From: Azerad, Robert [RAzerad@lehman.com]
Sent: Wednesday, July 9, 2008 11:13 PM (GMT)
To: Lowitt, Ian T [ilowitt@lehman.com]; Tonucci, Paolo [paolo.tonucci@lehman.com]
Subject: RE: We should chat, but think we should set up liquidity this quarter as if the q results are a major disappointment and we get downgraded.

Ian and Paolo

I am meeting with Paul Mitrokostas to discuss FID cash capital limits for Q3 tomorrow. Should I postpone this meeting? To implement such a plan, we will have to revise balance sheet targets for Q3.

My initial views on the plan
* Shrinking the repo book potentially a lot (20 bn) - This represents 20% of the book. I do not see how we can do it without impacting revenues (credit trading, securitized products) and the PB franchise. This is also not consistent with the B/S targets given to FID (flat excluding repo 105) and CMPS (+10 bn).
* Lots of conversion of illiquid assets into fed eligible - Discussed the outlook for the rest of Q3 with Henry Domenici - Expect $1-2 billion for ECB eligible assets. Could do more with Fed eligible assets but they do not generate liquidity (unless pledged to the PDCF) and their ratings is (weak) linked to Lehman
* Growing ECB repo - ECB repo stands at EUR 8.6 bn ($13.5 bn). We can do more (EUR 2-3 bn) but this would have a limited impact on liquidity (essentially we are preempting a potential loss of repo capacity in LBIE; if such a loss happened, we could always pledge the collateral to the ECB)
* Paying up for term repo - According to Feraca, not available in large size at any reasonable price (i.e., price which does not signal that we are desperate)
* Giving fid tough CC targets (including lowering high yield (Bart's suggestion)) - My current proposal is to set the CC target for FID at $92 billion - $4 billion less than Q2 driven by:
* Downgrade prefunding: 2.7;
* Initial Margin: 3 - This may seem generous but I am not giving FID any allowance for the fact that LBSF has increased its cash cap usage by $4 bn QTD
* Change in box methodology: 0.6
* Bankhaus: (2.5)
* Securitization: (2.0)
* B/S reduction: (6.0) - This is a very tough target since it does not include asset sales out of the banks, is net of seller financing and mostly excludes sells of liquid collateral
* Growing bankhaus deposits further - Plan is to increase deposits in LBBAG by $5 billion, which Carlo thinks is a very ambitious goal (in Q2, LBBAG was flat in terms of deposits and Schuldscheine; our efforts to raise deposits have not been successful so far)
* Prepare to use ilc more aggressively in aug post our 3 year probation - We have 7 days (8/24-8/31) to move new assets in the ILC. Impact is likely to be minimal
* Being aggressive on closing anything that provides long term cash (pension trades etc) - Already work in progress (Brewster, etc.)
* Need to stop these commodity trades that involve so much cash posting due to asymmetric collateral posts - Only true if commodity prices go up I believe (LBCS is due to receive $140 million of cash

tomorrow). Possible but would likely severely impact our franchise

Robert

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> From: Lowitt, Ian T
> Sent: Wednesday, July 09, 2008 6:29 PM
> To: Tonucci, Paolo; Azerad, Robert
> Subject: We should chat, but think we should set up liquidity
> this quarter as if the q results are a major disappointment and we get
> downgraded.
>
> Think that involves shrinking the repo book potentially a lot (20 bn)
> ; lots of conversion of illiquid assets into fed eligible, growing
> ecb, paying up for term repo, giving fid tough CC targets (including
> lowering high yield (Bart's suggestion)); growing bankhaus deposits
> further; prepare to use ilc more aggressively in aug post our 3 year
> probation (not sure what that means and if need to be raising deposits
> now); and being aggressive on closing anything that provides long term
> cash (pension trades etc). Also need to stop these commodity trades
> that involve so much cash posting due to asymmetric collateral posts.
> Robert - can you generate a plan we can discuss. Thanks