



Yale SCHOOL OF MANAGEMENT  
*Program on Financial Stability*

EliScholar – A Digital Platform for  
Scholarly Publishing at Yale

---

YPFS Resource Library

---

6-25-2008

## Federal Reserve Bank Primary Dealer Monitoring Liquidity Stress Analysis

Federal Reserve System: Federal Reserve Bank of New York

<https://elischolar.library.yale.edu/ypfs-documents/5571>

---

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact [ypfs@yale.edu](mailto:ypfs@yale.edu).

# Primary Dealer Monitoring: Liquidity Stress Analysis

June 25, 2008



FEDERAL RESERVE BANK *of* NEW YORK

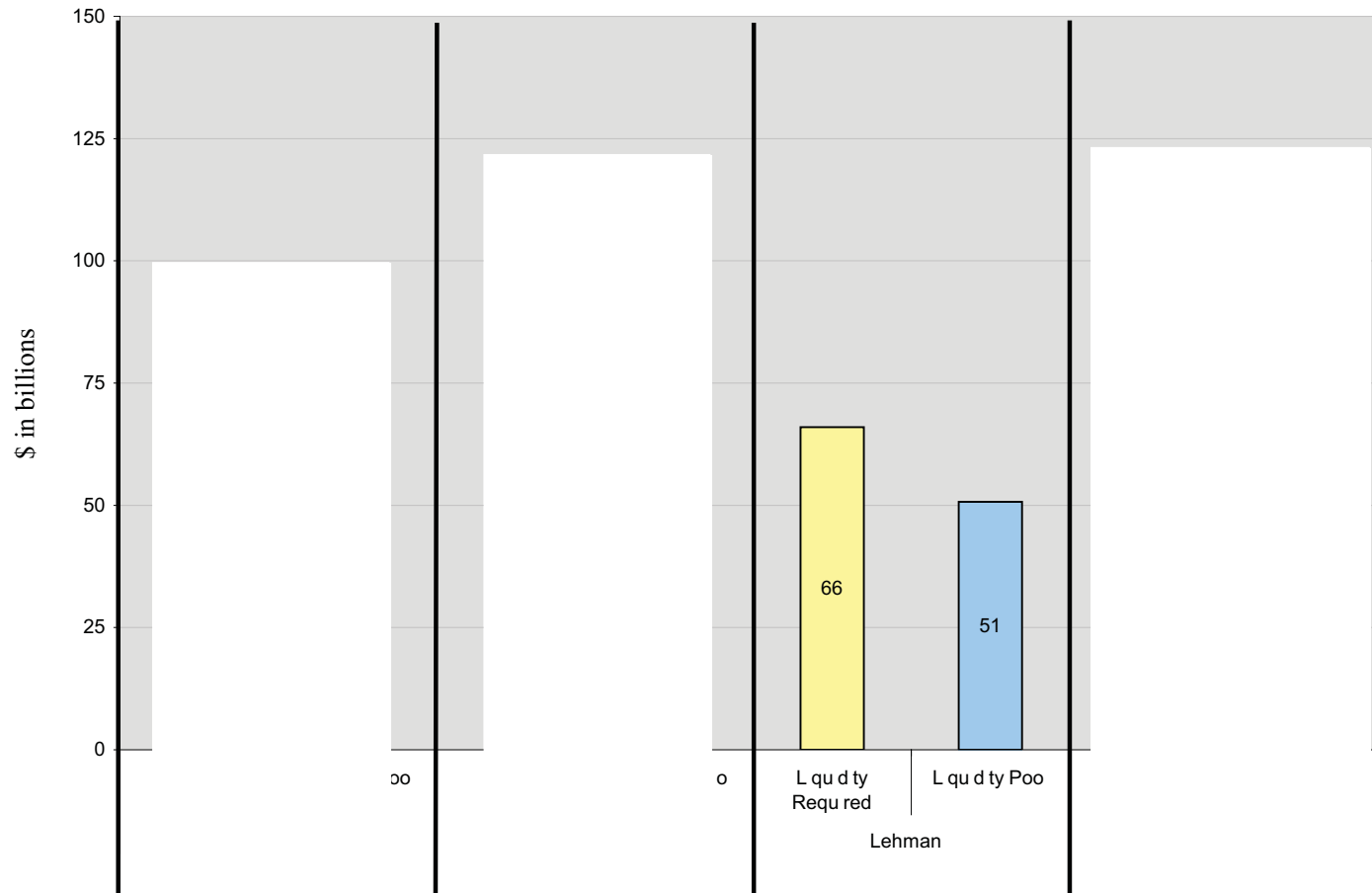
***Strictly Confidential***

# Liquidity Stress Analysis: Assumptions

| <i>As of dates: 5/22/08 - 6/10/08</i>                | <b>Severity Assumption</b> |
|--|----------------------------|
| <b>UNSECURED FUNDING - Percent not rolling</b>       |                            |
| Total Unsecured Funding                              | 100%                       |
| <b>SECURED FUNDING - Percent not rolling</b>         |                            |
| Fixed Income Finance                                 |                            |
| OMO Eligible   | 0%                         |
| Liquid   | 20%                        |
| Less Liquid  | 50%                        |
| Illiquid   | 100%                       |
| Equity Finance                                       |                            |
| Liquid   | 20%                        |
| Less Liquid  | 50%                        |
| <b>ON-BOARDING AND OTHER COMMITMENTS</b>             |                            |
| Off-Balance Sheet Assets On-Boarded                  | Institution Specific       |
| Loan Commitments/Other Contractual Uses              | Institution Specific       |
| Other Liabilities/Commitments                        | Institution Specific       |
| <b>OPERATING CASH FLOWS</b>                          |                            |
| Prime Brokerage, Withdrawal of Free Credits          | 50%                        |
| Prime Brokerage, Customer Shorts with Liquidity Risk | 11%                        |
| Prime Brokerage, Release of Lockup Cash Flows        | 90% - 100%                 |
| Collateral Payments                                  | Institution Specific       |
| Derivatives / Margin Mismatches: Payments / Receipts | 100% / 90%                 |
| <b>ADDITIONAL FUNDING</b>                            |                            |
| Affiliated and Unaffiliated Bank Lines               | Institution Specific       |

# Summary of Results

|  |  |  |               |  |
|--|--|--|---------------|--|
|  |  |  | <b>Lehman</b> |  |
| Liquidity Sources as % of Liquidity Required |  |  | 78%           |  |
| Cushion / (Deficit) \$ in billions           |  |  | (15)          |  |



# Detailed Cash Flows

| <i>Exhibit produced 6/23/08</i>                                |  |  |  |             |
|--|--|--|--|-------------|
| <i>\$ in billions, 4 Week Horizon, As of 5/22/08 - 6/10/08</i> |  |  |  |             |
| <b>Lehman</b>  |  |  |  |             |
| <b>Liquidity Outflows</b>                                      |  |  |  |             |
| 1  | Unsecured Funding: amount not rolling  |  |  | 14          |
| 2  | Secured Funding: amount not rolling  |  |  | 32          |
| 3  | On-Boarding and Other Commitments  |  |  | 8           |
| 4  | Operating Cash Flows: net outflows (sum of lines 4a - 4c)  |  |  | 13          |
| 4a   | <i>Prime Brokerage</i>   |  |  | 2           |
| 4b   | <i>Collateral Payments</i>   |  |  | 9           |
| 4c   | <i>Derivatives/Margin Payment Mismatches</i>   |  |  | 2           |
| 5  | <b>Liquidity Required (sum of lines 1-4)</b>   |  |  | <b>66</b>   |
| <b>Liquidity Sources</b>                                       |  |  |  |             |
| 6  | <b>Liquidity Sources (sum of lines 6a - 6c)</b>  |  |  | <b>51</b>   |
| 6a   | Broker Dealer Cash (available to fund B/D outflows only)   |  |  | 4           |
| 6b   | Parent Liquidity Pool (unrestricted)   |  |  | 38          |
| 6c   | Affiliated and Unaffiliated Bank Lines   |  |  | 9           |
| 7  | <b>Cushion / (Deficit)</b>   |  |  | <b>(15)</b> |
| 8  | <b>Liquidity Sources / Liquidity Required (line 6 / line 5)</b>  |  |  | <b>78%</b>  |
| 9  | <b>Secured Funding Outflow / Liquidity Sources</b>   |  |  |             |
| 9a   | Secured Funding Outflow / Liquidity Sources (line 2 / line 6)  |  |  | 62%         |
| 9b   | Discussion Point: Reduction in Secured Funding Outflow required to achieve a 33% ratio in line 9a <sup>1</sup> |  |  | 15          |
| 9c   | % Secured Funding > 30 days <sup>2</sup>   |  |  | 43%         |

<sup>1</sup> Line 9b = line 2 - (line 6\*.33)

<sup>2</sup>

Secured Funding is >14 days.

Lehman %

# Observations and Conclusions

|   |  | LEHMAN  |  |
|---|--|---|--|
| * |  | <p>* Lehman's weak liquidity position is driven by its relatively large exposure to overnight CP, combined with significant overnight secured funding of less liquid assets.</p> <p>* Both one- and two-notch downgrades would result in significant collateral calls.</p> <p>* Lehman recognizes its vulnerabilities and is trying to reduce illiquid assets and extend maturities where possible. At 5/23/08, Lehman had 43% of its non-OMO eligible secured liabilities maturing beyond 14 days.</p> <p>* Lehman should improve its liquidity position by \$15 billion. Its exposure to rollover risk in non-OMO eligible secured funding represents a large draw on its liquidity sources (62%) and should be reduced by further extensions in maturity on these liabilities, sales of the underlying assets or by increasing liquidity sources to mitigate the risk.</p> |  |