

# LEHMAN BROTHERS

## MEMORANDUM

**TO:** Allyson Carine

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**FROM:** Ajay Nagpal

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**CC:** Kaushik Amin, John Gallo

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**DATE:** 11/4/04

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**SUBJECT:** Collateral Guidelines for Interest Rate Derivatives

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Below please find general guidelines regarding 'Eligible Collateral' for Interest Rate Derivatives. Please note this document is only a sampling of collateral we are likely to accept. I would like to maintain the current policy of approving non standard collateral on a case by case basis with myself, Kaushik Amin or John Gallo as well as Credit and Collateral Management.

Standard	Collateral Type	Margin Percentage	S&P Minimum Rating	Moody's Minimum Rating	Dollar Limit Per Issuer
X	Cash	100%	N/A	N/A	Unlimited
X	U.S. Treasury Bills (excluding stripped securities)	99%	N/A	N/A	Unlimited
X	U.S. Treasury Notes (excluding stripped securities)	98%	N/A	N/A	Unlimited
X	U.S. Treasury Bonds (excluding stripped securities)	97%	N/A	N/A	Unlimited
X	U.S. Agency Securities or Debentures (excluding pass throughs, multi class or multi branch securities, and securities paying interest or principal only)	95%	AAA	Aaa	Unlimited
X	U.S. Agency Securities or Mortgage Pass Throughs (excluding multi-branch securities, securities paying interest or principal only, Collateralized Mortgage Obligations and REMICS )	92%	AAA	Aaa	Unlimited
X	U.S. Agency Collateralized Mortgage Obligations or REMICS that meet the Federal Financial Institution Examination Council (FFIEC) High Risk Security Test (HRST) requirements	90%	AAA	Aaa	Unlimited
	U.S. Corporate Debt Obligations* (excluding convertible debt obligations) acceptable to the Secured Party in its sole discretion; maximum 5 years remaining maturity; U.S. Corporate Debt Obligations shall comprise no more than 5% of the Posted Collateral Transferred by, or on behalf of, the Pledgor and held by, or on behalf of, the Secured Party, unless otherwise agreed by the Secured Party in its	80%	AA (issuer and security rating)	Aa2 (issuer and security rating)	\$20,000,000

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	sole discretion.				
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Standard	Collateral Type	Margin Percentage	S&P Minimum Rating	Moody's Minimum Rating	Dollar Limit Per Issuer
	<p><b>Asset Backed Securities</b> that (i) are part of a public issuance; (ii) are transferable to any third party without any restrictions **; (iii) have (a) an aggregate outstanding principal balance of not less than USD\$500,000,000 (including both AAA and subordinate tranches); (b) a pool of no less than 250 receivables; (c) more than one borrower; and (d) delinquency rate (with respect to the underlying assets) of no more than 10%; (iv) exclude interest only, principal only, residual, and inverse floater classes and (v) clear through the Depository Trust Company. Asset Backed Security issuance shall at any given time comprise no more than 20% of the Posted Collateral Transferred by, or on behalf of, the Pledgor and held by, or on behalf of, the Secured Party, unless otherwise agreed by the Secured Party in its sole discretion.</p>	75%	AAA	Aaa	10,000,000
	<p><b>Commercial Mortgage-Backed Securities</b> that (i) are part of a public issuance; (ii) are transferable to any third party without any restrictions **; (iii) have (a) an aggregate outstanding principal balance of not less than USD\$500,000,000 (including both AAA and subordinate tranches); (b) a pool of no less than 75 mortgage loans; (c) more than one borrower; and (d) a delinquency rate (with respect to the underlying assets) of no more than 5%; and (iv) exclude interest only, principle only, residual, and inverse floater classes. Any one Commercial Mortgage-Backed Security issuance shall comprise no more than 20% of the Posted Collateral Transferred by, or on behalf of, the Pledgor held and by, or on behalf of, the Secured Party, unless otherwise agreed by the Secured Party in its sole discretion.</p>	70%	AAA	Aaa	10,000,000

\*the underlying obligation should not be related in any way to the counterparty posting the collateral.

\*\*including, but not limited to, restrictions that provide for eligibility for resale pursuant to Rule 144A or Reg. S, as amended from time to time.