

September 10, 2008

Tri-Party Repo Margin Gap Analysis – Lehman – 9/10/2008

Tri-Party Collateral Analysis – Lehman

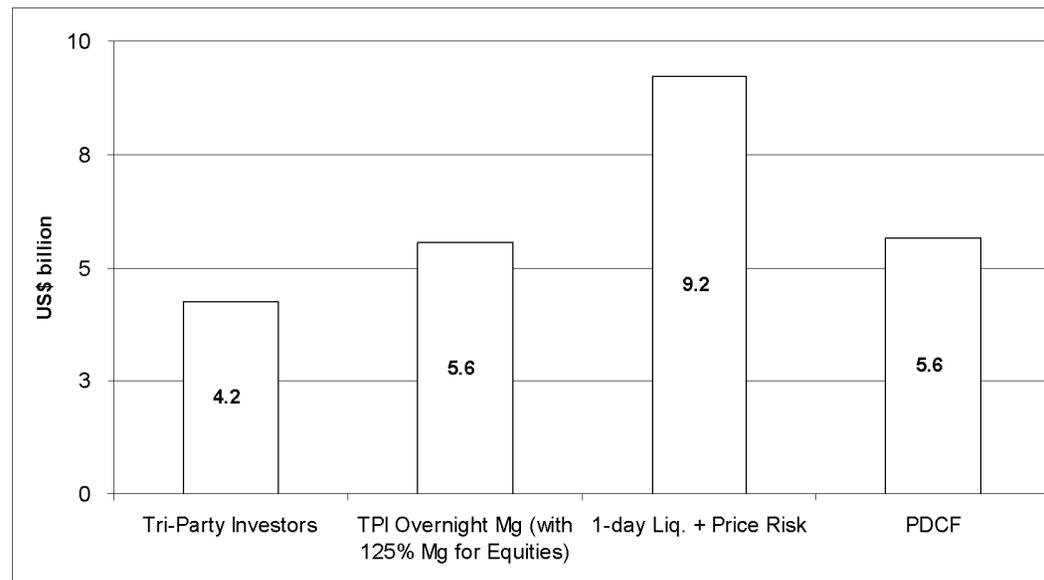
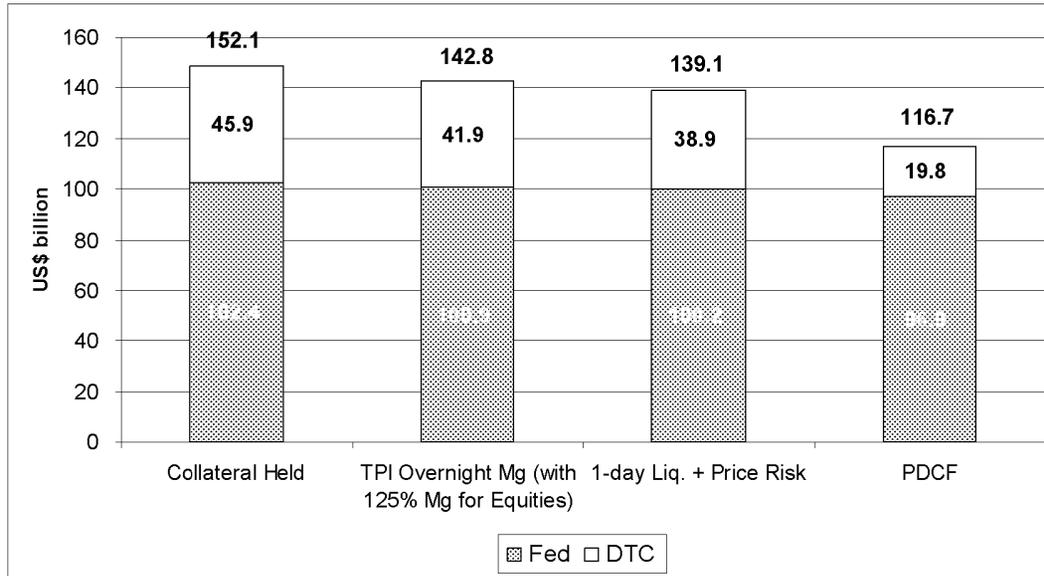
- Tri-party investors held US\$4.2 billion margin on their tri-party repos on 9/9.
- As we unwound the tri-party repos on 9/10 at 8:30am, we retained the tri-party investors' margin and kept a 125% margin for equities, which led to an intraday margin of US\$5.5 billion.
- The figures below reduce our intraday financing for the additional collateral we require for equities but in practice Lehman pledges that additional collateral since we need to unwind all tri-party repos.

Tri-Party Repos Security Type US\$ million	Count	Collateral Market Value	Overnight Financing by Tri-Party Investors	%	Overnight Margin	Current Intraday Financing % of TPI Margin	Coll. Coverage 100%
Fed-Eligible - Total	9,799	102,387	100,890	67%	101.5%	100,890	101.48%
DTC-Eligible - Total	8,363	45,939	43,213	30%	106.3%	41,883	109.68%
TOTAL	18,185	152,104	147,868	100%	102.9%	142,773	103.89%
Collateral Eligible for Intraday Financing		148,326					
Margin Held/Required			4,236			5,553	



Margin Analysis - Lehman

Intraday Financing Using Different Margin Levels



- Tri-party investors held US\$152.1 billion in collateral with US\$4.2 billion margin on 9/8.
- After the morning unwind on 9/9 JPM had US\$10 billion margin covering its intraday financing:
 - US\$3.6 billion margin reflecting the tri-party investor margin excluding equities.
 - US\$1.9 billion representing the 125% margin for equities.
 - US\$4.5 billion locked up as extra collateral (adjusted to Gifford Fong's prices).
- Lehman's total intraday margin on 9/10 was sufficient to cover JPM's risk-based margin, which was calculated as US\$9.2 billion based on the estimated one-day liquidation risk and the price risk of the collateral.

← Margin excluding extra collateral.

PDFC margin excludes US\$26 billion in collateral not eligible for PDCF financing based on ratings, security types, price sources, and maturities.

PDCF Analysis - Lehman

In a worst-case scenario, if Lehman had no tri-party investor rolling over repos, it would need to rely on the PDCF for overnight financing. The analysis below reflects the impact for JPM:

- US\$26 billion in securities are ineligible for PDCF. Lehman would need to allocate US\$122.3 billion in eligible collateral against US\$116.7 billion in PDCF financing, with a US\$5.6 billion margin (higher than the tri-party investor margin).
- Lehman would be left with US\$26 billion in lower-quality collateral to cover a US\$27.5 billion financing need excluding whole loans/trust receipts that are not unwound. JPM's total intraday margin would be US\$4.4 billion due to the remaining extra collateral. JPM would therefore be 116% collateralized.

Tri-Party Repos Security Type US\$ million	Securities Ineligible for PDCF	Collateral Market Value	Eligible Securities for PDCF	Fed Av. Margin	Fed (PDCF) Financing	Collateral Coverage	PDCF Eligibility Criteria
Fed-Eligible - Total	1,209	102,387	101,178		96,921	104.39%	
DTC-Eligible - Total	24,805	45,939	21,134		19,751	107.00%	
TOTAL	29,793	152,104	122,311		116,672	104.83%	
Collateral Eligible for Intraday Margin Held/Required					5,639		