
From: LaRocca, Gerard: Barclays Capital (NYK)
Sent: Thursday, September 25, 2008 8:17 PM
To: Stephanie.Heller@ny.frb.org
Cc: Hughes, Jonathan: Legal (NYK); Lucinda.Brickler@ny.frb.org; Shari.Leventhal@ny.frb.org
Subject: RE: One last question

Thank you for the update.
I am sure we will speak tomorrow..

Regards,
Gerard

From: Stephanie.Heller@ny.frb.org [mailto:Stephanie.Heller@ny.frb.org]
Sent: Thursday, September 25, 2008 7:59 PM
To: LaRocca, Gerard: Barclays Capital (NYK)
Cc: Hughes, Jonathan: Legal (NYK); Lucinda.Brickler@ny.frb.org; Shari.Leventhal@ny.frb.org
Subject: RE: One last question

Gerard --

I wanted to circle back to say that we did speak with Steve Cutler and his team tonight about the cash collateral issue. We had a lengthy discussion about the events that began Thursday night and continue on today. After listening to what Chase had to say I truly believe that there was a good faith misunderstanding between Chase and Barclays during the negotiations this weekend. There seems to have been two different transactions -- a brokered loan between Chase and Lehman that Chase wanted you to assume (this was what Chase thought it was negotiating) and the transaction of Thursday night that resulted in the cash collateral account for Barclays (which is what Barclays thought it was negotiating). Unfortunately both involved about \$7 billion dollars. There were signs of this disconnect that night including the statements that Barclays would wire funds to Chase. The Chase lawyers were not around at 11pm Thursday night and so were unaware that Thursdays transaction had ended with a cash collateral position. I assume on your part that Barclays never envisioned stepping in for Lehman on the brokered loan with Chase so this was not at all on your radar.

The good news I think is that they now fully understand that these were two separate transactions and that they do have an open issue with Barclays (keep in mind that when they agreed Monday morning to have Barclays keep the cash all that meant to them was that Barclays would not wire the \$7.4 billion and so they thought they were done).

I understand that Jonathan provided additional information to Chase today that was helpful. While it was clear that they had made progress in putting the pieces together on the Thursday night event, it was also clear that they were still trying to piece together certain aspects of what happened on their side. I believe that if you have not already done so, it would help them to know who at Chase or Lehman you were working with after the close of DTC that Thursday night (this is just my sense they did not ask for this).

This is a long way of saying that, for what it is worth, I think there was a good faith misunderstanding. I believe Steve Cutler is trying to track the movement of the money and the related securities on his side. I expect them to respond to you and resolve this issue.

<Gerard.LaRocca@barclayscapital.com>

09/25/2008 11:46 AM

To <Stephanie.Heller@ny.frb.org>

cc <Lucinda.Brickler@ny.frb.org>, <Paul.Agueci@ny.frb.org>,
<Jonathan.Hughes@barclayscapital.com>, <John.Haley@barclayscapital.com>,
<John.Rodefeld@barclayscapital.com>

Subject RE: One last question

Thank you . Your discussion with the Trustee is key for us.
Understand parties may not comply , but hope the Trustee is willing to be and can be influential to effect the correct response from JPM Chase.

Gerard

From: Stephanie.Heller@ny.frb.org [mailto:Stephanie.Heller@ny.frb.org]
Sent: Thursday, September 25, 2008 11:36 AM
To: LaRocca, Gerard: Barclays Capital (NYK)
Cc: Lucinda.Brickler@ny.frb.org; Paul.Agueci@ny.frb.org
Subject: RE: One last question

Garard --

I was the lawyer that Gail spoke with here. As much as we would like to help, we simply do not have the authority to just change the code. However, as I understand the situation, this is a one-time event. Let me explain why.

According to the Fedwire records, Lehman was the record holder on the record date which was the first. For the particular type of securities in question, the issuer of the securities has instructed the Reserve Banks to pay the P&I not to the holder on the "record date" but rather to the owner on the payment date -- ordinarily the Fedwire system treats the current holder as the owner (so Barclays in this instance). However, because the securities were tagged by Lehman/Chase as repo, the Fedwire system views Lehman/Chase as the owner/holder and will pay the P&I to Lehman. **The only way this could have been avoid would have been if the repo tag was not on the securities and at this point that requires BONY to make the request and Chase to agree to close out the repo. I will discuss with the trustee whether he is willing to make clear to Chase that there is nothing stopping Chase from doing so.**

However, even if Chase is unwilling to do this, going forward Barclays will be able to control the P&I payments.

This is because Barclays will be the record holder going forward as well as the "owner/holder" on the payment date. The Fedwire system will prepare a repo adjustment to move the credit from Barclays to Lehman on each payment date but, unlike this particular payment date, because this will be done through repo tracking/adjustments, **Barclays will be able to unilaterally instruct the Reserve Bank to leave the money with Barclays. BONY should know how to do this on your behalf.** Until the repo position is closed out (as described above through a request by BONY and acceptance by Chase), this will happen on every P&I date and BONY will have to keep an eye on it.

Of course ideally Chase will agree to close out the repo position before this becomes an issue again.

I have copied Paul Agueci who works in the WPO and understands the operational details of the repo tracking system. If I have said something that does not make sense to you, I am sure that Paul can help to better explain it.

<Gerard.LaRocca@barclayscapital.com>

09/25/2008 09:11 AM

To <Stephanie.Heller@ny.frb.org>
cc <Lucinda.Brickler@ny.frb.org>
Subject RE: One last question

I will follow up with Jonathan with urgency .

On a related matter JPM Chase is being uncooperative by rejecting our request to terminate the repo tracking code so Barclays would receive its P&I payments it is entitled to for those mortgage assets (a large subset of the asset portfolio) that were sent to us from Lehman on 9/18.

The Bank of New York Mellon has informed Barclays that the Fed has can't allow for the unilateral termination of the repo tracking code on the mortgage assets (a large subset of the asset portfolio) that were sent to us from Lehman on 9/18.

Because of this, \$40.1 million of interest payments that Barclays should be receiving today will be **paid to JP Chase**.

While this is the immediate concern, the P&I monthly remittance that Barclays will be entitled to as owner of these securities will grow to \$100's of millions each month going forward.

Kevin Caffery (SVP) at BoNY had discussions with the Head of Operations at the Fed (Gail Armendinger), who included their legal counsel on the call. Bank of New York is willing to help but feels they are at an impasse with the Fed.

From: Stephanie.Heller@ny.frb.org [mailto:Stephanie.Heller@ny.frb.org]
Sent: Thursday, September 25, 2008 8:57 AM
To: LaRocca, Gerard: Barclays Capital (NYK)
Cc: Lucinda.Brickler@ny.frb.org
Subject: One last question
Importance: High

Gerard --

I spoke with Tom Baxter last night about the cash collateral at Chase and the deal that was struck early Monday morning. He seems willing to reach out to Chase on this but has asked me whether the "deal" was put in writing. I recall you saying something about the deal being "papered" this way but I am not sure if I heard correctly. Can you please tell me whether there is a written agreement signed by Chase that reflects the decision about taking the cash instead of the securities or alternatively, if this does not exist, is there some other written agreement that indicates what they were supposed to give you (the 8.55 billion of securities)?

I would reach out directly to Jonathan but I do not have his e-mail address and I am tied up this morning.

Bottom line, before Tom calls over he would like to know what the written agreement says about this.
Thanks

This e-mail may contain information that is confidential, privileged or otherwise protected from disclosure. If you are not an intended recipient of this e-mail, do not duplicate or redistribute it by any means. Please delete it and any attachments and notify the sender that you have received it in error. Unless specifically indicated, this e-mail is not an offer to buy or sell or a solicitation to buy or sell any securities, investment products or other financial product or service, an official confirmation of any transaction, or an official statement of Barclays. Any views or opinions presented are solely those of the author and do not necessarily represent those of Barclays. This e-mail is subject to terms available at the following link: www.barcap.com/emaildisclaimer. By messaging with Barclays you consent to the foregoing. Barclays Capital is the investment banking division of Barclays Bank PLC, a company registered in England (number 1026167) with its registered office at 1 Churchill Place, London, E14 5HP. This email may relate to or be sent from other members of the Barclays Group.

This e-mail may contain information that is confidential, privileged or otherwise protected from disclosure. If you are not an intended recipient of this e-mail, do not duplicate or redistribute it by any means. Please delete it and any attachments and notify the sender that you have received it in error. Unless specifically indicated, this e-mail is not an offer to buy or sell or a solicitation to buy or sell any securities, investment products or other financial product or service, an official confirmation of any transaction, or an official

statement of Barclays. Any views or opinions presented are solely those of the author and do not necessarily represent those of Barclays. This e-mail is subject to terms available at the following link: www.barcap.com/emaildisclaimer. By messaging with Barclays you consent to the foregoing. Barclays Capital is the investment banking division of Barclays Bank PLC, a company registered in England (number 1026167) with its registered office at 1 Churchill Place, London, E14 5HP. This email may relate to or be sent from other members of the Barclays Group.
