Jan Voigts /NY/FRS
08/21/2008 06:35 AM

To Arthur Angulo/NY/FRS@FRS
cc
bcc
Subject Re: Lehman update

Agreed. On balance though I think we could look at liquidity pools similarly to Tier 1 & Tier 2 cap. We don't want to start splitting definitional hairs too finely but the timing of when the intra-day collateral (deposit)would be released becomes important on a consolidating basis where demands in other entities are constrained by timing challenges in the individual clearing banks..
Sent from Blackberry

From: Arthur Angulo
Sent: 08/20/2008 10:23 PM EDT
To: Jan Voigts
Cc: William BRODOWS; Til Schuermann; Craig Leiby
Subject: Re: Lehman update

Conceptually, I can see an argument for including the $7B in the liquidity pool if JPM and C release the collateral to LEH every night -- if triparty investors decline to roll at the end of the day, LEH can repo the $7B to replace the funding for the assets not financed by the triparty investors...On the other hand, doesn't quite feel right to view the $7B as "unencumbered"...

From: Jan Voigts
Sent: 08/20/2008 09:25 PM EDT
To: Arthur Angulo
Subject: Re: Lehman update

The liquidity pool looks largely unchanged - which leads me to want to look more closely at the three card monte routine we see in intercompany funding.
Sent from Blackberry

From: Arthur Angulo
Sent: 08/20/2008 09:08 PM EDT
To: Jan Voigts
Cc: William BRODOWS; Til Schuermann; Craig Leiby
Subject: Re: Lehman update

Thx for this, Jan...Seems like LEH has $7B (and perhaps soon to be $8B+) less in available liquidity than reported...

From: Jan Voigts
Sent: 08/20/2008 07:24 PM EDT
To: Timothy Geithner; Christine Cumming; William Rutledge; Terrence Checki; Thomas Baxter; William Dudley; Brian Peters; Patricia Mosser; Sarah Dahlgren; NY Project 13; Michael Silva; Meg McConnell; Sandy Krieger

Cc: Arthur Angulo; William BRODOWS; Til Schuermann
Subject: Lehman update

August 20, 2008 Restricted F.R.

Ongoing Negotiations for Intraday Collateral:
Over recent weeks, JPMC and Citi have been negotiating with Lehman to provide collateral to cover intra-day clearing exposures.

JPMC - Negotiations with JPMC are nearing conclusion and Lehman is posting \$5.0B in collateral that is released, daily, at end-of-day. Negotiation remains on finalizing guarantees and terms for the liens. The amount is roughly equivalent to the current Schedule 1 haircuts in Triparty arrangements with no changes in calculations. Previously, the \$5.0B was available to Lehman as "net free equity", since JPMC had not fully discounted cash flow to account for haircuts.

Citi – Lehman continues to post \$2.0B in unencumbered intra-day collateral with Citi that is released back to Lehman at end-of-day. (The \$2.0B is counted as part of Lehman's liquidity pool.) Citi clears for Lehman Brothers Commercial Corporation which is active in OTC foreign exchange derivatives. Lehman has asked to reduce the size of the deposit.

New requests for specific amounts of intraday collateral have been made by Bank of America and BNY Mellon, and HSBC has asked Lehman to either reduce its exposure or provide collateral though specific levels have not been discussed.

BOA will no longer provide any intraday credit to Lehman, and Lehman will need to prefund all business cleared by BOA (E-mail from Paolo at 6:30pm). Credit analysts recently asked Lehman to provide \$650 million in collateral to cover periodic overdraft exposures, and asked whether other clearing banks had made similar requests. Lehman's Treasurer strongly disputes the BOA position and noted Lehman has positive closing balances with BOA that are confirmed with BOA operations daily. To justify the \$650 million, BOA used the largest overdraft Lehman has had within the past year – though Lehman noted the OD was due to a customer posting error. The next largest OD is only 10% of the largest amount. BOA clears for Lehman Brothers International Europe and UK Holdings activity in foreign exchange.

BNY Mellon clears Lehman's medium term note and commercial paper financing activities and has asked for \$600 million in collateral. No rationale has been provided to support the amount requested.

3rd Quarter Earnings Preview:

Overall, Lehman is looking at a total of \$5.0B in mostly unrealized write-downs, with resulting loss to common equity at \$3.0 to \$3.5B net for the 3rd Quarter. Sizeable sales of legacy assets in asset backed, residential and commercial mortgage products have set mark-to-market levels for remaining inventories. Total asset sales within the 3rd Quarter, by category, that also contribute to the losses are anticipated to be as follows:

\$3.5B in high yield corporates
\$3.0-4.0B in ABS

$12-13B in residential mortgages

By the end of the 4th Quarter or going into the 1st quarter of next year, $35-40B in commercial mortgage backed instruments and real estate owned is expected to be spun-off and/or sold. A possible $5.0B may be sold as-of the 3rd Quarter.

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