Wachovia Bank: Liquidity Risk Profile

(September 29, 2008)

Information is as of 4:00PM on 9/29

Background/Profile

Wachovia's short-term liquidity position declined from $12.7B to $5.1B over the five-day period ending Tuesday, 9/23. We know that this position has deteriorated further since then as Wachovia's net liquidity position was approximately $4B on Friday 9/26, and we expect to confirm details on further deterioration with the FRBNY-Richmond team early Tuesday 9/30.

- This week, the firm anticipates 17% of total liabilities to mature. Most of this maturing debt will come from a net fed funds position that has weakened considerably over the course of this week and from $3.9B in long-term debt.
- Its largest single additional source of liquidity is likely impaired ($38B in FHLB eligible collateral), as the FHLBs have been constrained to loan in a timely manner (i.e. Wachovia has requested $6B in funding, but FHLB has to phase in the funding over several weeks).
- Among the largest liquidity providers to Wachovia, $23.8B in brokered deposits from A.G. Edwards (a subsidiary of Wachovia), $12.5B in term auction facilities (TAF) from FRB-Richmond, $6.5B from Dreyfus Investment Advisors, and $5.8B from State Street Global Advisors.

The announcement of the merger with Citigroup did not significantly help market fear that Wachovia is in a weakened liquidity position. Bank management believes that the continued weakness of their liquidity position was being caused by the ambiguity of statements made by the FDIC, along with the lack of a statement from the NY Fed that they will provide unlimited liquidity.

As of early-afternoon 9/29, the following was either known or expected for the day with respect to WB's liquidity position:

- Wachovia is projecting to finish the day at $35B in the Fed Account with $24B in repo, a $7.5B Fed balance, $1.75 from FHLB-Dallas and $2B from FHLB-Atlanta (based on $5B in whole loan collateral). The $24B of repo was done through GCF and WB was originally hoping to be able to do $26B.

- $3.2B of daily floaters (VRDN) rolled, however, broker-dealer tri-party repo did not roll smoothly. With $2.3B maturing, they were expecting to sell $1.1B which is invested in A1/P1 CP. Additionally, they took advantage of the 23A waiver to fund $300M.

- They were able to borrow $1.5B overnight, however, this is a much smaller amount than the $5.5B they were able to borrow overnight on Friday (9/26). Several counterparties refused to do any O/N unsecured funding with WB (i.e. Citi, BONY, National City and HSBC).

- Counterparties pulling back were causing stress of $42 to $50M to Global Securities (a bank sub) and $800M in stock loans to the retail broker.

- As of 1:45pm, there were known cash outflows of $332M, although total deposit outflows for the day were not known. There was a deposit outflow of $5.7B on Friday 9/26, which was comprised mainly of wholesale customers.

- As an additional example of the funding difficulties Wachovia is presently facing, $635M of maturing VFCC (ABCP) did not roll today, which they funded through Wachovia Bank, NA.

- The London branch had no available funding and would have to be funded by WBNA.

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