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(1/26) The Collapse of Lehman Brothers

By summer 2008 it was clear, no one was safe. The subprime mortgage crisis was expanding, Bear Stearns had fallen, liquidity was scare and only growing tighter.

This is the story of the end of a 158 year old institution.

(2/26) Lehman Brothers Holdings Inc. was a founded in 1847. Before bankruptcy, Lehman was the 4th largest investment bank in the US.

Lehman was one of the first firms to move into the business of mortgage origination, beginning in 1997.

By 2003 they ranked 3rd in lending.

(3/26) Quick numbers:

2003: Lehman lent $18B
2004: Lehman lent $40B
2006: Lehman was lending out $50B PER MONTH

By 2008, Lehman had assets of $680B supported by only $22.5B of firm capital. With that leverage, a 3-5% decline in real estate values would wipe out all capital.

(4/26) Let's rewind to 2007, when the ice is beginning to crack in the mortgage market.

In August, the firm closed its subprime lender, BNC Mortgage, eliminating 1,200 jobs in 23 locations.

Lehman took an after-tax charge of $25 million and a $27 million reduction in goodwill.

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(1/18) The Global Financial Crisis - Chapter 1

From the 1980s to 2008: the context, causes and stakes that created the economic catastrophe that still shapes the planet to this very day

To understand history is to see the future

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(5/26) By 2008, the subprime mortgage issue was blooming into a crisis. Lehman had been particularly vulnerable; they had a large amount of low quality mortgages left unused when creating MBS

3rd largest lender... quality over quantity. "Give the loan, we'll figure it out later"

(6/26) On March 16th Bear Stearns fell; immediately all turned to Lehman to watch the next pillar crumble.

History is funny... Lehman got a second chance! A small profit and a market in chaos gave Lehman stock a 46% 1-day boost!

Lehman lived to fight again!

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(1/27) The Fall of Bear Stearns

In 2008, one American capitalism's favorite sons suddenly collapsed. Bear Stearns was the canary in the coal mine, the harbinger of the Global Financial Crisis.

Read on to learn the absurd and chaotic ending to this storied institution.

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(7/26) Alas, the second chance did not last long...

On June 9th, Lehman announced both a quarterly loss of $2.8B and a was forced to sell off $6B in assets. Lehman stock dropped 73%.

As a result, there was a coup. The investment banking group came for the CEO; chaos ensued.

(8/26) In August, Lehman announced it would cut 6% of its workforce (1.5k) - just before its 3rd quarter reporting deadline.

On August 22, reports surfaces that state-controlled Korea Development Bank was considering buying the bank.

(9/26) On September 9th, even more air was let out when it was reported that the Korean bank had put talks on hold.

The market watched in horror has Lehman lost half its value, pushing the S&P 500 down 3.4%.

(10/26) On September 10th Lehman announced a loss of $3.9B and its intent to sell off even more highly lucrative assets. The stock dropped 7%.

On September 11th, it dropped another 40%

By Friday, September 12th, blood was in the water.

(11/26) Saturday, September 13, the New York Fed called a meeting on the future of Lehman.

The hope: that [@BankofAmerica] or [@Barclays] would purchase Lehman in whole, similar to the Bear Stearns solution

The possibility: emergency liquidation

(12/26) Interestingly, it appears a deal might have been possible. [@Barclays] had apparently reached a deal to buy Lehman, in whole, but at the last minute the British government refused the transaction.

Don't worry, we'll see Barclays again.

(13/26) On Sunday, September 14, the International Swaps and Derivatives Association (ISDA) opened an exception session to allow market to participants to prepare for the impending Lehman bankruptcy.

(14/26) Later that day, Lehman Brothers Holdings announced it would file for bankruptcy.

Before the feast, the vultures gathered to portion out the prize. A group of Walls Street firms, working with the Fed, agreed to "facilitate" the liquidation

(15/26) Monday, September 15 is the day you think of when you think of "Lehman Brothers."

Lehman shares tumbled over 90% on that day alone. The Dow Jones closed down just over 500 points on September 15, 2008, the largest drop since September 11, 2001.

[bit.ly/LehmanPhotos]

(16/26) On September 16th, @Barclays bid the outrageously low sum of $1.75B, "stripped clean" of its toxic assets.

4 days later, Judge James Peck approved a revised version of the deal. A little bit less ($1.35B) for most of the same stuff.

(17/26) "The reason we're not objecting is really based on the lack of a viable alternative. We did not support the transaction because there had not been enough time to properly review it."
- Luc Despins, representing the creditors committee counsel

Judge Peck:

> "I have to approve this transaction because it is the only available transaction. Lehman Brothers became a victim, in effect the only true icon to fall in a tsunami that has befallen the credit markets. This is the most momentous bankruptcy hearing I've ever sat through. It can never be deemed precedent for future cases. It's hard for me to imagine a similar emergency."[129]

(18/26) @Nomura, a Japanese brokerage firm, purchased Lehman's Asian division for $225MM and European division for $2 (not a typo) purely for the employees; it did not take any assets

This is the end of the non-US Lehman companies; they were responsible for >50% of total revenue

(19/26) On September 29, @BainCapital and Hellman & Friedman bid for most of Lehmans investment management business, only to be beat out by company insiders on December 3.

In Europe, the Quantitative Asset Management Business was acquired back by its employees on November 13.

(20/26) Lehman's bankruptcy filing was the largest in US history, sending an already distressed market into incredible volatility.

The Dow eventually closed at a new six-year low of 7,552 on November 20, followed by a further drop to 6626 by March of the next year.

(21/26) Lehman's collapse was another domino in a cascade of destruction occurring in the financial system. The fires of Lehman spread to the real estate & money markets, to AIG, Freddie Mac, German & Japanese "Minibond" holders, and to so many more.

(22/26) So who is responsible for the fall of Lehman Brothers and the damage it caused?

In this case, the easy answer holds weight: those bankers really were crooks!

A March 2010 court-ordered report indicated regular use of "materially misleading" accounting tricks.

(23/26) However, I think there's a more subtle, more important reason Lehman crumbled during one long week in September 2008.

A reason that isn’t particularly unique to Lehman.

(24/26) Just before the collapse, an executive proposed that Lehman's top execs forgo their bonuses to send a message and take accountability for recent performance.

His boss dismissed the proposal, responding to the chiefs "Sorry team. I'm embarrased and I apologize."

(25/26) Congressman Henry Waxman, after receiving thousands of internal documents, said "[Lehman was a company with] no accountability for failure."

That, I think, is the real lesson of Lehman Brothers. That is the lesson that will play out over and over again in the next year.

(26/26) "No accountability for failure?" Honestly I don't Congressman Waxman sees the big picture.

It's not that theres no accountability for failure, it's that theres no consequences for failure.

This is what you get out of a system we built.

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