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AP

**Bear Demotes Head of Troubled Unit**

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By Jeremy Herron, AP Business Writer

**Bear Stearns Demotes Head of Asset Management Unit, Taps Jeffrey Lane As Replacement**

NEW YORK (AP) -- Bear Stearns Cos. demoted the head of its asset-management unit and brought in a former Lehman Brothers executive to "restore investor confidence," after two of the firm's hedge funds nearly collapsed last week.

Bear Stearns named Jeffrey Lane, 65, chairman and chief executive of Bear Stearns Asset Management. He replaces Richard Marin, who will stay with the unit as a senior adviser to Lane.

Earlier this week Bear said it would spend \$1.6 billion to bail out a hedge fund heavily invested in risky securities backed by mortgage loans. A second, larger fund also teetered on the brink of collapse before Bear, considered the pre-eminent Wall Street firm dealing in mortgage-backed securities, won a reprieve from lenders clamoring for more collateral.

With one of its core businesses faltering, the firm had to move quickly to change the perception that it was in trouble, said Axel Merk, manager of the Merk Hard Currency Fund.

Lane's hiring "isn't about the two hedge funds," Merk said. "They are trying to preserve their core business."

Lane said in an interview that the funds' troubles were a "hiccup" that were addressed quickly and fairly. He added there was nothing to indicate that there would be further problems with the firm's asset management business.

There was concern that if the funds collapsed, a fire sale of their assets would force the revaluation of other funds across the industry that invest in similar securities, setting off a chain reaction of collapses.

The problems began when the Bear funds' assets -- mostly securities backed by risky mortgages to investors with poor credit, known as subprime loans -- lost value amid rising defaults in a persistent housing slump.

Bear Stearns said Wednesday that it was able to sell large chunks of the funds' assets, seemingly signaling that it averted immediate danger.

Merk expects Lane, who was formerly vice chairman at Lehman and at Travelers Group and co-head of asset management at investment firm Neuberger Berman Inc., will help restore investors' trust in Bear, but cautioned that the company still faces difficulties.

"Bear Stearns' bread and butter is the subprime business, and there are still problems in that sector," he said.

Defaults have been rising quickly, and a large volume of subprime loans with variable interest rates are slated to reset at higher levels in the next two years.

Meanwhile, securities regulators have started a dozen inquiries related to how hedge funds place a value on the complex securities called collateralized debt obligations, many of which are underpinned by subprime loans.

The subprime sector "is sick and we've only seen the beginning," Merk said.

Bear Stearns shares fell \$3.33, or 2.3 percent, to \$140.67 in afternoon trading.

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