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Bank of America to Liquidate \$12 Billion Cash Fund (Update4)

By Shannon D. Harrington and Sree Vidya Bhaktavatsalam - Dec 10, 2007

Dec. 10 (Bloomberg) -- [Bank of America Corp.](#) will liquidate a \$12 billion cash fund for wealthy clients and institutions, the largest investment of its type to close because of losses tied to the collapse of the subprime-mortgage market.

The fund, Columbia Strategic Cash Portfolio, was sold as an alternative to money-market funds, offering a higher yield by taking more risk. It was the biggest so-called enhanced cash fund, with \$33 billion in assets two weeks ago before an investor pulled more than \$20 billion, said [Peter Crane](#), founder of Crane Data LLC, the Westborough, Massachusetts-based publisher of the Money Fund Intelligence.

"This could be the death of enhanced cash funds," Crane said. Such funds hold about \$850 billion in assets.

Some investors in Charlotte, North Carolina-based Bank of America will get their money back at net asset value, which fluctuates and currently is 99.4 cents on the dollar. Others may get control of specific assets, [Robert Stickler](#), a spokesman for the second-largest U.S. bank, said today in an interview.

Some cash funds hold commercial paper or medium-term notes issued by structured investment vehicles, or SIVs, that have fallen in value as [delinquencies](#) on home loans rose to the highest in 20 years in the third quarter, according to data compiled by the Mortgage Bankers Association in Washington. SIVs use proceeds from the short-term debt to buy longer-term securities backed by assets including subprime mortgages and credit-card receivables.

Not Money Funds

A General Electric Co. enhanced cash fund last month returned money to investors at 96 cents on the dollar after losing money on mortgage-backed securities. [Federated Investors Inc.](#), the third-largest manager of money-market accounts in the U.S., bailed out investors in its Enhanced Reserve cash fund as credit markets seized up.

Towns and school districts in Florida last month pulled almost half of \$27 billion in assets from a state government investment pool that bought SIV debt and other subprime-linked assets. State managers froze the fund until hiring BlackRock Inc. to salvage the portfolio. It reopened last week.

Unlike money-market funds, which are considered the safest investments besides bank accounts and government debt, cash funds aren't required to maintain a \$1 net asset value. To generate higher yields, enhanced funds buy riskier assets that money funds aren't permitted to hold.

Assets of U.S. money-market mutual funds rose to a record \$3.083 trillion during the seven days ended Dec. 4 as investors sought a haven from credit-market losses, according to data compiled by the Money Fund Report in Westborough. Enhanced cash funds hold about \$850 billion in assets.

Investor Options

Columbia Management, Bank of America's Boston-based investment unit, manages \$566 billion in assets. Last month, the bank said it may provide as much as \$600 million to prop up Columbia funds that bought debt from SIVs and other assets tainted by mortgages.

“The liquidity in the fund was eroding,” Stickler said. He declined to say who would be eligible to be repaid in fund assets rather than cash.

“They can give them to us, and we will manage them in a separate account at no fee,” Stickler said. The fund is closed to new investments.

Stickler also declined to be more specific about the investments the fund held. “It has some investments in it that have either lost value or are illiquid,” he said.

SIV Defaults

In August, investors started shunning the short-term debt sold by SIVs and other funds that, in some cases, invested in securities tied to subprime loans. Three SIVs have defaulted and Moody's Investors Service said this month it may cut the ratings on \$105 billion in commercial paper and medium-term notes sold by the funds.

Cash funds became popular in 2003 when interest rates plummeted to their lowest in almost five decades and the average net yield on money-market funds fell to less than 1 percent.

Bank of America rose \$1.27, or 2.8 percent, to \$46.64 at 4:16 p.m. in New York Stock Exchange composite trading. The [stock](#) has dropped 13 percent this year, compared with the 6.9 gain by the Standard & Poor's 500 Index.

Bank of America's decision to freeze the fund was reported earlier today by CNBC.

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