

From: Fontana, Thomas [CMB-RISK] [tf09146@imcnam.ssmb.com]  
Sent: Tuesday, July 01, 2008 10:15 PM  
To: Leach, Brian [CCC]  
Cc: Evans, Richard CS [CMB-RISK]; Biglari, Hamid [CMB-CORP]; Ybarra, Paco [CMB-FICC]  
Subject: RE: LEH

I have a number of ideas which I will vet with "in-business GTS risk management".

1st - Our systems have many limitations, one critical one for clearing risk is the inability to track usage. Last week, I requested that we manually track Lehman's usage every 15 minutes in all major markets. We are currently gathering that data, but will report what we have learned once all the countries report. We will need to perform this exercise with every major broker as behaviors can be very different. It is extremely time consuming for GTS. In NY we observed Lehman regularly OD \$2-3B in the AM and at times with \$3-4.5B of pending payments. If we didn't have limits we would be short regularly \$5-to-\$7.5B of intraday exposures. Funds tend to come in after noon and than 3:00 and we most often close flat. On June 30th, Lehman had a fail from another bank which would resulted in a \$268MM overdraft, however we permitted the company to use part of its deposit to cover the OD. This avoided a potential asset which the OD would have created over month-end.

2nd - My approach would be to assess a factor based on the type of clearing:

Securities:

On exchange as oppose to off;

Securities which are matched on both sides; Lien rights in the local market ; and Lien rights in our documentation (you should know that most of the major brokers have negotiated out of their DCSA (Direct Custody Service Agreement) the lien language. This will have to be added back if we are to proceed inn these challenging times).

The lowest risk - on exchange, matched with solid lien language and market practice should be treated very differently than off exchange, not matched and no lien language. Today this is all treated similarly.

Cash:

CLS  
Clean

On the clean cash clearing the risk is real, no lien language and should the company not cover we have an overdraft and \$ for \$ risk. The deposit provides little comfort. Essentially all we have is Lehman self funding some of their intra-day exposures - that is a good thing as their is a cost for that funding even though intra day. Also, clean cash clearing has a very different risk profile to CLS, but yet they are treated the same.

The time zone issue is real, however there is more overlap than you might expect. In NA, the Fed and out systems open for tomorrow at 9:00PM the night before. That essentially provides almost full overlap between NA and Asia as well as Europe.

I would definitely take the package of distressed collateral at large haircuts. While not perfect, we would be in a much better position. We also need to revisit pricing as I don't believe we are pricing in the risk of clearing into out GTS product. This is a function of the market, but as the market has changed we need to lead the market back to more rational pricing as margins has continued to tighten.

More to follow once I sit down with GTS In-business Risk Management.

Best regards,

Tom

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From: Leach, Brian [CCC]  
Sent: Tuesday, July 01, 2008 6:38 PM

To: Fontana, Thomas [CMB-RISK]  
Cc: Evans, Richard CS [CMB-RISK]; Biglari, Hamid [CMB-CORP]; Ybarra, Paco [CMB-FICC]  
Subject: RE: LEH

Tom, I think we need a better way of showing our clearing and settlement lines. We show the global limit but my understanding is that open exposure would not really roll across time zones. Additionally FX that clears through CLS is different. Do you have a suggested format?

Also what has the average size of the usage been? Should we take a package of distressed collateral at large haircuts? I think our bank deposit is really false comfort. Please suggest. Brian

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From: Fontana, Thomas [CMB-RISK]  
Sent: Tuesday, July 01, 2008 4:51 PM  
To: Leach, Brian [CCC]  
Cc: Evans, Richard CS [CMB-RISK]; Biglari, Hamid [CMB-CORP]; Ybarra, Paco [CMB-FICC]  
Subject: LEH

Brian,

As requested, I have enclosed the updated Lehman exposures as of 6/27/08. You will not see much of a difference since the last time we reported the ME May exposures. The biggest changes are as follows: fewer overdrafts resulted in a reduction in direct exposures of roughly \$185MM and an increase in capital markets credit exposures of just over \$500MM resulting from spread widening and increased transactions. You will also note that we executed \$50MM of incremental CDS protection, an order I put in a few weeks ago to further protect our unsecured committed loans. We have \$610MM in committed loans and \$440MM in CDS protection. There is \$50MM remaining in my order standing with GPO. Net net, our exposures are up \$330MM resulting from capital markets almost all of which is covered under CSAs with -0- thresholds and reasonable MTAs.

Paco Ybarro has also requested a similar page for Merrill which we will be sending out later today.

Also, you should be aware of the following:

BOA acquired Countrywide today and paid off our \$500MM in unsecured loans;

CapMark prepaid \$600MM of its bridge loan reducing our bridge exposure from roughly \$170MM to \$110MM; and

CIT sold 100% of its Home Lending Business to Lone Star for \$1.5B plus the assumption of \$4.4B of debt and its Manufactured Housing Business to Vanderbilt Mortgage for \$300MM, net cash proceeds of \$1.8B.

All very positive news for some of the higher risk financial institutions.

Best regards,

Tom

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Risk Management

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From: Leach, Brian [CCC]  
Sent: Tuesday, July 01, 2008 11:10 AM  
To: Fontana, Thomas [CMB-RISK]  
Cc: Evans, Richard CS [CMB-RISK]; Biglari, Hamid [CMB-CORP]  
Subject: LEH

Tom, we were all discussing LEH. Can you update the LEH exposure and send to all of us. Thanks. Brian