[redacted]

From: Swagel, Phillip
Sent: Tuesday, April 15, 2008 12:11 PM
To: Gayer, Ted; Kashkari, Neel
Subject: RE: recap plan

Lehman has already done number 4 to game the PDCF -- they securitized their illiquid CLO's and got a rating agency to say that some large fraction of it was investment grade. And then poof, they get access to tens of billions of dollars from the Fed's PDCF.

From: Gayer, Ted
Sent: Tuesday, April 15, 2008 10:32 AM
To: Kashkari, Neel; Broome, Meredith; Burner, Gary; Grippo, Gary; Abbott, Matthew; Wheeler, Seth; Overlock, Garret; Swagel, Phillip; Schetzel, Michael
Subject: RE: recap plan

Neel-
This looks good. A few quick comments to consider:
1) I think the "allocation mechanism and pricing" section on page 3 should be more suggestive as a possible example, rather than sounding like this is the mechanism we endorse. As you note, the pricing mechanism is a key component of this proposal, and I fear linking the auction to recent book value might be a bad idea given that it rewards firms that didn't mark down appropriately. We don't want to pre-judge this decision for the private asset manager.

2) For the compensation section on page 3, I assume the government gets non-voting shares.

3) Shouldn't section 3 (p. 6) come after section 4 (p. 7)?

4) On the whole loans v. MBS, you should keep in mind that there is some evidence of institutions securitizing loans but keeping the security entirely on their portfolio. I'm not sure why this happens (perhaps there is an arbitrage opportunity from the ratings of the securities?), but such securities would be amenable to purchase under the whole loan plan. Nobody knows how many loans meet this criterion, but I wouldn't be surprised if the Fed says there are a lot.

5) I wonder to what extent government ownership of the high-risk MBS would lead to political pressure to modify/refinance the underlying loans. If government has majority ownership, is this enough to take them out of the trust? If not, I still fear later pressure to abrogate contracts.

Good luck with the meeting with Bernanke.

-Ted

From: Kashkari, Neel
Sent: Tuesday, April 15, 2008 9:49 AM
To: Broome, Meredith; Burner, Gary; Grippo, Gary; Abbott, Matthew; Wheeler, Seth; Overlock, Garret; Swagel, Phillip; Gayer, Ted; Schetzel, Michael
Subject: recap plan

Thanks to everyone who met last night on the recap contingency plan. here is the latest draft. if you could please review especially pages 2-4, that would be great and send me any comments this morning using track changes. we are seeing bernanke this afternoon with hank to walk them through it.

thanks