From: Michelle A Smith
To: Kevin Warsh
Subject: Fw: Newsclips on today's meeting (2:30 PM)
Date: 09/13/2008 02:35 PM

A deal doesn't seem likely tonight, right?
▼ David M Girardin

----- Original Message -----
From: David M Girardin
Sent: 09/13/2008 02:34 PM EDT
To: Calvin Mitchell; Andrew Williams; Michelle Smith; David Skidmore; Michael Silva; Michael Held; Meg McConnell
Cc: Krista Dente
Subject: Newsclips on today's meeting (2:30 PM)

- Wall Street Journal - Lehman Deal Could Come Tonight As High-Level Talks Continue
- Reuters - Fed holds emergency meeting on market developments
- AP - Government, brokerage leaders resume meeting on plan to rescue Lehman Brothers
- Bloomberg -Treasury, Fed Summon Wall Street Leaders for Second Day Talks

WALL STREET JOURNAL - Lehman Deal Could Come Tonight As High-Level Talks Continue
By CARRICK MOLLENKAMP, DEBORAH SOLOMON, AARON LUCCHETTI, JON HILSENRATH and SUDEEP REDDY

Talks continued Saturday between federal officials and top Wall Street executives aimed at resolving the crisis swirling around Lehman Brothers Holdings Inc. and soothing jittery U.S. financial markets.

While the situation remains fluid, some sort of solution might be reached as soon as Saturday night, according to people familiar with the situation. But it isn't clear how much progress has been made toward clearing the biggest hurdle in the discussions, which is whether any government funding will be provided to help engineer a rescue for the battered investment bank.

Treasury Department and Federal Reserve officials have made it clear to participants that no government bailout should be expected. Potential bidders, worried about the risk of buying an ailing financial institution like Lehman, want the government to step in with a package similar to what was offered to J.P. Morgan when it bought Bear Stearns Cos. Then, the federal government agreed to absorb as much as $29 billion in losses.

On Saturday, the main task ahead in discussions being led by the Federal Reserve is identifying whether a so-called "bad bank" structure could be designed to hold Lehman's souring assets. That issue is now seen by people familiar with the situation as the key stumbling block to completing a deal, especially if Treasury and Fed officials keep digging in their heels on opposition to a government-backed rescue.

Potential buyers such as Bank of America Corp. and Barclays PLC are loathe to take on Lehman's bad assets, which are seen as an immovable object to getting a deal done, according to people familiar with the situation.

At an emergency meeting Friday night called by the Federal Reserve Bank of New York, New York Fed President Timothy Geithner, described two potential scenarios: either a liquidation of Lehman or an industry-driven solution in which Wall Street firms would possibly providing financing to remove some of Lehman's real estate assets, one person briefed on the matter said.

Most of the Wall Street executives present at the meeting listened and asked questions, "but didn't show their hands" as to what they thought, this person said.

In addition to Mr. Geithner, government officials in attendance included Treasury Secretary Henry Paulson and Securities and Exchange Commission Chairman Christopher Cox. The Wall Street executives included Morgan Stanley Chief Executive John Mack, Merrill Lynch Chief Executive John Thain, J.P. Morgan Chase CEO Jamie Dimon, Goldman Sachs Group CEO Lloyd Blankfein, Citigroup Inc. head Vikram Pandit and representatives from the Royal Bank of Scotland Group PLC and Bank of New York Mellon Corp.

Other industry leaders that attended were Credit Suisse CEO Brady Dougan, Morgan Stanley Chief Financial Officer Colm Kelleher, Citigroup Chief Financial Officer Gary Crittenden, UBS AG Chief Risk Officer Thomas Daula, J.P. Morgan investment bank co-head Steve Black and Goldman Sachs Co-president Gary Cohn, according to a person familiar with the matter.

At the New York Fed's fortress-like stone and iron headquarters in lower Manhattan, Mr. Black and Steve Cutler, J.P. Morgan's general counsel, left the building early Saturday afternoon in a black sedan.

Mr. Cutler was carrying a manila envelope thick with papers. He exited through the heavily guarded garage entrance at the corner of William Street and Maiden Lane, declining to comment on the talks.

The meeting appeared similar to one a decade ago when the New York Fed pulled together top Wall Street executives to prevent the collapse of hedge fund Long-Term Capital Management.

In all, about 30 banks were represented at the meeting, which also included an assessment of the risk Lehman's trading partners and other counterparties face and discussion of Merrill Lynch and Washington Mutual Inc., which saw their stock prices slide in recent days on growing fears about their financial condition.

In trying to hold firm to their no-bailout stance even while pressing for a deal, federal officials could try to pit Bank of America and Barclays against each other. But that leverage can work only if both banks stay in the discussions.

Bank of America and Barclays know each other very well, having considered a merger several years ago. More recently, Bank of America agreed to pay $21 billion for ABN Amro Holding NV's LaSalle Bank of Chicago in 2007. That deal came at a time when Barclays was trying to buy ABN and fend off a European consortium bid. Bank of America's purchase was seen at the time as helping that Barclays bid, which ultimately failed.

At Barclays, a big question will be whether President Robert E. Diamond Jr. and CEO John Varley both agree on buying all or part of Lehman. Mr. Diamond is eager to expand Barclays's U.S. Investment bank operations. But the unit, called Barclays Capital, is also responsible for write-downs the bank has recorded.

After orchestrating the rescue of Bear and advising on the shift of Fannie Mae and Freddie Mac into government conservatorship, Federal Reserve officials would very much like to draw a line with Lehman and avoid any involvement that goes beyond the role officials have played in advising Lehman to help it resolve its problems.

After Bear's collapse, the Fed set up lending facilities to help investment banks with short-term liquidity needs. As of Wednesday, it hadn't been tapped by Wall Street since July. The mere presence of the lending program – called the primary dealer credit facility - might be helping to reassure market participants that Lehman is a reliable counterparty, since they know it has access to the facility should it need it. It isn't clear whether the Fed would be willing to extend its lending facilities even further for anything beyond helping a firm manage a short-term liquidity crisis.

"The financing that we did for Bear Stearns is a one-time event that has never happened before, and I hope it never happens again," Fed Chairman Ben Bernanke told lawmakers in April.

"As far as I know, we've never lost a cent. So it is not our intention on anything like a regular basis to be putting taxpayer money at risk."

Mr. Bernanke also has expressed reservations about lending to troubled institutions. "The intended purpose of Federal Reserve lending is to provide liquidity to sound institutions," he said in a July 8 speech. The Fed used its lending powers to help Bear in March "only because no other tools were available to the Federal Reserve or any other government body for ensuring an orderly liquidation in a fragile market environment."

Paramount to Fed officials is the broader health of the financial system. Behind the rescue of Bear was a fear that its collapse would disrupt already shaky credit markets.

Conditions now are mixed. Short-term lending rates such as the

London Interbank Offered Rate, or Libor, are elevated relative to expectations for the Fed's benchmark fed funds rate, a sign of pervasive risk aversion, but have been stable. Risk premiums on junk bonds also are back to levels they hit in March. But the broader stock market has been relatively stable through this latest round of turmoil.

One constraint for federal officials is that many of the steps they hoped to have taken to resolve another investment bank crisis have not yet been taken. Investment banks are big players in the credit default swap market, in which firms trade contracts tied to corporate default risks. It's an immense market that trades against $62 trillion worth of debt. Officials worry that the collapse of an investment bank could send problems cascading through the financial system through this market. They've been pushing Wall Street to create a new clearinghouse to diminish that risk, but it isn't in place yet.

They've also want Congress to develop new procedures to handle the collapse of an investment bank so that it can be closed by the government in an orderly way, as happens with failed commercial banks. That also is far from completion.

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Reuters - Fed holds emergency meeting on market developments

232 words
12 September 2008
22:03
Reuters News
English

(Adds participants, paragraph 3; additional background, paragraph 4)

WASHINGTON, Sept 12 (Reuters) - The **Federal Reserve** Bank of New York held an emergency meeting on Friday evening with top financial market representatives to discuss recent market developments, a Fed official said.

"Senior representatives of major financial markets met at the **Federal Reserve** Bank of New York Friday evening to discuss recent market developments," a Fed official told Reuters.

The official said New York Fed President Timothy Geithner, U.S. Treasury Secretary Henry Paulson and Securities and Exchange Commission Chairman Christopher Cox were among the participants in the meeting.

Financial markets have been on tenterhooks over the future of **Lehman** Brothers Holdings Inc and whether the struggling investment bank, whose stock value has collapsed, may or may not be able to find a buyer. The talks at the New York Fed took place as discussions between **Lehman** and other parties continued.

The Treasury and Fed have been involved in talks regarding **Lehman**'s future. Earlier on Friday, a source familiar with the thinking of Treasury Secretary Henry Paulson said Paulson was "adamant" no public funds be put on the line to help facilitate a sale. (Reporting by Glenn Somerville; Writing by Tim Ahmann; Editing by Gary Hill)

AP - Government, brokerage leaders resume meeting on plan to rescue Lehman Brothers

By JEANNINE AVERSA
AP Economics Writer
125 words
13 September 2008
12:50
Associated Press Newswires
English

WASHINGTON (AP) - With the global financial system holding its collective breath, the U.S. government is scrambling to help devise a rescue for Lehman Brothers and restore confidence in Wall Street and the American financial structure.

An official from the Federal Reserve Bank of New York said Saturday deliberations have resumed with leading Wall Street executives and top U.S. financial officials. They include Treasury Secretary Henry Paulson, Timothy Geithner, president of the New York Fed, and Securities and Exchange Commission Chairman Christopher Cox. They were meeting on the heels of an emergency session convened Friday night by Geithner -- the Fed's point person on financial crises.

BLOOMBERG -Treasury, Fed Summon Wall Street Leaders for Second Day Talks
2008-09-13 17:37:17.820 GMT

By Yalman Onaran

Sept. 13 (Bloomberg) -- The U.S. Treasury and the Federal Reserve Bank summoned chief executive officers of Wall Street firms for a second day of talks to find a solution to the plight of Lehman Brothers Holdings Inc.

Treasury Secretary Henry Paulson and New York Fed President Timothy Geithner met with executives in New York, said Andrew Williams, a spokesman for Geithner.

--With reporting by Chris Anstey in Washington. Editor: Dick Schumacher.