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9-1-2008

### Federal Reserve Bank Email from Meg McConnell Re Quick comparison

Margaret McConnell

Lucinda Brickler

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**Meg  
McConnell/NY/FRS**

09/09/2008 11:07 AM

To Meg McConnell/NY/FRS@FRS, Arthur Angulo/NY/FRS@FRS, Brian Peters/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS, Clinton Lively/NY/FRS@FRS, Craig Leiby/NY/FRS@FRS, Debby Perelmuter/NY/FRS@FRS, Dianne Dobbeck/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS, James P Bergin/NY/FRS@FRS, Jamie McAndrews/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS, Jonathan Polk/NY/FRS@FRS, Lucinda M Brickler/NY/FRS@FRS, Michael Holscher/NY/FRS@FRS, Michael Schetzel/NY/FRS@FRS, Patrick M Parkinson/BOARD/FRS@BOARD, Sandy Krieger/NY/FRS@FRS, Sarah Dahlgren/NY/FRS@FRS, Steven Friedman/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, Theodore Lubke/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, Wendy Ng/NY/FRS@FRS, William BRODOWS/NY/FRS@FRS

cc Kristin Mayer/NY/FRS@FRS, Michael Silva/NY/FRS@FRS

Subject Quick comparison 

As he mentioned in the meeting this morning, Tim would like someone to put together a quick "what's different? what's the same?" list about LEH vs BSC, as well as about mid-March (then) vs. early Sept (now). He would like this for a call he's having with Chairman Bernanke at 3:00. Any takers for this? Please let me know.  
Thanks,  
Meg

-----  
Margaret M. McConnell  
Federal Reserve Bank of New York  
212-720-8773

▼ Meg McConnell

----- Original Message -----

**From:** Meg McConnell  
**Sent:** 09/08/2008 06:44 PM EDT  
**To:** Arthur Angulo; Brian Peters; Chris McCurdy; Clinton Lively; Craig Leiby; Debby Perelmuter; Dianne Dobbeck; HaeRan Kim/NY/FRS@NY; James Bergin; Jamie McAndrews; Jan Voigts; Jonathan Polk; Lucinda Brickler; Meg McConnell; Michael Holscher; Michael Schetzel; Patrick Parkinson; Sandy Krieger; Sarah Dahlgren; Steven Friedman; Terrence Checki/NY/FRS@NY; Theodore Lubke; Thomas Baxter; Til Schuermann; Wendy Ng; William BRODOWS  
**Cc:** Kristin Mayer; Michael Silva  
**Subject:** Meeting tomorrow at 9:00

The purpose of tomorrow's meeting is to continue the discussion of near-term options for dealing with a failing nonbank. Sorry for the late notice on this meeting.  
Meg

**Derivatives: Top 25 Counterparties by Current Exposure (to Lehman)**

Counterparty	Industry Description	CCE (\$mm)	MPE (\$mm)	Deal counts
MINISTRY OF FINANCE ITALY <sup>(1)</sup>	CENTRAL GOVERNMENT DEPAR	2,878	5,300	16
BH FINANCE LLC <sup>(2)</sup>	MISC FINANCE COMPANIES	1,445	2,854	44
PYXIS ABS CDO 2007-1 LTD	SPECIAL PURPOSE VEHICLE	1,085	1,128	125
LIBRA CDO LIMITED	SPECIAL PURPOSE VEHICLE	889	961	146
MKP VELA CBO LTD	SPECIAL PURPOSE VEHICLE	877	981	110
CENTRAL BANK OF NORWAY (NORGES BANK)	CENTRAL BANK	543	727	1,560
KBC INVESTMENTS CAYMAN ISLANDS V LTD	SPECIAL PURPOSE VEHICLE	435	500	1
BALLYROCK ABS CDO 2007-1 LTD	SPECIAL PURPOSE VEHICLE	392	420	108
CANADIAN NATURAL RESOURCES	OIL/GAS COMPANY	379	484	26
GE FINANCIAL MARKETS	GENERAL MANUFACTURER	369	512	110
PORTFOLIO CDS TRUST 187	FINANCIAL GUARANTOR	357	390	1
TEXAS COMPETITIVE ELECTRIC HOLDINGS CO LLC	UTILITY-INVeSTOR OWNED/IND	334	1,059	8
PRESIDENT AND FELLOWS OF HARVARD COLLEGE	COLLEGES/UNIVERSITIES	298	321	200
MINISTRY OF FINANCE GERMANY	CENTRAL GOVERNMENT DEPAR	291	410	62
DEUTSCHE BANK AG	COMMERCIAL BANK	283	1,480	59,149
AGR FINANCIAL PRODUCTS INC	FINANCIAL GUARANTOR	275	364	75
EUROPEAN INVESTMENT BANK	SUPRANATIONALS - MULTI GOVT	268	525	22
MIZUHO INTERNATIONAL PLC	BROKER DEALER GENERAL	260	714	8,820
CHESAPEAKE ENERGY CORPORATION	OIL/GAS COMPANY	247	999	268
CALYON	COMMERCIAL BANK	225	1,072	7,397
JPMORGAN CHASE BANK NA	COMMERCIAL BANK	213	1,323	53,036
LINN ENERGY LLC	OIL/GAS COMPANY	207	418	30
RUBY FINANCE 2008-01	LEHMAN SPECIAL PURPOSE VEH	33	83	5
MORGAN STANLEY CAPITAL SERVICES INC	BROKER DEALER GENERAL	173	675	40,283
801 GRAND CDO SPC SERIES 2006-1	LEHMAN SPECIAL PURPOSE VEH	173	280	9

<sup>(1)</sup> Exposure reported above does not reflect hedges we have against our exposure, including \$1,899m of long credit protection. Actual CCE and MPE net of hedges was \$979m and \$3,401m respectively.

<sup>(2)</sup> Exposure reported above does not reflect \$710m of CDS hedges we have against our exposure. Actual CCE and MPE net of hedges was \$735m and \$2,144m respectively.

**Derivatives: Top 25 Counterparties by Deal Count**

Counterparty	Industry Description	CCE (\$mm)	MPE (\$mm)	Deal counts
DEUTSCHE BANK AG	COMMERCIAL BANK	283	1,480	59,149
JPMORGAN CHASE BANK NA	COMMERCIAL BANK	213	1,323	53,036
UBS AG	COMMERCIAL BANK	43	832	44,619
MORGAN STANLEY CAPITAL SERVICES INC	BROKER DEALER GENERAL	173	675	40,283
BARCLAYS BANK PLC	COMMERCIAL BANK	100	1,251	36,912
CITIBANK NA	COMMERCIAL BANK	92	804	24,816
BANK OF AMERICA NATIONAL ASSOCIATION	COMMERCIAL BANK	56	579	23,188
ROYAL BANK OF SCOTLAND PLC (THE)	COMMERCIAL BANK	19	602	22,294
GOLDMAN SACHS INTERNATIONAL	BROKER DEALER GENERAL	77	372	18,896
BNP PARIBAS	COMMERCIAL BANK	147	864	18,609
MERRILL LYNCH INTERNATIONAL	BROKER DEALER GENERAL	20	311	17,289
BEAR STEARNS CREDIT PRODUCTS INC	BROKER DEALER GENERAL	38	244	16,890
SOCIETE GENERALE	COMMERCIAL BANK	77	860	12,021
MIZUHO INTERNATIONAL PLC	BROKER DEALER GENERAL	260	714	8,820
ABN AMRO BANK NV	COMMERCIAL BANK	22	641	7,854
CALYON	COMMERCIAL BANK	225	1,072	7,397
HSBC BANK USA	COMMERCIAL BANK	82	223	5,781
DRESDNER BANK AG	COMMERCIAL BANK	70	328	5,767
AIG INTERNATIONAL INC	INSURANCE-LIFE/HEALTH	17	49	5,445
BANK OF TOKYO MITSUBISHI UFJ LTD	COMMERCIAL BANK	76	134	4,103
NATIXIS	COMMERCIAL BANK	52	350	3,799
WACHOVIA BANK NATIONAL ASSOCIATION	COMMERCIAL BANK	27	367	3,375
MORGAN STANLEY CAPITAL GROUP, INC.	BROKER/DEALER COMMODITIES	23	94	2,740
BAYERISCHE HYPO-UND VEREINSBANK AG	COMMERCIAL BANK	90	309	2,353
COMMERZBANK AG	COMMERCIAL BANK	114	523	2,201

# External Trade Count

Deal Counts by Product as of May 30, 2008	
Product	Trade Counts as of 5/30/2008
DEFAULT SWAP	361,020
SWAP	212,825
FOREX	136,876
FORWARDS	30,850
EQUITY DERIVATIVES	18,864
OTHER DERIVATIVES	159,796
<b>SUBTOTAL DERIVATIVES</b>	<b>920,231</b>
SBL	189,894
MARGIN LENDING	166,034
REPO	31,053
MLMF	280
<b>TOTAL</b>	<b>1,307,492</b>
Legal Entity	Trade Counts as of 5/30/2008
LBSF	592,138
LBCC	115,286
LBJ	57,340
LBCS	27,971
LBF	16,362
EAUS	11,850
LBCE	6,461
LOTG	2,036
LBBK	1,968
LBLUX	1,603
LBCCA	1,482
LFIS	1,076
LBKR	903
ALL OTHER	2,493
<b>SUBTOTAL</b>	<b>838,969</b>
LBIE	254,309
LBI	214,214
<b>TOTAL</b>	<b>1,307,492</b>

<b>LEHMAN'S VIEW OF LEHMAN VS. BEAR</b>			
<b>Key Liquidity Metrics</b>	<b>Presentation to FRBNY on 5/28/08</b>		<b>"Gameplan" 9/2/08</b>
	<b>Bear</b>	<b>Lehman</b>	<b>Lehman</b>
	<b>Q108</b>	<b>Q108</b>	<b>Q308</b>
Net Balance Sheet	254	397	315
Net Leverage	22.6x	15.4x	10.7x
Liquidity Pool	17	34	41
STD (excluding current portion)	16	16	
Current Portion LTD	10	19	
Total Short-term Debt	26	35	
Short-term Debt/Liquidity Pool	1.5x	1.0x	
Unencumbered Assets	14	161	
Free Credit Balances	43	13	1

**From:** [Lucinda M Brickler](#)  
**To:** [Meg McConnell](#)  
**Cc:** [Arthur Angulo](#); [Brian Peters](#); [Chris McCurdy](#); [Clinton Lively](#); [Craig Leiby](#); [Debby Perelmutter](#); [Dianne Dobbeck](#); [HaeRan Kim](#); [James P Bergin](#); [Jamie McAndrews](#); [Jan Voigts](#); [Jonathan Polk](#); [Kristin Mayer](#); [Michael Holscher](#); [Michael Schetzel](#); [Michael Silva](#); [Patrick M Parkinson](#); [Sandy Krieger](#); [Sarah Dahlgren](#); [Steven Friedman](#); [Theodore Lubke](#); [Til Schuermann](#); [Wendy Ng](#); [William BRODOWS](#); [Timothy Geithner](#)  
**Subject:** Re: Quick comparison  
**Date:** 09/09/2008 02:40 PM  
**Attachments:** [triparty bear versus lb.doc](#)

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triparty bear versus lb.doc

Lucinda Brickler  
Payments Policy Function  
Federal Reserve Bank of New York  
212.720.6132 or 646.720.6132  
▼ [Meg McConnell/NY/FRS](#)

**Meg  
McConnell/NY/FRS**

09/09/2008 12:39 PM

To William BRODOWS/NY/FRS@FRS, Lucinda M  
Brickler/NY/FRS@FRS  
cc Arthur Angulo/NY/FRS@FRS, Brian  
Peters/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS,  
Clinton Lively/NY/FRS@FRS, Craig Leiby/NY/FRS@FRS,  
Debby Perelmutter/NY/FRS@FRS, Dianne  
Dobbeck/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS,  
James P Bergin/NY/FRS@FRS, Jamie  
McAndrews/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS,  
Jonathan Polk/NY/FRS@FRS, Kristin  
Mayer/NY/FRS@FRS, Michael Holscher/NY/FRS@FRS,  
Michael Schetzel/NY/FRS@FRS, Michael  
Silva/NY/FRS@FRS, Patrick M  
Parkinson/BOARD/FRS@BOARD, Sandy  
Krieger/NY/FRS@FRS, Sarah Dahlgren/NY/FRS@FRS,  
Steven Friedman/NY/FRS@FRS, Theodore  
Lubke/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS,  
Wendy Ng/NY/FRS@FRS

Subject Re: Quick comparison

1. Lucinda and McCurdy are doing a "that was then, this is now" analysis for the triparty repo piece.
2. Markets (I think?) is going to do some state of the world comparison.
3. We have Bill B. giving us Leh's version of the difference between them and BSC.

(Not sure whether we want to also do something that focuses narrowly on OTC derivatives, or whether that will be covered in what Brodows sends?).

These would need to be ready by around 2:45 or so at the latest.  
Thanks!

Meg

-----  
Margaret M. McConnell  
Federal Reserve Bank of New York  
212-720-8773

▼ William BRODOWS

----- Original Message -----

**From:** William BRODOWS  
**Sent:** 09/09/2008 12:22 PM EDT  
**To:** Lucinda Brickler  
**Cc:** Arthur Angulo; Brian Peters; Chris McCurdy; Clinton Lively; Craig Leiby; Debby Perelmuter; Dianne Dobbeck; HaeRan Kim; James Bergin; Jamie McAndrews; Jan Voigts; Jonathan Polk; Kristin Mayer; Meg McConnell; Michael Holscher; Michael Schetzel; Michael Silva; Patrick Parkinson; Sandy Krieger; Sarah Dahlgren; Steven Friedman; Terrence Checki; Theodore Lubke; Thomas Baxter; Til Schuermann; Wendy Ng  
**Subject:** Re: Quick comparison

I have Lehman's own analysis of differences between their position and position of Bear which I will forward.

▼ Lucinda M Brickler/NY/FRS

**Lucinda M  
Brickler/NY/FRS**

09/09/2008 11:28 AM

To Meg McConnell/NY/FRS@FRS  
cc Arthur Angulo/NY/FRS@FRS, Brian Peters/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS, Clinton Lively/NY/FRS@FRS, Craig Leiby/NY/FRS@FRS, Debby Perelmuter/NY/FRS@FRS, Dianne Dobbeck/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS, James P Bergin/NY/FRS@FRS, Jamie McAndrews/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS, Jonathan Polk/NY/FRS@FRS, Kristin Mayer/NY/FRS@FRS, Meg McConnell/NY/FRS@FRS, Michael Holscher/NY/FRS@FRS, Michael Schetzel/NY/FRS@FRS, Michael Silva/NY/FRS@FRS, Patrick M Parkinson/BOARD/FRS@BOARD, Sandy Krieger/NY/FRS@FRS, Sarah Dahlgren/NY/FRS@FRS, Steven Friedman/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, Theodore Lubke/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, Wendy Ng/NY/FRS@FRS, William BRODOWS/NY/FRS@FRS

Subject Re: Quick comparison 

Meg

Chris McCurdy and I will put together the "that was then, this is now" analysis for the triparty repo piece.

Lucinda

Lucinda Brickler  
Payments Policy Function  
Federal Reserve Bank of New York

212.720.6132 or 646.720.6132


▼ Meg McConnell/NY/FRS

**Meg  
McConnell/NY/FRS**

09/09/2008 11:07 AM

To Meg McConnell/NY/FRS@FRS, Arthur Angulo/NY/FRS@FRS, Brian Peters/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS, Clinton Lively/NY/FRS@FRS, Craig Leiby/NY/FRS@FRS, Debby Perelmuter/NY/FRS@FRS, Dianne Dobbeck/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS, James P Bergin/NY/FRS@FRS, Jamie McAndrews/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS, Jonathan Polk/NY/FRS@FRS, Lucinda M Brickler/NY/FRS@FRS, Michael Holscher/NY/FRS@FRS, Michael Schetznel/NY/FRS@FRS, Patrick M Parkinson/BOARD/FRS@BOARD, Sandy Krieger/NY/FRS@FRS, Sarah Dahlgren/NY/FRS@FRS, Steven Friedman/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, Theodore Lubke/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, Wendy Ng/NY/FRS@FRS, William BRODOWS/NY/FRS@FRS

cc Kristin Mayer/NY/FRS@FRS, Michael Silva/NY/FRS@FRS

Subject Quick comparison 

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Meg

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Margaret M. McConnell  
Federal Reserve Bank of New York  
212-720-8773

▼ Meg McConnell

----- Original Message -----

**From:** Meg McConnell

**Sent:** 09/08/2008 06:44 PM EDT

**To:** Arthur Angulo; Brian Peters; Chris McCurdy; Clinton Lively; Craig Leiby; Debby Perelmuter; Dianne Dobbeck; HaeRan Kim/NY/FRS@NY; James Bergin; Jamie McAndrews; Jan Voigts; Jonathan Polk; Lucinda Brickler; Meg McConnell; Michael Holscher; Michael Schetznel; Patrick Parkinson; Sandy Krieger; Sarah Dahlgren; Steven Friedman; Terrence Checki/NY/FRS@NY; Theodore Lubke; Thomas Baxter; Til Schuermann; Wendy Ng; William BRODOWS

**Cc:** Kristin Mayer; Michael Silva

**Subject:** Meeting tomorrow at 9:00

The purpose of tomorrow's meeting is to continue the discussion of near-term options for dealing with a failing nonbank. Sorry for the late notice on this meeting.  
Meg



What do we know about conditions in the triparty repo market in September 2008 that we either did not know or that has changed since the situation in March 2008?

- We didn't/don't know much about Bear's triparty repo book
  - It was probably about \$50-80 billion, depending on who was talking
  - It was probably weighted heavily toward MBSs
- We know much more about Lehman's triparty repo book
  - Size much larger than Bear

	<b>Value of Collateral</b>	<b>Percentage of Value</b>
<b>OMO Eligible</b>	<b>\$128 billion</b>	<b>70%</b>
Treasury	\$35 billion	19%
Agency debt	\$28 billion	15%
Agency MBS	\$65 billion	35%
<b>Non-OMO PDCF-eligible</b>	<b>\$31 billion</b>	<b>17%</b>
<b>Non-OMO, non-PDCF</b>	<b>\$23.5 billion</b>	<b>13%</b>
<b>TOTAL</b>	<b>\$182</b>	<b>100%</b>

- Term of financing percentage financed for more than one night increases for less liquid collateral

OMO-eligible	17%
Non-OMO, PDCF	33%
Non-PDCF	50%

- Margins for less liquid collateral, particularly non-investment grade private label CMOs and asset-backed securities, are higher (and are probably more rational than they were in March)
- Investors concentration is high with the top 10 counterparties providing 80% of the financing; the good news is that these are all sophisticated advisors and investors who should be expected to take a professional view of the issues; the bad news is that they are investing others' money and need to meet fiduciary responsibilities and avoid perception of being too exposed
  - BNYM (sec lending and asset mgmt) \$35 billion (19%)
  - JPMC and State Street \$35 billion
  - Fidelity \$12 billion
- Post-bear, investors may be quicker to withdraw funds
  - PDCF is a backstop

- Fidelity is the only 2a7 fund in the top 10 investors, generally accepts lower quality collateral, will likely be among the first to flee
  - Lesson from March was that it is better to be the first to flee than the last
- We know that the matched book is large in nominal terms (\$550 billion+), but we have no insights as to the degree of double counting or netting that this number involves. The consequence of an unwind would be to cause dislocations (of unknown severity) for a fair number of investors/market players who rely on the intermediation provided by Lehman.
- We now know that clearing banks do not have the technical capacity to effect an unwind by collateral type (only by firm and with some effort by trade). This was an option considered during the Countrywide episode that the clearing banks, in fact, would not have been able to operationalize.
- Other concerns
  - Intraday liquidity provided by settlement banks may be a problem as LB's situation deteriorates. Citi, JPMC and we believe BofA have all demanded more margin from LB for providing clearing and settlement liquidity. We know that Citibank is watching them closely on an international basis and if they become uncomfortable, they will likely demand more intra-day margin and will likely cut off Lehman if they don't receive it. LB has a much larger international footprint than Bear had.
  - DTCC complex is likely watching Lehman more closely and could raise participants fund deposits or cut net debit cap if they feel uncomfortable. Most likely they would not do this without speaking to us first. A concern is that uncertainties/misperceptions about closeout procedures may still exist among CC participants, which could cause them to pull back from the CC to avoid loss sharing.