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Teaching Case #15:

Fragile Fortunes in the House of Cards:

Iceland, Björgulfur Gudmundsson, and the Great Financial Crisis of 2008

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Introduction: A Match, a Deal, and Sale

It was matchday, on the 22nd of November 2006. As 36,000 fans filled White Hart Lane in North London, the home team Tottenham Hotspur kicked off against West Ham United.

The game began with a promising save by debut goalkeeper Robert Green, but it soon turned for worse. Shortly into the first half, West Ham's Javier Mascherano, an Argentinian player recently acquired in a controversial deal, committed a foul again Jermain Defoe, who in retaliation appeared to physically bite Mascherano.[1] As tensions rose between the teams, Tottenham striker Mido scored a goal, which carried the home team ahead at half time. And so, the score remained, as the deflated visitors played out the game to lose 1-0. It was West Ham United's seventh game in a row without a goal.

But as he watched the game play out, manager Alan Pardew knew that the problems were larger. Despite being one of the older football clubs, founded in 1895 amongst the workers of Thames Ironworks and Shipbuilding Co., West Ham United needed reinvigorating by the start of the twenty-first century. In fact, the club was relegated in 2002, having made a hard-fought comeback to rejoin the Premier League in 2004. It hadn't been a smooth comeback, however. By 2006 West Ham United's organisational problems made headlines in sporting news. The club's escalating debts – estimated to be upwards of £22 million – strained the club's abilities on and off the field to manage the growing backlash over their involvement in 'shadow trading'. They had acquired talented, and third party-owned, players from Latin America, including Mascherano, and the rising star Carlos Tévez, through informal associates, agents, and fixers – shady powerbrokers in the borderlands of professional football.[2]

As controversial as these dealings were for West Ham United, and they would pay for it down the track, it was a sign of the times. As the world reveled in the euphoria of expanding consumerism in the mid-2000s, the character of English football at the top level was changing. Some of the most longstanding, iconic football clubs in the Premier League, such as Manchester United and Aston Villa, were coming under American ownership.[3] As these great lumbering sport institutions struggled for profit in an increasingly competitive economy, foreign money, indeed foreign millions, had swooped in to claim financially flagging football giants with loyal fans and vibrant heritage. New revenue streams stimulated the balance sheets, with television rights, luxury seating packages, sharp new merchandise – all reminiscent of the flashy American big sporting leagues. Despite some traditionalists disagreeing with the 'Americanisation' of local English football games, the results on the scoreboards had been initially compelling. Clubs owned by private foreign investors were performing with overall better success in the League than those who had domestic English owners.[4] Foreign money, it seemed, was conducive to victory!

At the very least, it could turn the fortunes of a club around. For West Ham United, this looked like a solution to the problems that had been plaguing the club. This happened just at the right time, when the Premier League itself was entering a new era of limelight and celebrity, having secured a lucrative television coverage deal for forthcoming seasons. The struggling East London-based football club, with a wealth of heritage and football prestige, but little in the way of cash, became an enticing investment for rich foreigners.

Yet again, however, this plan did not run smoothly for West Ham. By 2005, the strongest interest in ownership of the club had come from the same source as its compliancy and publicity woes – the informal agents that were responsible for the controversial player deals. In particular, one notoriously slippery but savvy businessman, Kia Joorabchian, who after dabbling in market-floor oil trading, US hedge funds, and car sales, had established himself in Brazil as more of a 'facilitator' than an agent – a so-called 'fixer' – for professional football. As the president of the London-domiciled but Russian-financed investment fund, Media Sports Investments Ltd. (MSI), he had entered into a backroom-style partnership with Brazilian football club Corinthians, from which he had been instrumental – but non-signatory – in operating a scheme of 'loaning' high profile Latin American players in a third-party ownership structure to the English Premier League, while retaining control of the players.[5] Through MSI, Joorabchian had entered into negotiations to purchase West Ham United, but given the complicated and unstable debt issue of the club, Joorabchian and the club's directors couldn't agree on a price.[6] Despite their initial offers being rejected, MSI had nonetheless pursued its lucrative plans to transfer the Argentinian players to West Ham United, reopening discussions at the end of August 2006 for purchasing the club. This time, West Ham United was not interested in the advances of this seemingly underhanded business edifice, for they had another potential buyer.

This time, interest came from an unlikely place – Iceland. It came in the form of a billionaire Icelandic investment banker, Björgólfur Guðmundsson. With a lifelong passion for football, on 26 November 2006, Björgólfur arranged WH Holding, a holding company of just one asset -West Ham United - to purchase the club for £85million, taking on the troubled club's potentially expensive player disputes, and its £22million debt. If West Ham United thought it had dodged a bullet by avoiding being taken over by shadowy 'sports management' companies, it had jumped in the direction of the oncoming train. For the Icelandic economy, that in 2006 had facilitated the seemingly immense and eager wealth of bankers such as Björgólfur, was about to shatter in one of the most spectacular bubble-bursts of the Great Financial Crisis that struck the world economy in 2008.

Björgólfur Guðmundsson: An Icelander Going Big

Although he may have seemed an unlikely buyer for an English football team, Björgólfur Guðmundsson was a longstanding businessman, with an eager eye for opportunity. In 2006 when he appeared on the Premier League scene, he was a billionaire with a questionable past that many just seemed to overlook. This was no coincidence. Björgólfur had a long history of conducting high-risk business on the knife-edge of massive profits and massive losses. The primary skill of businessmen like Björgólfur was that of conveying confidence and cultivating trust, even when the real financial situation behind his enterprises was unsound.

Björgólfur had been the product of the 'old world' of Icelandic business: small but well-off networks of shipping linked together by a tiny population in a fairly simple economy based largely on fishing and a minor amount of sea-bound transportation. He had been involved in Icelandic shipping from the 1970s, starting with a company known as Hafskip in 1977 in the immediate wake of Iceland 'winning' the third, and final round of the 'Cod Wars' against the United Kingdom in 1976. This event marked the start of an upward trajectory of Iceland's national wealth. Björgólfur was already a respected businessman in 1977 when the Icelandic Fisheries Bank, Útvegsbanki, intervened in the once-thriving but then foundering Hafskip, selecting him to the company's managing directorship to turn things around with a new injection of capital. Útvegsbanki was the primary financial backer for Hafskip, and saw that it was an excellent time to put money into a shipping business. While the outcome of the Cod Wars had granted the contested exclusive fishing rights to Icelanders, some of the biggest profits were to be made in transporting the export cargo derived from the lucrative fishing waters, which was now concentrated in the hands of Icelandic captains and a major source of incoming wealth for Iceland, which in the late 1970s had little else other than fish in the way of resources to export. This was where Björgólfur was valuable. He had international experience and was extremely charismatic. He was certainly not shy to take risks or take advantage of opportunities while convincing his staff and financiers that his plans were brilliant. Entrepreneurial and great at networking, Björgólfur was perfect for taking the helm of a growing international shipping company in a fishing nation that now had exclusive power over some of the world's most lucrative fishing grounds.

By the 1980s, Hafskip was rivalling the largest shipping company in Iceland, Eimskip, which in this fishing-based economy was often referred to as 'Iceland's Favourite Son'. The growing success of Hafskip by the early 1980s was great news to the chairman of its board, Albert Guðmundsson, who was also on the board of governors of Útvegsbanki, and the former Minister of Finance and Minister of Industry for the Independence Party, who were in power at the time and an influential political clique in Iceland for several decades. Albert was much beloved by the Icelandic public, having been a star footballer in Europe before launching a political career in Iceland. Björgólfur and most of the Hafskip management were also his allies, even personal acquaintances in the small Icelandic population. Within the largely conservative Independence Party, however, Albert was, for the most part, merely tolerated. He was great for the Party's public image and securing votes – after all, Iceland housed no less than four political parties, considerably many for their population of 270 000 – but he rivalled more esteemed Party members for leadership on account of his popularity. For the sake of outward unity, and against its conservative inclination to support 'Iceland's Favourite Son' Eimskip, the Independence Party had to support Albert's project-company Hafskip while he was its chairman, and influential within Útvegsbanki, its principal creditor. Furthermore, most of Hafskip's directors and management were prominent in the Independence Party. Björgólfur Guðmundsson, for instance, was chairman of the Reykjavík chapter, *Vörður,* the largest Independence Party chapter in Iceland.[7] Hafskip was rapidly expanding, and indeed, catching up to Eimskip, threatening its position as the sole shipping giant of Iceland. The Independence Party was at a crossroad – which of the competitor shipping lines should it support?

In 1983, however, the situation began to change of Icelandic merchant shippers. Björgólfur's tendency to overshoot his position became less of an entrepreneurial asset, and more a liability. As technology in container shipping rapidly advanced, Hafskip's older fleet began to lose value and efficiency in the global industry, and as the relative value of Icelandic kroner began to fall, things started to turn sour for Hafskip. It was at this time that Björgólfur's 'always expand' mentality started to outrun his finance. In the downturn in international cargo shipping, the two Icelandic shipping companies finally joined forces: Hafskip undertook a joint venture with Eimskip. The companies established a joint limited-liability company, Farskip, to lease a Polish car ferry and run a sailing between Iceland, the UK, and Germany over the three-month summer of 1983. This expansion at a time of slumping exchange and outdating technology proved to be a blunder. Farskip lost 140million ISK, and even once divided equally between Eimskip and Hafskip, the loss was still more than Hafskip was actually worth to the bank. Útvegsbanki was in no position to withstand a major setback, and by the year's end Abert was no longer associated with either the company or the bank.[8] This really put Hafskip and its director Björgólfur in a vulnerable position. In 1984, things got worse when both shipping lines, Eimskip and Hafskip, lost the regular reliable transport business with United States base in Keflavik, which for the smaller and struggling Hafskip was devastating. Yet, ever the risk-taker, Björgólfur faced the mounting difficulties with even further expansion, ignoring the reality that his line of credit from Útvegsbanki was pretty much expired.

It was no small plan either. Hafskip decided to offer North Atlantic sailings – which meant to transport cargo between Europe and North America without calling into Iceland – which was expensive even with Hafskip's existing organisation. It required upgrading the fleet and establishing offices in foreign ports. In November 1984, with Björgólfur leading the charge, it went ahead, even in the wake of a workers' strike the preceding month that froze outbound shipping. Indeed, in 1984, Hafskip's operations had grown to operate offices in Copenhagen, Varberg, Hamburg, Rotterdam, Ipswich, and New York. It had up to twelve cargo vessels in operation, as well as considerably large warehouses. The scale of its business was rapidly expanding, but these grand plans were increasingly met with trepidation by the bank and wariness amongst the politicians. While the transatlantic shipping line had not entirely failed, it had not proven greatly profitable in the short term, where it was most needed to re-convince the bank of the company's health. Furthermore, Iceland's politics turned on Hafskip. As a company strongly supported by the Independence Party, it fell victim to a public smear campaign headed by a rival political party, the Progressive Party. Through its newspaper, *Helgarpósturinn*, the Progressive Party hammered Hafskip in the eyes of the Icelandic people, and the negative press took hold. The company was unrecoverable, and it was declared bankrupt at the end of 1986. In one of the biggest scandals in

Icelandic business at that time, seventeen individuals, including Hafskip's management, the three managing directors and a deputy director of Útvegsbanki, together with its Board of Governors and the auditors of both companies, were charged with criminal offences in the 'Hafskip Affair'. The Reykjavík District Court pronounced its verdict in July 1990, found 14 of the 17 accused not guilty, but sentenced the other three. Björgólfur Guðmundsson was one of them, receiving a five-month suspended sentence for fraudulent booking-keeping.[9] All the assets of Hafskip – including its ships, its ports, and offices around the world – were surrendered to Eimskip, effectively creating a shipping monopoly for Iceland's Favourite Son, a decision later assessed by Icelandic journalist and writer Illugi Jökulsson as imprudently made for political party gain.

It wasn't until later, in 1993, when the liquidation of Hafskip had been finalised, that a fuller picture emerged. The transatlantic shipping line hadn't been that grand of a failure, and the company had actually been valuable enough to pay out all of the priority claims and over half of the general claims against it. In essence, Hafskip might have survived, but was instead forced into bankruptcy due to the political scandal.[10] Despite the suspended sentence holding, these revelations helped to clear Björgólfur's reputation in Iceland. But by that time, Björgólfur was long gone. Other business arenas were opening, and vibrant opportunities were becoming apparent for entrepreneurs with big ambitions. In the early 1990s, for daring and less scrupulous businessmen, there was money to be made in Russia.

In 1991, Björgólfur, with the tenacity of a shrewd businessman, left Iceland for employment with Pharmaco, to run the brewery and soft drinks unit of the pharmaceuticals group in St Petersburg, Russia. Always an opportunist with networks, two years later Björgólfur snapped up Pharmaco's sell out of bottling machines and co-founded a bottling company with his son Thor Björgólfsson, and fellow entrepreneur Magnus Thorsteinsson, backed by an obscured form of Russian finance. This was a time of massive growth for Russian companies in the wake of the fall of the USSR, and generally not too many specific questions were being asked in relation to exactly how these collaborative enterprises were really being financed or operated. In fact, despite the volatile political terrain of post-Soviet Russia, foreign businesspeople were relatively welcomed by the Committee on External Economic Relations in the St Petersburg Mayor's Office. The Committee's chairman, Vladimir Putin, had approved thousands of 'joint ventures' between Russians and foreigners, including Björgólfur, Thor Björgólfsson, and Thorsteinsson. As shaky as these ventures may have seemed, business was business, and their bottling company was sold to Pepsi for 4 billion Danish kroners in 1997, making Björgólfur and his partners a handsome profit in the wake of the Hafskip bankruptcy.

From the proceeds of the bottling company sales, Björgólfur and his business partners moved into the competitive industry of brewing. Despite having no official experience in brewing beer or running a brewing company, Björgólfur and his partners, with their Russian finance, created the highly successful Bravo Brewery. With their limited experience, the Icelandic entrepreneurs produced the popular Botchkarov premium beer.[11] Björgólfur's expansionist attitude to business was paying off in a big way. The risks he was taking, were a combination of financial and political gambles, which had seemed to turn out well and became more than worth it for the trio of Icelanders trying to make big money after the bankrupting squabbles of Icelandic shipping. Indeed, after a period of some dubious, possibly criminal, elimination of rival brewing and bottling companies in former Soviet areas at the turn of the twenty-first century, the brewery was sold to Heineken in 2002 for $400million USD.

With his even larger, newly acquired wealth and inflated confidence, Björgólfur decided to return to Iceland. With his son and Thorsteinsson, the business trio made a triumphant return to their homeland in 2002. But it was far from the end of his international business career. In fact, while built in the old world of Icelandic business, the world of global business in the small economy of Iceland was seemingly only just catching up with them.

From Entrepreneur to Banker: Big Is Not Big Enough

When Björgólfur returned in 2002, the Iceland that he had left in 1991 had transformed. In the early 1980s, Iceland's economy was almost solely based on fishing, as it had been for a long time. Fishing was deeply embedded in the national identity and social fabric of Icelandic life. Until 1989, the national *Aflakóngur,* the skipper who caught the most fish that year, was presented before the nation each June.[12] Following the Hafskip Affair, which had levelled out with Eimskip controlling the sea cargo transportation sector, the problems associated with the gold-rush-style race for fish created by the favourable outcome of the Cod Wars became more apparent, particularly for the sustainability of the fisheries. Iceland had embarked on a massive shift towards harnessing its fishing industry and managing the size of the catches. Since the mid-1980s, Iceland had implemented a quota system which governed how much fish could be caught by each fishing vessel. Interestingly, these quotas had been determined by the track record of individual captains. The more a particular captain had caught in the past, the higher his allocated quota was. In a slightly different approach to other fishing quota systems, however, these quotas were transferrable, and therefore tradeable. They could be bought and sold, hired, and rented, and even used to loan against with banks. A small number of captains consequently became extremely rich, at the expense of newer and less abundant captains, whose quotas were issued at a lower amount. This circumstance created a market for smaller quota-holders to sell to larger ones, concentrating fishing wealth in fewer and fewer hands. As the wealth of a few Icelanders grew, so too did its economy. The Icelandic government had to find new ways to employ the growing number of Icelanders now not employed in fishing, having sold their quotas, and ways to diversify Iceland's economy. Fishing was a solid source of wealth, but it was a singular one, and it had become available to only a small percentage of an already small population. Icelanders were seeking more opportunities, looking to have careers in other fields than fishing. As the national focus on fishing began to erode, the Icelandic people began to seek a broader cultural lifestyle and use some of the newly created wealth to expand their horizons.[13] For real growth to occur, Iceland needed to find more ways to generate money.

The 1990s provided a solution. Outside of Iceland, the rest of the world was spiraling into new era of globalisation. Businesses were pushing the known limits of how money could be made. Increasingly, money itself was making more money for the investors who knew how to leverage advantage from the most abstract development of capitalist systems: finance, and its associated markets. While many of the tools and instruments of finance that accrued wealth had existed for some time, it was in during the 1990s that brokering larger amounts of revenue from purely finance-derived money exchange became consolidated as an industry. As demand for credit rose, so too did institutions prepared to lend it, for their own moneymaking. This was the rise of the so-called 'shadow banking' system. The shadow banking system consists of lenders, brokers, and other credit intermediaries who fall outside the realm of traditional regulated banking. Often called 'Non-Banking Financial Institutions' or NBFIs, many of which are simply known as 'Investment Banks'. Shadow banking systems in a particular country tended to grow alongside increases in that nation's GDP, associated with an increase in demand for credit, to fund the spending of growth, standard of living, and consumer lifestyle. This is why shadow banking tended to take hold in the 'developed economies', particularly those of the United Kingdom and Western Europe, as the general demand for credit was rising. In the United States, for instance, credit was created to 'bankroll' the buying of real estate – everyday people wanted to buy a house and had increasing access to credit in the form of mortgages to do so. NBFIs did not, however, operate as traditional deposit-accepting banks, and therefore could do business outside of most regulatory measures that applied to personal banking. Specifically, they could be less scrupulous about to whom they lent money. Normally, a person would have to demonstrate their ability to afford the debt they take out with a bank, and the asset they purchased with it would have to hold some value as collateral protection for the loan. In most of the 'developed countries', like the United States, laws relating to responsible lending were in place to make sure that banks did not take reckless risks in lending money to people destined to default on their debts. But the NBFIs were not 'traditional banks', and they could circumnavigate these restrictions. NBFI lenders stood to make a lot of money from lending in the shadow banking system, by providing mortgages to people to buy houses and then selling the loans, with their interest-accruing elements, on to other investors, who could then sell securities in these loans to further investors in a 'house-of-cards' type of invisible structure, which depended entirely on the assumption that the value of the asset – real estate, in this case – would remain intact. One of the most profitable and therefore popular forms of these securities were called 'mortgage-backed securities' (MBS), which investors purchased from the NBFIs, then reaped the interest, and if the initial 'everyday person' defaulted, the value of the house at the bottom of it all covered the price of the initial loan. When sold in large 'bundles' of mortgage loans, all with interest accumulating, the kind of money changing hands grew astronomically, all backed by steadily rising prices of houses. Low risk, high return. Certainly, it seemed like an attractive investment by most criteria for those with enough cash to buy in. At least initially, this was a highly lucrative system for those in-the-know with the shadow banking system, and these people were comparatively few. The system was complicated, obscured by dense financial language and largely conducted in swift transfers away from the public and regulatory gaze, its rules being created amongst individual financiers as the system took shape. The whole thing existed in the world of high finance – unfamiliar to most everyday people. What most people saw was the good side: more money! More to spend!

Investment banks, the best-known of the NBFIs, could in turn use their swelling profits to grow themselves. As the loaning power of investment banks got bigger, so too did their own borrowing. NBFI lenders from strong but stagnant economies could shake some life into their revenues by lending to NBFI borrowers in growing economies that had demand for credit. Both debtor and creditor were accustomed to operating in poorly guaranteed financial conditions, on a knife-edge between high profits and catastrophic losses. When investment banks were lending to other investment banks, the sky was the limit in terms of the credit that could be generated, almost out of thin air, on the promise that the investments made were a sure-fire bet. These were promises made in the shared spirit of capitalist growth, between likeminded wheelers-and-dealers in the finance world, who were rising as billionaires due to the value of the assets they accumulated around the world. Investment bankers, therefore, needed to be inherently risk-takers. It was an industry that favoured the financial gamblers, those who were prepared to operate without the solid assurances of stringently guaranteed loans, and those with a quick-trick attitude to business, an eye for opportunity, and few reservations about sensible limitations. This was the ideal terrain for Björgólfur.

In 2002, precisely when Björgólfur returned to Iceland with his fortune made in the Russian brewing industry, the Icelandic government privatised the banks. This move to encourage economic growth and increase the amount of credit available to Icelanders as the national wealth grew had come after a decade and a half of policy changes and steady deregulation of financial services that had favoured liberalisation of the Icelandic economy, begun with rendering the fishing quotas transferrable. It was a small but growing economy, that needed to create more money: a climate ideal for investment banking. It was the perfect storm of deregulation and privitisation of finance that made big things possible for investors in finance looking to buy and lend.[14] It was a boom for Iceland's economic situation. With the formerly state-owned banks became publicly listed on the Icelandic stock exchange, foreign investors swooped in and bought big stakes in the banks, flooding the country with capital.[15] For Björgólfur, this was a prime opportunity. With no experience in banking, much less investment banking, but with the right combination of confidence and capital, he made a move to purchase a majority stake in the former National Bank of Iceland – Landsbanki.

Björgólfur, his son Thor Björgólfsson, and Thorsteinsson made their bid for 45.8% of Landsbanki as a three-member investment group called Samson Holding. Björgólfur himself was to hold 41% of the stake. In what was little more than a performance of regulation, the Icelandic government's 'committee for privitisation' approved the purchase on the 19th of October 2002.[16] Even in the general fervor of economic growth and liberalisation, this purchase of such a large share in a bank was a drastic intervention. There was little in the way of regulation or law to prevent it, and overall, such investments were being actively encouraged, especially by someone considered to be an Icelander, and a high-profile one at that. Even if their wealth came from abroad, an investor such as Björgólfur was considered to be a Son of Iceland, returned home, and even a poetically appropriate buyer for the formerly National Bank. This was perhaps fueled by a sense of apology for the Hafskip Affair, which transpired to show that Björgólfur – the main actor punished for its bankruptcy in the political scandal – had actually been not *that* bad a director for the shipping company. Some commentators did query whether this father-and-son outfit 'Samson Holding' was a suitably competitive buyer for such a major stake in a primary financial institution. Other skeptics questioned the origin of their money – something was a *bit* off-colour about their secretive Russian associations.[17] But any real inquiries were avoided by Björgólfur popularity in Icelandic society. Building on his restored reputation in the business community, Björgólfur ignited new energy into Iceland's cultural life, as a major patron of the arts, the Icelandic symphony orchestra and the State Opera. He funded children's sporting programmes and welfare outreach services. He openly and passionately supported the Icelandic Football Association. The quality of life for Icelanders was thriving. Fast becoming one of Iceland's great philanthropists, Björgólfur leveraged his wealth to buy something even more valuable to an investment banker in a small community: public trust.

Now as an investment banker with the loaning power of Landsbanki behind him, Björgólfur did what so many investment bankers had been doing. The high-risk-high-gain world of shadow banking was waiting for him. He started offering people overseas, especially in the Netherlands and Britain, higher interest rates than they could get at home. As an attractive place to send money, cash flowed into the coffers of Landsbanki. This expansion was driven by ready access to credit in international financial markets, as the rest of the world's investors embraced the shadow banking practices and saw a great opportunity to take advantage of Iceland's new-found financial market. Shadow banking really suited Björgólfur and his Landsbanki enterprise. With the loans cash coming in, Icelandic banks were spending up big around the world, and Landsbanki was no exception. In 2005, Landsbanki acquired major Europe securities houses, including prestigious London institution Teather & Greenwood, and Kepler Capital Markets, headquartered in Paris. It soon added Dublin-based Merrion Capital Group. Landsbanki had its own branches in London, Amsterdam and Luxembourg that handled various private banking, market research, and wealth management services.

Icelanders like Björgólfur were, however, not trained or experienced bankers. Their attitude to shadow banking began to appear more of a businessman's approach to finance than that of an investment banker. Rather than remaining in the shadows, by borrowing and lending money or buying securities, Landsbanki and the other Icelandic investment banks were in favour of purchasing the entire company. Purchasing non-financial assets with shadow-banked finance was a feature of this, such as real estate in foreign countries, and the seemingly out-of-the-blue purchase of an English football club in 2006 seemed to be increasing evidence that Landsbanki's spending was not necessarily rational or wise. But the general excitement of the times continued the spending. This reached something of a peak for Landsbanki when in August 2007 Landsbanki completed its acquisition of UK investment bank Bridgewell. The operations of Teather & Greenwood were combined with those of Bridgewell under the brand name Landsbanki Securities (UK). The acquisition of Bridgewell made Landsbanki the second largest broker to listed companies on the London Stock Exchange.[18]

But it was a 'castle built upon sand' – it was financed through shadow loaning structures, without any real guarantee for it. In fact, the three main investment banks in Iceland – Landsbanki, Glitnir, and Kaupthing – grew so large, and so quickly, that by 2007 they became over seven times the size of Icelandic GDP. This meant that there was no hope of the government becoming the 'lender of last resort' if everything went down. This raised some eyebrows, and soon rang warning bells in the finance world. Investing in Icelandic banks was looking too risky. The Icelandic kroner began to fall, and the cost of living for everyday people began to pinch. But the warning signs were real. By halfway through 2008, the banks had assets worth over 14 trillion kroners, which was well over eleven times national GDP. Faced with this downturn, Icelandic banks struggled to keep their costs met, reducing faith in the Icelandic banking system further. Iceland, as a country and an economy, was 'overbanked'.

Iceland was not the first to go down as the global financial system struggled under ballooning credit-and-debt in 2008. In the United States, the mortgage lending system was bubbling. Lending had become so lucrative that NBFI's had become dangerously reckless about giving out mortgages. When financial institutions knowingly lend to people that can never reasonably sustain their repayments, the loan is known as 'sub-prime', and too many sub-prime mortgages had been given out. This wreaked havoc in the elaborate shadow banking system, as houses – the basic guarantee underneath the MBS that investors had purchased in wildly expensive bundles – flooded the market when borrowers couldn't pay, inevitably pushing the prices down. The housing bubble was bursting. As housing prices plummeted, people who could have feasibly afforded their loans became laden with debts so much greater than the value of their assets, and they had to cut other corners to stay on top of their expenses. Consumer spending consequently downturned. Unable to sell houses for their initial value, mortgage lenders could no longer pay out the MBS that so many investors had bought up. What followed is knowns as a 'bank run': investors started withdrawing money out of fear for the safety of their investments. Now stuck with debts that couldn't be redeemed, and diminishing incoming money, NBFIs started to go under. Investment banks started to go bankrupt – smaller ones at first – but then the big players started to fall. The United States government made a number of desperate efforts to save the banks in order to save the system – not without serious criticism, as the banks had largely been responsible for the crisis itself. But it was a task too great. The debt crisis – the great financial crisis of 2008 – was underway and the global financial house of cards was tumbling. It became truly felt around the world when massive investment firm Lehman Brothers went under, and even further efforts from the US government to save the situation proved to be little more than enormous emergency payments into a broken system.

As the crisis spread during 2008, the world watched as Iceland's major investment banks, with their debts so much larger than the small, simple economy they were attached to, be completely engulfed in the debt crisis. But the Icelandic government couldn't do what the United States government had done. It would have required over ten Icelandic economies to even begin to bail out the investment banks. Furthermore, without the banking industry that had been largely responsible for its economic upturn, Iceland really only had its fishing and aluminium smelting industries to drawn money from. The debt crisis was felt acutely by the people of Iceland, who had enjoyed a rapid rise to wealth, and had taken on personal debts in the glory days of growth. Household debt was now destroying people, many of whom had left traditional professions such as fishing to work in the financial sector. For those who had sold their quotas especially, it was not easy to return to fishing. What could Iceland do? It's three main investment banks were tanking, and taking their economy with them. Iceland had little choice but to let them fail. By the end of the year, its three main banks – Glitnir, Kaupthing, and Björgólfur's Landsbanki – had collapsed under the weight of their overextended debts.[19]

Iceland took an interesting step in the management of the financial crisis. Not only did it let its private banks fail, but the Icelandic government also nationalised them through an emergency law that mobilized the Financial Supervisory Authority (FME) to oversee the process and manage the now-nationalised 'big three' Icelandic banks. Importantly, and in a remarkably different approach to many other countries facing the crisis, the FME declared that domestic deposits into the banks were the priority to recover as the banks went into receivership. This meant that money deposited by Icelanders would be the first to be paid out, easing the crisis for many of country's citizens, and foreign lenders would have to wait – and likely miss out, given the disastrous financial state of the banks when they collapsed. This caused a massive stir amongst the British and Dutch creditors who had sunk money into overbloated, and now capsized, Icelandic banks. So began a five-year international legal fight known as the Icesave Dispute through the European Free Trade Association (EFTA) court. In a landmark outcome in 2013, the EFTA court ruled that, in part due to reckless lending on the part of Dutch and British investors, Iceland was not required to repay its foreign creditors. This was a huge relief for the small Icelandic economy as it sought to recover, and regain control over its finances.

But it was not good for Björgólfur. He had overshot his position by too great a mark, and the financial crisis had undone him. The collapse of Landsbanki had pulled the thread out on his entire financial edifice. The majority of his personal debts were owed to Landsbanki, his own bank. Effectively, he had overbanked himself. Furthermore, he had borrowed heavily from the bank Straumur-Burdaras though his holding company, WH Holding, to purchase West Ham United, on the back of his Landsbanki investments.[20] In the web of shadow banking, the depth of the troubles were club during the financial crisis were really unfolding, for as Landsbanki collapsed and Björgólfur scrambled to meet his debts, Straumur as the institution ultimately responsible for the financial ownership of the club, had creditors of its own to answer to. WH Holding had bought the club in 2006 for 85 million pounds, which looked increasingly unrecoverable as Björgólfur's house-of-cards came tumbling down.

The so-called 'Gudmundsson years' at West Ham United would prove to be something of a financial catastrophe for club. For while Landsbanki had become nationalised in October 2008, by 2009 with debts in excess of $750million USD, Björgólfur Guðmundsson was declared bankrupt, the largest personal bankruptcy in recorded history.[21]

Conclusion: Another match, another deal, another sale

On the 28th of December 2009, 35000 fans gathered again at White Hart Lane.

Tottenham Hotspur were on a two-game winning streak and were looking to win a third as they dominated the play against the visiting team, West Ham United. West Ham, injured and battling a nine-game losing streak on the road, attempted to hold off Tottenham. Just before half time, however, Jermain Defoe scored a second goal for the home team, from the penalty spot. As the final whistle blew, West Ham United limped away with a 2-0 loss, and remained but one point above the relegation zone.[22]

The club's recently appointed manager, Gianfranco Zola, watched in dismay. His own job was on the line, as West Ham struggled through turmoil yet again. He had taken on management of a club with significant problems. Six months earlier, the crisis of West Ham's ownership had become fully realised. It had been a year of uncertainty. Björgólfur had been looking to sell West Ham United since October 2008, when Landsbanki had collapsed.[23] But he was unable to offload it in time. In March 2009, the Icelandic government had taken over Straumur-Burdaras, the creditor responsible for financing WH Holding's purchase of West Ham. The Premier League announced on the 8th of June 2009 that West Ham United had been bought for an 'undisclosed sum' by a cobbled-together company, CB Holding, an Icelandic asset-management branch established to handle the financial fallout of Straumur and its creditors.[24] In a strange turn of events, as reporters at the time noted, one of the outcomes of the crisis for the Icelandic people was that they were now owners of an English football team.[25] As the Icelandic government and the club's management poured over the account books to sort out the mess, it became clear that under Björgólfur, the club had been relying on some serious 'goodwill' from its bankers to continue to operate at considerable losses.[26] The accounts set out a loss of more than £37.4m for the year ending 2008, when Zola had taken over management. With Björgólfur bankruptcy well and truly confirmed, £30.5m of the debt was covered by the liquidation of his holding company. And again, the goodwill of bankers saw the remaining £17m renegotiated as new loans.[27]

But watching closely was a new buyer. And he certainly had an advantage, for the buyer was David Sullivan, the former adult entertainment magnate and former owner of Birmingham City FC, who had only recently sold off his massive sports publishing interests – the *Daily Sport* and the *Sunday*

Sport – for over £40million. Together with his long-time business partner from the pornography days, David Gold, Sullivan purchased the debt-ridden West Ham United on the 19th of January 2010. In an interview shortly after, Sullivan noted, 'the Icelanders had driven the club to its knees'.[28]

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