Case of the Lehman Brothers Company

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1.0 Introduction

1.1 General Overview

The world of finance and banking is perhaps one of the key factors influencing lives of million people around the globe. The situation of particular economy can impact the global economy as well due to tremendous globalization process we are most likely part of and result to a potentially larger scale. For such reason, it is more than obvious these topics should have become the number one target for researchers, analysts or professionals within the world of finance. Consequently, this research paper is dedicated to one of the most significant events in human history causing imaginably remarkable impact on the lives of many people not just in one country. This research paper deliberately analyzes and reviews the case of one of the world's largest financial institutions and points out the major highlights of the situation in the past and subsequently reveals the impact caused by company's bankruptcy by projecting it to the present. Additionally, the paper provides suggestions and recommendations based on valid arguments in order to examine and demonstrate the situation in present affected by this event.

1.2 Lehman Business Origins

Mr. Henry Lehman, a German immigrant in 1844 together with his brothers Emanuel and Mayer, has founded firstly a small typical shop selling various types of goods (Investopedia, 2009). Consequently as the business in Alabama went presumably well, the company Lehman Brothers has been founded in 1850 (Investopedia, 2009). Throughout the history the company survived and boosted their operations to a significantly large scale, despite many obstacles in the U.S. history like railroad bankruptcy in 1800, Great Depression in 1930s, both world wars and many more (Investopedia, 2009). The tricky part became at the end of the year 2003 during the so-called “Housing Boom” (Investopedia, 2009) where the company started securitizing mortgages without proper documentation for households causing tremendous boost to their revenues in following years 2004 until 2007, where first problems started occurring to cause serious financial crisis start point (Investopedia, 2009). Nevertheless, in order to discover a deeper understanding of this case, it is reasonable to get back to beginnings where everything started. Therefore, following sections of this research paper primarily focus on explanations of principles and definitions of such a company as an – investment bank.

2.0 Principal Definitions

The Lehman Brothers Inc. works as an international investment bank (Bloomberg Businessweek, n.d.). In other words, a company that is considered as an investment bank principally creates new opportunities for other companies to grow their wealth – capital by providing advisory services for releasing and adjusting their securities (Investopedia, n.d.). In addition to primary activities of an investment bank, there are plenty more activities or methods being used by the company Lehman Brothers Inc. as well. Consequently, it is reasonable to divide all activities of the company into tree major segments in order to have a better insight towards their functions. The first principle described in the next section of this research paper is investment banking which reveals and explains how the Lehman Brother Inc. actually generates their profits and performs their activities on an international scale.

2.1 Lehman Brothers Investment Banking

Private equity is similarly one of the most substantial operations the company does by offering capital to private buyers that company selects and are of course enthusiastic to invest in exchange for a future opportunity of the company to start selling their shares on the market for a higher price, or becomes property of another company and consequently gets refunded for a higher price in the future (Business Dictionary, n.d.). This activity belongs to the first segment called investment banking. Private equity is on the other hand not the only component of investment banking part. The company provides solutions and management to other companies', governments' or individuals' capital by backing debt and equity securities issue (Bloomberg BusinessWeek, n.d.). These financial instruments are most likely hence considered to be vital for many governments, businesses and individuals around the world for appropriate guidance of their capital.

2.2 Lehman Brothers in Capital Markets

The capital markets part of the Lehman Brothers Inc. mostly focuses on company's trades within countries it operates. United States of America, Latin America, Europe and Asia together with Australia are the key target markets where the corporation provides its services (Bloomberg BusinessWeek, n.d.). This aspect of the Lehman Brothers Inc. has also other functions like exploration and examination of the market it operates by applying their own know-how and other financial instruments (Bloomberg BusinessWeek, n.d.).

In order to understand capital markets function of the company, it is reasonable to explain what capital markets are and what instruments are being used most. According to The Economic Times internet magazine "Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc." (The Economic Times, n.d.) This definition essentially explains the prime dedication and purpose of such place. Now, that is clear what a capital market is, it is also practical to point out several instruments the company uses in order to stay competitive both on the local and global market.

The first discussed term is a derivative. Derivatives are a kind of financial product or tool that is inferred from the price of an object for trade that is being or will be sold almost certainly in the future for a likely wise higher price or a price stated within a deal signed by involved sides (Hedge Funds Consistency Index, n.d.). Measuring the price of assets can be based on various financial data like consumer price index (CPI), interest rates, exchange rates and so on (Hedge Funds Consistency Index, n.d.). This financial instrument can be therefore considered as one of the most significant tools.

The second term that possibly deserves mentioning for its attributes between other types of securities are municipal securities. Governments generally use these instruments to raise their capital. The interesting point about these securities is the fact that they do not fall under state or local taxes (Investopedia, n.d.a). Therefore, it is fair to point out making business with such securities is a viable opportunity for the company to generate tremendous profits.

Even, there are many more financial measures or in other words instruments the company tends to use, most of them are derived from the basic mechanism of previously mentioned tools like bonds, loans or other money market products (Bloomberg BusinessWeek, n.d.). Additionally, there is one more segment the company Lehman Brothers Inc. used described in the following section of this research paper.

2.3 Lehman Brothers Customer Care

The interesting point about this part or segment of the company is that it is highly expected to mention private equity, however the fact is that client services operate on the private investor basis, however the department deals mostly as a supportive organ to previous two segments (Bloomberg BusinessWeek, n.d.).

Generally speaking client services are an intermediary to previous two points. One could think of this aspect as a helping tool for Lehman Brothers Inc. clients. Consequently, it is logical especially these days, when the company Lehman Brothers Inc. went bankrupt it is more than effective to keep this part of the company empowered and strong in order to preserve the existing Lehman Brothers Holdings Inc. which most probably inherited clients of the company left (Bloomberg BusinessWeek, n.d.). Therefore, to sum up, the section with private equity is most likely interconnected with client services that hopefully keep remaining business up and running.

3.0 The Good and The Bad

As described at the beginning of this research paper, it is inevitable to describe the situation in years 2003 and 2004 as very viable for the company since it started making huge profits on real estate mortgaging usually called as the “bubble” (Investopedia, 2009) when the company acquired several short-term mortgaging companies (Investopedia, 2009). Making the net profit of more than 4 billion dollars in 2007, the situation started getting way out of line when the two largest hedge funds started collapsing in mid 2007 (Investopedia, 2009). This meant a tremendous damage to the stock price of Lehman Brothers Inc. and also consequent failures causing serious impact starting in the U.S. real estate market resulting in critical strike to U.S. economy (Investopedia, 2009). In order to understand this much better, it is fair to point out that people borrowing money they were not able to repay is the basic principle or trigger causing this serious problem. Perhaps, if the company would not be so profit oriented, or many times generally known as greedy, people would not be most probably allowed to put themselves into such situation.

Nevertheless, it is not the main focus of this research paper to criticize or pick up on the long-term and well-known heritage of the company, but it is fair to point out the company did not count it properly when it came to the real ability to repay guaranteed mortgages (Investopedia, 2009). Therefore, a hazard that has taken over the situation in the past shall not occur in the future, as both the general public and the government should have already learned their lesson. The next chapter is about to summarize and discuss consequences of this economic disaster.

3.1 Gazing to the Future

As already drawn in the first part of this research paper, the awkward situation concerning Lehman Brothers stroke the economy not only in a national scale concerning the United States of America. The globalization and worldwide operations of the company keeping in mind the economic interconnection turned the situation from the United States to the whole world leaving thousands of people without jobs or resources (Dixon, 2013). By all means, it is reasonable to point out that controlling banks and other financial institutions is tremendously challenging lawmakers worldwide to find an appropriate level of classification mortgages being more or less risky (Dixon, 2013). The situation and the whole scheme is on the other hand very tricky since the economy can drastically change over time and providing financial services is due to this occurrence very tricky. Therefore, the result of this research has shown the interconnection and vulnerability of the economic environment to such events. Easily saying, the situation has many similarities to domino game, nevertheless in this particular case a really serious one.

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