

From: Obermaier, Thomas [CMB-GTS] [TO32895@imcnam.ssmb.com]  
Sent: Saturday, July 12, 2008 8:28 PM  
To: Foskett, Christopher M [CMB-GBKG]  
Subject: Re: Lehman

Chris, we are with you. Its time for citi to once again be a pillar in a us crisis by being a net provider of liquidity.

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Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Foskett, Christopher M [CMB-GBKG]  
To: Mauerstein, Michael [CMB-GBKG]; Fontana, Thomas [CMB-RISK]; Kirchen, Karen [CMB-GCO]  
Cc: Obermaier, Thomas [CMB-GTS]; Sahai, Neeraj [CMB-GTS]  
Sent: Sat Jul 12 18:36:01 2008  
Subject: Re: Lehman

We need to take a blanced approach and really understand our risks - before we start a dialogue that, as Michael points out - might push us in a direction we will regret in the longer term. We have pressed all of our B/D clients to give us more and more biz over the years and in fact we have been successful in capturng a huge concentration of their global flows. Are we now looking to unwind that ? Has that decision been vetted within the business ? Do we know how the competition looks at these risks ?

Regards

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Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Mauerstein, Michael [CMB-GBKG]  
To: Fontana, Thomas [CMB-RISK]; Kirchen, Karen [CMB-GCO]; Foskett, Christopher M [CMB-GBKG]  
Cc: Obermaier, Thomas [CMB-GTS]  
Sent: Sat Jul 12 19:15:18 2008  
Subject: Re: Lehman

Please make it clear to Brian and Richard that Lehman sold us the third \$-billion over the weekend only. They did not add this amount to their \$2 billion deposit.

In my view, Lehman will not agree to grant collateral at the Treasurer level. Granting \$2B collateral will likely be an 8-K event and therefore a CEO discussion.

Such request by us - whether Lehman agrees to it or not - will undermine their reliance on Citi as a GTS provider. It will also be known in the market, and possibly undermine our GTS business generally.

Michael Mauerstein  
Managing Director  
Financial Institutions - Broker Dealers  
388 Greenwich - 24 Floor  
212 816-3431

----- Original Message -----

From: Fontana, Thomas [CMB-RISK]  
To: Kirchen, Karen [CMB-GCO]  
Cc: Mauerstein, Michael [CMB-GBKG]; Obermaier, Thomas [CMB-GTS]  
Sent: Sat Jul 12 16:32:01 2008  
Subject: FW: Lehman

Karen,

**Redacted for Privilege**

Michael,

We may need to reach out to Lehman today or tomorrow.

-----Original Message-----

From: Evans, Richard CS [CMB-RISK]  
Sent: Saturday, July 12, 2008 1:40 PM  
To: Fontana, Thomas [CMB-RISK]  
Cc: Ryan, Patrick [CMB-RISK]; Schwartz, Thomas [GWM-RISK]  
Subject: Re: Lehman

Tx for these and the other notes.

Brian, Pat and I are all talking, so do copy all three of us on anything new.

I think we'll end up with some conf call over the weekend on Leh and Fannie etc. I'll keep watch on my Blackberry and have the phone sheet you sent me.

On leh, brian indicated he wanted to ask for collateral on the US open on Monday. I said that if wanted that, then we need it earlier to cover Asian and European markets.

**Redacted for Privilege**

Yours  
R

----- Original Message -----

From: Fontana, Thomas [CMB-RISK]  
To: Ryan, Patrick [CMB-RISK]; Schwartz, Thomas [GWM-RISK]  
Cc: Evans, Richard CS [CMB-RISK]  
Sent: Sat Jul 12 17:32:32 2008  
Subject: RE: Lehman

I have attached a couple of documents. The first being the clearing analysis we performed over the last couple of weeks. You will see that the high daylight overdraft we had over this time was just over \$10B. At the time we hit this negative balance, we had an aggregate amount of \$7B of other payments pending in the queue. The clearing numbers on the attachment do not reflect current clearing lines. We are currently managing Lehman's clearing lines tight, excluding CLS and matched DVP/RVP trades we have reduced lines to \$3B NY, \$1B EMEA and \$1.2B Japan. We have daily excesses of multiple billions which, provided there isn't any negative news in the market, Tom Obermaier and I have been approving. Note: CLS and the matched DVP/RVP trades, while lower risk than what we do in NY, do represent billions of dollars in clearing lines not included in the \$5.2B above.

Also, Lehman increased their deposit on Friday to \$3B. They did not commit to keep the added \$1B there past the weekend.

I have also attached the June 27th Exposure summary. I am trying to get some of the team into the office today to run the actual numbers as of yesterday. They will not be all that different as the capital markets exposures on under margining arrangements with tight terms. We have purchased another \$10MM of CDS bringing our total to \$450MM (remaining under my most recent \$100MM order is \$40MM). You should know that we had a derivative margin dispute this week, Lehman Special Finance called Citi for \$198mm, our system showed \$106mm. This is not uncommon as we frequently have margin dispute with the large brokers. We paid them \$106mm yesterday.

Also, remember we continue to accept "BAU" novations, with the exception that if we need to pay the CP requesting the novation, we are discounting that payment by Lehman's CDS spread.

Perhaps the easiest solution is to require Lehman to turn the deposit into actual collateral, at least a portion of it. That would be my recommendation.

We can reach Lehman over the weekend.

Best regards,

Tom

Cell - 908 963-0728

-----Original Message-----

From: Ryan, Patrick [CMB-RISK]  
Sent: Saturday, July 12, 2008 10:41 AM  
To: Fontana, Thomas [CMB-RISK]; Schwartz, Thomas [GWM-RISK]  
Cc: Evans, Richard CS [CMB-RISK]  
Subject: Re: Lehman

Tom and Tom,

I just spoke to Brian Leach and he needs current exposure information before the open of business on Monday on Lehman and IndyMac. We will also need to jointly decide what we will ask Lehman as early as Sunday/Monday to do as far as increasing and better securing our clearing and settlement exposures. Brian will look for recommendations after we review the exposure profile..

Pls let me and Richard know if we can meet the informations requests by the time business opens on Mon.

Sorry for the disruption to your weekend.

Thank you.

Pat

Pat

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Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Fontana, Thomas [CMB-RISK]  
To: Fontana, Thomas [CMB-RISK]; Foskett, Christopher M [CMB-GBKG]; Galant, Paul S [CMB-GTS]; Obermaier, Thomas [CMB-GTS]; Mauerstein, Michael [CMB-GBKG]; Leach, Brian [CCC]; Biglari, Hamid [CMB-CORP]; Evans, Richard CS [CMB-RISK]; Ryan, Patrick [CMB-RISK]; Schwartz, Thomas [GWM-RISK]  
Sent: Fri Jul 11 13:44:05 2008  
Subject: Lehman

Fyi - For the first day since we have been closely monitoring their US dollar daylight overdrafts (3+ months), Lehman has not been overdrawn at all and is currently long \$4.3B. They also added a \$1B to the deposit bringing it to \$3B. No indication this extra \$1B will stay beyond the weekend. I believe they are attempting to demonstrate to us that they do not have a liquidity issue.

Best regards,

Tom

Global Financial Institutions  
Risk Management

Office: (212) 816-4986  
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Home: (908) 665-0694

-----Original Message-----

From: Fontana, Thomas [CMB-RISK]  
Sent: Friday, July 11, 2008 12:31 PM  
To: Foskett, Christopher M [CMB-GBKG]; Galant, Paul S [CMB-GTS]; Obermaier, Thomas [CMB-GTS]; Mauerstein, Michael

[CMB-GBKG]; Leach, Brian [CCC]; Biglari, Hamid [CMB-CORP]; Evans, Richard CS [CMB-RISK]; Ryan, Patrick [CMB-RISK]; Schwartz, Thomas [GWM-RISK]  
Subject: Lehman

GSAM and Bluebay came in to us looking to novate some trades over to us. I approved, however we decided to discount the amount to be paid to both entities by the Lehman CDS spread. Neither CP or Lehman will be happy about this, but I think it is the right thing to do. We are talking about 12-15 trades in total in which the desk would be paying out about \$5MM to each CP.

.....part of usual novations, possibly.

Best regards,

Tom

Global Financial Institutions  
Risk Management

Office: (212) 816-4986  
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Home: (908) 665-0694

-----Original Message-----

From: Foskett, Christopher M [CMB-GBKG]  
Sent: Friday, July 11, 2008 12:23 PM  
To: Galant, Paul S [CMB-GTS]; Obermaier, Thomas [CMB-GTS]; Mauerstein, Michael [CMB-GBKG]; Fontana, Thomas [CMB-RISK]  
Subject: Lehman

Spoke with CFO, Ian Lowitt. Advised me they rolled 97% of their overnight Commercial Paper which is about \$2.5B total.....their overall liquidity remains very high and no clients/counterparties are leaving. He sees this as a handful of hedge funds heavily shorting the stock. While this is creating very challenging conditions he expressed comfort that core shareholders, counterparties and liquidity providers are sticking with them.

Regards

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Sent from my BlackBerry Wireless Handheld