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PRESS RELEASE:S&P Affirms Lehman Bros,Goldman Sachs;Indus Neg
2008-03-21 10:22 (New York)

The following is a press release from Standard & Poor's:

NEW YORK (Standard & Poor's) March 21, 2008--Standard & Poor's Ratings
Services said today that it affirmed its ratings on Goldman Sachs Group
Inc.
(holding company; AA-/A-1+) and Lehman Brothers Holdings Inc. (holding
company;
A+/A-1). At the same time, Standard & Poor's revised its outlook on
A+these
companies to negative from stable.
"The favorable effect of the Federal Reserve's unprecedented support
for the U.S. broker-dealers mitigates liquidity concerns by instilling
confidence in the capital markets," said Standard & Poor's credit
analyst Scott Sprinzen.
"Nevertheless, we believe that negative rating outlooks are broadly
appropriate for the independent securities firms, reflecting the
potential for a more substantial decline in profitability from capital
market activities," added Mr.
Sprinzen. Our current expectation is that net revenues could decline
20%-30% year-on-year (adjusting for writedowns). Although this would
erode companies'
margin of safety, we believe it could still be accommodated within the
current ratings, especially taking account of the recent supportive
stance of the Federal Reserve. Nonetheless, we see some possibility,
were there to be persisting capital markets turmoil and sharply
weakening economic conditions, that financial performance could
deteriorate significantly more than we now assume, which would call the
current ratings into question.
Our ratings on Morgan Stanley (holding company; AA-/A-1+) remain on
CreditWatch with negative implications, where they were placed on Dec.
19, 2007. Our ratings on Merrill Lynch & Co. Inc. (holding company;
A+/Negative/A-1) remain unchanged. (Merrill Lynch was downgraded on Oct.

A+24,
2007.)
The virtual collapse of The Bear Stearns Cos. Inc. (holding company;
BBB/CW-Developing/A-3), as well as volatile and unpredictable conditions
in the capital markets in recent days, highlights the extent to which
securities firms are exposed to capital market sentiments and explain
the Federal Reserve's actions to support the U.S. securities industry

directly. For example, the Federal Reserve is facilitating JP Morgan Chase & Co.'s (holding company;
AA-/Stable/A-1+) plan to acquire Bear Stearns by taking the unprecedented step of extending a $30 billion nonrecourse lending facility to JP Morgan to finance Bear Stearns' most illiquid trading assets (primarily mortgage-related), while providing a guarantee against losses on those assets. Apart from the measures specific to Bear Stearns, the Federal Reserve has also taken the unprecedented measure of offering credit directly to the broker-dealers through its just-announced Primary Dealer Credit Facility (PDCF) program, effectively becoming the lender of last resort to the broker-dealers.
Bear Stearns is the smallest of the five U.S. broker-dealers and has the least business and geographic diversity, and the highest reliance on short-term funding sources. Some of its larger U.S.-based competitors--especially Merrill Lynch--have been proportionately more exposed to write-downs related to subprime loans, asset-backed collateralized debt obligations, leveraged finance commitments, and other problematic positions. Yet, near-term earnings prospects remain at least somewhat brighter. For example, Goldman Sachs', Morgan Stanley's, and Lehman Brothers' results have benefited from the strength of equities trading activity, which has been bolstered by market volatility and provided a partial offset to trading sectors hit hard by the market downturn.
Wealth management businesses' results (especially significant in the cases of Merrill Lynch and Morgan Stanley) and asset-management businesses (a major factor in the cases of Goldman Sachs, Morgan Stanley, and Lehman Brothers), while not immune to the economic cycle, have also remained relatively strong.
Moreover, the four other U.S. broker-dealers have consistently maintained longer term borrowing maturities and, while experiencing significant widening of credit spreads, have not seen broad shrinkage of credit availability similar to what Bear Stearns experienced.
Although more diversified, Lehman Brothers' business mix is skewed toward the mortgage/fixed-income sector, making it prone to negative investor and media sentiments in the wake of the Bear Stearns debacle.
However, Lehman has maintained a very stable funding structure. Indeed, its excess liquidity position ($34 billion at Feb. 29, 2008) is among the largest proportionately of the U.S. broker-dealers, and its sources-to-uses ratio is the strongest of the five. Earnings have held up relatively well under current market conditions, with Lehman posting net revenues of $3.5 billion in first-quarter 2008, despite additional write-downs on troubled assets. Although Lehman's fixed-income business is pressured by the slowdown in this activity while also absorbing the large majority of write-downs, the business's underlying strength is such that it continues to turn a profit. Equities and investment banking fared well, posting increases in revenues, while investment management turned in record net revenues of nearly $1 billion in the quarter.
Still, however strong Lehman's underlying fundamentals, we cannot ignore the possibility that the firm could suffer severely if there was an adverse change in market perceptions, however ill-founded. In this context, the potential Fed support is comforting.

Goldman Sachs has been the profit leader among the U.S. broker-dealers during the past several years. It has been particularly adept at exploiting trading opportunities and proactively managing its market and credit risk positions.

Although Goldman Sachs remained solidly profitable in the quarter ended Feb.
29, 2008, its results were relatively weak, with net revenues off 35% year-to-year, and pretax earnings down 56%. The deterioration is partly attributable to net losses on residential mortgage loans and securities of approximately $1 billion, and to a loss of approximately $1 billion on noninvestment-grade credit origination activities. There was also broad weakness across Goldman Sachs' investment banking and trading and principal investments businesses, albeit within the latter, there were areas of strength (e.g., interest rate products, currencies and commodities, and equities commissions). We view Goldman Sachs' remaining mortgage- and leveraged finance-related commitments as manageable. Goldman Sachs' liquidity position is very strong, and the firm has not encountered significant funding difficulties in recent months. However, notwithstanding Goldman Sachs' highly successful track record, the firm's emphasis on trading activities and its aggressive risk appetite leave it open to the possibility that major missteps could occur, leading to a change in investor sentiment.

The ratings on Morgan Stanley remain on CreditWatch with negative implications, following the company's announcement in December that write-downs totaling a massive $9.4 billion during the quarter ended Nov. 30, 2007, reduced revenues. These write-downs stemmed from a decline in the value of Morgan Stanley's subprime and other mortgage-related exposures, which were principally related to a poorly executed proprietary trading position and raised significant concerns regarding the firm's risk management practices. The company's results rebounded in the first quarter. As with its peers, we have doubts about the sustainability of Morgan Stanley's first-quarter performance, given weakening market conditions. We continue to assess management's current stance with respect to principal risk-taking, including proprietary trading; actions taken to enhance risk management capabilities; Morgan Stanley's remaining exposures to problematic or potentially problematic asset types and counterparty credit risks, including, for example, commercial real estate; and the outlook for Morgan Stanley's core businesses. We intend to resolve the CreditWatch within the next 30 days.

Across the global sector, the negative outlooks reflect the potential for a more substantial decline in profitability from capital market activities during the next few quarters. This could occur if weakening economic conditions and market turmoil weigh on business activity to a greater and longer extent than we now assume. As our base case, we expect a 20%-30% year-on-year decline in net revenues (adjusting for write-downs), but we see some risk indicating that results could be significantly weaker. (See "Global Investment Banks and Brokers Remain Challenged After Dismal Fiscal Year End," published Feb. 26, 2008, on RatingsDirect and "After the Credit Boom, Banks and Brokers Face A Sobering Year in 2008," published on Jan. 17, 2008, also on

RatingsDirect.) Moreover, we cannot rule out the possibility that market sentiments will turn more severely against some firms, undermining the effectiveness of even the most extensive preparations against liquidity stresses. (We assign positive or negative rating outlooks to long-term issuer ratings when our analysts believe there is at least a one-in-three likelihood of a rating action during the intermediate term, generally up to two years.)

Standard & Poor's will hold a telephone conference call today at 11:30 am EDT to discuss these affirmations and negative outlooks in the context of the broader securities industry. The live call-in numbers for this call are (1) 210-795-0624 (U.S.) and (44) 20-7108-6390 (U.K.); the conference ID for this call is #9912272, and the passcode is SANDP. A replay of this call will be available starting about an hour after the call concludes through Friday, March 28; the replay numbers will be (1) 402-220-0359 (U.S.) and (44) 20-7192-0859 (U.K.).

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com.

(END) Dow Jones Newswires
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