

New York

Blaine A. Frantz
Senior Vice President
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York

Robert Young
Managing Director
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's places Lehman's A1 rating on review for downgrade

Review will focus on risk of franchise erosion

New York, <Rating Date Pending> -- Moody's Investors Service has placed on review for possible downgrade the long-term ratings of Lehman Brothers Holdings Inc. ("LBHI", senior at A1), as well as the ratings on the senior long-term debt of the company's principal rated operating and guaranteed subsidiaries (all referred to collectively as "Lehman"). Lehman's Prime-1 short-term rating was affirmed.

Today's rating action follows Lehman's announcement that it has replaced its President and its Chief Financial Officer. This announcement came just three days after Lehman's June 9, 2008 pre-announcement of a \$2.8 billion net loss for Q2-08, as well as plans to raise \$6 billion of long-term capital. Moody's changed Lehman's rating outlook to negative on June 9 in response to the worse-than-expected Q1-08 earnings that were disclosed in the pre-announcement. Moody's continues to expect Lehman to report actual Q2-08 results next week that are largely in line with the pre-announcement.

Moody's said that although the objective of the management changes appeared to be an effort to assure accountability for the losses and to strengthen risk and financial controls, the changes nonetheless are an additional factor that could exacerbate erosion in investor confidence. This could increase the risk of franchise impairment. The rating agency added that to date, Lehman's underlying customer franchises have continued to perform very well. However, challenging operating conditions and persistently negative news flow have pressured the firm, its employees, and potentially client confidence, raising concerns over the firm's ability to continue to sustain underlying performance and franchise value through this environment.

As part of the rating review, Moody's will assess the degree to which Lehman's various franchises have been affected by recent market conditions. This includes understanding the firm's strategy for retaining key employees, who are the true franchise of any investment bank, given the firm's current challenges and sharply devalued stock price. The review will also focus on assessing the potential for additional market losses that may be imbedded within Lehman's substantial residential and commercial mortgage portfolios. These portfolios continue to expose the firm to downside risks. A satisfactory conclusion that Lehman's customer and employee franchises have not been weakened could result in a rating confirmation. Conversely, signs of franchise erosion or additional firm-wide losses, which would raise serious concerns about the effectiveness of Lehman's risk management, would likely result in a downward rating action.

As Moody's noted in its June 9, 2008 press release, Lehman's liquidity management and stand-alone liquidity position remain robust. Lehman ended Q2-08 with a record \$45 billion of liquidity available to the holding company, and an additional \$150 billion of unencumbered assets, with substantial loan value. The firm also has benefited from the supportive actions of the Federal Reserve, including access (albeit temporary) to the Primary Dealer Credit Facility ("PDCF") and the Term Securities Lending Facility ("TSLF"). Moody's also viewed the \$6 billion capital raise, in conjunction with balance sheet de-leveraging/de-risking, as a positive step in bolstering both the balance sheet and creditor confidence.

Moody's also noted in the June 9, 2008 press release that Lehman's rating also reflects the firm's product and geographic earnings diversification, which has improved materially over the past five years on steady growth in primary equities, global advisory, and investment banking. The firm has built strong franchises in investment banking and equity capital markets, including increasing its penetration in prime brokerage and secondary cash equities and derivatives, in both the U.S. and abroad. The rating agency said that despite tough market conditions, Lehman's core customer-flow franchises continue to produce solid revenues, with profits generated from outside of fixed income helping to counter current weakness in residential and commercial real estate and leveraged lending. Lehman's investment management business has also become an important earnings contributor to the firm.

Lehman Brothers Holdings Inc. is an international investment bank and financial services firm headquartered in New York, NY with total stockholders equity of approximately \$31.3 billion and \$155 billion of long-term capital at May 31, 2008.