Lehman Brothers files for bankruptcy — largest ever

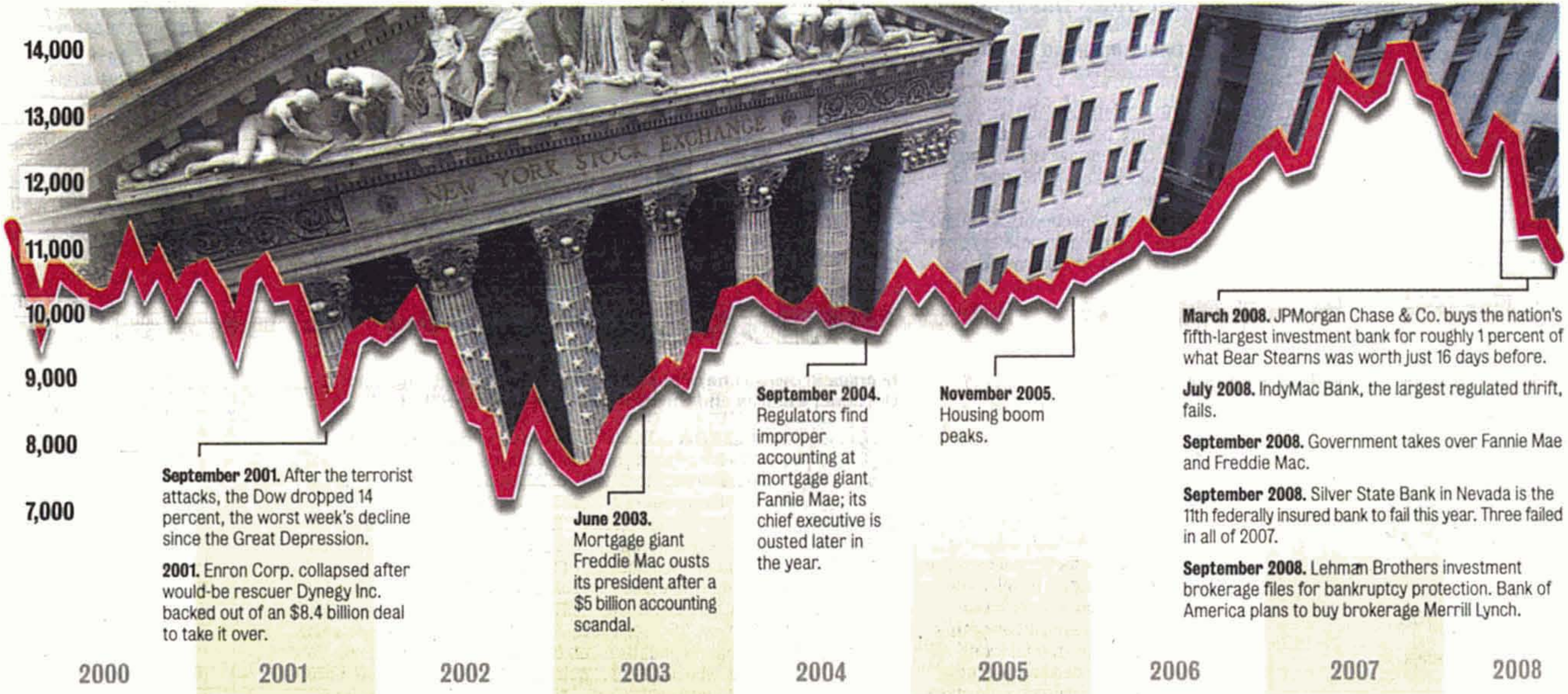
Treasury secretary never considered a Lehman bailout

Bank of America agrees to buy Merrill Lynch for $50 billion

Dow falls 504.48 points — largest drop since 2001

Insurance giant AIG's stock tumbles 61 percent

Wall Street sent reeling



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In a single day, about $700 billion vanishes from investment portfolios

BY CAROL HAZARD AND EMILY C. DOOLEY
Times-Dispatch Staff Writers

The U.S. stock market weathered its worst day in seven years after two major financial firms sought emergency intervention yesterday morning.

Lehman Brothers Holdings Inc., the fourth-largest U.S. investment bank, filed for bankruptcy reorganization. Bank of America Corp. agreed to acquire Merrill Lynch & Co. for $50 billion in a brokered deal cut during the weekend.

The Dow Jones industrial average lost more than 500 points, more than 4 percent, its steepest point drop since the day the stock market reopened after the Sept. 11 terrorist attacks. About $700 billion evaporated yesterday from retirement plans, government pension funds and other investment portfolios.

The news underscores "the depth of the financial market's problems that the United States and the world are going through," said Richmonder John W. Snow, a former U.S. Treasury secretary and former chairman of CSX Corp.

People are understandably concerned, said J. Alfred Broaddus Jr., former president of the Federal Reserve Bank of Richmond.

"Some think this will end very badly, like in the 1930s," said Broaddus, referring to the Great Depression, when about 10,000 banks went under.

"But we know a lot more now about monetary policy and dealing with financial crises than we did in the '30s," he added. "We should be able to use this knowledge to get through this with minimum lasting damage to the overall economy."

After the Lehman Brothers and Merrill Lynch announcements, investors focused on troubled American International Group Inc., the biggest U.S. insurer by assets, whose stock fell 61 percent yesterday.

Treasury Secretary Henry M. Paulson Jr., who refused to toss a financial lifeline to Lehman, was unapologetic as the Bush administration signaled strongly that Wall Street should not expect more rescues from Washington.

The American people should remain confident in the "soundness and resilience in the American financial system," Paulson told reporters at the White House.

Six months ago, Paulson moved to prevent the collapse of Bear Stearns, brokering a deal for JPMorgan Chase & Co. to buy the firm at a fire-sale price with Federal Reserve backing. This month, he stepped in to help the government seize mortgage giants Fannie Mae and Freddie Mac in hopes of reversing the housing and credit crises.

Yesterday, however, Paulson said he "never once" considered it appropriate to put taxpayer money at risk to resolve the problems at Lehman Brothers, which was saddled with $60 billion worth of soured real estate holdings.

But the Securities and Exchange Commission is planning measures to rein in aggressive forms of short selling that were blamed in part for the demise of Lehman and that some fear could be turned against other vulnerable companies.

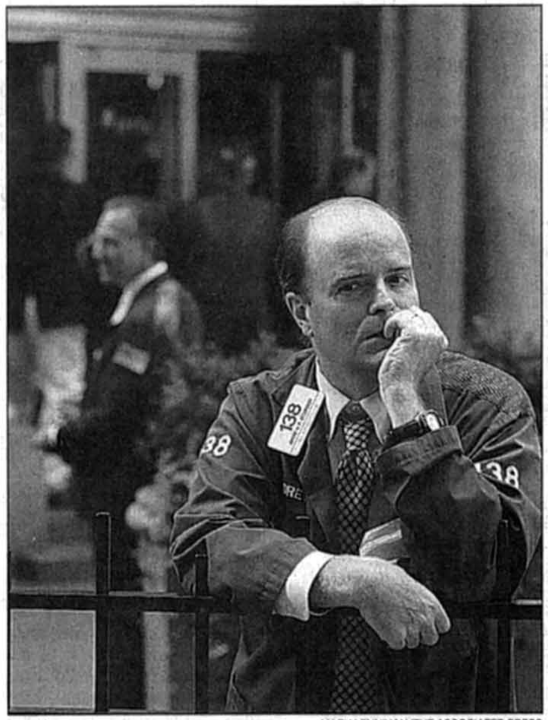
"The federal government's responsibility in a situation like this is not to protect any particular institution but to guarantee the stability of the overall financial system so that financial problems don't harm the broader economy and American households," Broaddus said.

"People need to be alert to the risk in the current situation and make their investment decisions accordingly. But there is no reason for panic . . . or to fear overriding, permanent financial damage as a result of these events."

The financial crisis is probably as serious as the savings and loan debacle in the late 1980s and early 1990s, Broaddus said. In all, 747 savings and loans failed from bad mortgage loans.

"Keep in mind that we got through the S&L crisis," Broaddus said.

However, the savings and loan crisis was centered on relatively small institutions, while the current one involves some of the largest and most prestigious financial companies, he noted.



MARK LENNIHAN/THE ASSOCIATED PRESS

Stockbroker Andrew O'Connor took a break yesterday from his floor position at the New York Stock Exchange.

Largest bankruptcies

Lehman Brothers Holdings Inc.'s Chapter 11 filing yesterday is by far the largest corporate bankruptcy case in the U.S., measured by total assets before the filing. The amounts are not adjusted for inflation.

1. **Lehman Brothers Holdings Inc.:** Sept. 15, 2008, $639 billion
2. **WorldCom Inc.:** July 21, 2002, $103.91 billion
3. **Enron Corp.:** Dec. 2, 2001, $63.39 billion
4. **Conseco Inc.:** Dec. 18, 2002, $61.39 billion
5. **Texaco Inc.:** April 12, 1987, $35.89 billion
6. **Financial Corp. of America:** Sept. 9, 1988, $33.86 billion
7. **Refco Inc.:** Oct. 17, 2005, $33.33 billion
8. **Global Crossing Ltd.:** Jan. 28, 2002, $30.19 billion
9. **Pacific Gas and Electric Co.:** April 6, 2001, $29.77 billion
10. **UAL Corp.:** Dec. 9, 2002, $25.2 billion
11. **Delta Air Lines Inc.:** Sept. 14, 2005, $21.8 billion
12. **Adelphia Communications:** June 25, 2002, $21.5 billion
13. **Mcorp:** March 31, 1989, $20.23 billion
14. **Mirant Corp.:** July 14, 2003, $19.42 billion
15. **Delphi Corp.:** Oct. 8, 2005, $16.59 billion

Sources: New Generation Research Inc., The Associated Press

"I am hopeful and optimistic that we will get through this without excessive damage to the average American household," Broaddus said.

Bad assets need to be identified and the losses absorbed, he said.

"That process will be painful for some, and it will take time," he said. "The underlying assets are American homes and other parts of America's economic base, which have great intrinsic value. That gives me confidence that markets will eventually find a bottom and people will start buying again."

S. Buford Scott, chairman of Scott & Stringfellow Inc. in Richmond, said he has never seen a financial crisis as serious as this one. Scott has been in the financial business for 50 years.

"When you have the largest and most respected firms in the U.S. and in the world being reorganized or bought out, that is a huge sea change in the financial-services industry."

Scott predicted that it will be a year and a half before the industry recovers. "There will be some more pain with banks and financial institutions in trouble," he said.

However, investors who own good-quality stocks and who did not speculate by trying to make a quick profit should be fine, he said.

What Wall Street needs is an infusion of confidence, which is "less than zero" now, Scott said.

John Thain, chairman and chief of Merrill Lynch, said during a news conference yesterday that the financial climate is the most difficult he has seen in his 30 years in the business. "It is a cycle, and we will get through it," he said.

Bank of America Chief Kenneth Lewis said the addition of Merrill Lynch was "the strategic opportunity of a lifetime." The purchase added 16,000 financial advisers to Charlotte, N.C.-based Bank of America.

J.B. Bryan, president of J.B. Bryan Financial Group Inc. in western Henrico County, said yesterday's actions remove some risk from the marketplace.

"I see this as a positive move for the investment markets in the long term," Bryan said.

Stewart Darrell, a partner in Darrell & King Investment Counsel in Charlottesville, said fear and greed can drive investors to do the wrong thing at the wrong time.

This is not the time to overreact when it comes to investment portfolios, which should be focused on long-term results, Darrell said.

- Contact Carol Hazard at (804) 775-8023 or chazard@timesdispatch.com.
- Contact Emily C. Dooley at (804) 649-6016 or edooley@timesdispatch.com.
- The Associated Press contributed to this report.

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