Document 0128

Wall Street 's big securities firms face the prospect of having their credit ratings lowered .
named:x-c named:x-c _ a:e-p n:x n:x v:e-i-p _ q:i-h-h n:x p:e-x-i v_prd:e-i-i-h q:i-h-h n:x n:x v_cause:e-i-p _

The reason : Risks from the firms ' new " merchant banking " activities are rising as revenue from the industry 's traditional business erodes .
q:i-h-h n_for:x-i _ n_of:x-i p:e-u-i q:i-h-h n:x _ a:e-p _ n_of:x-i n:x _ _ n_of:x-i n:x v:e-i x:e-h-h _ v:e-i p:e-u-i q:i-h-h n:x _ a:e-p n:x v:e-i _

With the shudders came the realization that some of Wall Street 's biggest players are struggling to maintain the stellar credit standing required to finance their activities profitably .
p:e-u-i q:i-h-h n:x v:e-u q:i-h-h n:x-h _ q:i-h-h named:x-c named:x-c _ a:e-i n_of:x-i _ v:e-i-h _ v:e-i-p q:i-h-h a:e-p n:x v:e-i v_of:e-i-p x:e-h-h v:e-i-p n:x _ a_for:e-e _

Securities firms are among the biggest issuers of commercial paper , or short-term corporate IOUs , which they sell to finance their daily operations .
n:x n:x _ p:e-u-i q:i-h-h a:e-i n:x p:e-x-i n:x _ _ _ n_of:x-i a:e-p n:x _ n_of:x-i prom:x v:e-i-p x:e-h-h v:e-i-p q:i-h-h a:e-p n_of:x-i _

The biggest firms still retain the highest ratings on their commercial paper .
q:i-h-h a:e-i n:x a:e-e v:e-i-p q:i-h-h a:e-i n:x p:e-u-i q:i-h-h a:e-p n:x _

But Moody 's warned that Shearson 's commercial paper rating could be lowered soon , a move that would reduce Shearson 's profit margins on its borrowings and signal trouble ahead for other firms .
c:i-i-i _ v:e-i-h _ named:x-c _ a:e-p n:x n:x v_modal:e-h _ v_cause:e-i-p time_n:x _ q:i-h-h n:x _ v_modal:e-h v:e-i-p named:x-c _ n:x n:x p:e-u-i q:i-h-h n:x _ v:e-i-p n:x p:e-i p:e-u-i a:e-i n:x _

Shearson is 62%-owned by American Express Co .
named:x-c _ v:e-i-p p:e-u-i named:x-c named:x-c n:x _

" A sweeping restructuring of the industry is possible . "
_ q:i-h-h v:e-i v:e-i p:e-x-i q:i-h-h n:x _ a_for:e-p-i _ _

Standard & Poor 's Corp. says First Boston , Shearson and Drexel Burnham Lambert Inc. , in particular , are likely to have difficulty shoring up their credit standing in months ahead .
named:x-c _ named:x-c _ named:x-c _ v_to:e-i-h-i named:x-c named:x-c _ named:x-c _ named:x-c named:x-c named:x-c n:x _ p:e-i p:e-i _ a:e-h _ v:e-i-u-h v:e-i-p _ q:i-h-h n:x n:x v_up:e-i-i _ p:e-u-i n:x p:e-i _

What worries credit-rating concerns the most is that Wall Street firms are taking long-term risks with their own capital via leveraged buy-out and junk bond financings .
thing:x v:e-i-p n:x n:x a:e-e a:e-e v_nv:e-i-h _ named:x-c named:x-c n:x _ v:e-i-p-u n_of:x-i n_of:x-i q:i-h-h a:e-p n:x p:e-u-i v:e-i-p n:x _ n:x n:x n:x _

That 's a departure from their traditional practice of transferring almost all financing risks to investors .
x:x v_id:e-p-i q:i-h-h n:x p:e-u-i q:i-h-h a:e-p n_of:x-i _ v_from:to:e-i-p-i-i x:e-u q:i-h-h v:e-i-p n_of:x-i _ n:x _

Whereas conventional securities financings are structured to be sold quickly . Wall Street 's new penchant for leveraged buy-outs and junk bonds is resulting in long-term lending commitments that stretch out for months or years .
x:e-h-h a:e-p n:x n:x _ v:e-i-p x:e-h-h _ v:e-i-p a:e-e _ named:x-c named:x-c _ a:e-p n:x p:e-u-i v:e-i-p n:x _ n:x n:x v_in:e-i-i _ n_of:x-i n:x n_to:x-i _ v_out:e-i _ p:e-u-i n:x _ n:x _

" Wall Street is facing a Catch-22 situation , " says Mr. Mahoney of Moody 's .
_ named:x-c named:x-c _ v:e-i-p q:i-h-h card:i-i-c n:x _ _ v_to:e-i-h-i n:x named:x-c p:e-x-i _ _

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These are semantic dependency parse graphs (DMRS-style annotations). Each graph shows a sentence with word-level predicate annotations below each token.

Merchant banking , where firms commit their own money , '' is getting riskier , and there 's less of it to go around . ''

[20128019]

In a leveraged buy-out , a small group of investors acquires a company in a transaction financed largely by borrowing , with the expectation that the debt will be paid with funds generated by the acquired company 's operations or sales of its assets .

[20128021]

It said that the '' temptation for managements to ease this profit pressure by taking greater risks is an additional rating factor . ''

[20128022]

Both Moody 's and S&P cited First Boston 's reliance in recent years on merchant banking , which has been responsible for a significant portion of the closely held firm 's profit .

[20128023]

The recent cash squeeze at Campeau Corp. , First Boston 's most lucrative client of the decade , is proving costly to First Boston because it arranged more than $ 3 billion of high-yield , high-risk junk financings for Campeau units .

[20128025]

'' These two exposures alone represent a very substantial portion of CS First Boston 's equity , '' Moody 's said .

[20128026]

'' Total merchant banking exposures are in excess of the firm 's equity . ''

[20128027]

CS First Boston , however , benefits from the backing of its largest shareholder , Credit Suisse , Switzerland 's third largest bank .

[20128028]

Shearson also has been an aggressive participant in the leveraged buy-out business .

[20128030]

In addition , Shearson 's listed $ 2 billion of capital is overstated , according to the rating concerns , because it includes $ 1.7 billion of goodwill .

[20128031]

Shearson '' really only has $ 300 million of capital , '' says Mr. Bowman of S&P .

[20128032]

A Shearson spokesman said the firm is n't worried .

[20128033]

'' A year ago , Moody 's also had Shearson under review for possible downgrade , '' he said .

" After two months of talks , our rating was maintained . "

Drexel , meanwhile , already competes at a disadvantage to its big Wall Street rivals because it has a slightly lower commercial paper rating .

The firm also has been hit with big financial settlements with the government stemming from its guilty plea to six felonies related to a big insider-trading scandal .

Drexel this year eliminated its retail or individual customer business , cutting the firm 's workforce almost in half to just over 5,000 .

The firm 's capital , moreover , has n't grown at the same rate as in the past , officials at these firms say .

Drexel remains confident of its future creditworthiness .

" We 're well positioned with $ 1.7 billion of capital , " a Drexel spokesman said .

" And as a leading investment and merchant banking firm , the fact that we are no longer subject to the uncertainties and vicissitudes of the retail business is a major plus in our view .

Moreover , we 've probably been the most aggressive firm on the Street in reducing costs , which are down around 40 % over the last six months .