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Investor Safe Haven Becomes a Concern

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In another sign of turmoil in the credit markets, large investment firms, having sought out the high yields for their money market funds, are being forced to protect the funds from losses brought on by investments that no longer seem safe.

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The moves have cost the firms hundreds of millions of dollars, a price that could climb if credit market problems worsen.

The bailouts reflect the fact that while the managers of money market funds have no legal obligation to assure the funds do not lose money, they fear that losses might lead investors to flee the fund and perhaps take money out of other funds managed by the company. Such losses could also damage a firm's reputation.

[Bank of America](#) said yesterday that it would provide as much as \$600 million to prop up several [Columbia Management](#) funds, which bought large amounts of debt issued by structured investment vehicles, or SIVs, that is now worth less than it paid.

[Credit Suisse](#) said it had booked about \$125 million in unrealized losses after it bought notes issued by collateralized debt obligations and SIVs in its money market fund. The [Wachovia Corporation](#) said it had made a similar pre-emptive strike, recording a \$40 million loss to buy distressed notes from its Evergreen money market fund. [Legg Mason](#), [SEI Investments](#) and Sun Trust Banks have each secured letters of credit suggesting that they might be willing to lose money before investors in their cash funds do.

If the credit markets worsen, others may need to take similar actions. "We can count six or seven of them now," said Peter Crane, the president of Crane Data, which tracks the money fund industry. "You could see this even rivals 1994, when roughly 50 money funds required bailouts." In that year, rapidly rising interest rates damaged funds that had effectively bet such increases would not occur.

The funds invested in short-term securities, like asset-backed commercial paper, that were highly rated by bond rating agencies but offered greater yields than other assets. Now some issuers have defaulted, and there are enough worries about others that their securities cannot be resold for full value.

"It is a no-brainer to spend a few million dollars on troubled securities or lose their entire mutual fund franchise that is making them billions of dollars," Mr. Crane said. "Anyone who is running a big mutual fund has more than their money fund — they have their reputation on the line."

The actions also suggest the severity and scope of the tight credit market, which first surfaced in mortgage-related securities but now threatens the retirement accounts of ordinary investors. Money market funds, which have taken in over \$3 trillion, have long been considered a safe place for investors.

Commercial paper is normally issued by companies whose credit is viewed as excellent. But in recent years the market grew for asset-backed commercial paper, which was issued by borrowers who might be less credit-worthy on their own but who pledged high-quality assets to support their borrowings.

Some of the paper was issued by SIVs, which owned mortgage-backed securities. One such SIV has stopped making payments on its securities, and others are unsure if they can sell commercial paper to replace maturing issues.

The country's three biggest banks have agreed to collaborate on an \$80 billion fund to scoop up assets from troubled SIVs.

While stabilizing the markets was the primary concern, preventing money funds from "breaking the buck" — and the fallout — were benefits raised early in the discussions, according to several people involved with the plan. "Breaking the buck" means allowing the net asset value of a money market fund to fall below \$1 a share.

So far, analysts say that most SIV securities are trading at 97 to 98 cents on the dollar. But if more SIVs are forced to unwind, the resulting fire sale would put pressure on prices.

Bank of America appeared to be trying to calm nerves yesterday, though its disclosure was somewhat vague. At a [Merrill Lynch](#) conference, the bank's chief financial officer, Joe Price, said that it would provide \$300 million in support to an institutional cash fund and anticipated providing a comparable amount to a group of Columbia Management retail funds.

That support, according to its quarterly report, "may take the form of a commitment to provide capital to the funds or to purchase certain assets from the funds." Scott Silvestri, a Bank of America spokesman, said he was unable to say which path the bank was taking.

Wachovia said it booked a \$40 million loss on the securities it bought from its Evergreen cash fund so that its investors would have no exposure.

"We saw about a billion dollars of commercial paper that was backed by what we considered to be pretty high quality underlying collateral," the chief financial officer, Thomas J. Wurtz, said last month. "About half of it has been resolved or paid back and there's some more coming down the line where the ultimate loss will be zero.

"We'll probably take a hit in the neighborhood of \$4 million, \$5 million, \$6 million perhaps if we were to sell the assets, and if we were to hold onto them, perhaps nothing," he added.

Credit Suisse said in a recent conference call that it booked unrealized "value reductions" totaling \$125 million after purchasing securities from its American money funds, including asset-backed commercial paper, and notes issued by collateralized debt obligations and SIVs. A Credit Suisse spokesman declined to comment.

Legg Mason said it had recently secured letters of credit worth \$238 million for two of its money funds, and will likely incur a \$4.7 million loss in the fourth quarter. In October, it invested \$100 million in another money fund to "provide additional liquidity support" but did not purchase SIV-related commercial paper.

This week, SEI Investments, a money manager near Philadelphia, said that it planned to shield two funds from losses from debt issued by Cheyne Financial, a SIV that was forced to liquidate.

The company said it would step in to assure that one fund's net asset value did not fall below 99.5 cents a share, the minimum price that can be rounded to \$1. That indicated it might allow the fund to take some losses, which would show up as a lower yield, rather than as a decline in the price of the fund's shares.

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