



Money Funds Set Aside Cash for Trouble

By Tim Paradis

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NEW YORK (AP) — One of the safest and, lately, most attractive places for people to park some of their savings — the money market account — is suddenly looking a little less secure thanks to fallout out from the mortgage mess.

Bank of America Corp. on Tuesday became the latest financial company to announce plans to shore up a group of money market funds, in its case with a \$600 million reserve. The move raises questions about whether this category of savings might suffer hits that are serious enough to cause losses for investors.

The notion that some money market funds might give investors less than a dollar-for-dollar return on their investment, an occurrence known as "breaking the buck," is a sobering thought. Some experts say it remains unlikely, however.

The Bank of America funds have run into trouble with a type of investment known as a structured investment vehicle, or SIV, which uses borrowed money to invest in risky but high-yielding investments. These often complex transactions have operated, and made money, on a basic principle: that borrowing was easy to do and cheap.

When the market for risky mortgages collapsed this year, credit in general got squeezed, and SIVs have suffered badly. Still, Peter Crane, president of Crane Data LLC, which tracks money market mutual funds, says he doesn't believe this will wind up hurting the average money market client.

The banks that used SIVs are big institutions with too much at stake to let this extremely popular type of investment go sour. Money market funds now total about \$3 trillion. "It's extremely unlikely that investors would be impacted," Crane said.

Last week, Legg Mason Inc. said in a regulatory filing that it established lines of credit totaling about \$238 million to preserve the credit ratings of two funds run by one of its divisions. Legg Mason said it remains confident in the "overall soundness" of the funds and doesn't expect they will break the buck.

"More money is going to be lost from investors moving from prime money funds into Treasury bills than ever would have lost by money market securities linked to SIVs," Crane said.

Bruce Bent, who invented the money market fund in 1970, agreed with Crane that these measures appear precautionary.

"I do not think they're going to break the buck, and I also question whether they will need to step in at all," he said.

His firm, The Reserve, has about \$83 billion in assets. He said it doesn't hold investments in SIVs.

Unlike savings accounts or government bonds, money market funds aren't insured. However, they operate under rules that require the money to be invested somewhat conservatively.

Crane said that in what he considered to be the unlikely event a money market fund failed, savers still "will get your money back — the risk is you will have to wait." That could happen if there was a run by investors on a fund, he said.

It has only occurred once that a money market fund has failed: the Community Bankers Mutual Fund in 1994. In that case, investors ultimately lost about 4 cents on the dollar. And the fund was for a group of bankers, not retail investors.

Other times, when a well-regarded company has defaulted on its debt and money funds have gotten into trouble, investors have eventually been paid in full. However, one of the big attractions of a money market fund is the ability to put money in and take it out whenever you want

Bent said that, as banks are disclosing more and more of their troubles recently, investors should be ultimately reassured. With the worst damage evident, credit markets are able to loosen up and allow for easier borrowing and investing.

"Things are improving," he contended. "The whole thing is a big psychological game. Is this over? No, but we're better off than we were yesterday."