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US Treasury Email from Matthew Rutherford Re Money Funds and Lehman

Matthew Rutherford

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[REDACTED]

From: Rutherford, Matthew
Sent: Wednesday, September 10, 2008 11:49 AM
To: Ryan, Tony; Norton, Jeremiah; Shafran, Steven; Kashkari, Neel; Jester, Dan (Contractor); Via, Stafford; Foley, Trip; Stoltzfoos, Jeffrey; McCormick, David; Renander, Sonja; Lowery, Clay; Franco, Jamie; Sobel, Mark; Ramanathan, Karthik; Wilson, Ken (Contractor); Davis, Michele; Pedroni, Michael; Dulaney, Tim; Hong, Austin; Leary, Megan; Burke, Brendan; Wilkinson, Jim; Frame, Scott; Zuccarelli, Jennifer; Cvitan, Sandra; Murden, Bill; Swagel, Phillip; Wheeler, Seth
Subject: Money Funds & Lehman

Below is some color on money fund willingness to fund Lehman from FRBNY. Please keep very close to home.

Key takeaway: lots of concern and reassessment of exposure, although we have not seen a wholesale pull back of lines.

I've spoken to several large money funds this morning and have received somewhat mixed reports in terms of new shifts in providing funding to Lehman. As background, over recent months, funds have gradually reduced their exposures to Lehman, by reducing or eliminating unsecured positions, by reducing the tenors and amounts of secured positions, and in some cases narrowing the types of collateral accepted for secured lending. In many cases, the only remaining exposures were overnight repo for traditional (Fed OMO-eligible) collateral. Today, of the funds I have spoken with thus far, all but one were continuing to roll overnight repo for steady amounts. One fund did not roll about \$1.5 billion in overnight positions for Treasury and agency-MBS repo. They stressed that they saw negligible risk in maintaining these positions, but found it easiest to eliminate the exposure in the face of inquiries from investors and senior management. Another fund, which had maintained small overnight unsecured positions did not roll these today. Additionally, some tax-free funds which hold structured municipal products for which Lehman is the liquidity provider were exercising put options to reduce these positions. **Importantly, Fidelity, the largest fund complex, stressed that while they hadn't made any significant shifts yet today, they were still in the process of making decisions and wanted to update me later in the day, so more to follow...**