TO: JOHN FISHER
FROM: COUNTERPARTY RISK COMMITTEE
DATE: JUNE 27, 2007
SUBJECT: BEAR STEARNS

Introduction: The Counterparty Risk Committee met on June 25, 2007 to discuss the impact to the Federated Funds from the events leading up to Bear Stearns Cos.’s decision to lend as much as $3.2 billion to one of its two hedge funds troubled by the downturn in parts of the housing market.

Background: Bears’ troubles started with the sub-prime shakeout. Bear manages two hedge funds with big exposure and big losses. One report stated that the funds lost some 20% in value and borrowed $6 billion from the biggest names on Wall Street. The sub-prime situation is still unfolding and given the lack of disclosure, it is difficult to gauge what the actual costs of the sub-prime downturn are or will be to broker-dealers or hedge funds. While the dent to its bottom line has been manageable so far, the headlines are not good. Bear did manage to post net income of $362 million for the quarter ended May 31, 2007. Earnings were down 33%. Bear has approximately $13 billion in shareholders’ equity.

Ratings: Moody’s, S&P and Fitch have affirmed their high single-A rating since the news broke. Federated’s internal rating remains a FED 4, indicating a high A-2/P-2 issuer (high BBB to low single-A). Bear is now flagged as “See Analyst” which indicates rolling existing exposure will continue but no new exposures should be added.

Counterparty Exposure: In examining cumulative exposure across the complex as of June 11, 2007, Bear is ranked 20th out of the top 25 counterparties representing between 1% and 1.5% of the total economic weighting.

Derivative Use: The funds do not have an executed ISDA agreement in place with Bear. OTC derivative trades are not executed utilizing Bear as the counterparty. Further, the Funds are not directly exposed to any CDO investment.

Collateral: Daily monitoring is performed in trading operations. 102% - 105% is required.

Pricing: Taxable fixed income spreads on Bear Stearns obligations have increased 30-40 bps. No spread widening in the money markets.

Contagion Issues: Goldman, Lehman, Morgan and other counterparties will be reviewed to attempt to determine the exposure to similar hedge fund investing in the sub-prime arena of the housing market.

Conclusion: We are comfortable with the current exposure to Bear. We are not adding new exposure at this time.