**From:** Bernard, Clement [clement.bernard@lehman.com]
**Sent:** Thursday, February 28, 2008 9:43 PM (GMT)
**To:** Potts, Martin [mpotts@lehman.com]
**Cc:** Cosaitis, Mark [mcosaiti@lehman.com]
**Subject:** RE: Q1 Balance Sheet Currently Over Target by 14.3bn

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Martin

We are looking at selling what ever we can and also doing some more repo 105. We have also done in the first round more sale of assets to get out of fas 140

I also had some conversation on collateral being replaced by cash. I need to do more work. did not seem straight fwd

-----Original Message-----
From: Potts, Martin
Sent: Thursday, February 28, 2008 12:40 PM
To: Bernard, Clement
Cc: Cosaitis, Mark
Subject: Re: Q1 Balance Sheet Currently Over Target by 14.3bn

Clement - any follow up on identifying derivative mtm collateral held as securities to see if it could be replaced with cash by using repos? Secondly was the fas 140 gross ups to see it any remaining holds could be sold out to counteerparts in the same boat--ie eliminate the gross up?
Martin

----- Original Message -----
From: Bernard, Clement
To: Amin, Kaushik; Higgins, Kieran
Cc: Stabenow, Sigrid M; Cosaitis, Mark; Potts, Martin; Bernard, Clement; Mandelblatt, Gary; Cosaitis, Mark; Potts, Martin; Mitrokostas, Paul; Bernard, Clement; Mandelblatt, Gary; McGarvey, Michael; Morton, Andrew J; Reilly, Gerard
Sent: Thu Feb 28 00:43:44 2008
Subject: Q1 Balance Sheet Currently Over Target by 14.3bn

FID's net balance sheet overage has increased to 14.3bn from 9.7bn as of yesterday due to an increase of TBA unrealized gains in Rates which is now 4.5bn over target.

Today we have done a computation of our TBA gains ahead of the month-end process to estimate its impact. This computation shows that the update of the agency pass thru desk's TBA MTM as of 2/25 increased to 6.3bn from 1.9bn on 1/31. This is due to a large volume of trades during the month coupled with market movement.

Under current accounting rules we are not allowed to net payables and receivables with the same counterparty unless they have an msfta agreement (mortgage equivalent of an isda)in place. Most of our tba counterparties are MBSCC exchange members for whom having msfta's are not industry practice. We had a meeting today with accounting policy and the desk and there appears to be no immediate way to change the netting rule.

This will drive Lehman net leverage ratio above target. Please let me know what we can do  to minimize this impact. Is it possible to sale any additional Treasury or Agency? I know it is late in the process but what ever we can do would help our ratio.

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