Analysis of the Collapse of Lehman Brothers in the 2007 Financial Crisis.

Course: Fin433; **Section:** 3

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Submitted To

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29 April, 2023

Letter of Transmittal

Date:29-04-2023

Ms. Humaira Haque

Department of Accounting and Finance

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Subject: Letter of transmittal

Dear ma'am,

We are pleased to inform you that we have completed the project assigned to us for FIN 433, Financial Markets and Institutions. This report aims to provide insights into the market environment during 2007 financial crisis, the business model of Lehman Brothers and the reasons that led to its collapse, as well as the impact of the collapse on financial markets and the lessons learned from the collapse of Lehman Brothers. Lehman Brothers was the leader of the investment banking sector at that time. We made a concentrated effort to undertake a complete and objective assessment, digging into the evolution of the fundamental causes and their repercussions on the whole financial system.

Finally, we are grateful to you for providing us with the opportunity to apply our textual knowledge to a real-world scenario. we would like to express our regret for any flaws or limitations that may have been reflected in our group work, and we would welcome your suggestions to make our findings more meaningful and equitable.

Regards,

Md. Mahabubur Rhaman Rohan

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Executive Summary

The purpose of this paper is to analyse Lehman Brothers' business strategy, the causes for the bank's bankruptcy, and the impact of the bank's failure on financial markets. It also aims to explain the market environment and financial instrument advances that led up to the 2007-2009 financial crisis.

The paper addresses four main questions: first, how securitization changed the nature of risks faced by banks; second, a critical analysis of Lehman Brothers' business model and its contribution to the bank's failure; third, arguments for and against Lehman Brothers' bailout, and what should have been done; and finally, key lapses that led to massive losses in the US financial system, key lessons learned, and steps taken in response.

As to the research, securitization, which entails combining loans into securities and selling them to investors, significantly influenced the risk picture for banks. The review of Lehman Brothers' business model identifies its strong reliance on short-term finance, overexposure to the US housing market, and excessive risk-taking as contributing causes to the firm's demise.

Regarding the Lehman Brothers bailout, the article outlines reasons for and against the decision not to save the bank, finally finding that a more organized and preventive approach to the crisis was required. Finally, the report points out major lessons from the collapse, such as the necessity for improved regulation and risk management techniques, as well as the need of a coordinated response to financial crises.

Overall, this paper presents an in-depth investigation of the reasons that contributed to the failure of Lehman Brothers and the broader financial crisis, as well as insights into the lessons gained and efforts taken to avoid similar catastrophes in the future.

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Introduction

The 2007-2009 financial crisis was a catastrophic event that impacted the global economy, causing widespread unemployment, poverty, and homelessness. The crisis was triggered by a series of factors, including the widespread use of complex financial instruments, lax lending standards, and the bursting of the US housing bubble. The failure of Lehman Brothers in September 2008, which sent shockwaves across global financial markets and prompted a massive government bailout of major institutions, marked the crisis' its peak. The financial crisis exposed a number of complex regulatory and financial issues, including the use of securitization, the participation of investment banks, and the potential risks created by the interdependence of financial institutions. The impacts of the crisis were felt for years, and policymakers around the world have taken steps to address the underlying issues and prevent similar crises from happening again.

In this assignment, we will focus on one specific company, Lehman Brothers, and analyse its business model and the reasons for its collapse. We'll look at how securitization affected the risks that banks were exposed to before the crisis and assess the major failures that caused significant losses in the US financial system.

Background Information

The financial crisis was caused in part by securitization, which changed the kind of risks that banks faced prior to the disaster. Securitization refers to the process of pooling loans or other financial assets, such as mortgages, and selling them to investors as securities. This process allowed banks to transfer the risks associated with these assets to investors, while also freeing up capital that could be used for further lending.

However, securitization also had some negative consequences. Banks became less concerned about the quality of the loans they were making, as they knew they could simply sell them on to investors. Numerous banks gave loans to people who posed a high default risk as a result of the loosening of lending standards. Since many of these loans went into default as the housing market shrank, the value of the securities backed by these loans was significantly reduced.

Lehman Brothers was one of the major players in the securitization market, and its business model was heavily reliant on the sale of mortgage-backed securities. However, when the housing market began to decline, Lehman Brothers found itself holding a large number of securities that were rapidly losing value. This led to a crisis of confidence in the firm, as investors began to worry about its solvency and liquidity.

In September 2008, Lehman Brothers filed for bankruptcy, becoming one of the largest corporate bankruptcies in US history. The collapse of the firm had a significant impact on financial markets, causing a sharp decline in stock prices and leading to widespread job losses in the financial sector. The failure of Lehman Brothers had an immense effect on the global economy because it raised concerns about the stability of the banking industry and reduced loan availability.

This assignment will examine Lehman Brothers's operating structure and the circumstances that contributed to its collapse. In addition, we will look at the effects of Lehman Brothers' collapse on financial markets and the broader economy and consider the valuable lessons that may be drawn from this terrible occurrence. Finally, we will analyse the arguments for and against the bailout of Lehman Brothers, and provide our own recommendations for how this crisis could have been better managed.

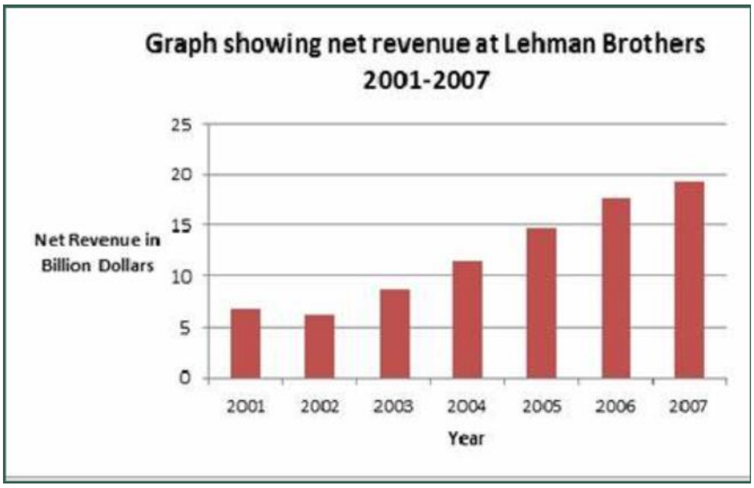
Overview of the Company

Lehman Brothers, originally a dry goods and general store, was established in 1844 in Montgomery, Alabama. By the 1850s, it shifted its focus to become a major player in the commodities market, particularly in the cotton trade. Lehman became part of Goldman Sachs through an IPO in 1906, entering the investment banking field. Shearson/American Express bought out Lehman Brothers in 1984 for $360 million. This acquisition allowed the investment bank to expand its services after the Glass-Steagall Act was repealed. Due to its significant holdings in mortgage-backed securities, Lehman Brothers became the fourth-largest US investment banking firm by 2007. However, its investments in MBSS and collateralized debt obligations, as well as the acquisition of lenders specializing in high-risk loans, eventually resulted in the failure of the company during the mid-2000s housing bubble. Despite attempting to increase market confidence through stock fundraising and relying on repos for funding. Lehman Brothers announced significant losses in the third quarter of 2008, including write-downs of risky assets, which further destabilized the company. The acquisition of Lehman Brothers' main rival. Bear Stearns, by J.P. Morgan Chase that same year further cast doubt on Lehman's future. Lehman Brothers, a significant investment bank, experienced a massive drop in share prices of 77% in the first week of September 2008. Despite attempts by the CEO to rescue the company through various strategies, including the separation of commercial real estate assets, investors considered it to be a failing entity. Lehman Brothers declared bankruptcy on September 15th after the measures taken to rescue the company failed. This was the largest bankruptcy filing in US history. Barclays and Nomura Holdings purchased most of Lehman's investment banking and trading operations. The collapse of Lehman played a significant role in the 2008 Global Financial Crisis. Some people believe that the company was permitted to fail because of its enormous debt load and inability to use its assets to repay it.

Business Model

Lehman Brothers' business strategy was built on taking sensible risks in order to benefit from a range of investment opportunities. The company generated revenue from a variety of ventures, including fresh stock and bond offerings underwriting, buying and selling securities, and consulting services to corporate clients. Lehman Brothers also had a major position in the commercial real estate industry and were engaged in mortgage securitization, property investment, and financing money to developers.

Lehman Brothers increased its earnings by using a high leverage ratio, which turned it more susceptible to market downturns. The company has made significant investments in other sophisticated financial products, such as mortgage-backed securities and other challenging and trade-in unstable markets.



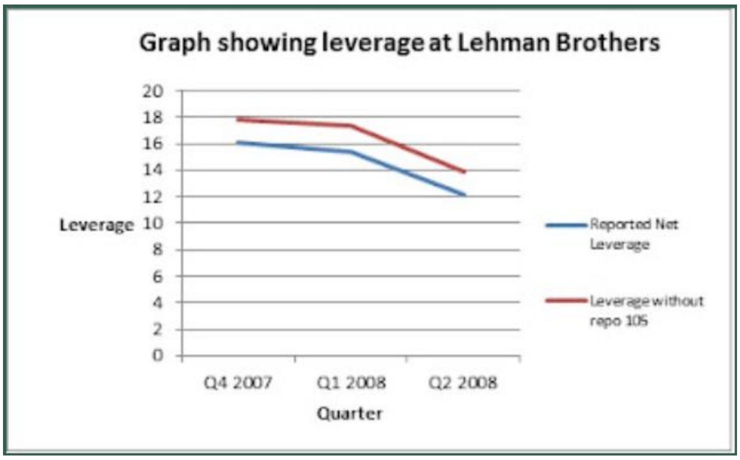
Lehman Brothers had an atmosphere that emphasized short-term profitability above long-term stability and fostered risk-taking in addition to having a high-risk business model. The management of the company was charged with ignoring signals of the coming financial crisis and failing to act to reduce its risks.

Overall, the high-risk, high-reward business model used by Lehman Brothers made it susceptible to market downturns. When the housing market crashed in 2008, the company's substantial investment in complicated financial instruments and usage of excessive leverage finally caused it to fall apart.

Key Factors Contributing to Company Collapse

Lehman Brothers' decline and eventual insolvency have been attributed to several factors, including:

High leverage: Lehman Brothers had a high-leverage business approach, much like its rival investment banks, which required it to borrow billions of dollars to fund its financial statements. A large portion of it required daily debt renewal because it was short-term debt. In September 2008, rising expenses and security demands caused a serious financial problem.



Poor governance and risk management: The efficacy of a company's operating structures, policies, and controls depends on their obedience. Lehman Brothers' bankruptcy filing revealed that the company had disregarded its risk management protocols, breached internal regulations, engaged in accounting manipulations, and concealed certain information from its board. It is possible that these actions may have contributed to the company's collapse.

Questionable accounting and poor disclosure: Lehman used aggressive financing and accounting techniques Repo 105 to exaggerate its indebtedness and net value, according to the Bankruptcy Examiner's findings.

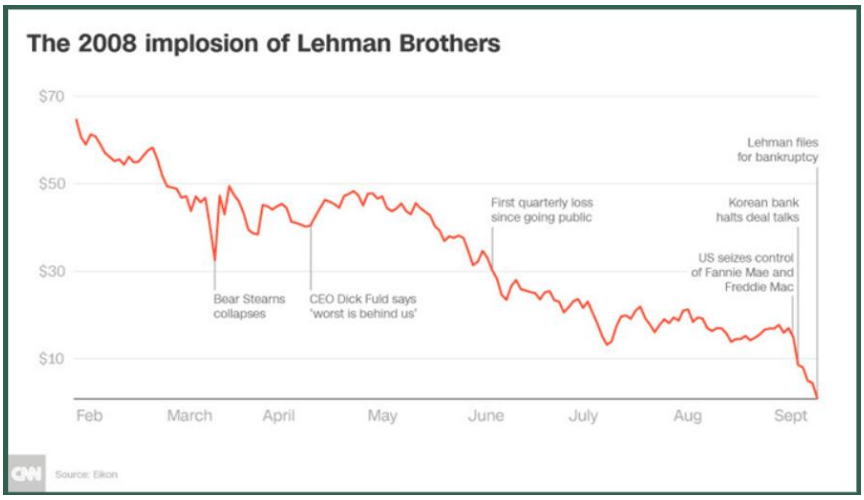
Weak Government Oversight: The Securities and Exchange Commission (SEC) supervised a program that controlled Lehman Brothers. In 2006, a merged entity was established with the aim of helping independent investment banks avoid being subject to regulation by the European Union. Only the four independent investment banks were subject to supervision under the widely criticized program. The program was terminated in October 2008, following the conversion of the last two investment banks to bank holding companies that are subject to Federal Reserve regulation.

Due to these problems, the company had many problems that caused a liquidity crisis, a loss in the confidence of its creditors, and, finally, its demise.

Effect of the Lehman Collapse on World Economy

When Lehman Brothers declared bankruptcy, it caused a series of events that destroyed trillions of dollars' worth of investments and savings. The world economy has been working hard since 2008 to rebuild out from damage. In Nigel Ferndale's opinion,

In 2008 at 9am, HBOS, the United Kingdom's biggest mortgage lender, experienced a 34% drop in its shares during early trading. By lunchtime, both the FTSE and the London Stock Exchange (LSE) had lost almost 400 points. The situation worsened when Lloyds acquired HBOS three days later, and the FTSE dropped below 4000. The collapse of major corporations caused billions of dollars in losses three weeks later. The bankruptcy of Lehman Brothers contributed to a global recession, with some experts attributing the collapse as an inevitable factor. Researchers also predicted the continued deterioration of bank loan portfolios, and the recession's fundamental processes were further discussed by authors like Eichengreen (2009). At this point, the global financial system had become completely contaminated. The global financial system was thrown into turmoil when Lehman Brothers went bankrupt, despite its increasing vulnerability. This affected the CDS spreads of all global



banks and made them more sensitive to financial and economic factors. The international capital exchange system also suffered a huge disruption, leading to a lack of funds that impacted the non-financial economy as well.

Moreover, many analysts believe that Lehman Brothers' collapse resulted in a significant reduction of capital liquidity. Research has shown that global economic liquidity declined due to Lehman's failure, which harmed many of its clients financially. Amihud's illiquidity index from 2011 showed that investment firms that depended on Lehman as their main broker experienced a particularly large drop in liquidity. This suggests that the market's recovery was hindered by Lehman's collapse. The decrease in liquidity is partly attributed to the inability of hedge fund managers to react effectively and quickly to the sudden market changes caused by Lehman's loss of cash.

Why Lehman Brothers Was Allowed to Fail

During the bailout era, it was surprising that the Central Bank chose to rescue AIG but not Lehman Brothers. Henry Paulson, the Treasury Secretary, Christopher Cox, the Chairman of the Securities and Exchange Commission, and the New York State Federal Reserve Bank held discussions. Ben Bernanke, chairman of the Federal Reserve, and President Timothy Geithner provided an explanation for why Lehman Brothers could not be saved. One reason was that the government had no legal framework to provide material support to Lehman Brothers since the company had no collateral to offer for a loan. The company was brought down by defaults on commercial paper caused by declining home values and a high rate of mortgage defaults in its portfolio. Therefore, the US government could not legally lend money to Lehman Brothers as it expected to incur losses. Before Congress approved the Troubled Asset Relief Program (TARP) in September 2008, Ben Bernanke confirmed that Lehman Brothers was bankrupt, indicating that the government did not have the legal authority to inject public funds into the company to save it. Thus, the Troubled Asset Relief Program was ineffective in this situation.

The US Treasury was initially granted $700 billion in purchasing power to buy illiquid mortgage-backed assets to stabilize the American financial system and stimulate economic growth. However, the Treasury did not have the authority to guarantee Lehman Brothers' operations for a private buyer such as Barclays, or to invest American taxpayers' money in the company. As a result, Lehman Brothers collapsed and the US government was not prepared for its consequences.

The Federal Reserve believed that Lehman Brothers' problems were specific to its financial products division and did not anticipate a domino effect resulting from the company's failure. When comparing Lehman Brothers' exposure to that of JP Morgan and Bear Sterns, it was only about one-tenth. The Federal Reserve concluded that Lehman Brothers was simply incompetent enough to destroy itself but not enough to pose a significant threat to the stability of the global financial system. Their failure to foresee these issues led to fear in the housing market, which required government intervention to calm down.

Lessons Learnt from Lehman's Collapsed

The worldwide housing crisis resulted in the bankruptcy of Lehman Brothers, a prominent investment bank, on September 15, 2008, triggering a chain reaction that almost brought Wall Street to its knees. Several important lessons can be drawn from this event:

- Other companies and organizations should learn from Lehman Brothers' failure and avoid having rigid risk management policies, procedures, and personnel that did not adapt to changing market conditions.

- In 2008, Lehman Brothers was a highly respected investment bank in the United States that received numerous awards and recognition. This included being named 'Best Credit Derivatives House in Asia' by The Asset and winning two 'Deals of the Year 2008' awards from The Banker. Its CEO, Fuld, was even considered one of the best CEOs by Barron's. Despite its reputation, the company went bankrupt later that year. This demonstrates the importance of having proper policies and procedures in place for effective management and survival of any business, regardless of its size
- Instead of ignoring risks, companies should be prepared to assess and identify them, monitor them regularly, and take action to mitigate their impact.
- One of the main lessons to be learned from the Lehman Brothers disaster is that one should not rely solely on laws, their enforcement, or expected interventions to protect one's interests. To survive, it is necessary to develop self-defence skills. This lesson will have a longer-lasting impact if everyone understands it.
- It is important to pay attention to any flaws that are discovered or detected in specific banking activities such as trading, securitizations, and involvement with off-balance sheet transactions.

Therefore, it is recommended that regulatory bodies have sufficient funding for manpower and logistics to enable effective monitoring and oversight so that the complexities inherent in all financial institution's services and products offered under their jurisdiction can be identified and understood. Additionally, greater attention should be paid to the activities of large financial groups in terms of oversight and monitoring due to the potential harm their collapse could cause to the broader financial system. Steps should also be taken to ensure that banks can survive such situations.

Bailout Debate

Argument For the Bailout

The bailout of well-known investment firm Lehman Brothers during the financial crisis of 2008 sparked criticism and controversy. However, there were some solid reasons for Lehman Brothers' bailout.

Lehman Brothers had sufficient collateral: In contrast to what the Fed officials at the time reported, Freidheim (2018) asserts that, Lehman Brothers had enough collateral to get a loan from the US Federal Reserve. As the second-best performing company in its sector in terms of revenue and earnings growth over the previous five years, Lehman had achieved impressive net revenues and profits in 2007. By 2008, Lehman had also boosted equity, decreased leverage, and improved its liquidity pool. It can be deduced from this that Lehman had a sound financial situation and sufficient assets to acquire a loan.

Requested to become a bank holding company: This is one of the key justifications for Lehman Brothers' rescue since it demonstrates that the company was proactive in seeking aid and stabilizing itself. According to Freidheim (2018), as part of their efforts to save the bank, Lehman had requested permission to establish a bank holding company in June from Timothy Geithner, the Federal Reserve Bank of New York's president at the time. Becoming a bank holding company would have given Lehman Brothers the access to additional funding and support sources. They may have gotten the same help later given to other banks like Goldman Sachs and Morgan Stanley, who were given bank holding company status after Lehman Brothers filed for bankruptcy.

Bailout of other banks to prevent the financial collapse: As per Freidheim (2018), the Fed converted Goldman Sachs and Morgan Stanley into bank holding corporations one week after Lehman filed for bankruptcy, preventing the complete financial system from collapsing. The

Federal Reserve's decision to permit other banks to become bank holding companies, which gave them access to more resources and support, was successful in preventing their demise and averting a larger financial disaster. It also argues that Lehman Brothers might have been rescued if it had received similar help, avoiding the detrimental effects that resulted from its bankruptcy.

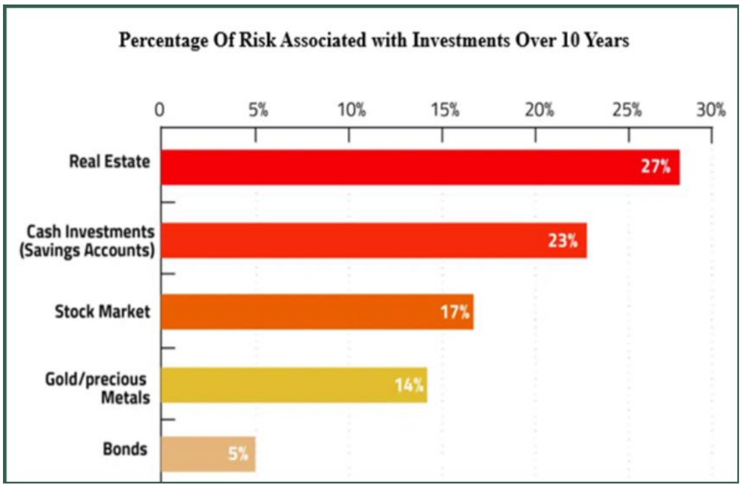
Devastation on Main Street: Lehman Brothers' demise set off a worldwide financial crisis in 2008, which resulted in a severe economic recession that had a big effect on Main Street. The demise of Lehman Brothers also aided in the demise of the housing market, which directly impacted Main Street. The U.S. government had to step in with significant bailouts and stimulus programs to stabilize the economy in reaction to the financial crisis brought on by Lehman Brothers' failure. Taxpayers footed the bill for these initiatives, and the ensuing rise in government debt had long-term ramifications including less public spending on essential services and higher taxes that hurt Main Street. This implies that Lehman Brothers' bailout might have reduced the negative effects of the financial crisis on Main Street and the common people.

Political interference in the bailout decision: There was a general consensus in Washington that assisting struggling financial companies would encourage risky conduct and lead to more bailout demands. The need to save Main Street, not Wall Street, was stressed by presidential contenders at the time, according to Freidheim (2018), and this led to considerable political pressure in Washington against saving failing financial firms. This shows that the decision not to save Lehman Brothers was influenced by political factors. Both presidential candidates held the same opinion, and there was a lot of political pressure to allow one bank to fail. But it was a poor choice taken in the face of oppressive political pressure, and policymakers should keep this in mind as they get ready for the next financial crisis.

Argument Against the Bailout

There were many strong reasons why Lehman Brothers should have been bailed out, but there were just as many valid reasons why it shouldn't have been.

Risky real estate Investments: Considering both legal and practical considerations, it was decided not to bail out Lehman Brothers. Due to its speculative real estate assets, Lehman Brothers found itself in a financial crisis. The Federal Reserve Act states that Fed loans must be backed by collateral, but Lehman Brothers lacked sufficient amounts of it (Stewart & Eavis, 2014). Hence, such a bailout would have been against the law and reckless because it would have found to have violated the conditions for Fed loans. By rewarding irresponsible behaviour, bailing out Lehman Brothers would have created a bad precedent and compromised the integrity of the financial system.



Maintaining the Integrity of the Federal Reserve: Stewart and Eavis (2014) contend that the Federal Reserve made the right decision by declining to bailout Lehman Brothers because the company lacked sufficient strong assets to back an institution loan. Providing Lehman Brothers, a bailout would have undermined the credibility and stability of the Federal Reserve's balance sheet by exposing the Federal Reserve and taxpayers to potential losses in the event of a default. This argument holds that bailing out Lehman Brothers will compromise the credibility of the Federal Reserve and the financial sector's reckless behaviour, both of which need to be preserved.

No Buyer or Merger Partner Could Be Found: One of the main arguments against a bailout might be that Lehman Brothers failed to find an investor or merger partner, unlike other struggling financial organizations like Bear Stearns and Merrill Lynch. The Federal Reserve and the Treasury made an effort to help Lehman Brothers find a private sector solution, but the bank's poor liquidity and lack of transparency turned away potential bidders (Stewart & Eavis, 2014). Lehman Brothers' inability to find interested buyers might be seen as a reflection of its fundamental vulnerabilities and hazards, in contrast to Bear Stearns and Merrill Lynch.

Poor Decisions and Careless Risk-Taking: Despite several cautions regarding its enormous leverage and exposure to subprime mortgages, Lehman Brothers' collapse was the result of its own poor decisions and careless risk-taking. Lehman Brothers, according to Ball (2018), had many chances to increase capital, lower risk, and boost liquidity but it chose not to do so. So, it was unreasonable to expect the Federal Reserve to assist a company that was not willing to save itself. In these circumstances, it was acceptable to refuse from saving Lehman Brothers since it made the company accountable for its own mistakes.

Prioritizing the Interests of Taxpayers: Private companies, particularly those that have acted irresponsibly, shouldn't be saved with taxpayer money. Rather than bailing out a single business that may have recklessly contributed to its own demise, the government has a duty to make sure that public funds are spent in a way that benefits the entire society. Using taxpayer funds to save a failing business sends the incorrect message since it might encourage poor behaviour and lead to moral hazard, where businesses may feel encouraged to take excessive risks in the future in the hope of receiving government assistance.

Possible Alternatives

Debt Restructuring: Debt restructuring is changing the terms of existing debts to make them easier for the debtor to handle, such as by lengthening the repayment period, lowering the interest rate, or forgiving a portion of the debt. Debt restructuring may have been investigated as a way to handle Lehman Brothers' financial challenges without a direct bailout as they had a significant amount of unsustainable debt during the financial crisis. As opposed to a bailout, it might not require a direct infusion of taxpayer money or outside financial assistance. Instead, it could involve revising current obligations, which might be less expensive for taxpayers and prevent the moral hazard issues related to bailouts.

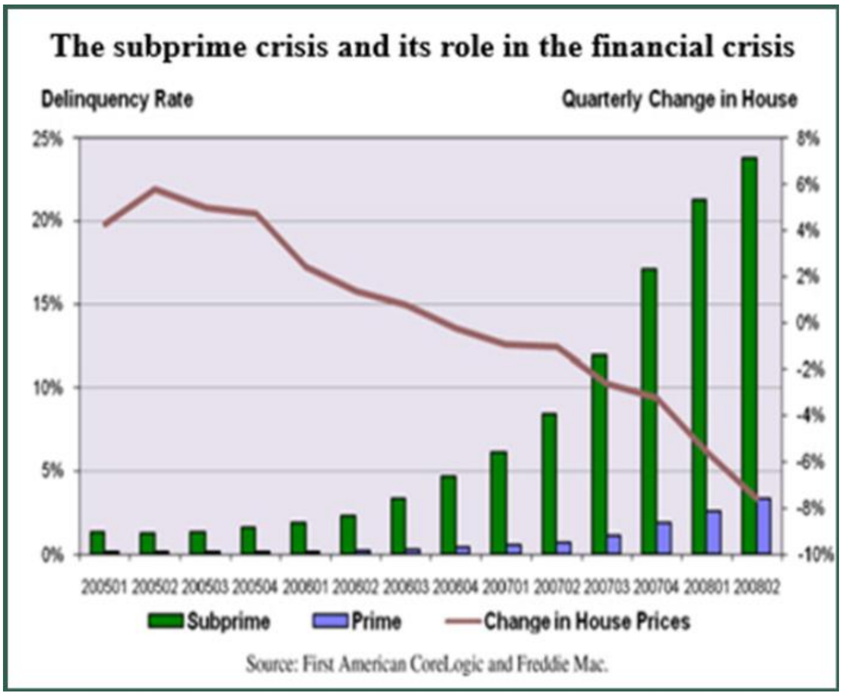
Private sector intervention: Lehman Brothers may have been acquired by private sector organizations with significant financial capabilities, who might have provided funds, carried out strategic restructuring, and managed the company's operations to mitigate the risks and save it. This might have reduced the systemic risks connected with a large-scale bailout and the impact of Lehman Brothers' bankruptcy on the overall financial system. In order to recapitalize and reorganize Lehman Brothers while safeguarding the interests of creditors, shareholders, and other stakeholders, private investors and financial institutions would collaborate.

Regulatory intervention: To stop Lehman Brothers' financial situation from getting worse, regulators may have enforced greater capital requirements, liquidity restrictions, or risk management regulations. Without going to a taxpayer-funded bailout, these steps might have been taken to strengthen the bank's financial condition, safeguard its depositors, and regain public confidence in the financial system. This may have included maintaining an open and organized process, protecting the interests of creditors and stakeholders, and reducing the systemic risks connected to the potential demise of Lehman Brothers.

These following options might have reduced the need to use bailout for Lehman Brothers and prevented future excessive risk-taking and encouraged cautious financial behaviour.

Key Lapses and Lessons Learned for Preventing Future Crises

The global financial crisis of 2008 was a catastrophic event that resulted in significant economic downturns and losses for financial institutions and investors worldwide. The crisis was the result of multiple factors, including lax regulation, aggressive lending practices, and a lack of oversight by financial institutions. The economic decline was largely influenced by the subprime mortgage market. Prior to the crisis, borrowers who couldn't qualify for conventional mortgages due to poor credit history or other financial difficulties were given subprime mortgages by lenders. These subprime mortgages were packaged together and sold as mortgage-backed securities (MBS) to investors who deemed the underlying assets as low-risk investments. Nonetheless, the collapse of the housing market led to a large number of defaults in these mortgages, causing the MBS to experience a rapid decline in value and investors to suffer significant losses. The absence of oversight and regulation by financial institutions was another crucial factor that contributed to the financial crisis. Deregulation of the financial industry by the US government resulted in a lack of clarity in lending practices, permitting financial institutions to indulge in risky lending and investment methods.



Additionally, numerous financial institutions lacked adequate risk management policies, which led to significant losses when the crisis struck. Lehman Brothers, a global financial services firm, was one of the institutions that suffered significant losses during the financial crisis. The company had invested heavily in the subprime mortgage market and had significant exposure to MBS. As the housing market collapsed and borrowers defaulted on their mortgages, Lehman Brothers faced significant losses on its investments. Lehman Brothers responded to the crisis by implementing several measures to tackle the issue and mitigate the risks of future crises. The first step was to decrease their involvement in the subprime mortgage market,

which they accomplished by disposing of some of their mortgage-backed securities and discontinuing the underwriting of subprime mortgages. Moreover, the company shifted its focus towards its primary businesses and decreased its dependence on unstable markets like the subprime mortgage market. Another step taken by Lehman Brothers was to reduce its leverage. The company had previously relied heavily on borrowing to fund its operations and investments. However, in the aftermath of the financial crisis, the company reduced its leverage and sought to maintain a more conservative balance sheet. This allowed the company to better weather future market downturns.

Lehman Brothers implemented substantial changes to its risk management policies, which included the implementation of new risk assessment tools and an increase in investment oversight. Furthermore, the company established a risk committee with the responsibility of monitoring the firm's risk management policies and preventing the company from participating in hazardous practices that could result in significant losses. Despite these steps, the effectiveness of Lehman Brothers' response to the financial crisis in preventing future crises is debatable. The company's reduced exposure to the subprime mortgage market and increased focus on core businesses undoubtedly helped to mitigate losses. However, the company did not go far enough in its risk management policies and continued to engage in risky investment practices. Ultimately, the effectiveness of Lehman Brothers' reaction to the financial crisis was limited, as the company ultimately in September 2008, filed for bankruptcy. The bankruptcy was the largest in US history and had significant implications for worldwide banking system.

Conclusion

The 2007–2009 financial crisis significantly impacted the global economy, and this influence may still be seen today. Many financial institutions, including Lehman Brothers, collapsed due to the securitization of assets and an overreliance on risky financial instruments. Despite the heated debate over bailouts, it was evident that the failure to save Lehman Brothers has significantly impacted the global economy. The financial crisis made it clear that there was a need for strong financial sector regulation and that the banking sector needed to prioritize. A number of measures have been put in place by politicians and financial authorities as a result of the crisis in an effort to stop this from happening again. These consist of tougher financial sector regulation, higher capital standards, and better risk management procedures. To detect and handle new dangers to the financial system, though, there is still work to be done, and research must continue. Finally, the financial crisis of 2007–2009 serves as a reminder of the significance of preserving a reliable and accountable financial industry. We must keep learning from the past's mistakes as we advance and seek to create a more durable and sustainable economic system in the future.

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