Lehman's Fuld Says 'Worst Is Behind Us' in Crisis (Update3)

By Josh Fineman and Yalman Onaran - Apr 15, 2008

April 15 (Bloomberg) -- Lehman Brothers Holdings Inc. Chief Executive Officer Richard Fuld told shareholders "the worst is behind us" in the credit-market contraction that has cost the biggest banks and brokerages $245 billion.

Fuld, speaking today at the annual shareholders meeting of his New York-based firm, said the "current environment remains challenging."

The comments echo those of Lloyd Blankfein, chief executive officer of Goldman Sachs Group Inc., who told shareholders at the firm's annual meeting last week that "we're closer to the end than the beginning" of the crisis. John Mack, Morgan Stanley's CEO, said last week that the credit-market contraction will probably last "a couple of quarters" longer.

The world's biggest banks have recorded $245 billion in asset writedowns and credit losses since the beginning of 2007. Lehman, the fourth-largest U.S. securities firm, avoided the bigger losses reported by rivals such as Merrill Lynch & Co., which posted $25.1 billion of writedowns in the second half of last year.

Lehman said on April 9 it had to bail out five short-term debt funds last quarter that were crippled by frozen credit markets. The firm took $1.8 billion of assets from the funds onto its books, which led to a $300 million writedown in the quarter ended February. Earlier this month Lehman raised $4 billion from a stock sale amid concern that it was low on capital.

Sending a Message

Fuld said at the meeting today that the sale was intended to strengthen capital and send a message to investors. He said the firm will sell assets, and can counter market rumors with good performance.

Since the collapse of rival Bear Stearns Cos., lenders in the overnight repo market are demanding that collateral be accepted by the Federal Reserve, Lehman Chief Financial Officer Erin Callan told reporters after today's meeting. Lehman uses the Fed lending facility to test the quality of its collateral before it uses assets to borrow in the overnight market, she said.

After Bear Stearns ran out of cash, the Fed started allowing brokers to borrow directly from the central bank. Lehman has tapped the new Fed facility, Fuld said.
Lehman, like rivals Deutsche Bank AG and Credit Suisse Group, packaged some leveraged loans on its books into a collateralized loan obligation earlier this month. The firm used a small part of the $2.8 billion CLO to borrow from the Fed, Callan said.

Lehman's Loans

Receiving the central bank's seal of approval, Lehman has been using the CLO as backing for lending from peers, she said. The firm will bundle other loans, including mortgages, into securities for the same purpose, Callan said.

Lehman rose 29 cents to $39.67 at 4:15 p.m. New York time today, and has declined 39 percent this year on the New York Stock Exchange.

Separately, Lehman today elected Jerry Grundhofer to its board. Grundhofer, 63, is chairman emeritus and former CEO of U.S. Bancorp.

Callan said in an interview on April 11 that Lehman had faced "a very, very tough month," in March. "I don't see what the real catalyst for change would be over the next several months," she said. "We've got to look out to 2009 for where we're going to change."

The mid-March collapse of Bear Stearns, which is being acquired by JPMorgan Chase & Co., created a "sense of fear and paralysis" about the securities industry, Callan said last week.

To contact the reporters on this story: Josh Fineman in New York at jfineman@bloomberg.net; Yalman Onaran in New York at yonaran@bloomberg.net.

To contact the editor responsible for this story: Otis Bilodeau at obilodeau@bloomberg.net.

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