

From: Foskett, Christopher M [CMB-GBKG] [cf09147@imcnam.ssmb.com]  
Sent: Friday, May 30, 2008 8:01 AM  
To: Mellina, Thomas [CMB-FICC]; Fontana, Thomas [CMB-RISK]; Ryan, Patrick [CMB-RISK]  
Cc: Mauerstein, Michael [CMB-GBKG]; Shohet, Zion M [CCC]; Malekian, Stephen G [CMB-FICC]  
Subject: Re: Lehman

Thanks for the feedback. I suspect the way it was fed back to the Lehman Group Treasurer was less detailed. We will manage through the noise.

Regards

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Sent from my BlackBerry Wireless Handheld

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

From: Mellina, Thomas [CMB-FICC]  
To: Fontana, Thomas [CMB-RISK]; Foskett, Christopher M [CMB-GBKG]; Ryan, Patrick [CMB-RISK]  
Cc: Mauerstein, Michael [CMB-GBKG]; Shohet, Zion M [CCC]; Malekian, Stephen G [CMB-FICC]  
Sent: Fri May 30 07:57:55 2008  
Subject: RE: Lehman

The message I delivered to Lehman (Vinny Primiano, who I believe reports to the Treasurer) was that the proposed transaction is not what Credit/Risk was expecting. Without regard to Lehman's credit, we were trying to create a structure that produced very little credit risk, as is typical of secured financing trades executed by the Finance Desk. Trades executed by the Finance Desk almost always qualify as bankruptcy court "safe harbored" transactions, meaning in the event of a default of the counterparty, the non-defaulting party can take the collateral it has and liquidate it without risk of being stayed or clawed back by a bankruptcy proceeding.

In the proposed transaction, the assets meant to collateralize Citi (and mitigate any credit risk) would have been subject to a bankruptcy stay (meaning we are at risk to deterioration in value during a bankruptcy) and based on conversations with outside bankruptcy counsel the stay could last for the full duration of the bankruptcy proceeding, which could exceed a year. Further complicating matters, the assets meant to collateralize Citi were all part of a single leveraged buyout (the Hilton Deal).

Simply put, Citi's Credit department was expecting a more typical financing transaction (without stay risk). The combination of the stay risk and the non-diversified assets significantly changes the risk profile of the transaction. The concern communicated was the structure of the deal.

I noted that if we were able to (1) eliminate the stay risk or (2) create a diverse pool of assets that Risk would re-evaluate the transaction. I said that Citi would continue working to create a structure that eliminates the stay risk and that we would continue reviewing the various 7Bn of commercial real estate loans they sent to us in an effort to construct a diverse portfolio.

The size of the trade that they wanted to close before their quarter-end (which is today) was \$250mm to 350mm.

My conversation was focused on issues with the structure of the deal, not Lehman's creditworthiness. That said, Lehman was extremely disappointed.

Thank you,  
Tom

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

From: Fontana, Thomas [CMB-RISK]  
Sent: Thursday, May 29, 2008 6:22 PM  
To: Foskett, Christopher M [CMB-GBKG]; Ryan, Patrick [CMB-RISK]; Mellina, Thomas [CMB-FICC]  
Cc: Mauerstein, Michael [CMB-GBKG]; Shohet, Zion M [CCC]  
Subject: Re: Lehman

Thanks Chris. I will make myself available and ensure we get the right team together.

I will give you a call to walk through some of what we learned as we went through the CRE portfolio they provided us and the risk in the structure contemplated.

Best regards,

Tom

Global Financial Institutions  
Risk Management

Office: (212) 816-4986  
Cell: (908) 577-2039  
Home: (908) 665-0694

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

From: Foskett, Christopher M [CMB-GBKG]  
To: Ryan, Patrick [CMB-RISK]; Mellina, Thomas [CMB-FICC]  
Cc: Mauerstein, Michael [CMB-GBKG]; Shohet, Zion M [CCC]; Fontana, Thomas [CMB-RISK]  
Sent: Thu May 29 18:17:49 2008  
Subject: Lehman

Got a call from Paulo Tonnucci, Treasurer of Lehman, who basically said they were extremely disappointed in the message that the denial of the Repo trade was sending them. I am not clear on all the specifics of how/why it was turned down or how the message was delivered, but it has really left them with a "bad taste" as he put it. He advised that Dick Fuld would likely be calling Vikram, as this is where the idea was originally conceived.

Paolo suggested he would like to work with our Risk team to dispel any concerns we might have with Lehman's earnings profile, liquidity, risk mgt processes etc. He asked me to arrange time next week where he could present to our Risk team. They have just finished a round a rating agency presentations and feel a discussion would be valuable for us.

Tom Fontana - I will connect wit you to see how you want to proceed.

Regards  
Chris