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**To:**  
**Cc:** Kevin Walsh; Scott Alvarez; Patrick M. Parkinson; Brian F. Madigan  
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Ben, We had two calls with frbny this afternoon on this subject. The first included Treas and SEC; the second just us and Treasury. Lehman has settled on the 6b capital infusion this afternoon and put out an announcement to that effect. It came out after the market close and I don't know what effect it had on after-hours trading. During the trading day their stock fell another few percent, a bad showing relative to the other financial sector stocks which mostly rose a few percent. CDS spreads didn't change much during the day. Their liquidity is sticking pretty well, but some counterparties are asking for more margin and dialing back exposures, so there's a slow erosion going on. To some extent the drop in stock prices and counterparty caution reflects possibility that this is Thursday of BS weekend, and equity holders could wake up Monday morning with no value. Fuld talked to Tim and to Steel late this afternoon. He really has no alternative plan at this point. Lining up SWF investors is a slow process and there is nobody is interested in buying them. Tim and Bob thought Fuld was asking for two things--albeit very indirectly; for us to tell people to buy their stock Monday morning and to say something positive about the firm. Both rejected both requests--the second on the thought that saying something would cause more harm than good. We really don't have any options to provide confidence in the firm. Bob Tim and I talked some about what Hank might say in Japan if asked. We formulated something like the lines Tim and I used in the past week--primary dealers have learned lessons from March and are reducing leverage, building capital and bolstering liquidity; they are stronger than they were a few months ago. Part of the first call was given over to thinking about options in the event the slow erosion of confidence turns into a rout and liquidity fled quickly. None are good, given the lack of interest by a purchaser. Private equity partners are a possibility; turning into a FHC with Fed consolidated regulation would take time to get regulatory approvals and provide uncertain relief unless they acquired a lot of deposits very fast; creating a bad bank, on the UBS model, with the lousy mortgages they hold would require interest from equity investors to buy into the bad bank; using our balance sheet to facilitate an orderly wind down with the discount window or by assuming the liabilities a la JPM is hard because we don't have the authorities of the fdic (as well as for policy reasons). Staff of Treas., Board and frbny will continue to explore alternatives tomorrow, just in case. Don