SPIEGEL ONLINE
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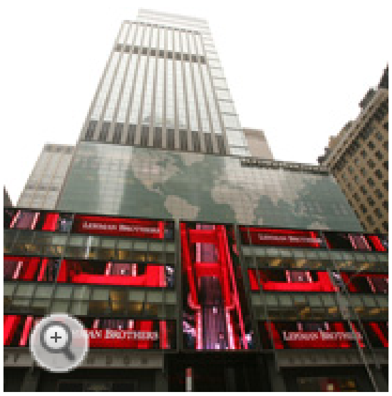
Interview With Lehman Brothers CEO Bryan Marsal

'The Global Banking Community Had a Heart Attack'

Bryan Marsal, head of restructuring firm Alvarez & Marsal, has been liquidating assets for Lehman Brothers, the investment bank that collapsed last fall. He talked to SPIEGEL ONLINE about the reasons for the collapse, mistakes made by US leaders and the lessons of the financial crisis.

SPIEGEL ONLINE: Lehman filed for bankruptcy on September 15th, 2008. How did you take over?

Marsal: I was watching a football game when I received a call from the board of directors of Lehman Brothers. This was at 10:30 at night on September 14th, and they asked me: Would I take on responsibility for the wind-down of Lehman?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Leman Brothers headquarters, New York, in better times.

SPIEGEL ONLINE: How did you react?

Marsal: I said yes. And my question to them was: How much planning has gone into this bankruptcy? Their response was: This phone call is the first planning we have done.

SPIEGEL ONLINE: This must have been quite a shock.

Marsal: Well, when you figure the assets of this entity were $651 billion (€509 billion), you would have expected there would be a lot of planning going into it.

SPIEGEL ONLINE: They were apparently convinced they couldn't die.

Marsal: We weren't there. But I think they could not fathom that the Federal Reserve would permit this to happen -- because of the complexity, the interdependency and the fragile nature of the global banking system. I think that the Federal Reserve, under a lot of pressure, made the decision to not support Lehman the way they had supported Bear Stearns....

SPIEGEL ONLINE: ... the big New York investment bank that almost went bankrupt in March and was bought by JP Morgan after the US government and the Federal Reserve came to the rescue. Why didn't they help Lehman?

Marsal: You would have to ask the Fed that question. But this action indicated to the rest of the financial community that you don't get a free ride, and the government should not be expected to bail you out. At the same time, AIG was on the brink of disaster and a decision on what to do had to be made. Unfortunately, when the decision was made to let Lehman file for bankruptcy, the global banking community had a heart attack. So, the Federal Reserve jumped in to rescue AIG, and then helped Bank of America with Merrill Lynch, then Wachovia, and on and on and on.

SPIEGEL ONLINE: This means it was a political decision to let Lehman fail?

Marsal: I am not a politician so I won't speculate. If you're too greedy and lose sight of risk, there's a chance you can lose your business. I think the Treasury was signaling the need for fear to moderate greed. I think that was the message they were giving.

SPIEGEL ONLINE: The problem is, markets worldwide went into panic after Lehman filed for bankruptcy.

Marsal: Lehman was just too big to fail. The interdependency among the banks did not permit the government to simply walk away from these institutions. Maybe there is a lesson to be learned here. Maybe financial institutions should not be allowed to get that big.

SPIEGEL ONLINE: What's the alternative?

Marsal: If instead of having five banks, you had 15 banks, and the banks were one-third the size that they are, then you probably could handle of one of them going under.

SPIEGEL ONLINE: But did Lehman have a real chance to survive? Or wasn't it doomed anyway?

Marsal: I'm not suggesting that Lehman should have survived. That I don't know. But if Lehman was going to be wound down, it needed to be wound down as it was done with Bear Stearns. When Bear Stearns was transferred to JP Morgan, all their derivatives were transferred to JP Morgan, and the Federal Reserve provided a multi-billion dollar emergency loan. This way, JP Morgan was able to liquidate Bear Stearns under its wing. That's what the Fed did with Merrill Lynch and Bank of America as well. For whatever reason, they decided to not do it with Barclays, the British bank that wanted to buy Lehman.

SPIEGEL ONLINE: Nine hundred thousand derivative contracts with financial institutions all over the world were open at the time of Lehman's bankruptcy filing. Contracts with trading partners all over the world were defaulted on. What went wrong?

Marsal: Lehman derivative contracts should have been transferred to a new, creditworthy party. The good assets of Lehman and the derivative contracts should have been transferred to a creditworthy acquirer, with help from the Fed. The bad assets, the toxic assets, should have been left with holdings, and then a bankruptcy filing should have occurred. The failure to do so cost creditors approximately $50 to 75 billion.

SPIEGEL ONLINE: Is Lehman different from your customers in other industries, or is there no difference when a company fails?

Marsal: Financial services are different. Money has a faster and more direct impact on people. The deterioration of Lehman happened in a blink. Financial services companies can go bad very very quickly and crises of confidence ensue; and not because the equity has run out, but because the liquidity has run out.

SPIEGEL ONLINE: In other words, we wouldn't be in such a bad worldwide crisis, had Lehman been saved?

Marsal: Let's look at the outcome of what happened with Bear Stearns, where the markets breathed a sigh of relief. This was handled in a rational way. Much like what the British did, or what the Germans did. Consistency of leadership and decision-making is key. I think we would be better off today if they had agreed to let Barclays take over Lehman and provide Barclays the protection that they gave JP Morgan when they took over Bear Stearns.

SPIEGEL ONLINE: Is it true that you're still working with Richard Fuld, Lehman's former CEO?

Marsal: He is no longer receiving any salary or bonus or benefits. He has graciously agreed in exchange for an office, but no compensation, to be available to answer any questions about some of the assets that we have that he would be familiar with. For example, some of the hedge fund investments, or private equity investments, or real estate investments.

SPIEGEL ONLINE: How much money does Lehman owe its creditors?

Marsal: We have roughly $200 billion (€156 billion) worth of claims.

SPIEGEL ONLINE: How are you going to satisfy them?

Marsal: We have liquid and illiquid assets. Illiquid assets are much more difficult to convert to cash. The private equity portfolio in the US was about $12 billion, and the real estate portfolio was over $40 billion.

SPIEGEL ONLINE: You won't get so much for them these days.

Marsal: Lehman has approximately $6 billion in cash today. So we don't have a liquidity or cash crisis. We are not compelled to sell anything under pressure. Our attitude is to sell at a fair price or to hold until we get a fair price.

Interview conducted by Frank Hornig

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