From: Arthur Angulo/NY/FRS
Sent: Sep 12, 2008 11:27:25
To: Timothy Geithner/NY/FRS@FRS; William Rutledge/NY/FRS@FRS; Terrence Checki/NY/FRS@FRS; Thomas Baxter/NY/FRS@FRS; Chris McCurdy/NY/FRS@FRS; William Dudley/NY/FRS@FRS; Theodore Lubke/NY/FRS@FRS; Lucinda M Brickler/NY/FRS@FRS; Sandy Krieger/NY/FRS@FRS; Brian Peters/NY/FRS@FRS; Sarah Dahlgren/NY/FRS@FRS; Jan Voigts/NY/FRS@FRS; William BRODOWS/NY/FRS@FRS; Til Schuermann/NY/FRS@FRS; Meg McConnell/NY/FRS@FRS
Cc:
Bcc:
Subject: Fw: LEH update call

Note the following w.r.t. the liquidity pool...I don't view the $10B to C and JPM as unencumbered...
In terms of clearing requirements, JPM asked for another $5b last night. Prior to this request, they had $12b (according to Lehman) or $10b (according to JPM) of collateral. Lehman has posted this additional $5b in cash, which they consider to be an intraday deposit that does NOT hit the liquidity pool. In total, between JPM and Citi, there is about $10b of cash in the liquidity pool which is being held by a bank as intra-day collateral.

----- Forwarded by Arthur Angulo/NY/FRS on 09/12/2008 11:17 AM -----

""Eichner, Matthew""
09/12/2008 11:17 AM
To
cc
Subject FW: LEH update call

Fyi...

From: Bettinger, Lori
Sent: Friday, September 12, 2008 11:12 AM
To: Bettinger, Lori; Sirri, Erik R.; Gallagher, Jr., Daniel M.; Colby, Robert LD; Macchiaroli, Michael A.; McGowan, Thomas K.; Roy, Randall W.
Cc: Eichner, Matthew; Giles, James; Landers, Denise; Hsu, Michael
Subject: LEH update call
Paolo led the 10:30 update today. The liquidity pool ended yesterday at $34b, and should be in the same ballpark at the end of today – however, there is a good deal of operational friction right now which could have a significant effect on today's final number. The main drivers of yesterday's decrease are due to a $1.3b operational shortfall in LBIE, the results of large amounts of PB collateral going through the system. Also, they had $800m in outflows around derivatives. Included in this is $690m in margin posting, some of which supporting novations. It's worth nothing that they should get much of the novation related margin back, as the counterparties who have stepped out of the trades return margin to Lehman. However, in order to "keep people happy," they are making sure that they keep the payments moving. Finally, the liquidity pool declined due to payments associated with maturing CP and ABCP.
For the most part, everything rolled today. They lost $200m in equities from Tokyo, and $1.3b in equities from Fidelity. They are overfunded in these areas, and won't take a hit to the liquidity pool on these. Fidelity no longer has any repo with Lehman. Paolo noted that other major funders, such as State Street, BONY, and JPM, all rolled.
Paolo's focus today is now turning to keeping "operating balances as liquid as possible." They had a number of sales yesterday, predominantly associated with the reduction in PB balances, and they have some customers failing to deliver the cash. They are tracking these fails carefully, and Paolo highlighted the need to do so when you have so many pending payments and receipts. He gave one example of a customer owing $1.7b, and only paying $700m, in bits and pieces, last night. In these cases, the collateral remains in the box until payment is received and settlement can occur.

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There were only $20m in debt buybacks yesterday, and Paolo said that this activity has basically been shut down.

CDS opened the day at 565, and are around 650 now. Trading volume in CDS is very light.

With respect to rating agencies, Paolo expects that if there is no deal, they would be downgraded, probably to BBB for long-term.

Let us know if you have any questions.