

From: Feldkamp, Geoffrey F  
[feldkamp@lehman.com].

Sent: 3/18/2008 3:51 PM.

To: Felder, Eric [efelder@lehman.com].

Cc: Wieseneck, Larry [lwiesene@lehman.com].

Bcc: .

Subject: the Fed's new "Primary Dealer Credit Facility".

this email came to me and i wanted to check your read.

will call you...do you read the new regs the same way? if we can access 2.5% funds as a warehouse for all types of collateral, we should have plenty of flexibility to structure and rethink CLO/CDO structures to arb the +600 corp spreads...into workable securitized solutions...

---

By the way, I think the new "Primary Dealer Credit Facility" is a LOT bigger deal than it is being played to be and JPM should understand it very well.

If you look at the Fed's site and open the announcement, there's a tab for "terms and conditions" Under that tab is a part on "eligible collateral". That includes everything available for collateral in open market operations "plus investment grade corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities. Collateral that is not priced by the clearing banks will not be eligible for plege under the PDCF."

That would make the PDCF available to serve as a "warehouse" for short term securities acked by corporate loans pending sale of CDOs, and for margin on existing and future CDO securities.

THIS MAY BE THE "EXIT STRATEGY" FUNDING SOURCE WE NEED TO GET NEW COMPETITION IN THE CORPORATE LOAN MARKET. Investment banks can make the

warehouse and term CDO technology available to all sorts of customers that will want to profit by using CDO technology to take advantage of the enormous potential income they can make "bridging" the current spread level. They'll need to get others to absorb the "recourse" and other risks to avoid the capital uncertainty of the PWG report, but there are good examples out there to do that.

Clearing banks (like JPM) have been working on pricing models for all sorts of loans and securities that qualify. In order to get their own portfolios in shape, they should all want to be active in pricing (again, so they can avoid the capital calls of the PWG report) every possible type of loan they can.

Bernanke and co may have "saved the day", and JPM has a great public affairs approach to make the Bear deal look extremely positive for everyone, by emphasizing how it will be looking forward to applying this new technology to resolution of this crisis. Once applied successfully, the Fed will not be able to end the facility. They'll have to continue it and manage it as a standard monetary policy tool. WHAT'S PAST IS PAST, IT'S TIME TO SELL THE FUTURE.