

Confidential Presentation to:

Office of Thrift Supervision

Lehman Brothers Bank, FSB Safety & Soundness/Compliance Examination 2007

August 7, 2007

LEHMAN BROTHERS BANK FSB

OTS Examination 2007

Lehman Brothers Bank, FSB

◆ **The Bank was chartered on June 30, 1999 as the successor to Delaware Savings Bank**

◆ **Offices:**

- Executive Office New York, NY
- Home Office Wilmington, DE
- Branches Jersey City, NJ
- Small Business Finance Lake Forest, CA and Boston, MA
- Capital Crossing Boston, MA
- Credit Administration Florham Park, NJ

◆ **Operating Subsidiaries:**

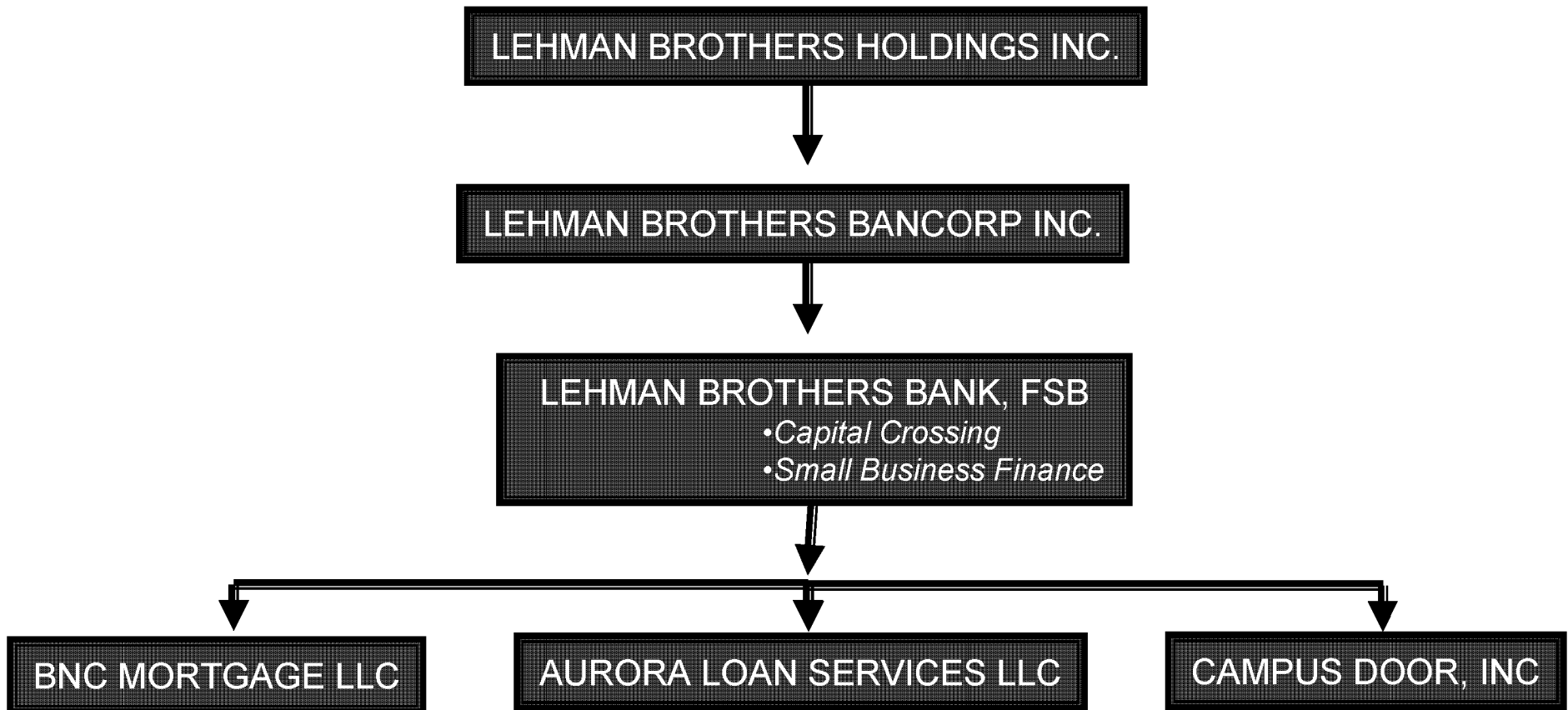
- Aurora Loan Services LLC Littleton, CO
- BNC Mortgage LLC Irvine, CA
- Campus Door, Inc. Carlisle, PA

Lehman Brothers Bank Geographic Footprint



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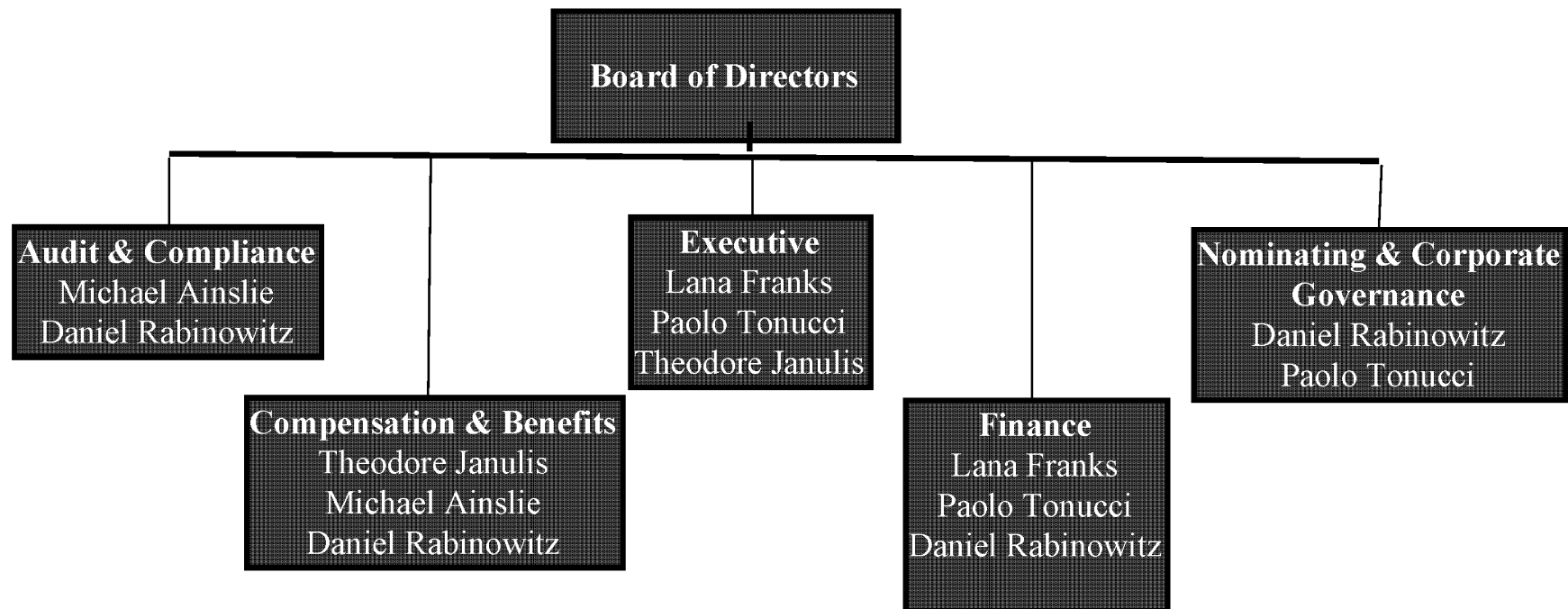
Structural Organization



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Board of Directors

- ◆ Ted Janulis, *Chairman, Director since 1999*
- ◆ Michael Ainslie, *external director since 1999*
- ◆ Lana Franks, *Director since 2006; 20 years with Lehman Brothers*
- ◆ Paolo Tonucci, *Director since 2007; 11 years with Lehman Brothers*
- ◆ Daniel Rabinowitz, *external director since 1999*



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Achieved best in class management structure

- ◆ Enhanced seasoned Lehman bank management with industry leaders in Finance, Legal, Technology, Mortgage Operations, Wholesale and Retail Lending. Retained significant experience through acquired commercial lending and student loan businesses.
- ◆ Changes since July 2006:
 - Dan Colao, Chief Financial Officer; 20 years of financial services experience; GE Capital;
 - Thomas J. Noto, Chief Legal Officer; 21 years of financial services regulatory experience; Federal Reserve Board
 - Daniel Griffiths, Chief Technology Officer; 18 years in industry; JP Morgan Chase
 - Steven Skolnik, Director Wholesale Lending (BNC CEO); 18 years in mortgage banking; First Franklin
 - Jeffrey McGuinness; Director Retail lending; 18 years in business; Citimortgage
 - Craig Wildrick; Chief Operations Officer; 34 years in industry; Wells Fargo

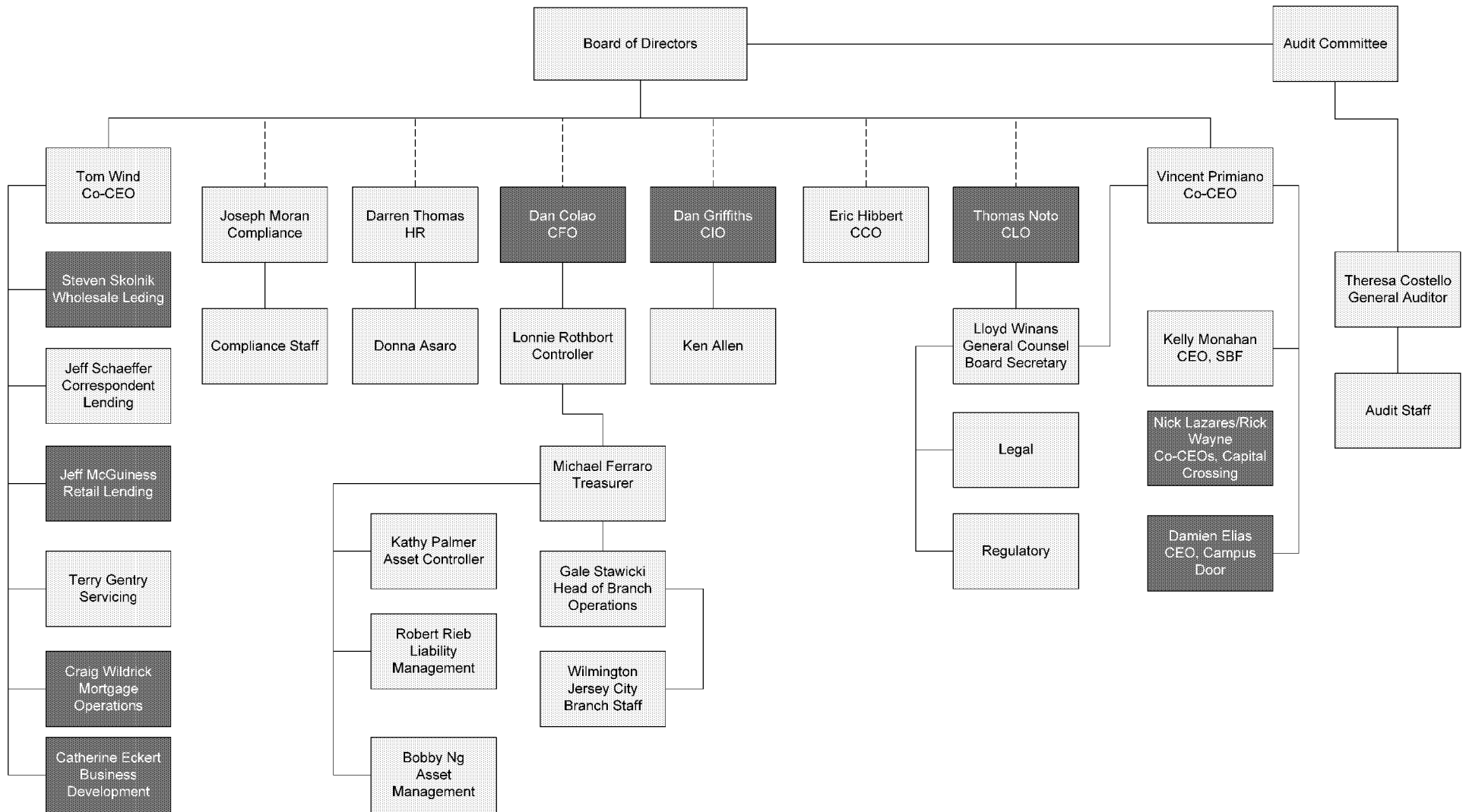
From Acquired Companies:

Nicholas Lazares; Co-CEO, Capital Crossing; 19 years in business

Richard Wayne; Co-CEO, Capital Crossing; 19 years in business

Damien Elias; CEO, Campus Door, Inc; 12 years in business, 21 years in industry

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Management

- ◆ Realignment of Residential Mortgage Business
- ◆ Best in Class execution of Servicing and Master Servicing Business
- ◆ Adoption of Enhanced Responsible Lending Policy-Residential Mortgages
- ◆ Implementation of Guidance on Non-traditional Mortgage Products
- ◆ Implementation of Statement on Subprime Lending
- ◆ Implementation of Responsible Lending Policy-Student Loans
- ◆ Revised Senior LBB Fair Lending Committee
- ◆ Revised Senior Community Reinvestment Act Committee
- ◆ Enhanced Board Reporting on analytics and monitoring surrounding: Fair Lending; Bank Secrecy Act; Transactions with Affiliates; CRA; and HMDA.
- ◆ Completed build out of Audit, Compliance and Quality Control Staffs

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Financials as of July 31, 2007

- ◆ Liquidity Model unchanged from previous years
 - Issuance of Brokered CDs: \$ 9.1 billion
 - FHLB-Pittsburgh Advances: 6.2 billion
 - FRB-Philadelphia Overdraft Capacity
- ◆ Board of Directors
 - Conducts Regular Finance Committee meetings
 - Revised Business Plan
 - Budget
 - Updated financials
 - Interest Rate Risk - Model fully vetted with Board of Directors every meeting
 - ALLL Calculations vetted with Board of Directors every meeting
- ◆ Response to 2006 Examination
 - ALCO Committee; meets monthly; revised membership
 - Risk Weighting of various assets – addressed comments from 2006 Report of Examination

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Financials as of June 30, 2007

- ◆ Earnings (6 months) YTD: \$147 million vs. \$ 157 million thru June 2006
- ◆ Month End Assets: \$20.6 billion vs. \$19.2 billion as of June 2006
- ◆ Average Assets YTD: \$21.6 billion vs. \$22.0 billion thru June 2006
- ◆ Capital Ratios:

| | <u>Actual</u> | <u>YTD Average</u> |
|--|---------------|--------------------|
| – Tier 1: | 9.26% | 8.62% |
| – Tier 1 Risk Based Capital (Tier 1/Risk Weighted Assets): | 9.27% | 9.721% |
| – Total Risk Based Capital Ratio (Risk Based Capital/Risk Weighted Assets): | 10.77% | 10.60% |

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Portfolio

◆ Total Loans:

- \$ 19.1 billion as of June 30, 2007 vs. \$18.2 billion as of June 30, 2006
 - Residential Mortgages
 - \$13.6 billion vs. \$14.5 billion
 - Commercial Mortgages
 - \$3.8 billion vs. \$1.9 billion
 - Reverse Repo Lending
 - \$211million vs. \$1.2 billion
 - Corporate Loans
 - \$1 billion vs \$438 million
 - Other
 - \$ 489 million vs. \$162 million

◆ Delinquency (including FHA/VA) as of June 30, 2007

- Total Loans - 5.79% (3.90%>90 days)
 - Residential Mortgages – 5.14% (3.33%>90 days)
 - Commercial Mortgages– 0.5% (0.42% >90 days)
 - Other – 0.15% (0.15%>90 days)
-

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Significant Events

- ◆ Acquisition of Campus Door, Inc.
- ◆ Acquisition of Capital Crossing
- ◆ Staffing Right Sizing in Residential Lending Businesses
- ◆ Convergence of Residential Mortgage Platforms

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Campus Door

- ◆ Acquisition of Campus Door Inc. August 1, 2006; Business established in 1995
- ◆ Operating Subsidiary of Lehman Brothers Bank
- ◆ Headquarters: Carlisle, Pennsylvania
 - CEO: Damien Elias
 - Employees: 147
- ◆ Private Student Loan Originator
- ◆ Currently offers Certified Private Student Loan product for Undergraduate and Graduate students
- ◆ In development to offer FFELP and non-certified private products
- ◆ 2007 production: \$120 MM

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Capital Crossing

- ◆ Acquisition of Capital Crossing February 15, 2007; f/k/a Atlantic Bank & Trust Company was organized on December 29, 1987, and commenced operations on February 29, 1988.
 - Business Model complimentary and accretive to build out of commercial lending platform and ongoing business of SBF
- ◆ Capital Crossing primarily operates as a commercial wholesale purchaser of loans secured by commercial real estate.
- ◆ Headquarters: Boston, MA
- ◆ Co-CEO: Nicholas Lazares and Richard Wayne
- ◆ 2007 production: \$171 million approximate for 1Q-2Q 2007
- ◆ Employees: approximately 120
- ◆ Holds several operating subsidiaries as booking vehicles (several have been dissolved since acquisition)
- ◆ Holds one operating company as an operating subsidiary, Dolphin Capital, Moberly, MO, presently accepting bids for sale of company.

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Human Resources

- ◆ Acquisition and Integration of Capital Crossing and Campus Door
 - Ongoing review of policies, process and benefits for all employees
 - Ensuring all employees treated equitably and fairly
- ◆ Staff Headcount Reviews
 - 2 Reduction in Forces since June 30, 2007
 - July 2006: Approx. 400 employees impacted at Aurora Loan Services and BNC Mortgage
 - June 2007: Approx. 380 employees impacted at BNC Mortgage
 - Reductions completed to ensure efficient staffing for business expectations and environment
 - Most recent reduction also related to restructuring of BNC Operations into centralized Regional Operating Centers
 - Ongoing review of staffing requirements to ensure effective resources as business expectations change
- ◆ Key Senior Hires
 - MCD Executive Committee fully in place through internal promotions as well as external hires
 - Key senior hires in both sales and operations at Aurora Loan Services and BNC Mortgage Senior additions to headcount through acquisitions of Capital Crossing and Campus Door

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Convergence of Residential Mortgage Platform

◆ Strategy

- Aurora Loan Services and BNC Mortgage developed a business strategy based on solid product development and excellent customer service
- Clients require full spectrum of products

◆ June 13, 2007 Announcement

- Aurora Loan Services and BNC Mortgage will be combining into one integrated mortgage origination and servicing platform
- Combined Platform will fully migrate to Regional Operating Center (“ROC”) model
- BNC local branch model will be retired

◆ Platforms structured on Wholesale, Correspondent and Retention Channels

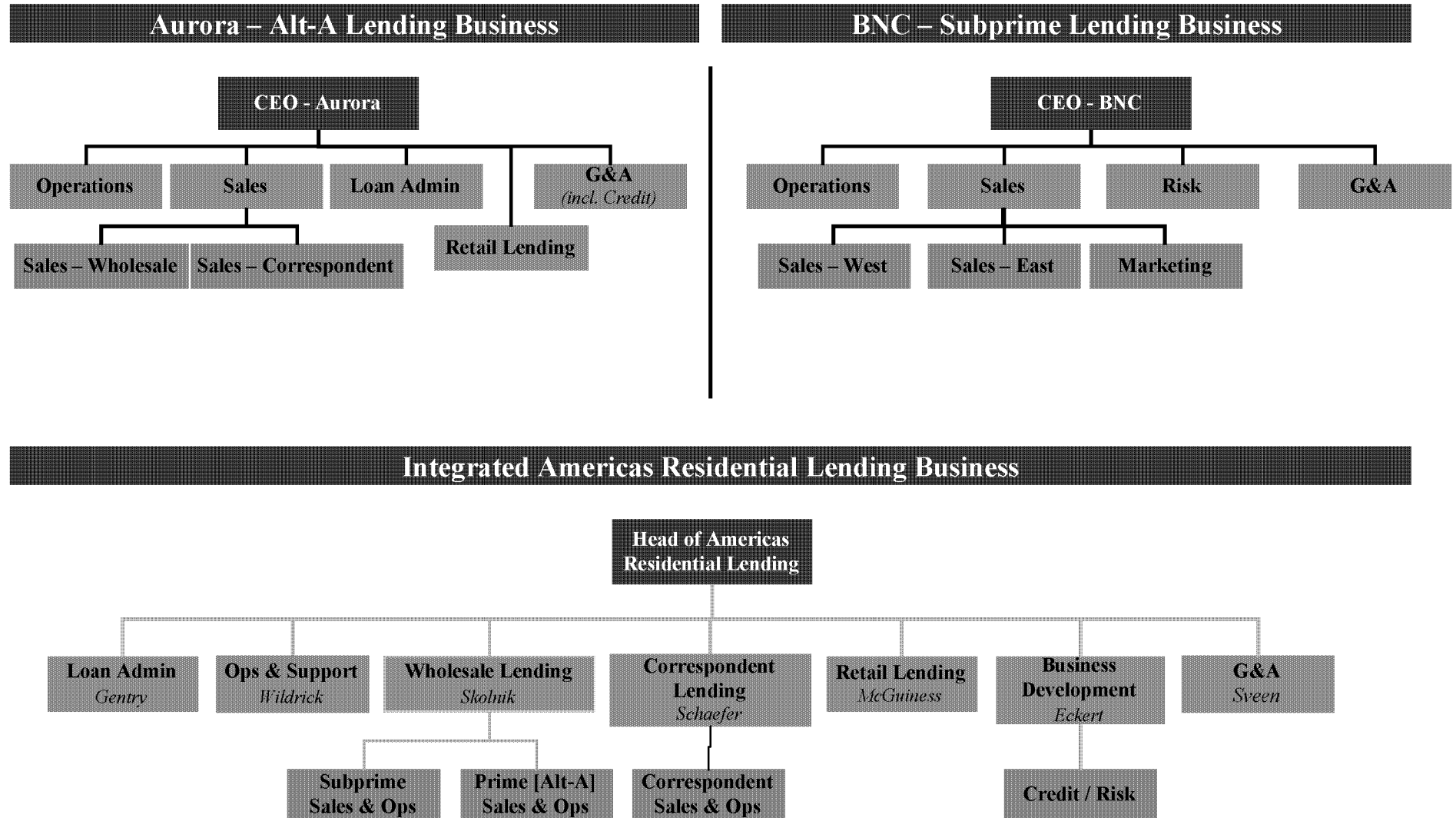
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Convergence of Residential Mortgage Platforms

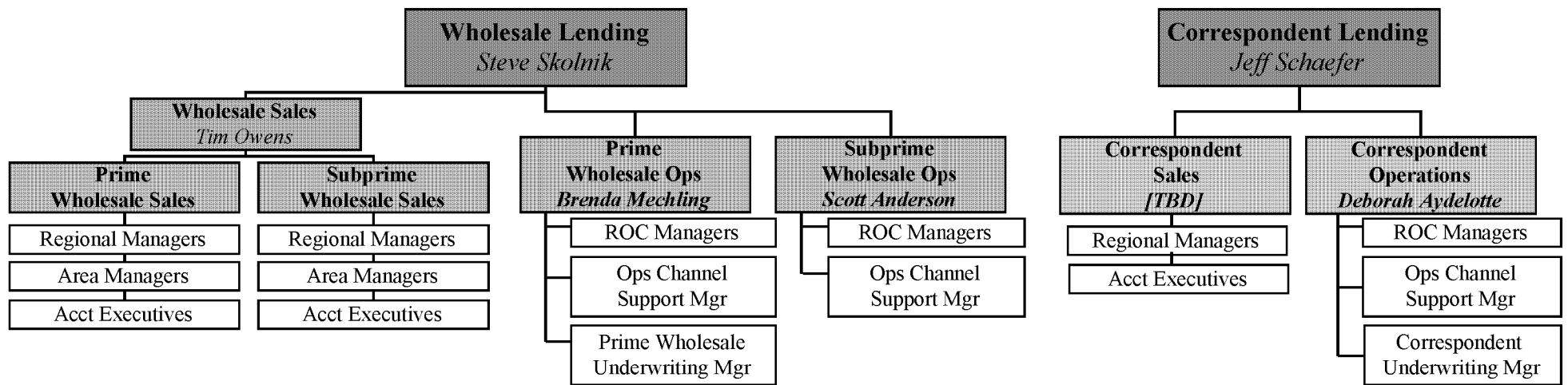
| | Current Operating Model | Changing Environment | End State |
|-----------------------|--|--|--|
| <i>Products</i> | Historically clear distinction between Alt-A and subprime lending | Convergence of Alt-A and subprime – Alt-A has expanded down to Alt-B and subprime is shifting up the credit spectrum | Single lending platform offering complete “credit spectrum” – in line with leading market participants |
| <i>Sales Approach</i> | Complexity of subprime credit requires more active participation by account executives in loan approval / processing | More stringent credit guidelines for subprime lending are reducing account executive involvement in loan approval / processing | Convergence of sales approach for Alt-A and subprime allows for an integrated sales force selling the full spectrum of product |
| <i>Operations</i> | Alt-A operations are typically highly automated, whereas subprime operations are more manual based on complexity of credit underwriting Aurora is currently transitioning to an automated loan processing operation | Upward shift in subprime credit will allow for greater automation | Single loan origination system (LOS) platform for integrated lending business, improved controls Aurora’s implementation of automated loan processing can be leveraged for subprime lending |
| <i>Real estate</i> | Aurora’s operations are centralized regionally; while BNC’s operations are decentralized (branch network); however, BNC is transitioning to regional operations | Dislocation in subprime market has accelerated BNC’s adaption of regional operating model – aggressive hiring of account executives and related operations teams | Centralized management with regionally centralized operations |
| <i>Risk control</i> | Aurora and BNC have different control and risk management practices | Increased marketplace risk and regulatory scrutiny has driven the need for consistent controls and risk management across the credit spectrum | Uniform best practices in risk, control and reporting functions |
| <i>Brand</i> | Distinct brands for Alt-A and subprime BNC closes loans in its name, while Aurora’s originations are closed in the name of Lehman Brothers Bank FSB Only Aurora has Lehman tag line | BNC is in process of rebranding | Single brand to be determined |

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Organizational Structure



Convergence of Residential Mortgage Platforms : Institutional Lending Business



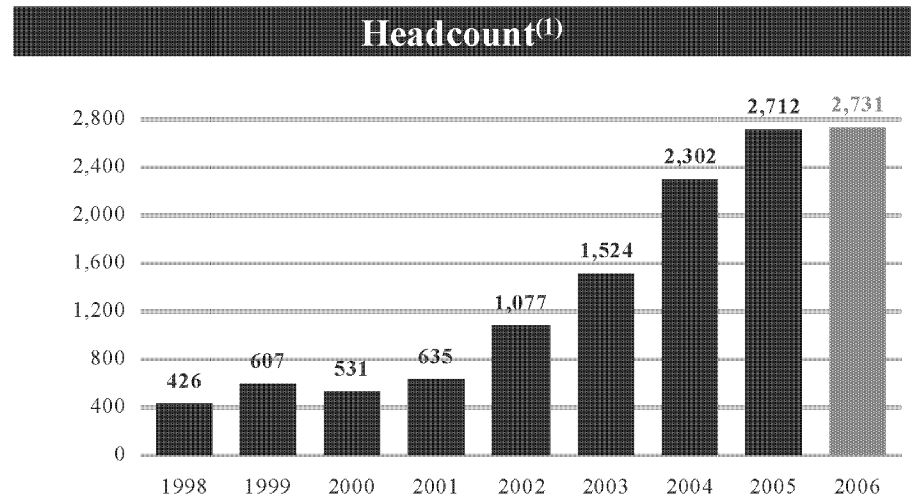
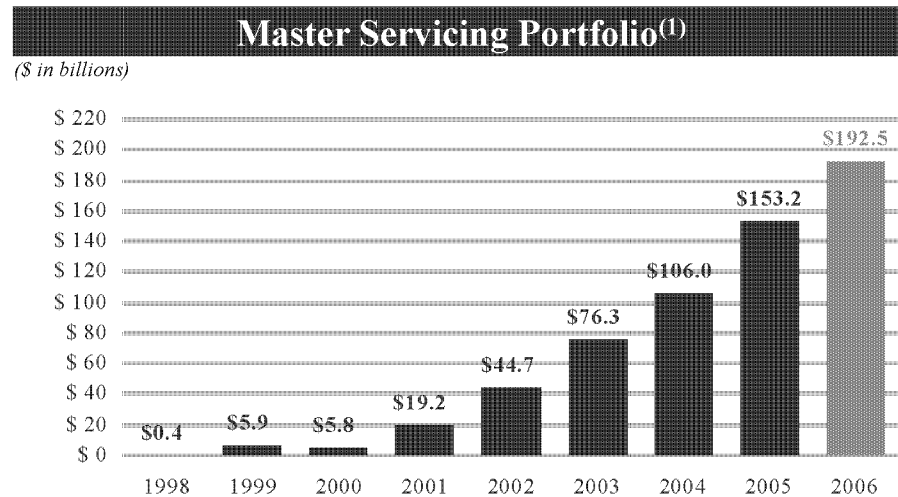
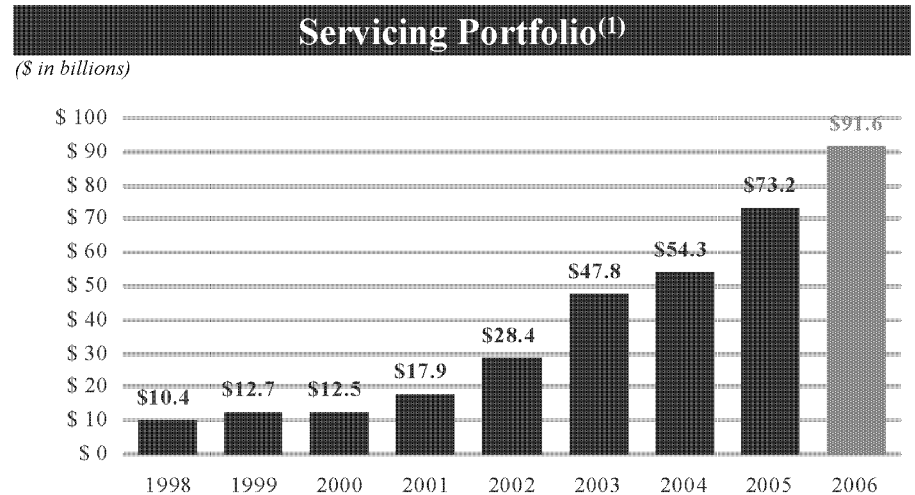
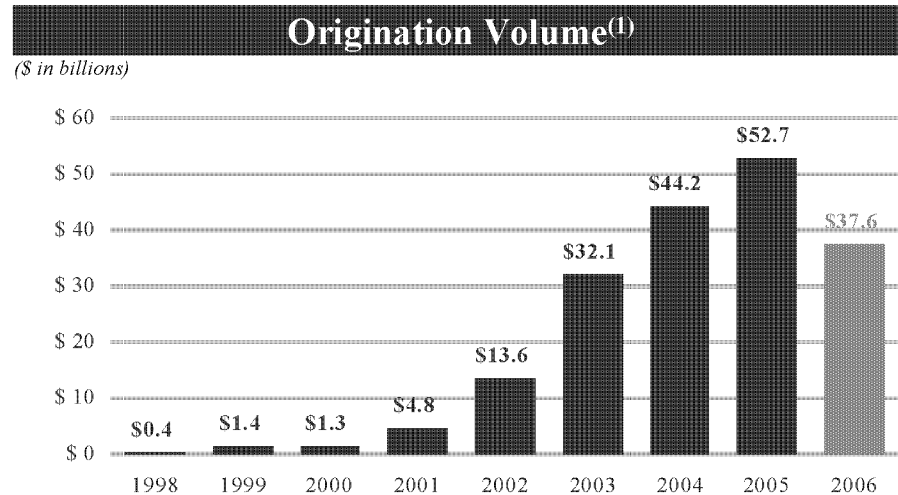
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Aurora Loan Services LLC

- ◆ **Approved as operating subsidiary of Lehman Brothers Bank, FSB on April 30, 2004**
- ◆ Primary business: Wholesale and Correspondent, Alt-A, Origination and Servicing
- ◆ Headquarters Address: 10350 Park Meadows Drive, Littleton, CO
- ◆ Chief Executive Officer: Thomas Wind
- ◆ Employees: 2,573
- ◆ Loans Originated
YTD 2007: \$24,352mm

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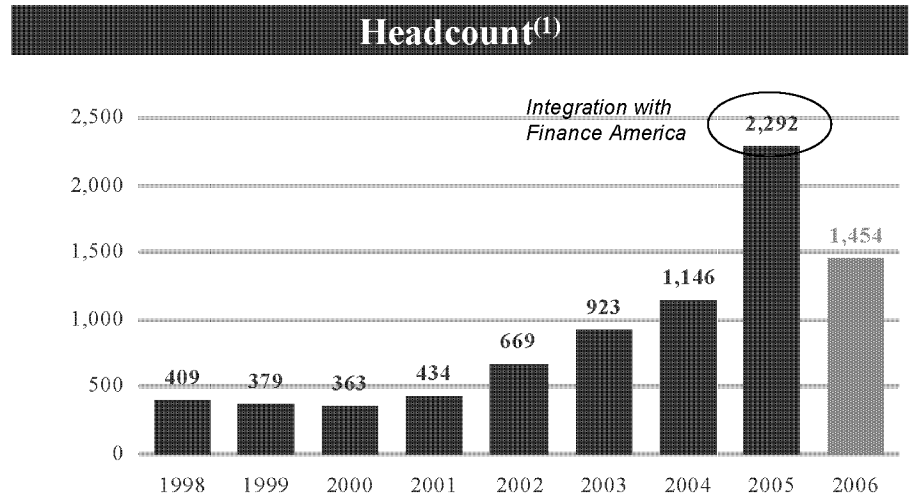
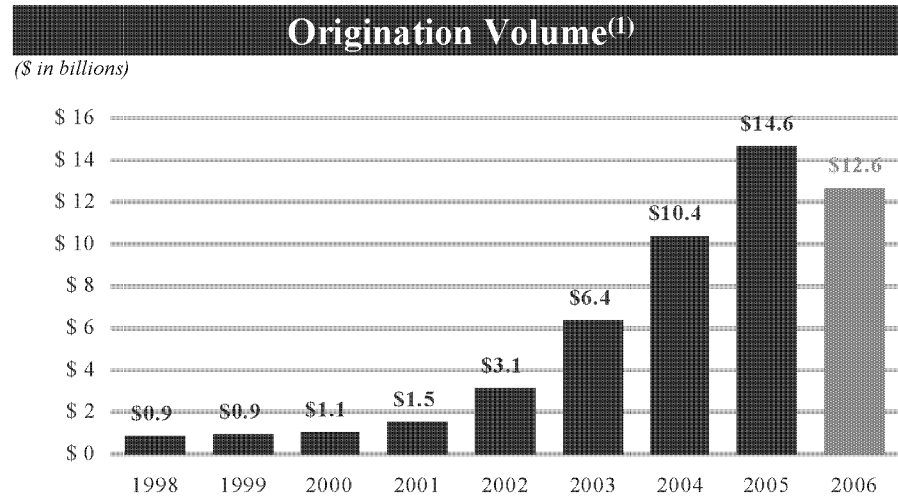
Aurora Growth



1. As of or for the fiscal year ended November 30.

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BNC Growth



1. As of or for the fiscal year ended November 30.

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Lehman Brothers Small Business Finance

◆ Approved asset purchase to LBB in December 2004

- ◆ Primary business: Originating first lien commercial loans and SBA loans
- ◆ Headquarters Address: 25520 Commercentre Drive, Lake Forest, CA
- ◆ Chief Executive Officer: Kelly Monahan
- ◆ Employees: 408
- ◆ Loans Originated
YTD 2007: \$752,439,480

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Lehman Brothers Bank – Retail Banking

- ◆ No Significant Changes from 2006
- ◆ Locations
 - Home office
 - Wilmington, DE
 - Branch offices
 - Jersey City, NJ
 - Boston, MA
- ◆ ATM Facilities
- ◆ Transactional Website
- ◆ Products
 - Time and Demand Deposit Accounts
 - Brokered CDs
 - Sweep Accounts
 - Bank wires

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Compliance Management

- ◆ The mortgage origination and servicing platforms have a full scope regulatory compliance management capability staffed with 14 full time professionals
- ◆ The compliance program for LBB subsidiaries employs the OTS SMAART principles as outlined in the OTS Regulatory Exam Handbook
- ◆ Compliance management works very closely with Quality Control for the compliance monitoring portion of the SMAART guidelines, we use the QC Management Action Plan (MAP) process for addressing and remediating compliance issues uncovered through QC testing
- ◆ Compliance Management is fully integrated into the residential lending business as compliance is a participant in the development of marketing and promotional material, new products and major business initiatives such as the development of new systems
- ◆ Compliance managers participate in the Risk Committee for residential lending.

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Information Technology Initiatives

- ◆ Loan Origination System
 - Integrated origination platform across residential mortgage companies
 - Common application leads to lower maintenance cost, improved IT controls
- ◆ Automated Underwriting
 - Improved responsiveness to brokers and customers
 - Development initially into the Alt-A market, followed by subprime
- ◆ Imaging
 - Implementation of paperless environment, largely completed in 1st half 06
- ◆ Off-shoring
 - Have 240+ staff members (as of 6/30/07) on staff performing business processing functions (e.g., loan setup, broker validation, imaging validation)
 - There are an additional 61 persons in India performing software development and QA functions for MCD business units
 - All offshoring activities are conducted in Lehman's Mumbai office

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Schedule of Meetings

| Date | Meeting |
|--------------|---|
| August 6 | Examiners First Day - NY |
| August 7 | LBB Safety & Soundness Opening -NY Non-Traditional Mortgage Guidance – NY LBHI Opening - NY |
| August 8 | Audit Presentation - NY USA PATRIOT Act/BSA Presentation- NY Fair Lending Presentation- NY |
| August 21 | SBF Opening - Lake Forest, CA BNC Opening - Irvine, CA |
| September | Capital Crossing - Boston, MA |
| September 11 | Aurora - Denver, CO |
| September 17 | Campus Door - Carlisle, PA |
| September 26 | Aurora - Scottsbluff, NE |
| October 30- | LBB Closing - NY |

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Contacts

| | | |
|--------------------|--------------------------------------|--------------|
| ◆ Michael Ferraro | Finance, Operations | 212 526-9602 |
| ◆ Maribel Delgado | Board Governance, Regulatory Filings | 212 526-1977 |
| ◆ Theresa Costello | Audit | 212 526-6866 |
| ◆ Kenneth Allen | Information Technology | 212 526-1928 |
| ◆ Gale Stawicki | Branch Operations, Wires | 302 552-2110 |
| ◆ Donna Asaro | Human Resources | 212 526-1080 |
| ◆ Dan Colao | Chief Financial Officer | 212 526-5577 |
| ◆ Eric Hibbert | Chief Credit Officer | 973 261-5856 |
| ◆ Lloyd Winans | General Counsel | 212 526-0645 |
| ◆ Andy Gelinas | BSA Officer | 212 526-2563 |
| ◆ Kelly Myer | CRA Officer | 973 261-1807 |
| ◆ Linda Kroha | Fair Lending Officer | 212 526-0918 |