

From: Dorans, John [CMB-RISK] [0000127277@citigroup.com]
Sent: Wednesday, July 16, 2008 3:25 PM
To: Frenzel, Gregory [CMB-RISK]
Subject: FW: Lehman Pledge agreement

Well we certainly have got people focused -- see below.

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

From: Dorans, John [CMB-RISK]
Sent: Wednesday, July 16, 2008 3:11 PM
To: Leach, Brian [CCC]; Evans, Richard CS [CMB-RISK]
Subject: RE: Lehman Pledge agreement

It seems to me that the right answer here is to get what we can based on the current path but to essentially have them use some of their liquidity so we can significantly reduce our daylight overdraft lines -- this doesn't create any disclosure issues and they have the liquidity.

I think what you're hearing from risk is that the current approach may not get us anything. Their reason for not doing this today will be even more compelling later when we decide we need to do something -- and we will be seen as wearing the black hat center stage. Using their liquidity to bring down our lines now is probably the right answer. I'd still try to get the doc's agreed to if possible.

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

From: Leach, Brian [CCC]
Sent: Wednesday, July 16, 2008 2:36 PM
To: Evans, Richard CS [CMB-RISK]; Frenzel, Gregory [CMB-RISK]; Obermaier, Thomas [CMB-GTS]; Fontana, Thomas [CMB-RISK]; Mauerstein, Michael [CMB-GBKG]; Moran, Kyle A [CMB-GCO]; Foskett, Christopher M [CMB-GBKG]
Cc: Dorans, John [CMB-RISK]; Murphy, Anthony [CMB-RISK]; Schwartz, Thomas [GWM-RISK]; Ryan, Patrick [CMB-RISK]; Kirchen, Karen [CMB-GCO]
Subject: RE: Lehman Pledge agreement

Greg, thanks for the observations. As all of us are aware, this is a very sensitive subject. Our actions may be both unwarranted and potentially cause systemic risk in the market. For this reason, these conversations should be amongst a very small group between LEH and C.

TObermaier understands these concerns and has the client relationship.

My understanding is he will work with Risk to arrive at a mutually satisfactory solution for all parties. For the sake of rumor control I would suggest we let the primary dialog stay with Tom unless Risk feels as though our capital is in danger. We have a couple possible solutions which Tom is working through - if Risk's sense of urgency has changed please speak up.

Tom, will you please keep Richard Evans up to speed so that he can reflect the important issues to his team.

If anyone has other issues to raise please give me a ring. Thanks. Brian

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

From: Evans, Richard CS [CMB-RISK]
Sent: Wednesday, July 16, 2008 2:14 PM
To: Frenzel, Gregory [CMB-RISK]; Obermaier, Thomas [CMB-GTS]; Fontana, Thomas [CMB-RISK]; Mauerstein, Michael [CMB-GBKG]; Moran, Kyle A [CMB-GCO]; Foskett, Christopher M [CMB-GBKG]
Cc: Dorans, John [CMB-RISK]; Murphy, Anthony [CMB-RISK]; Schwartz, Thomas [GWM-RISK]; Ryan, Patrick [CMB-RISK]; Leach, Brian [CCC]; Kirchen, Karen [CMB-GCO]
Subject: RE: Lehman Pledge agreement

My two pence on this....

We have talked (internally at least - not sure who has said what to Lehman themselves yet) about them having in place a document that is agreed in principle but not yet executed (as that becomes a regulatory disclosure for them) that would secure intra-day exposure if we need it to. The amount is not mentioned. They happen to have 2bn on deposit now. But if we needed to execute, we could and probably should ask for more, either cash and/or securities.

So don't get hung up on the amount now. That should be left open, and Lehman should acknowledge that too. What we need is their agreement to agree the documentation now so that it can be signed at a moment's notice, and not require another 24-48 hours of legal review at a later stage when we don't have that time.

Richard

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

From: Frenzel, Gregory [CMB-RISK]

Sent: 16 July 2008 17:34

To: Obermaier, Thomas [CMB-GTS]; Fontana, Thomas [CMB-RISK]; Mauerstein, Michael [CMB-GBKG]; Moran, Kyle A [CMB-GCO]; Foskett, Christopher M [CMB-GBKG]

Cc: Dorans, John [CMB-RISK]; Murphy, Anthony [CMB-RISK]; Schwartz, Thomas [GWM-RISK]; Ryan, Patrick [CMB-RISK]; Evans, Richard CS [CMB-RISK]; Leach, Brian [CCC]; Kirchen, Karen [CMB-GCO]

Subject: Lehman Pledge agreement

I understand that there has been some back and forth with Lehman on whether they would be willing to pledge at least \$2B of their deposit to cover our cash management lines, but that up until now they have indicated they will not sign a pledge.

If Lehman agrees to pledge \$2B and we've already indicated that is satisfactory, then the matter is probably settled. However, if Lehman continues to reject signing a pledge, it is IRM's view that we should take a more aggressive approach. The analysis that was done indicates that \$2B just covers the average daylight overdraft and that exposure peaked at \$10B. Obviously if Lehman gets into difficulty, the exposure at that time will be closer to the max than to the average. Lehman is reported to have some \$50B in liquidity, so there shouldn't be a need to have large daylight overdrafts with us. We should either insist on a larger pledge amount and set the intraday lines to that level, or we should reduce the intraday lines to zero and let Lehman use its liquidity to prefund payments.

Let's set a time to discuss.