From:	Li, Joe <joli@lehman.com>
Sent:	Tuesday, September 11, 2007 11:39 PM (GMT)
To:	Antoncic, Madelyn <mantonci@lehman.com>
Subject:	FW: Updated Firm VaR

Madelyn,

> We are working with Alex Kirk on potential hedging strategy and ways
> to manage VaR down on the firm level. Given our large loan exposure
> and correlation between credit and equity, sounds like combo of LCDX
> and SPX is one choice of efficient hedge. Note the orig vaR column
> does not include specific risk, so not tying back to production, but
> conclusion still holds.
>

Observing GCP risk, I think vol spike has perhaps explains 50% of the
VaR increase while the other 50% was from origination book.

> The other idea is to swap our loan concentrations with other
> banks/dealers so to diversify risk which would help somewhat, we also
> have some results. Thanks
>
>
> Hedges
>
> Orig VaR 500mm HY Index 2bio LCDX 1bio CDX HY
> 4bio CDX IG 500mm SPX 1000 Cont VIX Both Hdgs (yellow)
> Change
> HY Loan 31.78 31.94 29.47 33.09 28.79 33.89 31.64
> 29.36 -2.42
> HY Global 41.37 41.39 39.97 43.66 38.99 42.20 41.84
> 38.02 -3.35
> GCP 51.46 52.43 50.71 52.39 51.39 51.49 53.82 47.91
> -3.55
> FID 75.67 74.06 72.89 74.99 74.06 71.85 76.06 70.55
> -5.12
> FIRM 106.70 102.45 100.07 97.91 102.45 96.52 107.53 93.33
> -13.37
>
>

Joe