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State Treasurer Kate Marshall Announces Recuperation of $50 Million from Lehman Bankruptcy

Marshall's swift and decisive action following the Wall Street collapse leads to $50 million recovery for Nevada

Las Vegas – State Treasurer Kate Marshall today announced that her office has recovered Nevada's $50 million loss incurred by the bankruptcy of Lehman Brothers in 2008, an investment made by the State's securities lending agent prior to the Wall Street crash. The announcement comes two days after the 6th anniversary of the Lehman Brothers collapse.

"At the time of the Lehman Brother bankruptcy, I promised I would do everything within my power to recover every last dollar," said Nevada State Treasurer Kate Marshall. "I am proud to announce today that the Lehman recovery efforts instituted by my office have been successful."

"Kate demonstrated her leadership in guiding Nevada through the economic storm our country confronted," said Jim Murren, Chairman and CEO of MGM Resorts International. "When the national economy collapsed, Kate's steady stance instilled confidence in the business community that the State's money was being safeguarded."

"Understand that this bankruptcy went against conventional wisdom by the financial industry and impacted governments on a global scale" said Rick Phillips, President of FTN Financial Main Street Advisors, a well-known asset manager located in Las Vegas who advises local governments. "Kate Marshall's swift and decisive action was essential to recovering $50 million for the state of Nevada."

"Some states sold their bonds immediately, while Kate Marshall remained focused and implemented a successful strategy, and wisely held the State's bonds to enhance their recovery value," said Phillips.

States across the country were taken aback by the Lehman Brothers collapse. Among the affected state governments, Minnesota lost more than $56 million, Missouri lost $50 million, Oregon lost $173 million, Washington lost $130 million and Florida lost more than $465 million.[1] According to a recovery analysis conducted by the Federal Reserve Bank of New York, "creditors' recovery rate was 28 percent, below historical averages for firms comparable to Lehman. Losses were exacerbated by poor bankruptcy planning and mitigated by timely funding from the Fed."[2]

The State of Washington decided to liquidate their bonds following the Lehman collapse and forced their state to write down a $92 million loss.[3] Quick and deliberate implementation of State Treasurer Marshall's recovery plan allowed Nevada to avoid such a drastic measure. As of January 2014, the State of Washington had only recovered one-third of their written down loss while Nevada will be able to avoid a loss all together.

Background

On September 15, 2008, Lehman Brothers declared bankruptcy and defaulted on its debt obligations, impacting state governments across the country. Industry experts expected the Federal Reserve and US Treasury Department to prevent a financial services firm of the size and scope of Lehman to fold. In fact, six months earlier the Federal Reserve brokered the sale of Bear Stearns, which also declared bankruptcy for many of the same reasons as Lehman Brothers, to JP Morgan. Later, recognizing their error in the handling of Lehman Brothers, the US government facilitated sales of Merrill Lynch, Wachovia, and Washington Mutual.

Prior to the collapse, the State's securities lending agent purchased Lehman Brothers Holdings, Inc. (LBHI) bonds on the State's behalf in 2007 with a total face value of $50 million. An additional $880,000 was purchased by one of the State's external asset managers. As of the fourth quarter of Fiscal Year 2014, Marshall's office has recovered $49,832,975 (98%) of the loss. The remaining $1,047,025 will be recouped by the end of the year through the Treasurer's successful investment recovery strategy.

Marshall's recovery strategy, reviewed by Nevada's Board of Finance after the Lehman collapse on July 9, 2009, was comprised of three parts: (1) holding Lehman bonds until the bankruptcy was finalized and to begin receiving distributions from the sale of Lehman assets, (2) evaluating the market for the possible sale of the defaulted bonds and then selling them at an opportune time and (3) recovering the remaining amount through an interest earning amortization process.

- On December 6, 2011, Lehman Brothers won approval from the US Bankruptcy Court for a proposed reorganization plan. Soon thereafter, the State began receiving semi-annual distributions from the sale and disposition of the Lehman estate's assets. More than $13.6 million has been recovered through the Lehman Brothers bankruptcy case, which has been reinvested into the State Treasury, earning interest for the State.

- On July 14, 2014, the State sold the LBHI bonds, resulting in proceeds of $10 million, which has also been reinvested into the State Treasury and is earning interest for Nevada. Following the 2008 bankruptcy of Lehman Brothers, LBHI bond prices plummeted. By not panicking and selling the

[1] http://www.gpo.gov/fdsys/pkg/CHRG-111hhrg51585/html/CHRG-111hhrg51585.htm
[2] http://www.ny.frb.org/research/epr/2014/1403flem.pdf
[3] http://www.atg.wa.gov/pressrelease.aspx?id=31806#.U_vPKvldWSo

bonds at an initial price of 10 cents on the dollar, but instead carefully evaluating the market over time, the Treasurer's Office was able to recoup 46.5 cents on the dollar through combined distributions from the Lehman estate and the proceeds of this sale.

- On July 9, 2009, Nevada's Board of Finance reviewed and agreed with Treasurer Marshall's amortization plan, which has to date recovered more than $25.9 million. Per the plan, the State Treasurer's Office amortized a portion of the General Portfolio's interest earnings each quarter over a multi-year period. Each State agency released a small portion of its interest earnings to the General Portfolio equivalent to its share of the Lehman loss based on its balance in the General Portfolio on the bankruptcy date. The final $1,047,025 of the loss is expected to be amortized by the end of this year. At that point, the amortization earnings will be redistributed in proportion to each agency's share.

As of September 10, 2014:

Total LBHI Distributions		$13,669,462
Sale Proceeds of LBHI Bonds on 7/14/14		$10,010,384
Total Amortized through FY14		$26,153,129
Total Amortized/Received to Date		**$49,832,975**

By consistently following this course, the State Treasurer's Office has recovered the $50 million for the State. As result of these decisions, the State's General Fund was not tapped to cover the loss, and State funds have been made whole, as opposed to writing down the loss in 2008, which other government agencies across the country did.

Marshall's Lehman recovery plan is another example of Marshall's successful financial strategy to keep Nevada on steady ground both during the economic crisis and on the road to economic recovery.

The State has been able to maintain a AA rating through the financial crisis largely through its fiscally conservative and sound management practices, a main scoring area by the rating agencies and a strength they recognized. Marshall has maintained ample reserves for the payment of the State's general obligation bonds (nearly prepaying a full year's debt service), restructuring the State's debt portfolio to both maintain these reserves and to issue bonds so the State could finance capital projects, and producing a decline in net debt per capita by rapidly paying off the State's debt. Marshall also achieved AAA ratings for the State's unemployment insurance bonds in 2013 and the State's highway debt in 2014 which is extremely remarkable when you consider Nevada's problems during and following the economic crisis.

In 2013, Marshall lowered the unemployment tax paid by businesses in Nevada by refinancing the state's unemployment fund owed to the federal government. By refinancing the fund, Marshall was able to lower the unemployment tax, which is estimated to save businesses in Nevada approximately $24 million.

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