



THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE

Post Office Box 30248 · Charlotte, NC 28230

Office 704-358-2100 · www.richmondfed.org

INTEROFFICE MEMO

Date: September 27, 2008
To: Jennifer Burns, VP-LCBO
From: John A. Beebe, Market Risk Team Leader
Subject: Wachovia Large Funds Providers

The following memo¹ outlines some key features of Wachovia's large funds providers, looking at the composition of these providers through various prisms to show their links with the financial system. Key systemic integration points include:

1. Fund holdings of Wachovia debt (Systemic risk-"break-the-buck")
2. Broker-dealer money markets (Systemic risk-market confidence)
3. Financial institutions

A key issue to consider under a Wachovia lead disruption is that they would more resemble a Bear Stearns or AIG case, where counterparties have not had time to reduce their exposure to Wachovia. This is unlike WaMu or even Lehman, which had long periods where investors had time to reduce exposure. Even in the latter two cases, the disruption to the liquidity markets has been severe.

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1. Fund holdings of WB liabilities represent a significant systemic risk. Based on the August 31, 2008 report, US Mutual funds hold \$66.1 bn of WB's liabilities. This breaks down into the following debt types:
 - a. Corporate Notes: \$34.6 bn
 - b. CDs: \$10.1 bn
 - c. Floaters: \$7.5 bn
 - d. Tender Option Bonds: \$8.0 bn

¹ This memo was constructed using various MIS reference reports. As a result there may be timing or data aggregation differences in some of the numbers. The differences are not significant in relation to the main themes of this memo. Data for provider by Wachovia legal entity was not available.

Exposed Funds include²

2. US broker-dealers are also large investors in Wachovia with investments totaling \$38.9 bn. The investment banking sector is already weak and exposed to low levels of confidence. Broker dealers could become even more reliant on Federal Reserve support programs, such as the PDCF, to support operations in the event of a Wachovia lead disruption. Wachovia liabilities on BD balance sheets include \$23.9 bn in money markets³, \$5.7 bn in ABCP (VFCC), \$4.3 bn in corp notes, and \$2.0 bn in Tender option bonds.
3. Financial institution exposure to Wachovia is \$15.4 bn, primarily in the form of corporate notes of \$9.4 bn. Again, this is a weak sector exposed to already eroded confidence.

² The fund listing was done by large fund provider by name, not provider type. Other large fund providers may also have been included in the categorization, but that data wasn't readily available.

³ The money market volume is notable in reference to WB liquidity, since it is likely to leave the company quickly should a Wachovia specific event occur.

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4. Breakdown of investors by investor type and product

WACHOVIA BANK and WACHOVIA CAPITAL MARKETS, LLC
All Products Combined
as of 08.31.2008

Stated as Combination BOOK VALUE/F

OUTSTANDING LIABILITIES
(MILLIONS)

	Low Floater	Tender Option Bonds	VFCC-CP	United Hamilton	Bank Notes	BKEL	CD	CDEL	Wachovia CP	Deposit Note	EUROS	Fed Funds (ON)	Fed Funds (Term)	Corporate Notes	MMDA	MMDEPGIC	PC	Loan Part	TDOA
Affiliate	513	(0)	-	-	20	-	503	165	-	-	344	-	-	10,102	-	-	-	1	-
Broker/Dealer(US)	364	2,012	5,663	685	622	-	1,338	26	0	1	-	-	-	4,298	23,944	-	-	-	-
Corporation/Companies(US)	1,016	100	959	60	220	-	1,915	1	3,842	-	3,214	41	-	6,800	-	2	0	-	-
Fed Govt & Agencies	1	-	-	-	-	-	1,385	-	-	-	-	12,500	250	841	-	-	-	-	-
Financial Institutions(FGN)	-	-	-	-	129	-	376	-	206	-	1,437	24	-	7,021	-	500	-	-	-
Financial Institutions(US)	1,577	236	-	-	2,477	-	642	0	-	-	9	808	225	9,388	-	-	-	-	-
Individual(US)	142	-	-	-	-	-	0	-	4	-	0	-	-	(0)	-	-	-	-	-
Mutual Funds(US)	7,481	8,043	4,121	1,255	206	-	10,108	-	250	-	16	-	-	34,607	-	-	-	-	-
Other(FGN)	96	131	1,388	-	-	-	104	(0)	11	-	871	-	-	4,121	-	-	-	-	-
Other(US)	(559)	90	-	-	4,908	30	50	159	11	-	41	-	-	12,112	-	-	-	-	-
State & Municipalities	1	22	43	-	50	-	275	-	123	-	24	-	-	1,109	-	40	0	-	-
Trust	10	-	-	-	-	-	20	-	15	-	8	-	-	201	-	0	-	-	-
	10,639	10,633	12,175	2,000	8,631	30	16,717	352	4,462	1	5,965	13,374	475	90,600	23,944	542	0	1	-
	5.3%	5.3%	6.1%	1.0%	4.3%	0.0%	8.3%	0.2%	2.2%	0.0%	3.0%	6.7%	0.2%	45.2%	11.9%	0.3%	0.0%	0.0%	0.0%

* includes inventory and unidentified contras