

Highly Confidential New York Fed Information

From: William Dudley/NY/FRS
Sent: Sep 18, 2008 08:32:44
To: Lucinda M Brickler/NY/FRS@FRS
Cc:
Bcc:
Subject: Re: IMPORTANT: lbi/bci transactions tomorrow

Good

From: Lucinda M Brickler
Sent: 09/18/2008 08:20 AM EDT
To: William Dudley
Cc: William Walsh
Subject: Re: IMPORTANT: lbi/bci transactions tomorrow

I spoke to Barry this a.m.--he was aware of the plan and agreed that it had to go off without a hitch. Then he started with some !@#\$ about how it was Barclay's responsibility to take care of any problems...whatever. I told him that if anything comes up during the day that gives them pause they need to pick up the phone that minute and talk to us. He agreed.

I'm going to see if I can get Terry Checki to call Mike Cavanaugh--JPMC's chief credit officer. They have a great rapport, can't hurt.

I will be reviewing plans with Certossimo this a.m.

Lucinda

Lucinda Brickler
Payments Policy Function
Federal Reserve Bank of New York
212.720.6132 or 646.720.6132

William Dudley/NY/FRS
09/17/2008 08:05 PM
To Lucinda M Brickler/NY/FRS@FRS, William Walsh/NY/FRS@FRS
cc
Subject Re: IMPORTANT: lbi/bci transactions tomorrow

You should call Barry first thing in the morning (I can participate if you want). Explain the transactions ad get him to promise to let it proceed without any funny business. If he balks in any way, then Tim should call Jamie. This has to happen without any mishaps.

----- Original Message -----

From: Lucinda M Brickler
Sent: 09/17/2008 07:54 PM EDT
To: William Dudley; William Walsh
Subject: Fw: IMPORTANT: lbi/bci transactions tomorrow

Lucinda Brickler
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----- Forwarded by Lucinda M Brickler/NY/FRS on 09/17/2008 07:51 PM -----

Lucinda M Brickler/NY/FRS
09/17/2008 07:53 PM

To Bill Dudley, Sandy.Krieger@ny.frb.org, Annmarie RoweStraker/NY/FRS@FRS, Joyce Hansen, Lorie Logan/NY/FRS@FRS, Michael Schetzel/NY/FRS@FRS, Susan McLaughlin/NY/FRS@FRS, Spence Hilton, Bill Walsh, Brian Begalle/NY/FRS@FRS, Frank Keane/NY/FRS@FRS
cc Andrew Danzig/NY/FRS@FRS, Chris Burke, HaeRan Kim/NY/FRS@FRS, James P Bergin/NY/FRS@FRS, Richard Roberts/NY/FRS@FRS, Chris.McCurdy@ny.frb.org, Dina Marchioni/NY/FRS@FRS, Rania Jamal
Subject IMPORTANT: lbi/bci transactions tomorrow

Bill and Sandy (and others)

We (see cc list) just met with BCI, LBI and BNYM folks (names at bottom of email) to go through transactions that they will execute tomorrow that will permit Barclays to take possession of Lehman's collateral and extinguish Lehman's PDCF (\$20 billion), OMO (\$7 billion) and TSLF (\$20 billion) activity with us. Barclays plans to bring all the collateral to the PDCF tomorrow for a PDCF loan (\$47 billion). They expect to be able to finance all this collateral in the market within 2 weeks. (They need this time to get all the cusips into their systems and find counterparties. They expect the loan amount to decline each day as they get up to speed.)

I believe this will have a net impact of +\$20 billion of funds in the market because the collateral that previously supported treasury borrowing in the TSLF will now be funded in the PDCF. The extinguishing of LBI's OMO position will also cause a balance sheet reporting discrepancy that will have to be explained next week when we publish.

The transaction will also require Barclays Bank to overdraft its account with us for the \$47 billion early in the day tomorrow (

_____). Barclays Bank will lend this amount intraday to BCI to pay down its overdraft at JPMC that results from the unwind of triparty repo tomorrow. This will permit LBI to deliver the securities free of payment to BCI. BCI will pledge them to the PDCF. The cash proceeds will pay back Barclays Bank's intraday overdraft.

A key risk factor is that JPMC will try to use the \$47 billion in cash paid from Barclay's to pay down other Lehman Bros. obligations and refuses to release the collateral. This would be a disaster. BNYM and Barclays folks have been in contact with JPMC. I wonder if we should reach out to Barry Zubrow (or higher?) to make sure they behave tomorrow...what do you think? There's an awful lot at stake on many dimensions...

Please let me know asap if you have any questions or concerns about this arrangement. In particular--the \$47 billion daylight overdraft at Barclays, the extinguishing of the TSLF loans with monetary policy impact, the extinguishing of the OMO positions with balance sheet impact, and the risk that JPMC will not behave as anticipated. (Dina and Chris admirably defended our need to avoid monetary policy and balance sheet impact, but in the end we agreed that this approach had the most likelihood of success.)

There may be a better way to do this, but all parties were obviously very exhausted and getting this done tomorrow would clear the way for the bankruptcy filing and SIPC filing on Friday. If I made any mischaracterizations or failed to relay important information, I hope those who were there will chime in.

Lucinda

Barclays attendees: Gerard LaRocca (BCI chief administrative officer), David Petrie (BCI finance), Ian Prior and Elena

FRBNY to Exam. 003416

Matrullo (BCI chief credit officers), Alan Kaplan (BCI--deputy general counsel)

BNYM attendee: Art Certossimo

Lehman attendee: Ian Lowitt (sp?) (LBI cfo?)

Lucinda Brickler

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