earn him a promotion or a bonus, things he couldn't afford to miss. With this argument in his head, he had tossed the essentials into his briefcase—his clipboard notes and his new View-pad, the latest mobile device for document handling, with *The Economist's* current issue loaded on—and had headed up to see Santoni.

And if he was wrong? What trouble could that bring, now or down the road? He knocked on Santoni's door.

"Come in."

Manley did, and saw his boss behind his desk, leaning back, looking content, watching a sweeping view of the Pacific's wide, rolling swells. A sharp salt breeze floated in through the open window.

"Sorry to bother you, Mr. Santoni, but I came across something that I thought you'd want to see."

The CEO blinked once, pointed to a rigid steel chair, but said nothing. Manley sat. He figured this was the way of Detroit Italians, silence a form of command.

Santoni, taller, darker, and older than Manley, blinked again from his leather office throne, steepling his bony fingers over his chest. "What is it, Neil?"

"If I could, sir, I was hoping to discuss something with you—two things, actually." Like all the employees, he had to watch his words around Santoni, who dismissed LA's "*We need to talk*" and similar jargon as neo-cool clichés.

"Go on."

Manley opened his briefcase. "First thing this morning, sir, Clint Elstrom sent over a PDF, a discussion paper on a bill that might go before Congress."

"Elstrom? The guy you worked with in Boston? How is he connected to federal legislation?"

"He left Xavier Equity Partners not long after me. He's an aide now, sir, in Anita Mitchell's Congressional office." Manley's father had been in the military. So had many fathers of his childhood friends. "Sir" was part of his grammar.

Leaning forward, Santoni stiffened. "*Mitchell*? That liberal harridan?"

In the wake of the Global Financial Crisis a decade earlier, Representative Anita Mitchell had thrown dozens of thorny allegations of corruption at the US finance industry. Occasionally Manley found himself agreeing. Santoni never did.

"She's an enemy of the banking industry," Santoni said, "and a grandstanding fraud." He had a good nose for hypocrites—as Manley would soon discover. "And your pal's on her staff?"

Manley now felt like starting over. Maybe just bailing out. "Yes sir. He sent this over, sort of a draft of a bill that Mitchell may introduce to the House, along with Wayne Hughes."

"*Hughes?* The Oregon rich kid?" Santoni was losing his neutral decorum. Only half joking, he said, "What sort of socialist bullshit are they throwing in our path now?"

This worried Manley. He'd seen the CEO rant in front of junior officers before. "Well, Mr. Santoni, yes, the legislation could attempt to regulate—re-regulate—the banking industry in ways reminiscent of Glass-Steagall."

"Lowlife bastards," groaned Santoni, "or bitches, in Mitchell's case." He sighed deeply, tapping his pen on his desk blotter. "Fill me in. Why did Clint send you stuff?"

"Well, sir," said Manley, feeling like an adolescent, "we have a little game. Which one of us is on the front edge of change?"

Santoni looked at him as though *he was* an adolescent. "Summarize the bad news for me, Neil."

"Well, sir, that's the thing. Aside from hints at regulation, there may not be any." He set the View-Pad on Santoni's desk, pointing his pen from his written notes to the screen. "In fact, these two highlighted paragraphs open up contrary possibilities—radically contrary."

Santoni's gaze now did the rounds, from Manley to the View-Pad, then back to Manley. "This new device work for you?"

"Yes, sir, brilliant—reading, storage, dictation, transmission—with something more I'll show you."

"Bottom line with this Mitchell business?"

"Sir, with respect, if you could just read the two paragraphs, and then my notes." While the off-camera joke was that *Santoni* rhymed with *baloney*, Manley wouldn't knock him down for that. He was a bar-certified attorney with eighteen years in banking.

Santoni studied the highlighted sections on Manley's device, then leaned back, scanning the ceiling tiles. His fingers were tented once more above his torso, the tips flexing and separating. Manley imagined he saw sparks arcing between them. Santoni rocked forward, gazed at the View-Pad screen again, then at Manley's clipboard, before planting his elbows on his desk. "What else?"

Manley clicked another entry on the View-Pad index. "This is *The Economist's* latest report on China. They're bullish on Chinese banks." Both men knew the respected journal leaned pro-bank, and never with a lack of confidence. "Parts of it align with Mitchell's bill, especially my highlighted paragraphs." Manley's eyes lifted to Santoni's, which had stopped blinking. "It's about Chinese banks booking loans as investments instead of debts to the bank."

This froze the boss of MB & T—froze his thoughts—in mid-cognition. "Ludicrous," he said in a harsh whisper. What Manley had just said indeed sounded to Santoni like a fantasy, preposterous. Yet, combined with the highlighted section in Elstrom's document, perhaps it wasn't. Perhaps it was a gift. Perhaps it was a once-in-a-lifetime, ground-floor opportunity, the kind Manley had been fearful of skipping over and not passing on to his boss.

The CEO grinned viciously at Manley, then turned his picket-fence smile back to the ocean view. "Maybe Mitchell's done an about-face." He inhaled the salt air mixed with the piney

tang of hillside chaparral. "Goddamn, Manley!" he growled, "we might kick some galactic ass with this stuff. We might get *rich*."

Then, to Manley's great surprise, Santoni invited him to lunch.