

September 9, 2008

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

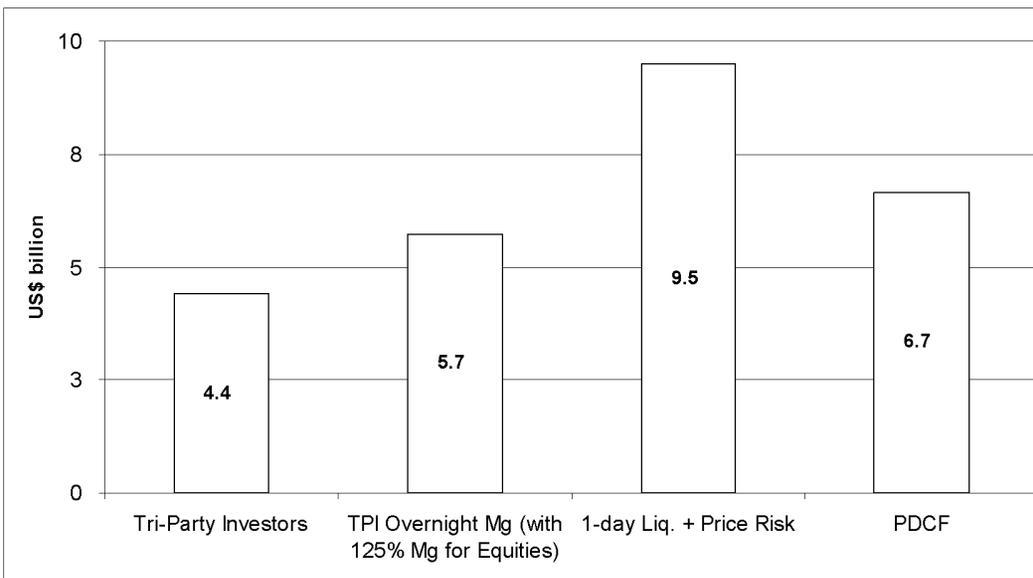
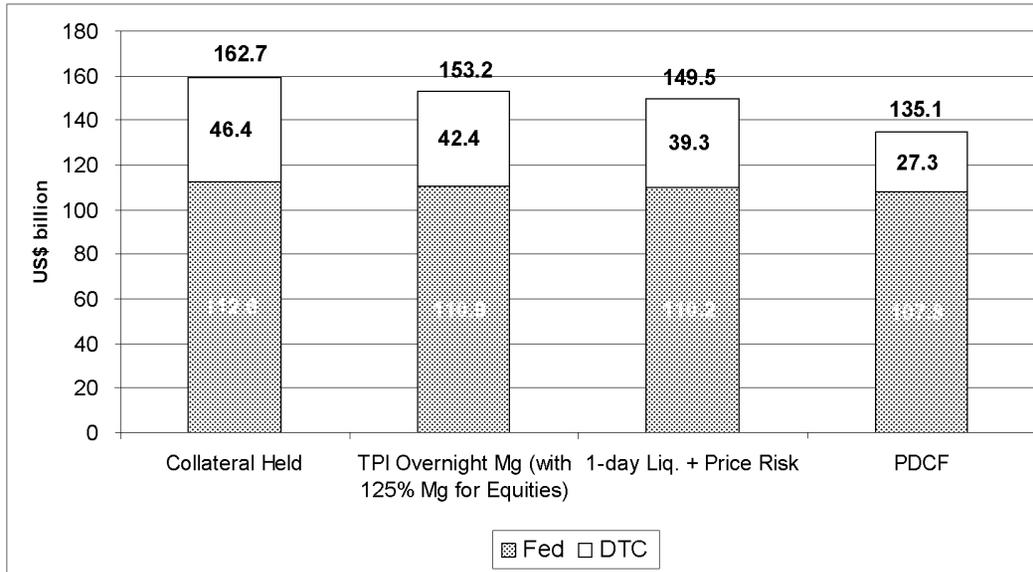
Tri-Party Collateral Analysis – Lehman

- Tri-party investors held US\$4.4 billion margin on their tri-party repos on 9/8.
- As we unwound the tri-party repos on 9/9 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\$5.7 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.

US\$ million Security Type	Count	Collateral Market Value	Overnight Financing Provided by Tri-Party Investors	%	Overnight Margin	Current Intraday Financing % of TPI Margin	Current Collateral Coverage 100.0%
Fed-Eligible - Total	12,926	112,566	110,872	69%	101.5%	110,872	101.5%
USTs	641	41,050	40,334	25%	101.8%	40,334	101.8%
Agency Securities	975	22,415	22,146	14%	101.2%	22,146	101.2%
Agency MBSs	10,125	44,683	44,098	27%	101.3%	44,098	101.3%
Agency CMOs	1,185	4,418	4,295	3%	102.9%	4,295	102.9%
DTC-Eligible - Total	8,111	46,380	43,672	28%	106.2%	42,362	109.5%
ABSs	772	3,453	2,976	2%	116.0%	2,976	116.0%
CDOs	157	1,340	1,196	1%	112.1%	1,196	112.1%
ARS	0	0	0	0%	0.0%	0	0.0%
Corporates	2,406	13,886	13,160	9%	105.5%	13,160	105.5%
CPs	194	8,624	8,262	5%	104.4%	8,262	104.4%
Money Market	10	14	13	0%	105.0%	13	105.0%
Multilaterals	20	330	324	0%	102.0%	324	102.0%
Equities	1,885	9,138	8,621	6%	106.0%	7,310	125.0%
Munis	695	3,399	3,268	2%	104.0%	3,268	104.0%
Other	0	0	0	0%	0.0%	0	0.0%
CMOs	1,972	6,196	5,853	4%	105.9%	5,853	105.9%
Cash	0	0	0	0%	0.0%	0	0.0%
Trust Receipt	23	3,801	3,787	2%	100.4%	0	0.0%
Letter of Credit	0	0	0	0%	0.0%	0	0.0%
Promissory Notes	0	0	0	0%	0.0%	0	0.0%
Whole Loans	0	0	0	0%	0.0%	0	0.0%
TOTAL	21,060	162,746	158,332	100%	102.8%	153,234	103.7%
Collateral Eligible for Intraday Financing		158,946					
Margin Held/Required			4,415			5,711	

Margin Analysis - Lehman

Intraday Financing Using Different Margin Levels



- Tri-party investors held US\$162.7 billion in collateral with US\$4.4 billion margin on 9/8.
- After the morning unwind on 9/9 JPM had US\$10.7 billion margin covering its intraday financing:
 - US\$3.9 billion margin reflecting the tri-party investor margin excluding equities.
 - US\$1.8 billion representing the 125% margin for equities.
 - US\$5 billion locked up as extra collateral.
- Lehman's total intraday margin on 9/9 was sufficient to cover JPM's risk-based margin based on the estimated one-day liquidation risk and the price risk of the collateral.

← Margin excluding extra collateral.

PDFC margin excludes US\$20.9 billion in lower-quality collateral not eligible for PDCF financing.

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\$20.9 billion in securities are ineligible for PDCF.
- Lehman would need to allocate US\$141.7 billion in eligible collateral against US\$135.1 billion in PDCF financing, with a US\$6.6 billion margin.
- Lehman would be left with US\$20.9 billion in lower-quality collateral to cover a US\$19.4 billion financing need but JPM's total intraday margin would be US\$4.1 billion due to the remaining extra collateral. JPM would therefore be 121% 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	0	112,566	112,566		107,820	104.40%	
USTs	0	41,050	41,050	102.50%	40,049	102.50%	101%-106% dep. Maturity/Type
Agency Securities	0	22,415	22,415	104.50%	21,449	104.50%	101%-108% dep. Maturity/Type
Agency MBSs	0	44,683	44,683	106.00%	42,154	106.00%	105%-107% dep. Maturity
Agency CMOs	0	4,418	4,418	106.00%	4,168	106.00%	105%-107% dep. Maturity
DTC-Eligible - Total	17,183	46,380	29,197		27,287	107.00%	
ABSs	1,524	3,453	1,929	107.00%	1,803	107.00%	107% - BBB- or better
CDOs	1,340	1,340	0	0.00%	0	0.00%	not accepted
ARS	0	0	0	0.00%	0	0.00%	107% - BBB- or better
Corporates	4,096	13,886	9,790	107.00%	9,149	107.00%	107% - BBB- or better
CPs	88	8,624	8,536	107.00%	7,977	107.00%	107% - A1-P1
Money Market	2	14	12	107.00%	11	107.00%	107% - BBB- or better
Multilaterals	50	330	280	107.00%	261	107.00%	107% - BBB- or better
Equities	9,138	9,138	0	0.00%	0	0.00%	not accepted
Munis	249	3,399	3,151	107.00%	2,945	107.00%	107% - BBB- or better
Other	0	0	0	0.00%	0	0.00%	not accepted
CMOs	695	6,196	5,501	107.00%	5,141	107.00%	107% - BBB- or better
Cash	0	0	0	0.00%	0	0.00%	not accepted
Trust Receipt	3,801	3,801	0	0.00%	0	0.00%	not accepted
Letter of Credit	0	0	0	0.00%	0	0.00%	not accepted
Promissory Notes	0	0	0	0.00%	0	0.00%	not accepted
Whole Loans	0	0	0	0.00%	0	0.00%	not accepted
TOTAL	20,984	162,746	141,763		135,107	104.93%	
Collateral Eligible for Intraday Margin Held/Required					6,656		