

William Rutledge /NY/FRS

08/29/2008 11:05 AM

To timothy.geithner@ny.frb.org

cc Arthur Angulo/NY/FRS@FRS, terrence.checki@ny.frb.org,  
Thomas Baxter/NY/FRS@FRS, Michael  
Schussler/NY/FRS@FRS

bcc

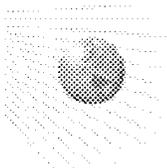
Subject Re: Lehman 

HRC called back after his conversation with Chris Spoth --- got very negative response that apparently reflected an overall FDIC view, although Chris said Sheila was continuing to have conversations with other senior government officials.

In light of the FDIC conversation, HRC asked to put on the table the alternative he alluded to a couple of weeks ago --- i.e., having the ILC seek FRS membership. Under this alternative, if permitted, the FRS would become the principal Federal supervisor of the ILC, although the FDIC would still have a consultative role in a 23A request; the membership for the ILC would not cause Lehman to be subject to the BHC Act.

ILC membership is legally possible (per Michael Schussler's review) but raises policy issues --- we had mentioned this possibility to Scott and would need to update him that the issue is now live. We also have the issue of another FRB being involved --- if my geography is correct, the Lehman ILC is in the Twelfth District. I have a call scheduled with Steve Hoffman for this afternoon on a different topic but could brief him on this as well (unless you want to raise with Janet now or down the line).

William Rutledge/NY/FRS



William Rutledge /NY/FRS

08/29/2008 09:09 AM

To Timothy Geithner/NY/FRS, Terrence Checki/NY/FRS,  
Thomas Baxter, Arthur Angulo/NY/FRS

cc

Subject Lehman

HRC called to say that the SEC has now signed off on the most important accounting and other issues re SpinCo. Lehman would like to move forward on its package quickly.

He asked about the FDIC and 23A. As I told Paolo a day or two ago, I told HRC that I had not heard from the FDIC since last week --- that Chris Spoth at that time still had fundamental concerns with extending the safety net. I also mentioned the question of how important the 23A request was to the overall package, particularly given that it was now a considerably smaller piece (HRC noted the conundrum that Lehman's feeling it had to reduce the size of the request raises the question of the request's importance.) HRC asserted it really was of importance for various reasons such as developing an alternative funding source for a hard to separately fund block of assets and positive announcement implications.

He will call the FDIC.