

\$700 Billion to Save the World

Bhavin Dhanani

The original \$700 billion plan intended to strengthen the world's financial markets has been rejected by US lawmakers. The plan involved buying all the toxic debt sitting on the balance sheets of US financial institutions. This would in turn free the market of mortgage backed securities which have been burdening financial institutions.

The Republican Party's lawmakers were not satisfied with the conditions of the deal. Leader John Boehner said that he would not agree to a plan that "sells taxpayers out to bail out Wall Street".

Despite the deal being rejected, talks are ongoing between all parties to reach an agreement. The Republican legislators would rather introduce a government backed insurance policy on the bad debt of US banks, a much less risky option than the original bailout plan.

The \$700 billion deal would have given the Treasury the power to issue government securities. By issuing more debt there are concerns that inflation could soar as the budget deficit increases. The aim of the plan was that the value of the distressed debt would rise eventu-

ally allowing the US Treasury to make a paper profit. A big concern of the plan was the pricing of the debt. Their value is very difficult to calculate as there is no market price for them.

There is a determination amongst all in Congress to thrash out a deal. Both presidential candidates, John McCain and Barack Obama, stressed the need for urgent action. Whatever is agreed, something is needed to avert market meltdown.



George W Bush flanked by Henry Paulson and Ben Bernanke during the announcement of the \$700 billion proposal

Investment Banks Rest In Peace

Bhavin Dhanani

Standalone investment banks are no more as both Goldman Sachs' and Morgan Stanley's applications to become bank holding companies was accepted in the US last week. The move means that both are now able to take deposits from investors ending a history of separation between the largest investment and commercial banks.

By becoming bank holding companies, both have agreed to stricter regulation by the Federal Reserve and are unable to take the major risks that have brought huge returns in recent years. This in turn could result in the end of the bonus culture in the industry.

Both banks will now be able to build on their deposit bases organically and through acquisitions. Until the end of August Morgan Stanley held 3 million retail accounts worth \$36 billion. Goldman holds \$20 billion in deposits. It is creating a third subsidiary which will hold more than \$150 billion worth of assets, which will make it the fourth largest bank holding company in the US.

The change by the two stalwarts marks the end of an era on Wall Street. While the investment banking model may not be broken, recent events meant that no bank could be considered safe, not even the two biggest.

Commodities and Exchanges

- September saw major changes to Lehman Brothers, Merrill Lynch and HBOS.
- Lehman Brothers filed for bankruptcy on September 15 after a weekend of negotiations failed. The Federal government refused to provide funds to resolve their crisis making it the biggest victim of the credit crunch to date.
- In another development, Merrill Lynch - allegedly the largest and most recognized brokerage firm - has been bought by Bank of America in a \$50 billion all-stock deal, expected to be completed in early-2009, thus creating an institution which rivals Citigroup.
- Lloyds TSB has announced that it will be acquiring Halifax Bank Of Scotland (HBOS), the UK's largest mortgage lender. Whilst the £12.2 billion takeover is expected to be complete within three months. Lloyds TSB has spent the past week deciding how the two banks can be integrated and the acquisition schedule.
- Both Lloyds TSB and Bank of America must now be wary as their acquisitions' exposure to the credit crunch may have the potential to impact upon their own financial stability.
- All three will result in tens of thousands of lost jobs and serious implications for the global economy.

Write-downs

Financial Institution	Writedown (26 Sept) \$Bn
Citigroup Inc.	55.1
Merrill Lynch & Co.	52.2
UBS AG	44.2
HSBC Holdings Plc	27.4
Wachovia Corp	22.7
Bank of America Corp	21.2
Morgan Stanley	15.7
IKB Deutsche Industriebank AG	15.1
Washington Mutual Inc.	14.8
Royal Bank of Scotland Group Plc.	14.5
JP Morgan Chase & Co	14.3
Lehman Brothers Holdings Inc.	13.8
Deutsche Bank AG	10.6
Credit Suisse Group AG	10.5
Wells Fargo & company	10.0
Credit Agricole S.A.	9.0
Total	523.1
Others	
Fannie Mae	5.3
AIG	25
Freddie Mac	2.2

Timeline

4th August - HSBC warns of problems ahead after a 28% fall in profits

22nd August - UK economy announced as in standstill

28th August - 10.5% wiped off the value of houses according to Nationwide. Bradford and Bingley announce £26.7 million in losses for the quarter

5th September - The FTSE falls most in one week since July 2002

7th September - Freddie Mac and Fannie Mae are rescued by the Federal Reserve

15th September - Lehman files for bankruptcy after announcing losses of £2.2 billion in 3 months to August

15th September - Merrill Lynch announces \$50 billion sale to Bank of America

22nd September - Morgan Stanley and Goldman Sachs announce the end of the massive Investment Banking model as they become bank

Strictly Bites

The Bank of England's cut its weekly REPO offering by £14bn to £52.8bn on Thursday.

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HSBC, Europe's largest bank by market value, announced that it will be **cutting 1,100 jobs** globally as a result of the current global financial turmoil. Half of these jobs will be cut from the bank's **British operations**.

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The freeze in money markets continues as banks come to the end of a **financial quarter** and hoard funds rather than transferring them into the broader market.

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Barclays Capital's Chief Executive has launched an aggressive campaign to entice some of Lehman's top European investment bankers to join his firm. Five Lehman employees were **personally** invited by the Chief Executive, however all five declined.

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The jitters have spread to continental Europe as Fortis' share price fell 20.4% on Friday 26th September. A new CEO, Filip Diercyx, has been installed too.

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Ireland has fallen into **recession** after two **negative** quarters of growth, the economy **shrinking by 1%** to June 2008. It is the **first eurozone** nation to enter recession.

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Bradford & Bingley has been **nationalised** by the UK government, with **shareholders** expected to **receive 20p** per common equity share.

To repay the \$85 billion loan from the Federal Reserve, American International Group Inc may be forced to sell more than **half** its assets, the most coveted of which is likely to be its international life businesses.

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JP Morgan Chase acquired Washington Mutual after it was seized by regulators on Thursday night. JP Morgan allegedly sold \$10 billion in common stock to finance the acquisition and now faces losses in the **third quarter**.

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The FTSE has fallen 21 percent this year and 9.5 percent in September alone. This is after its single **biggest one day gain** of 8.8% earlier in the month.

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Authorities across the world's markets have **suspended** all short selling activities.

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PWC, Lehman's administrators, has sold the companies' **US investment banking and trading arms** as well as their **head office** to **Barclays Capital** for \$1.75 bn.

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Lehman's **European investment banking and trading arms** has been sold to **Nomura** bank along with its **Asian operations**.

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Freddie Mac and **Fannie Mae** who underwrite **over half** of all US mortgages worth **\$5.3 trillion**, have been **nationalised** in a deal that could **cost** the taxpayer **\$200 billion** to rebuild the companies' capital base.