

From: Helen.Ayala@ny.frb.org
Sent: Friday, September 12, 2008 5:21 PM
To: Shafran, StevenDisabled
Subject: Fw: Delivery Status Notification (Failure)
Attachments: LEGALDOCS-#283273-v1-Lehman_Outline.DOC; mime.txt

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To helen.ayala@ny.frb.org

cc

09/12/2008 05:14 PM

Subject Delivery Status Notification (Failure)

To: steven.shafran@do.treas.gov
Subject: Financial Community Meeting

For your comments.

Thomas C. Baxter, Jr.
General Counsel and Executive Vice President
Federal Reserve Bank of New York

Speaking Notes

Financial Community Meeting

- We are facing the eventuality that a negotiated acquisition of Lehman is not likely before Asia opens.
- We need a realistic set of options from you to help limit the potential damage to the system. A sudden and disorderly unwind could have broad adverse effects on the capital markets, with a significant risk of a precipitous drop in asset prices, the widening of spreads, and reduced liquidity.
- The financial community needs to come together to fashion an orderly resolution of the current situation. As some here recall, we have precedent from the Fall of 1998 for this, when we addressed Long Term Capital Management.
- I cannot offer the prospect of containing the damage if that doesn't occur.
- The Fed is willing to be helpful in obtaining any necessary regulatory approvals and through access to existing liquidity facilities backed by the normal range of collateral.
- We do not, however, envision providing any form of extraordinary credit support in this operation. We believe that this should be primarily a private sector initiative.
- While we do not have a particular proposal for you, we believe capital is required so as to provide Lehman the time to reorganize its activities in an orderly manner. An acceptable proposal must provide confidence to

encourage Lehman's creditors/counterparties not to run. If a proposal along these lines cannot be crafted this weekend, the only alternative may be a bankruptcy filing covering some or all of the Lehman entities.

- We have a large team of people working on the measures that may need to be taken to mitigate some of the market disruption that might flow from such a bankruptcy filing. We welcome the leadership of market participants such as yourselves in developing a realistic set of options to help limit the damage to the financial system. As you know, however, we do not have the tools that would allow us fully to contain that disruption.