

ATTACHMENT A



September 15, 2008

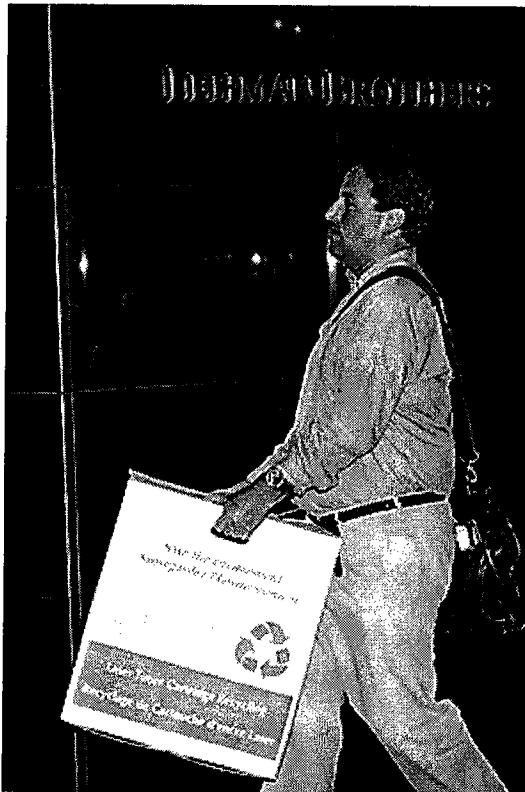
Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets;
Moves Cap a Momentous Weekend for American Finance

By CARRICK MOLLENKAMP, SUSANNE CRAIG, SERENA NG and AARON LUCCHETTI
September 15, 2008; Page A1

The American financial system was shaken to its core on Sunday. **Lehman Brothers Holdings Inc.** faced the prospect of liquidation, and **Merrill Lynch & Co.** agreed to be sold to **Bank of America Corp.**

The U.S. government, which bailed out Fannie Mae and Freddie Mac a week ago and orchestrated the sale of Bear Stearns Cos. to J.P. Morgan Chase & Co. in March, played much tougher with Lehman. It refused to provide a financial backstop to potential buyers.




Reuters
A man walks out of the Lehman Brothers building carrying a box of his belongings, in New York, Sept. 14.

Without such support, Barclays PLC and Bank of America, the two most interested buyers, walked away. On Sunday night, Bank of America struck a deal to buy Merrill Lynch for \$29 a share, or about \$44 billion. Lehman was working on a possible bankruptcy filing that would allow most of its subsidiaries to continue operating as the firm is wound down.

Though it steered clear of a bailout, the Federal Reserve is expected to take new steps to stabilize the broader financial system. These steps, expected to be temporary, would make it easier for banks and securities firms to borrow from the central bank by using a wider range of collateral. Bankers say these financial institutions might need short-term funds as they unwind their many trading positions with Lehman.

In addition, 10 major commercial and investment banks announced Sunday night that they would pool \$70 billion of their own money to create a borrowing facility. The 10 institutions, which include **Citigroup Inc.**, **Credit Suisse Group**, **Deutsche Bank AG**, could tap the pool to help them ride out the crisis. The banks also said they are mutually committed to trying to

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mitigate market volatility.

A sense of foreboding gripped Wall Street as top executives feared collateral damage from a Lehman liquidation. Attention was focused on Merrill Lynch, which boasts the largest force of retail brokers, and **American International Group Inc.**, the insurance giant. Both firms have seen their stocks get hammered on worries that they needed capital.

"Monday will be a day of reckoning for the financial markets," said Carlos Mendez, senior managing director of ICP Capital, a boutique investment firm in New York. On Sunday, he said, "it was like a fire alarm went off and people ran in all directions."

JOIN A DISCUSSION

How long will it be before the financial sector is stabilized, and what will it take to help bring that about? How should investors respond in the meantime? **Share your thoughts.**¹

AIG executives spent the weekend trying to raise cash, either from asset sales or a capital infusion from private-equity firms, or both. AIG executives were meeting with regulators to see if they could transfer capital from some of its subsidiaries to the holding company.

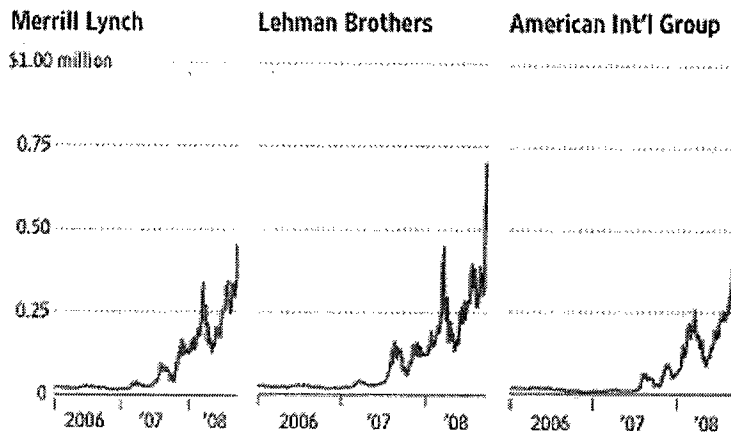
As worries spread across Wall Street that Lehman wouldn't survive, brokerage firms, hedge funds and other traders moved to disentangle themselves from trades with Lehman. When hopes of a potential sale dimmed, a quiet Sunday on Wall Street turned into a mad rush. Executives and traders hurried to their offices or worked their phones to unwind outstanding contracts with Lehman and to gauge their overall exposure.

Merrill, whose brokerage force is known as the "thundering herd," quietly entered into discussions with Bank of America, which has retail bank branches stretching from coast to coast and has long coveted Merrill. Wall Street executives said the Federal Reserve may have been involved in orchestrating the sale, figuring that it was "better to save the relatively healthy patient instead of the dying one," said a lawyer involved in the discussions.

Lehman, a 158-year-old firm that started as an Alabama cotton brokerage, and Merrill, with its trademark bull logo, have been pillars of Wall Street for much of the past century. With the demise of Bear Stearns, three of the Street's five major independent brokers could end up disappearing, leaving only Goldman Sachs Group Inc. and Morgan Stanley.

Credit Check

The amount an investor must pay annually for protection against a default on \$10 million in debt over five years.



"We have never seen anything like this," said analyst Glenn Schorr, who covers the investment banks for UBS AG. "There have been tough situations like Long-Term Capital Management and the crash of 1987, but the problem here is there is leverage in the securities under the microscope and in the banks that own them. And to try and unwind it all at once creates a one-way market where there are only sellers, and no buyers."

The convulsions could lead to even

tighter credit, higher borrowing costs and moribund capital markets, as securities firms and commercial banks try to further limit risk and preserve capital. Those moves could cause the U.S. economy to slow further.

The future of about 25,000 employees at Lehman and an additional 60,000 at Merrill is up in the air. Lehman's work force already has shrunk by about 3,000 in the past year. If the firm essentially goes out of business, most of the remaining employees are likely to lose their jobs. That would deal another blow to New York City's economy, resulting in lower tax revenues on personal income, real-estate transactions and corporate income.

The damage on Wall Street is the latest consequence of a storm that began last year with the sharp decline in American housing prices and losses on loans and other assets tied to home values. Massive capital infusions have failed to stem write-offs and losses, and financial firms are running out of options to escape the damage.

Regulators and others were preparing for a hectic Monday. The New York Stock Exchange prepared contingency plans over the weekend to reassign the approximately 200 blue-chip stocks that Lehman's specialist unit trades, according to people familiar with the matter. If Lehman is forced into liquidation, the exchange will likely transfer the stocks to one or more of the remaining specialist firms, most likely using the same technology and staff that currently trade the stocks.

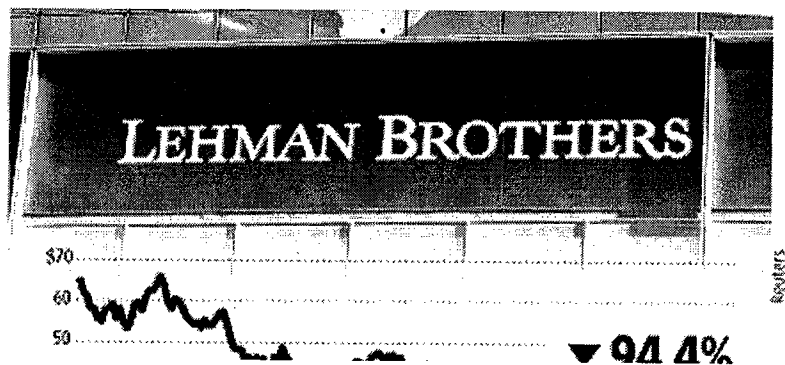
Dozens of Wall Street desks have trades with Lehman. As word spread that the Barclays deal was falling apart, worries that the company could be thrown into bankruptcy mounted, and traders labored to get out of those contracts.

At approximately 2:30 p.m., government officials hosted a call, and a trading session was opened to ease fears. One trader said it was agreed that other brokers would pick up contracts that trading desks have with Lehman. If Lehman does open on Monday, the deals struck on Sunday, often at a worse price, would be void. "It is utter chaos here," the trader said.

At many Wall Street firms, traders of credit-default swaps -- contracts that act as insurance against debt defaults -- were told to come to work immediately. Concerned investors were rushing to buy swaps tied to other brokerages and corporations, sending the cost of protection on investment banks such as Goldman Sachs and others sharply higher.

In a statement Sunday, the International Swaps and Derivatives Association, a trade group whose members include many large dealers, said a "netting trading session" took place between 2 p.m. and 6 p.m. on Sunday. The idea was to allow firms to try to unwind their derivatives transactions with Lehman by finding other parties to step into Lehman's shoes.

"The purpose of this session is to reduce risk associated with a potential Lehman Brothers Holdings Inc. bankruptcy filing," it said. It added that trades conducted during this period "are contingent on a bankruptcy filing on or before 11:59 p.m. New York time" on Sunday. If no filing



takes place, the trades will be canceled, ISDA said.

Some traders said it was difficult to find new counterparties for many of their outstanding trades with Lehman. The snags included different terms and maturity dates on derivatives contracts, and market prices changed rapidly Sunday afternoon. "People were screaming at each other over the phone, asking: How can this work?" one trader said.

William Gross, chief investment officer at bond-fund giant Pacific Investment Management Co., said very few Lehman trades were offset. "There's an immediate risk related to the unwind of these positions," he said.

Many Wall Street firms concluded that a liquidation of Lehman's assets likely would proceed in an orderly fashion, people familiar with the situation said. That means other firms could quickly buy real estate, securities and other investments, preventing the assets from flooding the market. Because of that, these people said, some participants in the New York Fed talks decided that liquidation was no worse an option than selling Lehman to a buyer such as Barclays.

"There will be an orderly wind down," said one banker involved in the matter. "This was the default option. It happens when you have no buyer."

The outside firms decided that instead of making guarantees for Barclays or some other purchaser of Lehman, they would prefer to pool their resources and buy the assets themselves, taking on the risks and carrying costs, along with the possibility of profiting down the road.

Those firms would likely then buy assets such as mortgage-backed securities, leveraged loans, private-equity positions and investments in real estate or hedge funds.

Roger Freeman, a nine-year Lehman employee who analyzes brokerage firms, spent the weekend gathering cellphone numbers and email addresses from colleagues who also are likely to lose their jobs. He plans to clean out his desk Monday morning. "We worked long hours here, we've made some of our best friends here. We're suddenly being ripped apart," he said. "It's just unbelievable."

—Jon Hilsenrath, Jeffrey McCracken and David Enrich contributed to this article.

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BUSINESS | SEPTEMBER 16, 2008

AIG, Lehman Shock Hits World Markets

*Focus Moves to Fate of Giant Insurer
After U.S. Allows Investment Bank to Fail;
Barclays in Talks to Buy Core Lehman Unit*

By SUSANNE CRAIG, JEFFREY MCCrackEN, JON HILSENrATH and DEBORAH SOLOMON

The convulsions in the U.S. financial system sent markets across the globe tumbling, as two of Wall Street's biggest firms looked set to exit the scene and insurance titan American International Group Inc. turned to the Federal Reserve and the state of New York for assistance.

The U.S. stock market suffered its worst daily point plunge since the first day of trading after the Sept. 11, 2001, terrorist attacks. Financial markets were rattled by the rushed sale Sunday of Merrill Lynch & Co. and the bankruptcy-court filing of Lehman Brothers Holdings Inc., which scrambled Monday to sell its most-prized businesses before too many employees and customers walk out the door.

All day Monday, top Lehman officials were huddled in Manhattan at their Seventh Avenue headquarters negotiating a sale of the U.S. investment bank -- the core part of Lehman -- to Barclays PLC of the U.K. People involved in the discussions were increasingly hopeful late Monday that a deal would be struck.

In stock markets from Sydney to London to New York, the news was greeted with immediate selling. For much of the day, the major U.S. market indexes were down 2%, which, while a good-sized decline, was smaller than many had thought would be the case. But in the final hour of trading, a wave of selling hit, driven by concerns about the fate of AIG. The Dow Jones Industrial Average ended down 504.48 points on Monday, off 4.4%, at its daily low of 10917.51, down 18% on the year. Of the Dow industrials' 30 components, all but one -- Coca-Cola Co. -- fell, led by a 60.8% plunge in AIG.

In Europe, London's FTSE 100 index dropped 3.9%. Several Asian markets, including Japan and China, were closed Monday due to holiday. By Tuesday, Tokyo shares were down 5.1% in early trading, and Hong Kong's Hang Seng index was down 6.1%.

Monday's action was the latest fallout in a widening financial crisis that began a year ago with the fall of American housing prices and is now reordering the U.S. financial system. Steps unveiled by the Federal Reserve to expand its emergency lending arsenal did little to snap the sense of gloom.

Plenty of potential land mines remain. Banks are increasingly hoarding cash, curbing lending at a time when the economy is slowing. They are also starting to dump assets to raise capital. A mass sale of assets by the likes of AIG and Lehman could flood the market, reducing their value and leading to additional losses for financial institutions. A slowing economy could also put new stresses on auto and credit-card lenders, as defaults would likely rise.

Investors, worried about the exposure of various corporations to the credit crisis, are abandoning a host of stocks, from regional banks to big conglomerates. General Electric Co.'s stock fell 8% to a 5½-year low as investors worried about the value of assets held by GE Capital, which accounts for most of its borrowing and more than one-third of its profits.

Shares of regional banks Wachovia Corp. and Washington Mutual Inc. tumbled by about 25%. As Lehman's bonds lost most of their value, bonds issued by many other financial institutions, from AIG to Bank of America Corp., were also off, pushing their interest spreads over Treasury securities to new highs. Investors flooded back into the safety of Treasury bonds, sending yields on government debt to their lowest levels since April.

"It's a dicey situation right now," said Bill King, chief market strategist at M. Ramsey King Securities in Burr Ridge, Ill. "You have a lot of guys right now who don't know who to trade with." In particular, traders in the credit markets said it remained difficult to find buyers for certain securities.

Uncomfortable Position

But while the gloom that has gripped the market deepened following one of the most tumultuous weekends in the history of Wall Street, there also was some measure of relief that markets didn't tumble further. By refusing to bail out Lehman, federal regulators had effectively pulled the plug on the firm and gambled that a huge investment bank could fail without pulling down the rest of the financial system.

"I never once considered that it was appropriate to put taxpayer money on the line in resolving Lehman Brothers," Treasury Secretary Henry Paulson said during remarks at the White House. "We do not take lightly ever putting the taxpayers...on the line to support an institution."

The markets were clearly rattled, but the dollar, a proxy for the U.S. economy, rallied against the euro and the British pound. It fell against the yen, however.

While policy makers drew a line in the sand, market watchers say Washington may have little choice but to eventually pony up more government funds as the credit crisis deepens and more firms run into trouble.

"I'm surprised that they chose to draw the line now, when the dominoes are getting bigger and closer together," said Tom Gallagher, an analyst at ISI Group. Washington, he said, will ultimately have to come to Wall Street's aid.

Policy makers could also find themselves in the uncomfortable position of essentially picking winners and losers, critics say. While Washington stepped in to help Bear Stearns Cos. and Fannie Mae and Freddie Mac, it opted not to save Lehman – raising questions about whether Washington should determine who survives and who doesn't.

By the time Lehman Brothers was teetering on the brink, Fed officials had had more time to understand the corners of the credit market that had it worried, and Lehman's trading partners had had more time to sort out their own exposures to the firm.

Instead of saving Lehman, Fed officials crafted a plan to try to save the broader market. They had been studying their new liquidity facilities carefully for months. One idea was to make these facilities more like the repurchase agreement markets themselves. (Repurchase agreements, or repos, are a market in which investment banks get much of their short-term financing.) That would require broadening the kinds of collateral they would take from Wall Street firms coming to them for cash.

In the repo markets, for instance, Wall Street firms can pledge stocks to each other as collateral for short-term loans. The Fed's facilities didn't allow for that. By broadening the collateral requirements to look more like the repo market, the Fed hoped financial firms would be able to open for business Monday without facing a short-term liquidity squeeze.

"Widening the requirements for the [Fed lending facility] simply enhances the confidence that the dealer community is not going to have difficulty" funding overnight loans, said one bank executive involved in the market.

Meantime, the Fed and other regulators proposed a new rule Monday that would make it less expensive for healthy banks to buy distressed banks by reducing the potential capital charge.

The Bush administration has so far taken a largely ad-hoc approach to solving the financial turmoil – addressing problems as they arise instead of trying to get ahead of them. Many market observers say that's not going to be enough to stem the current troubles, especially as asset prices fall and financial institutions run into capital shortages.

Lehman's \$639 billion in assets makes it far and away the largest U.S. bankruptcy ever. After filing for bankruptcy protection early Monday, Lehman raced to sell off pieces of the fallen investment bank before an exodus of employees and customers causes their value to erode.

The New York firm, facing liquidation after filing for Chapter 11 protection in U.S. Bankruptcy Court for the Southern District of New York, continues to seek buyers for some assets, including its U.S. broker-dealer business and investment-management arm, according to people familiar with the situation.

Lehman was trying to sell a substantial stake in the investment-management unit,

including Neuberger Berman, before the bankruptcy-court filing. The business was expected to fetch about \$5 billion, and a number of private-equity firms have expressed interest in acquiring the operation.

After failing to engineer a deal to save the entire company over the weekend, Lehman executives now are trying to salvage what they can.

Range of Emotion

Inside Lehman, feelings ranged from sadness to anger, much of which is being directed at long-time Lehman Chief Executive Richard Fuld Jr. who many feel waited too long to raise capital and repair the firm's leaky balance sheet. Mr. Fuld, who spent much of the weekend monitoring the Lehman talks from his office on the firm's 31st executive floor in midtown Manhattan, has had extra security added to his detail in recent weeks, according to people familiar with the matter.

It was a day for goodbyes for employees. News that the parent company was filing for bankruptcy went out around midnight to the firm's approximately 25,000 employees, 10,000 to 12,000 of whom work in New York. All of Lehman's broker dealers, employees were told, will continue to operate.

At 7:30 a.m., many employees were already at their desks. On Lehman's second-floor equities-trading desk, Jerry Donini, head of global equities, rallied the troops. "I am sorry it came down to this," he told the hundreds of people packed onto the trading floor. "But please don't let this define you."

Hundreds of employees arrived with boxes and removed their belongings. "It is just a shame it came down to this," said Lehman stock analyst Roger Freeman. "I guess now it is time to start thinking about my future."

It is unclear how many employees will be left without jobs. But many staffers in some departments, particularly nonrevenue generating areas such as human resources, just decided to call it quits and pack up.

Lehman's parent company was put into bankruptcy proceedings early Monday morning, but employees held out hope that some of the pieces could still be salvaged.

Lehman's private-equity business is part of the firm's investment-management unit, which also houses the profitable asset manager Neuberger Berman. As Lehman was scrambling to find a buyer over the weekend, bankers at the firm were also proceeding with a previously announced sale of the investment unit. The firm hopes to have this sale wrapped up this week, and the auction is now between two private-equity firms, according to people familiar with the matter. Any sale will now require approval from the bankruptcy judge overseeing Lehman.

Lehman, in filing for Chapter 11 protection for its holding company, as opposed to filing for Chapter 7 liquidation -- or putting the entire company into bankruptcy proceedings --

gives itself more time and control of what happens to its various assets. The company can now continue to shop around subsidiaries such as its broker-dealer operations, investment-management division, real-estate holdings, book of loans and its private-equity portfolio.

—Matthew Karnitschnig, Peter Lattman, Diya Gullapalli, Serena Ng, Tom Lauricella, Liz Rappaport and Peter A. McKay contributed to this article.

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ATTACHMENT C

LEHMAN BROTHERS

Press Release

For Immediate Release

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AS PREVIOUSLY ANNOUNCED, LEHMAN BROTHERS HOLDINGS INC. FILED CHAPTER 11; NO OTHER U.S. SUBSIDIARY OR AFFILIATE, INCLUDING ITS BROKER-DEALER AND INVESTMENT MANAGEMENT SUBSIDIARIES, WAS INCLUDED IN THE FILING

NEW YORK, September 15, 2008 – Lehman Brothers Holdings Inc. (“LBHI”) stated that it has filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. None of the broker-dealer subsidiaries or other subsidiaries of LBHI was included in the Chapter 11 filing and all of the U.S. registered broker-dealers will continue to operate.

The Board of Directors of LBHI authorized the filing of the Chapter 11 petition in order to protect its assets and maximize value. In conjunction with the filing, LBHI intends to file a variety of first day motions that will allow it to continue to manage operations in the ordinary course. Those motions include requests to make wage and salary payments and continue other benefits to its employees.

LBHI is exploring the sale of its broker-dealer operations and, as previously announced, is in advanced discussions with a number of potential purchasers to sell its Investment

Management Division (“IMD”). LBHI intends to pursue those discussions as well as a number of other strategic alternatives.

Neuberger Berman, LLC will continue to conduct business as usual and will not be subject to the bankruptcy case of its parent, and its portfolio management, research and operating functions remain intact. In addition, fully paid securities of customers of Neuberger Berman are segregated from the assets of Lehman Brothers and are not subject to the claims of Lehman Brothers Holdings’ creditors.

The directors of certain UK companies including Lehman Brothers International (Europe), Lehman Brothers Holdings Plc, Lehman Brothers Limited and LB UK RE Holdings Limited have concluded that in the absence of ongoing financial support from the ultimate parent company, they are or are likely to become unable to pay their debts as they fall due and accordingly have taken steps to place those companies into administration.

Lehman Brothers (ticker symbol: LEH) is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices around the world. For further information about Lehman Brothers, visit the Firm’s Web site at www.lehman.com.

ATTACHMENT D


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U.S. Stocks Decline as Lehman Bankruptcy Deepens Market Turmoil

R

By Lynn Thomasson

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Sept. 15 (Bloomberg) -- U.S. stocks declined, erasing more than \$300 billion in market value, as Lehman Brothers Holdings Inc.'s bankruptcy and tumbling commodities increased concern that the slump in financial markets and the economy will deepen.

Lehman plunged 95 percent and American International Group Inc. retreated 60 percent after more than \$25 billion in losses from subprime-related investments in the last four quarters made with mostly borrowed money. Economic concerns pushed down oil, prompting a retreat in energy stocks, and sent General Electric Co. to a 5.5 percent slump.

"The fact that no one wanted to step up with Lehman means that there's no incentive to be a hero," said Peter Sorrentino, who helps manage \$16.5 billion at Huntington Asset Management in Cincinnati. "We need that final cathartic sell-off in the markets to say, 'Here's the bottom.'"

The Standard & Poor's 500 Index declined 26.69 points, or 2.1 percent, to 1,225.01 at 12:51 p.m. in New York, following stock declines across Europe

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and Asia. The Dow Jones Industrial Average sank 261.28, or 2.3 percent, to 11,160.71. The dollar lost the most against the yen in a decade and Treasuries surged.

Stocks pared their losses, led by gains in consumer companies including Procter & Gamble Co. and McDonald's Corp., on speculation the Federal Reserve will reduce rates tomorrow. Traders in futures contracts gave 56 percent odds the Fed will shift its target for overnight loans between banks to 1.75 percent from 2 percent.

More Than \$500 Billion

Seven stocks slipped for each the rose on the New York Stock Exchange on concern financial shares will continue their slump. The S&P 500 has decreased more than 20 percent since an October record as bank losses from the first nationwide decline in U.S. home values since the Great Depression reached \$513.6 billion.

GE, which makes power-plant turbines and jet engines and offers commercial loans, retreated \$1.47 to a five-year low of \$25.28. The company may miss profit estimates because of credit- market turmoil, according to Citigroup Inc.

Caterpillar Inc., the world's largest maker of construction equipment, fell 2.6 percent to \$63.76. AK Steel Holding Corp. slumped 16 percent to \$32.91.

Investors are paying up for protection from further losses. The Chicago Board Options Exchange Volatility Index added 8.6 percent to 27.87. The VIX, which measures the cost of using options as insurance against declines in the S&P 500, reached 30.96, the highest since the Fed helped JPMorgan Chase & Co. save Bear Stearns Cos. from bankruptcy in March.

Avoiding Financials

"We need to get to the bottom of the credit crisis before financials are the sort of place that we want to put a lot of money," said [Bruce McCain](#), the Cleveland-based chief investment strategist at Key Private Bank, which oversees about \$30 billion.

Lehman was forced into bankruptcy after Barclays Plc and Bank of America Corp. abandoned takeover talks yesterday and the company lost 94 percent of its market value this year. Lehman sank \$3.42 to 23 cents.

Citigroup Inc., the largest U.S. bank by assets, declined 11 percent to \$16.02. Bank of America retreated 15 percent to \$28.54 after agreeing to purchase Lehman rival Merrill Lynch & Co. for \$50 billion. American Express Co., the biggest U.S. credit card company by purchases, fell 7.5 percent to \$36.03.

"It's all basically going down the drain," said [Franz Wenzel](#), who helps oversee about \$830 billion as deputy director for investment strategy at Axa Investment Managers in Paris. "The rhythm of the shoes that drop has

accelerated. That's what we follow with caution."

No Plan Yet

AIG lost \$7.29 to \$4.84. The biggest U.S. insurer fell after failing to present a plan to raise capital and stave off credit downgrades.

AIG may need to raise \$20 billion in capital and sell \$20 billion of assets to ease a cash crunch brought on by the collapse of U.S. mortgage markets, people familiar with insurer's plans said.

Goldman Sachs Group Inc. and JPMorgan Chase & Co. were downgraded by Merrill Lynch analysts.

Goldman Sachs, which lost 5.3 percent to \$146.09, was cut to "neutral" on the likelihood Lehman's bankruptcy will reduce profitability for the biggest U.S. securities firm. The analysts cut their recommendation on JPMorgan, which fell 1.9 percent to \$40.40, to "underperform" and predicted the lender will report a third-quarter loss.

The Financial Select Sector SPDR Fund, an exchange-traded fund linked to financial companies, had 42.6 million shares on loan on Sept. 11, or 87 percent more than a week earlier, according to Alexander Hofmann, an analyst at Data Explorers in London. Shares on loan can be an indication of short positions.

Greenspan Comments

Former Federal Reserve Chairman Alan Greenspan said the financial crisis that began with the collapse of the subprime- mortgage market last year "is probably a once in a century event" that will lead to the failure of more firms.

"There's no question that this is in the process of outstripping anything I've seen, and it is still not resolved," Greenspan said in an interview today on ABC's "This Week with George Stephanopoulos." Greenspan, 82, retired from the Fed in January 2006 after serving for 18 years as chairman.

Washington Mutual retreated 19 percent to \$2.20. The company may cost taxpayers as much as \$24 billion in the event of a U.S. government bailout, said Richard Bove, an analyst at Ladenburg Thalmann & Co. The federal government may have to provide that much in mortgage guarantees in order to attract a buyer for the Seattle-based bank, Bove said.

"You may get an assisted merger with a limit on how much the private buyer would pay for the bank with the government giving a guarantee for the rest," Bove said in an interview with Bloomberg Radio.

Sparking a Rebound?

Some investors said Lehman's failure may allow financial markets to rebound.

"The air will be clean within the next one month and we can get a fairly good rebound starting from the middle of October until the spring of next year," Gloom, Boom & Doom Report publisher Marc Faber said in a Bloomberg Television interview from Thailand.

Merrill climbed 23 percent to \$20.97. Bank of America, the biggest U.S. consumer bank, will pay \$29 a share to buy the company as the credit crisis claimed another of America's oldest financial institutions. Bank of America fell \$4.91 to \$28.83.

The S&P 500 Energy Index lost 3.7 percent. Chevron Corp. fell 2.3 percent to \$82.29, and Valero Energy Corp. declined 9.4 percent to \$32.50.

Crude oil plunged 4.3 percent to \$96.83 a barrel in New York as refineries along the Gulf of Mexico escaped major damage from Hurricane Ike.

To contact the reporter on this story: Lynn Thomasson in New York at lthomasson@bloomberg.net.

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ATTACHMENT E



September 15, 2008

Bank of America to Buy Merrill

By MATTHEW KARNITSCHNIG, CARRICK MOLLENKAMP and DAN FITZPATRICK

September 15, 2008; Page A1

In a rushed bid to ride out the storm sweeping American finance, 94-year-old **Merrill Lynch & Co.** agreed late Sunday to sell itself to **Bank of America Corp.** for \$50 billion.



John Thain

The deal, worked out in 48 hours of frenetic negotiating, could instantly reshape the U.S. banking landscape, making the nation's prime behemoth even bigger. Late Sunday night, the companies' boards had approved the deal, but lawyers were negotiating over last-minute details.

Driven by Chief Executive Kenneth Lewis, Bank of America has already made dozens of acquisitions large and small, including the purchase of ailing mortgage lender Countrywide Financial Corp. earlier this year. In adding Merrill Lynch, it would control the nation's largest force of stock brokers as well as a well-regarded investment bank.

The combination, if approved by shareholders, would create a bank of vast reach, involved in nearly every nook and cranny of the financial system, from credit cards and auto loans to bond and stock underwriting, merger advice and wealth management.

Through the weekend, federal officials, including Federal Reserve Bank of New York head Timothy Geithner, made it clear that they strongly encouraged a deal to sell Merrill. They worried the firm could be the next to approach the brink of failure after Lehman Brothers Holdings Inc., said people familiar with the matter.

The all-stock deal came together quickly. With Merrill stock dropping sharply last week, Merrill President Gregory Fleming, a former financial-institutions adviser, urged Merrill Chief Executive John Thain to contact Mr. Lewis to see if he would be interested in a sale. The two banks had had preliminary discussions in the past, so the interest was there, according to a person familiar with the matter.

The Better Deal

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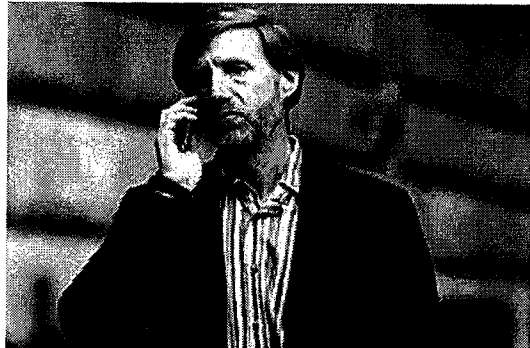


It was a gut-wrenching weekend for Wall Street, with Lehman Brothers headed toward possible liquidation, Merrill Lynch about to be taken over and AIG facing shareholder wrath. WSJ's Dennis Berman and Matthew Karnitschnig look at what's ahead.

On Saturday afternoon, Mr. Thain called Mr. Lewis, who responded favorably. Bank of America, which by then had been considering a bid for Lehman as well, decided that Merrill was the better deal and felt more comfortable with Merrill since the two had engaged in prior discussions. Mr. Thain then went to the Federal Reserve Bank of New York. He quickly saw that a deal for Lehman was unlikely, according to a person close to him, which strengthened his resolve to pursue a deal with Bank of America.

With a deal looming, Mr. Thain canceled a previously planned trip to Asia. The two camps began a marathon series of meetings at Wachtell, Lipton, Rosen & Katz, the law firm which has long represented Bank of America in its deals.

Word began to leak out on Sunday at the New York Fed, where top Wall Street executives had been huddled to discuss the fate of Lehman. Executives were relieved that Merrill had found a buyer. "Who was the magician who pulled this rabbit out of a hat?" exclaimed a top executive of one bank.



Bloomberg News/Landov

Peter Kraus, head of strategy and investments for Merrill Lynch, leaving the New York Federal Reserve.

The deal shows how the credit crisis has created opportunities for financially sound buyers. At \$50 billion, Merrill is being sold at about two-thirds of its value of one year ago and half its all-time peak value of early 2007.

The deal values Merrill at \$29 a share. Merrill's shares changed hands at \$17.05 each on Friday, after falling sharply in the wake of Lehman's looming demise.

"Why would Bank of America do this?" said analyst Nancy Bush at NAB Research LLC in Annandale, N.J. "Ken Lewis always likes to buy the biggest thing he can. So why not this? You are master of the universe, basically."

Merrill could give Bank of America strength around the world, including emerging markets such as India. And Merrill is also strong in underwriting, an area Bank of America identified last week at an investors' conference where it would like to be more aggressive.

Bank of America and Merrill Lynch wouldn't comment on any discussions.

The deal is all the more dramatic because Merrill, upon the arrival of Mr. Thain, did more than many U.S. financial giants to insulate itself from the financial crisis that began last year. It raised large amounts of capital, purged itself of toxic assets and sold big equity stakes, such as its holding in financial-information giant Bloomberg LP. That Merrill has opted to sell itself thus

underscores the severity of the crisis.

The integration of Merrill, known for its proud and sometimes testy brokerage force, could turn out to be the biggest test of Mr. Lewis's career. Typically, the bank has made one big deal and then taken time to carefully merge the two institutions. But in recent years, acquisitions have come at a furious pace. In 2004, the bank bought FleetBoston Financial Corp. A year later, the bank agreed to buy MBNA Corp., the credit-card firm. In 2007, Bank of America bought Chicago's LaSalle Bank as part of the breakup of Dutch bank ABN-Amro Holding NV. Then came this year's purchase of Countrywide.

'The Ultimate Realist'

Absorbing Merrill comes with huge risks. Merrill had the highest ratio of "problem assets" subject to write-downs to capital of the top three independent securities firms, according to Fox-Pitt, Kelton. Analysts were already betting it would have to write down another \$3 billion or more in the third quarter beyond what it had announced in July.

"I think John Thain at Merrill is the ultimate realist," said Ms. Bush, the NAB Research analyst, who expected federal regulators to bless the deal. "He knows if Lehman goes under he is not far behind. He wants to cut the best deal he can."

In the past 15 months, Merrill and Lehman have both had tens of billions of dollars worth of risky, hard-to-sell assets carried on balance sheets that were piled high with debt. When the credit crunch hit in mid-2007, the assets kept deteriorating in value and couldn't easily be sold, eating into both firms' capital cushions. Recently, Lehman's balance sheet topped \$600 billion and Merrill's \$900 billion.

Merrill's previous chief, Stan O'Neal, was ousted in October 2007. His successor, Mr. Thain, tried to repair the firm's balance sheet by arranging an infusion of more than \$6 billion in capital starting last December, tapping investors led by Temasek Holdings, a Singapore government investment fund.

But the losses kept coming this year. Mr. Thain was forced in July to sell a huge slug of more than \$30 billion in collateralized debt obligations, or securities backed by pools of mortgages or other assets, at a price of just 22 cents on the dollar. That step required the firm to raise still more capital, under painful terms that re-priced some of the December stock sales at about half the original price.

During the flurry of historic deal making this weekend, Merrill also put out feelers to Morgan Stanley about a possible deal, which would have united two of Wall Street's oldest brands, according to a person familiar with the talks. But the talks didn't go anywhere because there wasn't enough time for Morgan Stanley to review the idea and Merrill wanted to do a deal quickly, this person said. Merrill was also stepping up talks with commercial banks both in Europe and the U.S.

Mr. Thain would collect an exit package worth about \$9.7 million if Bank of America completes its takeover, according to David M. Schmidt, a pay consultant for James F. Reda and Associates LLC in New York.

That figure represents accelerated vesting of restricted stock units that Mr. Thain got when he

took command last December. Only two thirds of those 500,000 units would become shares that he could sell.

One top Merrill executive lamented the sale of the venerable company, saying, "It's sad but inevitable." This executive said that he was pleased it was Merrill, rather than rival broker Morgan Stanley, that was hatching a deal with Bank of America.

Front and Center

The futures of both Morgan Stanley and Goldman Sachs will be front and center Monday morning, as Wall Street wakes up to a world where the independent broker-dealers are increasingly few in number. They would be the last of the big five independent firms, with Merrill and Bear Stearns Cos. having been sold and Lehman likely to close down.

This tumultuous year has made it clear that investment banks like Lehman and Bear Stearns face vulnerabilities that commercial banks such as J.P. Morgan and Bank of America are less prone to. The investment banks must constantly depend on short- and medium-term money markets to fund their operations. Commercial banks, meanwhile, can count on more stable consumer deposit bases.

Winthrop H. Smith Jr., a former Merrill executive whose father helped build the firm, said the acquisition would represent "a very sad moment for myself and my family and the thousands of families who worked for Merrill Lynch over our 94-year history, sad to see a firm that always prided itself on its independence absorbed" into another.

—Randall Smith, Susanne Craig and Aaron Lucchetti contributed to this article.

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ATTACHMENT F

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N.Y. Will Let AIG Borrow \$20 Billion From Its Own Subsidiaries

Advertisement

By David S. Hilzenrath And Zachary A. Goldfarb
Washington Post Staff Writers
Monday, September 15, 2008; 6:49 PM

Scrambling to prevent another meltdown in the financial system, government officials in New York and Washington were trying to buy insurer AIG more time today and line up private loans of as much as \$75 billion to rescue the troubled giant.

New York's governor said his state will allow AIG, the nation's largest insurer, to use \$20 billion from its own insurance subsidiaries to ease a financial crunch.

By posting the assets as collateral, AIG can borrow money to run its day-to-day operations, Gov. David A. Paterson (D) said at a news conference. The move required special dispensation from the state regulator responsible for protecting the stability of AIG subsidiaries in New York and their policyholders.

J.P. Morgan, which is serving as AIG's financial adviser, was seeking support for a credit line of \$70 billion to \$75 billion that would be syndicated to multiple lenders, according to a source familiar with the discussions. That could spread the risk among institutions that can do something AIG can't: borrow from the Federal Reserve.

The Fed has maintained that it will not offer AIG a bridge loan or other direct injection from the government, according to sources familiar with the conversations. Rather, it was pursuing a privately funded solution.

The Fed asked Goldman Sachs to explore ways to help AIG, the source familiar with the discussions said. The source spoke on the condition of anonymity because the talks are private.

AIG has \$1 trillion of assets and serves clients in 130 countries. Businesses and individuals rely on it for life insurance, retirement annuities, and coverage against all manner of calamities, from financial to natural disasters.

The collapse of subprime loans and other mortgages threatened to hobble the company, which was heavily involved in the business of issuing complex insurance contracts to investors in securities backed by mortgages. If AIG faltered, it could weaken other players in the financial system.

Paterson spoke as Lehman Brothers, a major New York investment bank, sought bankruptcy protection.

"[T]here are other institutions that are just short of realizing the same type of situation," Paterson said.

AIG's stock closed today at \$4.76, down 60.8 percent on the day and far below its high during the past

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New York's move should give AIG a few weeks to raise capital from outside sources, said Sean Egan, founder of the credit rating agency Egan-Jones.

"That buys them time and hopefully AIG will use this window to raise some real capital and to bolster its credit quality," Egan said.

Other than owners of credit insurance, Egan said it is highly unlikely that AIG policyholders' claims would go unpaid even in dire circumstances.

Paterson, a Democrat, said he hoped his step would pave the way for the federal government to assist AIG, and he urged the federal government to act.

The Fed has made emergency lending available to banks for decades. In March, it expanded it to investment banks to try to help them ride out the financial crisis. It did the same for housing finance firms Fannie Mae and Freddie Mac in July. However, those moves were undertaken reluctantly, and the Fed resisted pressure to lend directly to AIG.

AIG executives huddled at their Manhattan headquarters over the weekend with potential private investors including J.C. Flowers, KKR and TPG and Paterson's representatives, including the insurance superintendent, according to a source close to the discussions. AIG was also talking to Warren Buffett's Berkshire Hathaway, the source said.

The company was trying to pull together a sweeping restructuring plan that would likely include selling subsidiaries to raise cash, said sources familiar with the effort who spoke on condition of anonymity because of the fluid nature of unfolding events.

At the request of AIG, Timothy Geithner, president of the Federal Reserve Bank of New York, convened talks this morning at the New York Fed to discuss potential solutions to the insurance company's cash problems. The group included executives from large financial companies, particularly those that do extensive business with AIG.

Paterson said his move was not a bailout and did not involve taxpayer money. In effect, the company would tide itself over by providing a loan to itself, he said.

"It's clear to us that what we're doing here was needed for other things to happen," a source in New York government said.

New York's move would allow the AIG parent company to swap assets that could take months to liquidate for assets of subsidiaries that could more readily be sold, such as municipal bonds.

"It sounds like you're sacrificing the policyholders of those subsidiaries potentially for the parent company," said Donn Vickrey, founder of the financial research firm Gradient Analytics, which has been warning of trouble at AIG for months.

New York officials said they will not put policyholders of the AIG subsidiaries at risk.

"At this point the insurance companies are financially strong and solvent and fully able to meet any claims," David Neustadt, a spokesman for New York state insurance superintendent Eric R. Dinallo,

said.

If the insurance subsidiaries were unable to cover policyholders' claims, a state guarantee fund financed by the insurance industry would provide a backstop, Neustadt said.

Officials from the New York insurance department were at AIG, poring over documents to assess the quality of the assets the parent company would transfer to the subsidiaries, said Charlotte Hitchcock, New York's deputy secretary for labor and financial regulation.

"We're not going to allow them to put junk in the place of good stuff," Neustadt said.

New York officials said Pennsylvania was also involved in the effort. Rosanne Placey, a spokeswoman for Pennsylvania's insurance regulator, would say only that her department had been "consulted about a possible transaction."

AIG is based in New York, where it employs many workers and is critical to business, Paterson said.

Before the market opened today, Standard & Poor's downgraded its rating of the company's stock to "sell" from "hold," citing unconfirmed news reports that the firm was seeking to raise \$40 billion in capital and that it would likely sell its aircraft leasing business. The ratings agency said it was lowering its 12-month target share price to \$8 from \$20. In morning trading, AIG shares were selling for less than the analyst's new \$8 target.

The immediate threat facing AIG was that an anticipated downgrade of its debt could force it to come up with more collateral to back some of its complex insurance policies -- something it could have been hard-pressed to do.

Asked about the risk to policyholders, AIG spokesman Peter Tulupman said by e-mail: "The insurance policies written by AIG companies are direct obligations of our regulated insurance companies around the world. These companies are well capitalized and meet or exceed local regulatory capital requirements. These companies continue to operate in the normal course to meet our obligations to our policyholders."

As the mortgage market has declined, AIG has been on the line to cover more of the losses, eating away at the firm's capital. During the past nine months, AIG has posted \$18.5 billion in losses. In May, it raised \$20 billion from investors.

Last week, its shares fell sharply on fears that it would have to raise tens of billions of dollars more capital to offset losses. The company's shares fell 31 percent alone on Friday.

If an insurer were to fail, the New York insurance regulator would put it in receivership and would use both company assets and a shared pool that other insurance firms contribute to for funding insurance policies.

Dan Ryan, vice president of A.M. Best Co., which rates insurers, said some policyholders could face a shortfall on an outstanding claim if their insurer becomes financially unstable. Ryan said insurers would try to pay off all claims and, if they could not, a pool run by the state would try to make up the gap.

However, state insurance pools have limits; some have payment caps and some don't cover certain types of insurance, he said. So, for example, a high net worth individual with a multimillion-dollar property

insurance policy might not be fully covered.

Staff reporters Neil Irwin, David Cho and Heather Landy and staff researcher Julie Tate contributed.

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SEPTEMBER 16, 2008

AIG Faces Cash Crisis As Stock Dives 61%

By MATTHEW KARNITSCHNIG, LIAM PLEVEN and SERENA NG

American International Group Inc. was facing a severe cash crunch last night as ratings agencies cut the firm's credit ratings, forcing the giant insurer to raise \$14.5 billion to cover its obligations.

With AIG now tottering, a crisis that began with falling home prices and went on to engulf Wall Street has reached one of the world's largest insurance companies, threatening to intensify the financial storm and greatly complicate the government's efforts to contain it. The company, whose stock fell 61% yesterday, is such a big player in insuring risk for institutions around the world that its failure could shake the global financial system.

AIG has been scrambling to raise as much as \$75 billion to weather the crisis, and people close to the situation said that if the insurer doesn't secure fresh funding by Wednesday, it may have no choice but to opt for a bankruptcy-court filing.

"The situation is dire," a person close to AIG said.

Many market participants have been anticipating a government-led rescue. So far, however, the U.S. has been reluctant to step in, preferring instead to broker a private-sector solution.

The Federal Reserve hosted a meeting to discuss AIG's prospects at the central bank's offices in New York on Monday with company executives, bankers as well as state and federal officials.

With strong encouragement from the Fed, Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. are seeking to raise \$70 billion to \$75 billion in loans to help prop up AIG, according to people familiar with the situation. Word of AIG's efforts to borrow that much sent the stock market tumbling in the last hour of trading.

The company turned to the government in earnest after a weekend where intense efforts failed to produce a plan to raise roughly \$40 billion in capital. The worsening crisis has now forced the firm to seek considerably more, underscoring its precarious position. AIG needs the money to sidestep a potentially fatal downgrade by credit-rating firms.

The downgrades by Moody's Investors Service and Standard & Poor's mean that AIG's

counterparties, or trading partners, can demand that it post an additional \$14.5 billion in collateral, according to a filing AIG made with the Securities and Exchange Commission in August. It is not clear how quickly AIG would have to produce those funds. In addition, AIG or its counterparties could demand early termination based on the downgrades, resulting in payments of up to about \$5.4 billion, the filing said.

One sliver of optimism for AIG last night was that much of its exposure is related to credit default swaps, insurancelike contracts tied to corporate defaults. AIG's counterparties on these instruments include Wall Street firms, which may have an incentive not to immediately demand more collateral so as not to trigger a wider panic. Such collateral could come in the form of cash or liquid assets such as government or municipal bonds.

But many of AIG's counterparties are based in Europe and Asia and may have less interest in helping to prop up the firm. The market for credit default swaps is immense, trading against about \$62 trillion of debt. Some participants in the largely unregulated market worry that the default of a major player such as AIG could trigger chaos.

On Monday, many of AIG's bonds traded at levels more reflective of junk bonds that are on the verge of default. Some of the bonds traded at less than 50 cents on the dollar, having fallen from more than 80 cents last week. In the market for derivatives contracts that provide protection against debt defaults, investors were agreeing to pay \$2.5 million upfront plus \$500,000 annually to hedge against a default of \$10 million in AIG's debt over five years, according to data provider CMA DataVision. The cost is so high because sellers of the protection want to be adequately compensated for taking on the risk.

Analysts believe that AIG's insurance businesses remain healthy. But losses elsewhere, linked to subprime mortgages, have helped make the major credit-rating agencies skeptical of its ability to raise enough capital to offset the losses.

In New York, where AIG is based, Gov. David Paterson announced Monday that state officials are working with the insurer on a plan that would allow the firm to, in effect, loan itself \$20 billion, by borrowing against its assets. The state would allow the company to shift assets that are subject to tight regulation in order to give the company better liquidity in the short term.

The private loans facilitated by banks, should they become available, would provide a huge measure of relief to AIG. The insurer had sought a bridge loan from the Fed to tide it over until it was able to sell some assets, but Fed officials are not inclined to provide one, especially right after spurning Lehman Brothers. The Fed's failure to come to Lehman's aid forced the firm to file for Chapter 11 bankruptcy protection Monday.

At a midday news conference, U.S. Treasury Secretary Henry Paulson said AIG's meetings with federal officials had "nothing to do with any bridge loan from the government" and rather represented a private-sector effort that was important to the "financial system."

Indeed, the company's woes could pose problems in many corners -- a concern that has the federal government on watch. AIG's massive assets mean that its millions of traditional insurance customers will likely get claims paid, no matter what happens next. But AIG's shares and debt are widely held, and the firm is used by many companies world-wide to manage a range of risks, including exposure to investments in subprime mortgages. Its demise would potentially make it harder or more expensive for businesses to control their risks.

Hammered Stock

AIG had hoped to have a comprehensive plan in place before the start of trading on Monday. It was unable to broker a deal in time and made no public pronouncements about its plans. Each day lost can make it harder to craft a solution. On Monday, nervous investors continued to hammer its stock. AIG's share price closed at \$4.76 in 4 p.m. composite trading on the New York Stock Exchange, down \$7.38, and is down 92% for the year. The lower the stock price, the harder it can be for the firm to raise capital.

AIG's businesses include selling life and property-casualty insurance policies. It operates in more than 100 countries around the world. With more than 100,000 employees world-wide, AIG has a sprawling portfolio of companies that also includes units that make consumer loans and lease aircraft.

AIG's business selling credit protection against the possibility of default in a variety of assets, including subprime mortgages, set it apart from most other insurers and tied it more closely to the fate of the housing and credit markets.

When the housing market began to spiral downwards, the value of those contracts plunged. That issue is at the heart of AIG's massive losses, which have totaled \$18 billion over the past three quarters.

The losses have put the company over a barrel. To raise money, AIG in recent days has explored selling off valuable units. The company, for instance, is looking into selling AIG Variable Annuity Life Insurance Co., which provides retirement services, according to a person familiar with the matter. An AIG spokesman declined to comment.

AIG has also held discussions in recent days with private-equity firms about providing an infusion of cash. But some firms balked at putting in money absent a Fed bridge loan, and at this point, private-equity firms such as TPG and Kohlberg Kravis Roberts & Co. are more interested in buying specific AIG assets rather than contributing money to a capital infusion, according to people familiar with these firms' thinking.

The company also talked with Warren Buffett, chairman of Berkshire Hathaway Inc., which has a number of insurance businesses. The talks didn't result in specific plans, and it wasn't clear if they were ongoing.

Striking Situation

The problems confronting AIG are especially striking because the company is so large. At the end of the second quarter, its assets exceeded its liabilities by \$78 billion. But most of those assets are held by its insurance subsidiaries, as guarantees that they will be able to pay claims.

As a result, those assets can't be liquidated to meet the company's other obligations, such as those associated with the recent losses. AIG raised \$20 billion earlier this year, but it's not clear how much of that it still has on hand. And if ratings agencies downgrade it, the company could have to come up with at least \$10 billion, and perhaps as much as \$18 billion.

That is one way loans from banks or New York state's moves could aid the company – by giving it short-term cash while it works on longer-term efforts to raise money, such as by selling assets.

In New York, Insurance Superintendent Eric Dinallo is working with AIG on efforts to shift around assets that it could use to help raise cash. Insurance companies operate under strict regulations about moving assets among subsidiaries, in order to guarantee that they can meet their obligations to policyholders.

New York, though, may allow AIG to move certain assets that are harder to liquidate quickly into its insurance subsidiaries, where they would back up possible future claims, and then shift more easily tradable assets, such as municipal bonds, to the parent company. The parent company could then borrow against those more liquid assets, which could in turn help ease its needs for cash in the short term.

—Susanne Craig, Jon Hilsenrath, Aaron Lucchetti and Peter Lattman contributed to this article.

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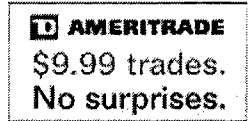
Insider Roster

Financials

Income Statement

Balance Sheet

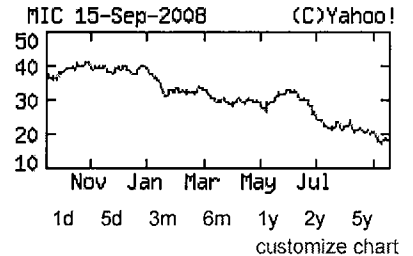
Cash Flow



MACQUARIE INFSTC LLC (NYSE: MIC)

NEW Real-time: 17.15 ↓ 1.37 (7.40%) 2:17PM EThelp

Last Trade:	17.22	Day's Range:	16.88 - 18.50
Trade Time:	2:02PM ET	52wk Range:	17.06 - 42.00
Change:	↓ 1.30 (7.02%)	Volume:	649,910
Prev Close:	18.52	Avg Vol (3m):	546,378
Open:	18.50	Market Cap:	774.00M
Bid:	N/A	P/E (ttm):	N/A
Ask:	N/A	EPS (ttm):	-0.64
1y Target Est:	34.51	Div & Yield:	2.58 (13.30%)



- Add MIC to Your Portfolio
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ATTACHMENT I



September 16, 2008 12:05am AEST

Macquarie Bank views Wall Street roadkill

MARTIN COLLINS: John Durie | September 16, 2008

THE good news is, Wall Street and US authorities have dramatically restructured since the global debt liquidation, but the really bad news is that its impact has only just hit the real economy and will worsen.

It's far better that the disaster is dealt with rather than being met with denial as has been the case in crises past. But while Wall Street, when pushed for its own survival, can react quickly, the real economy, both in the US and Australia, will feel pain for some years.

The mass Wall Street restructuring inevitably raises more questions about Macquarie Bank's ability to ride through the storm as its stock price hit near four-year lows yesterday with its market value falling by \$14 billion, or more than half, since October last year.

When stock prices fall so much, option values disappear. Virtually all options issued by Macquarie to staff in the past four years are now worthless and one assumes this year's bonus pool will not be great.

The chances that troubled debt-built houses such as Babcock & Brown, Centro and Allco can survive also narrowed sharply along with many struggling property groups -- and their collapse will trigger meaningful collateral damage on the real economy, hitting the wallets of Kevin Rudd's working families. The trouble is, nobody really knows the endgame but one could conclude that it is not a great environment to sell assets to pay down debt, and Centro for one faces a new bank deadline at the end of this month.

Lehman Brothers, a 158-year-old Wall Street icon, is bankrupt. Merrill Lynch of thundering-herd fame, with the biggest retail brokerage network in the world, is now a division of Bank of America, and insurance giant AIG is hoping for a \$US40 billion emergency line of credit from the US Fed to survive.

Wall Street, of course, will make a couple of dollars on the Lehman bankruptcy as its bankers and lawyers run the auctions on their fallen comrades' corpses.

The global financial system is based on trust and while its inhabitants often see themselves as masters of the universe, their hold on power is quickly washed away when confidence disappears.

Lehman's collapse will escalate the fall in global asset values, including Australian assets. Australian companies and banks borrow overseas and debt costs are only just starting to rise for most local companies.

Unemployment is picking up globally and growth forecasts for China are being wound back, so those who confidently picked the bottom of the crisis in March when Bear Stearns was bailed out have proved way too optimistic.

As more real assets such as property are put on the market to satisfy bank debt, the more banks are forced to foreclose, and so the spiral continues downwards.

As much as Australian banks will say their exposure is limited, NAB's recent experience has shown the pitfalls of counterparty risk.

The US Fed organised a \$US170 billion rescue program to deal with Lehman's collapse, so all the big investment banks will effectively buy back their paper held by Lehman. That works OK for Wall Street but China, Singapore and the Middle East have massive investments in US debt, which is worth a fraction today of what it was just a few months ago. As someone noted, China is said to have massive foreign reserves but has anyone actually seen them?

Merrill Lynch boss John Thain a few months back sold \$US31 billion of debt at US22c in the dollar yet still yesterday was resisting attempts by Bank of America to buy his company for \$US50 billion. This was after all

just half what the firm was worth this time last year but, by all reports, when Thain saw the Lehman news he moved (or perhaps was pushed by the US Fed) to deal with BoA's Ken Lewis.

Ironically at any other time the creation of a combined BoA and Merrill would be heralded as the creation of a financial powerhouse combining the biggest mainstream commercial bank in the US with one of the world's best investment banks -- complete with a top-tier merger and acquisition team, broking house and huge asset management business.

Instead the talk is about how BoA's Lewis will handle Merrill's multi-billion-dollar toxic debt book.

Lehman bothers Babcock

IN March, when Babcock's stock hit the skids some in the company cried foul and complained to ASIC about comments being made by the Lehman dealing desk in Australia about its financial position.

Yesterday, Lehman was suspended because others in the market had refused to deal with it given the plight of its parent company.

Phil Green's departure from the board of Babcock was perhaps inevitable but somehow doesn't read well when you consider he was the genius who built the castle and, now it has fallen, he has run. The so-called Macquarie model used by Babcock is conflict-ridden, which rewards the promoters at the wrong time. When B&B outbid Macquarie to buy Alinta last year at 15.2 times earnings, the firm was immediately rewarded with investment bank and other fee income as it shifted the power assets from vehicle to vehicle.

So Green and co got paid when they did the deals, in contrast to private equity firms that pick up their biggest loot when they sell the assets, rewarding all investors at the same time.

As long as they can convince the markets there will be someone to fund the deals then the game is on and the share price stays high, as evidenced by B&B's closing price of \$31.08 a share in November last year.

Green's decision to quit so quickly suggests he wasn't happy to leave the executive ranks and, having taken that decision, quickly worked out that trying to mother his empire on the board wasn't going to work.

Not everyone is capable of managing a company and Green proved a much better builder than manager and, like many peers, proved to be not as smart as he thought, which is why he kept on buying when he had enough debt.

That's the difference between a sustainable business model and the one operated by Green and David Coe et al. With the inspirational Green gone, new boss Michael Larkin will have, at least on paper, a free run to deal with the assets, and the likes of the highly regarded Pat Handley on the board will feel more comfortable.

But we will also see a mass run of departures -- with Rob Topfer already gone (in all but name) class acts like Trevor Lowensohn will be considering his next step and others will now see better futures elsewhere.

Shorts down by Christmas

FORTESCUE'S Andrew Forrest brilliantly exposed the lack of transparency on the Australian bourse with his statement to the ASX earlier this month claiming as many as 271 million shares in his company had been lent, implying the buyers were potential short sellers.

There are no accurate figures in Australia on either stock loans or short selling and the unofficial keeper of such numbers, Data Explorer, claimed as of August 31 just 28 million FMG shares were on loan. Something has happened because yesterday Data Explorer showed there were 80 million FMG shares on loan.

A massive difference, still short of the numbers inferred by the company but highlighting the lack of transparency. Macquarie shares on loan were attracting a huge premium of 2 per cent, or eight times the normal cost of borrowing shares. Some 60 million, or 21 per cent of its stock, was on loan, which of course doesn't necessarily mean it is all being sold short.

The Government has promised changes to provide more transparency sometime between now and Christmas.

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ATTACHMENT J



September 17, 2008 12:31am AEST

Macquarie in the spotlight amid \$5bn refinancing fears

Adele Ferguson | September 17, 2008

AUSTRALIA'S biggest investment bank, Macquarie Group, took a pummeling on the debt and equity markets yesterday on fears that it would struggle to raise more than \$5 billion in debt in the next six months.

The stock closed 7 per cent lower at \$36.80 as its subordinated debt blew out to 500 basis points and its senior debt ballooned to 320 basis points, indicating the riskiness the market is now attaching to the stock and its capacity to refinance debt, sell assets and maintain earnings.

To put it in perspective, some of the big US investment banks, such as Citigroup's, senior debt was attracting 300 basis points, while JPMorgan's senior debt was 200 basis points.

The reality is that by March next year Macquarie needs to refinance \$45 billion of debt. While most of it will be relatively easy, more than \$5 billion could prove difficult to get away at a decent price and decent length of time. In addition, Macquarie has \$3 billion invested in listed funds, and as of yesterday if it was marking to market the value of the listed funds, it would be writing down an additional \$400 million.

And as at March 31 it had about \$2.8 billion of assets available for sale. Given some of the largest assets are in real estate, the chances of selling them in this climate are slim.

Meanwhile, its poor cousin, Babcock & Brown, was slaughtered another 49 per cent to 80c yesterday as the group moved closer to breaching its loan covenants on a \$2.9 billion debt facility.

The group's European wind assets hold the key to its survival. If it can't soon find a buyer for these assets, it will sound the death knell of the entire empire.

These assets have been up for sale for months but have so far failed to find a buyer. They are worth up to \$4 billion, which would more than repay corporate debt.

In these uncertain times the worst thing a company can do is have too much debt, hold a portfolio of declining asset values, lack transparency and fail to provide earnings outlooks.

Babcock & Brown and Macquarie Group have these characteristics in spades and if they want to escape a further stock price battering, they will need to start selling assets and do some swift refinancing deals.

In both cases, given the deteriorating markets, the chances of an earnings downgrade are a virtual certainty, unless they start selling assets.

Given Babcock's perilous state the best it can hope for is fire sale prices.

Macquarie is in far better shape than Babcock, with better assets and a more diversified portfolio of businesses, but is increasingly coming under pressure to sell assets.

It doesn't help that it has hardly sold a thing since its March 31 balance date.

According to a recent report by Wilson HTM, it has more than \$700 million of "held for sale" assets, including an offshore oil and gas barge and vessel provider, and New World Gaming Partners, a joint venture with Consolidated Media and casinos in Canada.

Wilson HTM banking analyst Brett Le Mesurier believes a profitable sale of the casinos would be tough based on the Toronto stock exchange's consumer discretionary index and Crown both losing hefty market value in the past few months.

As the financial Armageddon continued yesterday, the Babcock & Brown and Macquarie Group model is out of date and needs fixing -- immediately.

Assets are sourced, purchased, debt-funded and then either on-sold or plonked into a satellite fund from which management fees derive.

Babcock has \$15.6 billion in assets, \$11.5 billion of interest-bearing liabilities and deposits and \$2.5 billion in equity.

This means it has a ratio of equity to assets of 16 per cent, which is no longer sustainable -- or acceptable -- and which is too low for an investment-grade credit rating.

Macquarie's ratio of equity to assets isn't much better and the equity and credit markets no longer feel comfortable with this sort of risk.

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ATTACHMENT K



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September 7, 2008
hp-1129

Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers

Washington, DC-- Good morning. I'm joined here by Jim Lockhart, Director of the new independent regulator, the Federal Housing Finance Agency, FHFA.

In July, Congress granted the Treasury, the Federal Reserve and FHFA new authorities with respect to the GSEs, Fannie Mae and Freddie Mac. Since that time, we have closely monitored financial market and business conditions and have analyzed in great detail the current financial condition of the GSEs – including the ability of the GSEs to weather a variety of market conditions going forward. As a result of this work, we have determined that it is necessary to take action.

Since this difficult period for the GSEs began, I have clearly stated three critical objectives: providing stability to financial markets, supporting the availability of mortgage finance, and protecting taxpayers – both by minimizing the near term costs to the taxpayer and by setting policymakers on a course to resolve the systemic risk created by the inherent conflict in the GSE structure.

Based on what we have learned about these institutions over the last four weeks – including what we learned about their capital requirements – and given the condition of financial markets today, I concluded that it would not have been in the best interest of the taxpayers for Treasury to simply make an equity investment in these enterprises in their current form.

The four steps we are announcing today are the result of detailed and thorough collaboration between FHFA, the U.S. Treasury, and the Federal Reserve.

We examined all options available, and determined that this comprehensive and complementary set of actions best meets our three objectives of market stability, mortgage availability and taxpayer protection.

Throughout this process we have been in close communication with the GSEs themselves. I have also consulted with Members of Congress from both parties and I appreciate their support as FHFA, the Federal Reserve and the Treasury have moved to address this difficult issue.

Before I turn to Jim to discuss the action he is taking today, let me make clear that these two institutions are unique. They operate solely in the mortgage market and are therefore more exposed than other financial institutions to the housing correction. Their statutory capital requirements are thin and poorly defined as compared to other institutions. Nothing about our actions today in any way reflects a changed view of the housing correction or of the strength of other U.S. financial institutions.

I support the Director's decision as necessary and appropriate and had advised him that conservatorship was the only form in which I would commit taxpayer money to the GSEs.

I appreciate the productive cooperation we have received from the boards and the management of both GSEs. I attribute the need for today's action primarily to the inherent conflict and flawed business model embedded in the GSE structure, and to the ongoing housing correction. GSE managements and their Boards are responsible for neither. New CEOs supported by new non-executive Chairmen have taken over management of the enterprises, and we hope and expect that the vast majority of key professionals will remain in their jobs. I am particularly pleased that the departing CEOs, Dan Mudd and Dick Syron, have agreed to stay on for a period to help with the transition.

I have long said that the housing correction poses the biggest risk to our economy. It is a drag on our economic growth, and at the heart of the turmoil and stress for our financial markets and financial institutions. Our economy and our markets will not recover until the bulk of this housing correction is behind us. Fannie Mae and Freddie Mac are critical to turning the corner on housing. Therefore, the primary mission of these enterprises now will be to proactively work to increase the availability of mortgage finance, including by examining the guaranty fee structure with an eye toward mortgage affordability.

To promote stability in the secondary mortgage market and lower the cost of funding, the GSEs will modestly increase their MBS portfolios through the end of 2009. Then, to address systemic risk, in 2010 their portfolios will begin to be gradually reduced at the rate of 10 percent per year, largely through natural run off, eventually stabilizing at a lower, less risky size.

Treasury has taken three additional steps to complement FHFA's decision to place both enterprises in conservatorship. First, Treasury and FHFA have established Preferred Stock Purchase Agreements, contractual agreements between the Treasury and the conserved entities. Under these agreements, Treasury will ensure that each company maintains a positive net worth. These agreements support market stability by providing additional security and clarity to GSE debt holders – senior and subordinated – and support mortgage availability by providing additional confidence to investors in GSE mortgage backed securities. This commitment will eliminate any mandatory triggering of receivership and will ensure that the conserved entities have the ability to fulfill their financial obligations. It is more efficient than a one-time equity injection, because it will be used only as needed and on terms that Treasury has set. With this agreement, Treasury receives senior preferred equity shares and warrants that protect taxpayers. Additionally, under the terms of the agreement, common and preferred shareholders bear losses ahead of the new government senior preferred shares.

These Preferred Stock Purchase Agreements were made necessary by the ambiguities in the GSE Congressional charters, which have been perceived to indicate government support for agency debt and guaranteed MBS. Our nation has tolerated these ambiguities for too long, and as a result GSE debt and MBS are held by central banks and investors throughout the United States and around the world who believe them to be virtually risk-free. Because the U.S. Government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and MBS.

Market discipline is best served when shareholders bear both the risk and the reward of their investment. While conservatorship does not eliminate the common stock, it does place common shareholders last in terms of claims on the assets of the enterprise.

Similarly, conservatorship does not eliminate the outstanding preferred stock, but does place preferred shareholders second, after the common shareholders, in absorbing losses. The federal banking agencies are assessing the exposures of banks and thrifts to Fannie Mae and Freddie Mac. The agencies believe that, while many institutions hold common or preferred shares of these two GSEs, only a limited number of smaller institutions have holdings that are significant compared to their capital.

The agencies encourage depository institutions to contact their primary federal

regulator if they believe that losses on their holdings of Fannie Mae or Freddie Mac common or preferred shares, whether realized or unrealized, are likely to reduce their regulatory capital below "well capitalized." The banking agencies are prepared to work with the affected institutions to develop capital restoration plans consistent with the capital regulations.

Preferred stock investors should recognize that the GSEs are unlike any other financial institutions and consequently GSE preferred stocks are not a good proxy for financial institution preferred stock more broadly. By stabilizing the GSEs so they can better perform their mission, today's action should accelerate stabilization in the housing market, ultimately benefiting financial institutions. The broader market for preferred stock issuance should continue to remain available for well-capitalized institutions.

The second step Treasury is taking today is the establishment of a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Given the combination of actions we are taking, including the Preferred Share Purchase Agreements, we expect the GSEs to be in a stronger position to fund their regular business activities in the capital markets. This facility is intended to serve as an ultimate liquidity backstop, in essence, implementing the temporary liquidity backstop authority granted by Congress in July, and will be available until those authorities expire in December 2009.

Finally, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase GSE MBS. During this ongoing housing correction, the GSE portfolios have been constrained, both by their own capital situation and by regulatory efforts to address systemic risk. As the GSEs have grappled with their difficulties, we've seen mortgage rate spreads to Treasuries widen, making mortgages less affordable for homebuyers. While the GSEs are expected to moderately increase the size of their portfolios over the next 15 months through prudent mortgage purchases, complementary government efforts can aid mortgage affordability. Treasury will begin this new program later this month, investing in new GSE MBS. Additional purchases will be made as deemed appropriate. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS indicate that there is no reason to expect taxpayer losses from this program, and, in fact, it could produce gains. This program will also expire with the Treasury's temporary authorities in December 2009.

Together, this four part program is the best means of protecting our markets and the taxpayers from the systemic risk posed by the current financial condition of the GSEs. Because the GSEs are in conservatorship, they will no longer be managed with a strategy to maximize common shareholder returns, a strategy which historically encouraged risk-taking. The Preferred Stock Purchase Agreements minimize current cash outlays, and give taxpayers a large stake in the future value of these entities. In the end, the ultimate cost to the taxpayer will depend on the business results of the GSEs going forward. To that end, the steps we have taken to support the GSE debt and to support the mortgage market will together improve the housing market, the US economy and the GSEs' business outlook.

Through the four actions we have taken today, FHFA and Treasury have acted on the responsibilities we have to protect the stability of the financial markets, including the mortgage market, and to protect the taxpayer to the maximum extent possible.

And let me make clear what today's actions mean for Americans and their families. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe. This turmoil would directly and negatively impact household wealth: from family budgets, to home values, to savings for college and retirement. A failure would affect the ability of Americans to get home loans, auto loans and other consumer credit and business finance. And a failure would be harmful to economic growth and job creation. That is why we have taken these actions today.

While we expect these four steps to provide greater stability and certainty to market

participants and provide long-term clarity to investors in GSE debt and MBS securities, our collective work is not complete. At the end of next year, the Treasury temporary authorities will expire, the GSE portfolios will begin to gradually run off, and the GSEs will begin to pay the government a fee to compensate taxpayers for the on-going support provided by the Preferred Stock Purchase Agreements. Together, these factors should give momentum and urgency to the reform cause. Policymakers must view this next period as a "time out" where we have stabilized the GSEs while we decide their future role and structure.

Because the GSEs are Congressionally-chartered, only Congress can address the inherent conflict of attempting to serve both shareholders and a public mission. The new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market. There is a consensus today that these enterprises pose a systemic risk and they cannot continue in their current form. Government support needs to be either explicit or non-existent, and structured to resolve the conflict between public and private purposes. And policymakers must address the issue of systemic risk. I recognize that there are strong differences of opinion over the role of government in supporting housing, but under any course policymakers choose, there are ways to structure these entities in order to address market stability in the transition and limit systemic risk and conflict of purposes for the long-term. We will make a grave error if we don't use this time out to permanently address the structural issues presented by the GSEs.

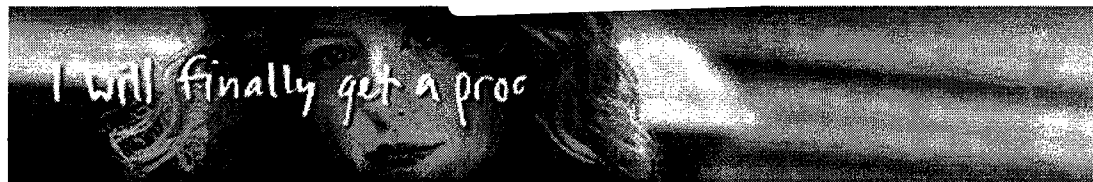
In the weeks to come, I will describe my views on long term reform. I look forward to engaging in that timely and necessary debate.

-30-

REPORTS

- [FHFA Director Lockhart Remarks on Housing GSE Actions](#)
- [Fact Sheet: FHFA Conservatorship](#)
- [Fact Sheet: Treasury Preferred Stock Purchase Agreement](#)
- [Fact Sheet: Treasury MBS Purchase Program](#)
- [Fact Sheet: Treasury GSE Credit Facility](#)
- [Freddie Mac Warrant to Purchase Common Stock](#)
- [Freddie Mac Certificate](#)
- [Freddie Mac Senior Preferred Stock Purchase Agreement](#)
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ATTACHMENT L



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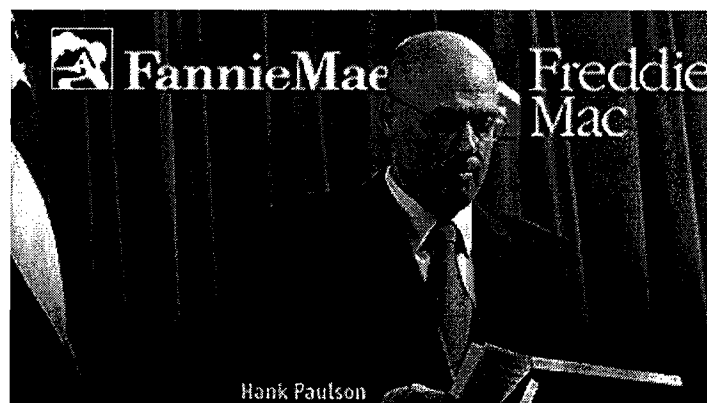
America's mortgage giants

Suffering a seizure

Sep 8th 2008 | NEW YORK
From Economist.com

America's government takes control of Freddie Mac and Fannie Mae

AFP



FOR many Americans, Sunday is for church, family lunches or catching a ball game. For the country's financial authorities, it has become the day of the dramatic announcement: the takeover of Bear Stearns; the Treasury's promise in July to stand behind Fannie Mae and Freddie Mac; and, most momentous of all, on Sunday September 7th, what had recently come to be seen the inevitable culmination of that pledge: the government's seizure of the two giant mortgage agencies.

Hank Paulson, the Treasury secretary, had hoped that the July announcement would calm nerves sufficiently that he would not have to take out his "bazooka". The opposite happened. The firms' shares collapsed amid fears that investors would be wiped out in a government rescue. This severely curtailed their ability to issue much-needed capital, also infecting their mortgage-backed securities and the \$1.6 trillion of debt they had issued to buy mortgages for themselves. It was only a matter of time before the government was forced to launch its largest-ever financial rescue. The action was greeted warmly on the world's stockmarkets, which rallied on the news.

Though some had wanted to see the agencies fully nationalised, obstacles stood in the way—not least that this would have required an act of Congress. So the Treasury had to get creative. The plan has four planks. First, Fannie and Freddie will be taken into "conservatorship", a watered-down form of receivership, by their revamped regulator, the Federal Housing Finance Agency, until

they are once again "sound and solvent". Second, they will have access to a loan facility, secured against their assets, until the end of 2009. Intriguingly, this will also be available to the 12 Federal Home Loan Banks. James Lockhart, the FHFA's head, stressed that these bank-owned co-operatives, also designed to grease housing markets, are mostly in good shape. But they have a lot of short-term debt and the quality of their borrowers' collateral is falling. Allowing them to tap the credit line may be a shrewd precautionary measure.

The third plank highlights Mr Paulson's wish to protect the taxpayer and avoid "moral hazard". The Treasury will buy preferred shares as needed, whenever the agencies' net worth dips below zero, and this paper will be repaid ahead of their existing preferred and common stock (whose dividends are being eliminated). Lowly shareholders could yet lose everything.

Indeed, the deal could have been a lot worse for the taxpayer. In exchange for vowing to keep the firms above water, the government will receive \$1 billion "fee" in preferred stock at no cost, along with warrants giving it the right to 80% of the firms' common stock at a nominal price. The two chief executives will leave. Fannie and Freddie, whose unparalleled political connections helped them to keep regulation toothless and expand on threadbare capital cushions, will no longer be allowed to lobby lawmakers.

The final piece of the plan may unnerve some taxpayers. To keep mortgage markets chugging along, the Treasury will become a buyer of last resort for bonds packaged by the agencies, purchasing them in the open market if demand slackens. Could it end up burdened with piles of toxic paper? Mr Paulson was upbeat, pointing out that since the Treasury would hold the securities to maturity it might one day reap net gains.

But the eventual cost to the public purse is unknown and potentially huge. The Treasury says it could buy as much as \$100 billion of preferred stock in each of the two firms, though it deems that highly unlikely. Ultimately, the size of the bill will depend on their ability to recover, and that is far from clear. Under American accounting standards they have adequate capital, despite the rapid deterioration of their portfolios. But on a fair-value basis, marking their assets to the current market price, Freddie is insolvent and Fannie not far off. Moreover, with house prices still sliding and foreclosures rising sharply, worse may be ahead.

The taxpayer is on the hook elsewhere, too. Bank failures, almost unheard of in recent years, are ticking up. The Federal Deposit Insurance Corporation, which steps in and covers deposits up to \$100,000 when lenders go belly-up, is nervously watching its fund shrink. It, too, may soon need to tap the Treasury for funds, especially if a big bank fails. On Monday one of the most vulnerable large lenders, Washington Mutual, forced out its boss in a bid to shore up confidence. More and more pundits are predicting the return in new guise of the Resolution Trust Corporation, which was tasked with taking over and offloading duff assets in the savings and loan crisis of the early 1990s. The tab this time is likely to far exceed that institution's total losses, \$124 billion by the end of 1999.

While the short-term goal is to stabilise Fannie and Freddie, thereby bringing down mortgage rates, the longer-term aim should be to avoid an expensive repeat. Mr Paulson stressed that the seizure of the agencies is merely a "time out"; it will be for the next administration and Congress to determine their future form. He is clearly in favour of scrapping their hybrid business model, which delivers profits to shareholders but leaves the public to shoulder life-threatening losses. Both presidential candidates have joined the criticism, with Barack Obama calling the agencies "a weird blend".

Winding them down is not yet an option. With private mortgage finance barely registering a pulse, Fannie and Freddie have become crucial cogs in the market. Acknowledging this, the Treasury's plan envisages allowing them to increase the size of their portfolios modestly by the end of next

year. But from 2010 they will be forced to shrink by 10% a year until they reach an undefined "less risky size". Once markets recover, pressure to dismantle the firms—and nurture alternatives, such as covered bonds—will grow. Until then, conservatorship will have to do.

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