Investment banks' woes sending shock waves out in all directions

By Matthew Scott September 15, 2008

Sunday's double-barrelled announcements of Lehman Brothers' bankruptcy and Merrill Lynch's pending sale to Bank of America are having ripple effects that are lowering the value of everything connected to the financial markets, from the price of securities to the salaries of Wall Street workers.

The anxiety over the two announcements led the International Swaps and Derivatives Association to cancel regional member conference it had scheduled for Tuesday in New York. No reason was given. Over the weekend, ISDA produced a new protocol for settling credit default swaps written against Lehman.

It appears that anything associated with Lehman could be in jeopardy of collapse, including municipal bonds that seemed perfectly good just a week ago. Georgia's Main Street Natural Gas bonds, the only ones Lehman helped bring to market, fell much more steeply last week than the rest of the sector. These prepaid natural gas bonds are a $30 billion niche of the U.S. municipal bond market that developed a few years ago to help utilities manage their energy bills by prepaying for supplies.

One $3.6 million block of the bonds was bid at just $56 for each $100 of par value, according to Josh Gonze, a managing director at Thornburg Investment Management in Santa Fe, N.M. That compares with the $95 to $99 range in which the bonds had traded throughout August and into early September, which translates into a yield of 13% to 14%.

"It's a disaster for the investor, said Mr. Gonze."

The pending loss of Lehman and Merrill is also a disaster for financial services industry workers. Human resources consultants estimate that about 26,000 workers will lose their jobs as a result of Lehman's bankruptcy and another 24,000 of Merrill's non-broker employees are headed for the unemployment line. Those losses come on top of the more than 100,000 financial services workers that have already lost their jobs this year.

With so many people looking for jobs, employers will be able to pay workers less than they have in the past. New York will take the brunt of the job losses, but workers in Lehman's and Merrill's offices overseas will also be impacted.

Recruiters expect the job losses to drive even more talent to the buy side and to employers abroad, despite the global economic slowdown, which was triggered by last year's breakdown in the U.S. subprime mortgage market.

Gustavo Dolfino, president at New York-based recruiting firm WhiteRock, said the Middle East and Russia are regions that are hungry for U.S. financial professionals. "The demand is on the buy side and it's international and opportunistic," he said.

(Reports from�*Reuters*�were used in this article.)