

Lehman shares slump another 44%

Shares in Lehman Brothers slumped another 44% on Wall Street, sending fresh jitters through global share markets as fears mounted that the beleaguered investment bank will become the latest victim of the credit crunch.

The fresh slide, to just \$4.08 a share, comes a day after Lehman had attempted to calm investors' nerves by rushing out its third-quarter results and announcing a series of measures to raise cash and cut its exposure to the property market.

The restructuring appeared to have won the bank some time but by late afternoon, the shares had begun to fall again, partly because of a warning from the credit ratings agency Moody's that Lehman would need to take more drastic action. The agency said Lehman was facing a "crisis of confidence".

A number of broker downgrades this morning added to the pressure. Lehman shares had already fallen 55% so far this week before further declines.

Lehman dragged down other financial stocks, sending the Dow Jones industrial average slumping by more than 100 points. In London, the FTSE 100 was almost 90 points lower at 5276.8, with financials leading the losses.

Merrill Lynch shares were off 17% and AIG, the insurance firm, was down 16%. Citigroup and Bank of America were off 4%.

Part of the renewed anxiety over Lehman focused on whether the bank might run out of time in its efforts to rebuild confidence. It was noted that most of the measures outlined on Wednesday were promises of future fundraising, including the auction of a 55% stake in its asset management arm, rather than solid done deals.

There are concerns that the erosion of confidence could lead key staff to begin walking out, hindering its ability to do those deals, and that Lehman's cost of borrowing could rise sharply, further eroding its capital base.

The markets have been on alert since the near collapse of Bear Stearns earlier this year. But Lehman does at least have the advantage of the special loan program created by the U.S. government for the Wall Street banks in the wake of the Bear Stearns failure.

Among the measures outlined by Lehman earlier this week, the bank said it intends to spin most of its commercial property assets, around \$30b (£17b), into a separate company. It is also selling off \$4b of its UK residential mortgage portfolio to the private equity firm BlackRock.

To conserve cash, the bank is slashing its year-end dividend from 68 cents to just 5 cents, a move that will save \$450m.

Lehman said it has reduced its global headcount by around 1,500 workers over the past quarter.

In addition, the embattled investment bank said it is in talks to sell off a 55% stake in its lucrative investment management division, which includes the asset manager Neuberger Berman. Analysts reckon the division is worth about \$10b.

(Source: Guardian)

Yahoo defends Google ad deal

Yahoo said it will implement its much-criticized search ad deal with Google despite possible antitrust hurdles.

Under the agreement, from October Google will sell ads alongside Yahoo search results on some of its pages.

Rumors the U.S. justice department would challenge the deal grew this week when it hired a veteran antitrust lawyer.

Hilary Schneider, executive vice-president of Yahoo U.S., told the BBC the agreement was "fully within the guidelines of the law".

Both companies voluntarily agreed to have the justice department examine the plan, which was announced in June.

They also committed themselves to wait three and a half months to give regulators time to scrutinize it.

Google's chief executive Eric Schmidt recently said both companies were aiming to go forward with the deal.

Now Yahoo has said even if the plan is not cleared by regulators, it will go ahead as planned.

"We are confident the agreement makes sense. We are committed to moving ahead," said Ms Schneider.

"Remember this is a voluntary



process we engaged in and we think it's really working in terms of helping the Department of Justice understand the issues."

Yahoo co-founder David Filo added his voice to the issue and said he believes despite mounting criticism and talk of an antitrust investigation, the department will give its approval.

"We went to them (the justice department) pro-actively and said 'let's go through a review'. We have done that and we are confident that all parties will agree this is good for competition in the long term. And so

we are expecting them to agree with that."

Not everyone believes the U.S. government should give its blessing.

Microsoft, which failed in its bid to buy Yahoo for \$47.5b (£27b) earlier in 2008, has said it feared the partnership would reduce competition in the search advertising market.

The Association of National Advertisers, which represents major marketers, has also asked the Department to block the deal. Around a dozen states, including California, have all raised questions about the

matter.

Combined, Yahoo and Google control more than 80% of the U.S. search advertising market.

Yahoo expects to boost its annual revenue by \$800 million (£455m) as a result of the deal.

Yahoo's comments were made at an event to discuss its strategy to open its technology to third party developers.

It is seen as key to turning the company around, after share prices plummeted to a five-year low of \$17.85 (£10), well below the \$33 (£19) a share offered by Microsoft.

"It cuts across everything we are doing," said Mr. Filo of moves to invite third party developers to "develop on top of our stuff, to be innovative and drive the market."

"It is pretty vital to our future success. I mean without it we are just not going to have the richness of products and services you will see if we don't open up."

Over the next couple of months Yahoo has said it will make changes to several popular sections of its website to accommodate more material from rival services as well as extend its advertising network so it can run ads on more internet properties. (Source: BBC)

WaMu may be forced to sell deposits, branches to stay afloat

Washington Mutual Inc., facing up to \$19 billion in bad home loans and slammed by a 34 percent drop in its stock this week, may sell parts of a nationwide 2,300-branch network to raise capital.

"The only real asset they have that's worth anything to other banks is the deposit base, because of their branches," said L. William Seidman, chairman of the Federal Deposit Insurance Corp. from 1985 to 1991.

Seattle-based WaMu can probably sell branches in New York and Chicago, said Bert Ely, president of Ely & Co. Inc., a bank consulting firm based in Alexandria, Virginia.

Alan Fishman, WaMu's new chief executive officer, may have to shed branches that hold \$143 billion in deposits. The biggest U.S. savings and loan is headed for its fourth straight quarterly loss.

Suitors have walked away because of potential damage to their earnings and WaMu's chief regulator, the Office of Thrift Supervision, has told it to boost risk management and compliance.

On top of those challenges, Fitch Ratings yesterday cut its rating on WaMu debt to BBB1 from BBB, citing a lack of "flexibility" to add capital. Moody's Investors Service cut its long-term deposit and issuer ratings to Baa3 from Baa2 because of WaMu's "reduced financial flexibility, deteriorating asset quality and expected franchise erosion." Moody's reduced the senior unsecured rating to below investment grade at Ba2.

WaMu lured Fishman, 62, with a \$7.5 million cash bonus and \$1 million salary after his ousted predecessor, Kerry Killinger, failed to halt losses on home loans that already total \$6.3 billion. The



lender has estimated the sum could climb as high as \$19 billion in the next 2-1/2 years, raising concern WaMu may need to raise cash for a second time this year. The company says more capital isn't necessary.

Without most of its branches and deposits, WaMu would be limited to businesses that include credit cards and mortgages -- neither a guaranteed moneymaker in the current economic climate.

WaMu's credit-card division had net revenue of \$956 million in the quarter ended June 30, down from \$1.2 billion the previous quarter. Commercial and home-loan units had a combined \$351

million in revenue for the period, compared with \$757 million.

"Who's going to take the assets? It's probably more valuable together than separated," said Gary Townsend, CEO at Hill-Townsend Capital in Chevy Chase, Maryland. "It's like going to the supermarket, and anyway, the whole chicken is probably more valuable than the pieces."

Other capital-raising options are limited because the market for preferred securities dried up since a government takeover of Fannie Mae and Freddie Mac. The thrift raised \$7 billion in April from TPG Inc., the Fort Worth, Texas-based private-equity firm run by David Bonderman.

The TPG deal itself may thwart investors. If WaMu is sold for less than \$8.75 a share or is forced to raise more than \$500 million in equity within 18 months, it must compensate TPG for the difference, according to filings with the U.S. Securities and Exchange Commission.

"TPG is probably at a loss-mitigation stage at this point," Ely said. "Given how much they have invested, it probably makes sense to double down and then figure out how to get out of this investment."

A call to Washington Mutual spokesman Brad Russell wasn't returned. TPG spokesman Owen Blicksilver declined to comment. After three days of silence as the stock slid, WaMu said in a statement that it is "well capitalized," with approximately \$50 billion of liquidity from what it termed reliable funding sources. Net charge-offs may increase by less than 20 percent in the third quarter, compared with 60 percent in the previous period.

(Source: Bloomberg)

AIG woes knock its market value below peers

NEW YORK (Reuters) — Fears that American International Group Inc.'s (AIG.N) large mortgage exposure could trigger another round of losses has rankled investors so much that the insurer has lost its iron grip as the world's industry leader by market value.

AIG's shares have tumbled more than 70 percent over the past year. Including steep declines this week, AIG's valuation has fallen to about \$47 billion from roughly \$175 billion a year ago, leaving it trailing such companies as AXA SA (AXAF.PA), with a market value of about \$65 billion, according to Reuters data.

AIG started the week with a market value in excess of \$60 billion. The company, which sells insurance to 74 million customers from operations in more than 130 countries and territories, has been badly hit over the past three quarters by more than \$25 billion in write-downs on

credit default swaps (CDS) it wrote to guarantee mortgage-linked securities against default.

Compounding investor fears was the reminder this week that mortgage losses are still plaguing Wall Street, with Lehman Bros (LEH.N) posting a record \$4 billion loss, largely stemming from \$5.6 billion in additional mortgage write-downs.

Lehman's difficulty in extracting itself from its own mortgage woes has raised questions over whether AIG will be able to cast off the financial products unit that is home to its thorny CDS portfolio.

Lehman is now shopping for a buyer, after investors reacted poorly to a turnaround blueprint including plans to separate its toxic exposures into a separate entity.

"It doesn't seem to have worked for Lehman," said Ricardo Kleinbaum, an analyst at BNP Paribas in New York.

"So I think the market's look at it is, if Lehman didn't get it, AIG won't," he added.

Lehman shares fell 41.79 percent to close at \$4.22 on Thursday, and dropped further in after-market trading.

The cost to insure the debt of American International Group (AIG.N) jumped 30 percent to a fresh record on Thursday on concerns that the insurer would have to raise new capital but could find that a challenge.

Credit default swaps on AIG's debt widened 150 basis points to a record 680 basis points on Thursday, or \$680,000 per year for five years to insure \$10 million in debt, according to Markit Intraday. Investors are concerned that AIG's credit rating could be cut, which would require the company to post up to \$14.5 billion in new collateral against its credit derivatives, according to an August 6 regulatory

filings.

"In our view, AIG's options are limited," said Atlantic Equities analyst Alan Devlin, in a research note late on Thursday, citing the deteriorating stock price, and a more than tripling in AIG credit spreads since May that signals weakening investor confidence.

Analysts, including Devlin and Citigroup's Joshua Shanker, predict AIG will have to consider selling off units to raise fresh capital, including its profitable aircraft leasing arm.

Devlin said ILFC, the aircraft lessor, alone could fetch about \$8.4 billion. In total, he predicts AIG will need to raise about \$20 billion. Even after asset sales, it may still have to issue common equity to raise about \$10 billion, Devlin added. That may not sit well with investors whose holdings have already been diluted by AIG's \$20 billion capital raise in May, through the sale of equity and debt.

GM, Ford shares jump on prospects of loans, oil

DETROIT (Reuters) — Shares of General Motors Corp (GM.N) and Ford Motor Co (F.N) jumped on Thursday as oil prices dropped to near \$100 per barrel and analysts bet a potential \$25 billion in federal loans would help the struggling U.S. automakers survive a deep industry downturn.

U.S. lawmakers are discussing proposals to provide beleaguered U.S.-based automakers and their suppliers at least \$25 billion in low-interest loans, a move that would allow them to retool factories and fund development of new technologies.

JPMorgan analyst Himanshu Patel said in a research note that a majority of the loans -- as much as 75 percent -- could go to Detroit's Big 3 automakers.

That would notably reduce their bankruptcy risk, he added. "GM's risk profile in particular could improve markedly -- potential federal loans would in effect serve to reduce the required size or make it easier to execute any future capital markets transaction," Patel said in the note.

"Since the spirit of loans seems to be to lend Detroit a helping hand, all of the funds could be made available fairly soon."

Shares of GM, the top-selling U.S. automaker, surged 11.65 percent, OR \$1.33, to close at \$12.75 on the New York Stock Exchange, where Ford rose 4.7 percent, or 21 cents, to \$4.68. The stocks also got a boost after U.S. crude oil futures settled at \$100.87.

JPMorgan's Patel said that if GM would get about \$6 billion of the proposed \$25 billion loans, it would nearly cover the automaker's estimated cash burn for 2009. This is also broadly the amount investors believe the company needs to raise in the capital markets to survive the U.S. industry downturn, JPMorgan's Patel said.

Auto executives said this week they are interested in pursuing federal loan guarantees as the potential government support of \$25 billion or more for automakers in loan guarantees could help accelerate the development of advance technologies.

Dollar resilient after trade report, euro weakens

NEW YORK (AFP) — The dollar shook off a weak report on the U.S. trade deficit and held generally steady Thursday as investors sought safety in the greenback from market turmoil. The euro meanwhile faced pressure amid increasing speculation that the eurozone will not be able to escape a recession later this year.

At 2100 GMT, the euro was at 1.3969 dollars, coming off an early low of 1.3882 dollars -- its weakest level in nearly a year. The euro had traded at 1.3976 dollars in New York late on Wednesday.

The dollar meanwhile eased back to 107.05 yen from 107.81. The greenback withstood a report showing the U.S. trade deficit rose sharply to 62.2 billion dollars in July, the largest gap in more than a year, amid high oil prices and surging Chinese imports.

While a worsening of the trade balance could undermine the dollar, some said the underlying trends were positive and that the report was skewed by energy costs, which have since fallen sharply.

"The energy situation has already been unwound and there could be a massive cut in the trade deficit was that works through the August and September numbers," said Joel Naroff at Naroff Economic Advisors.