From:	Kagan, Spencer [spencer.kagan@lehman.com].	Sent:8/11/2008 7:22 AM.
To:	Cohen, Kenneth [kcohen@lehman.com]; Hughson, Paul A [phughson@lehman.com].	
Cc:	.	
Bcc:	.	
Subject:	Fw: Green Acres - Preliminary Debt Proceeds Estimate.	

Ken and Paul

Can we meet today to discuss the memo I preparted and next steps for the Green Acres financing project? Can you let me know what time works for you?

Thanks.

Spencer

Sent from my Comstar Wireless Handheld
(www.comstarinteractive.com)

----- Original Message -----
From: Kagan, Spencer
To: Cohen, Kenneth; Hughson, Paul A
Sent: Thu Aug 07 17:14:59 2008
Subject: Green Acres - Preliminary Debt Proceeds Estimate

Ken and Paul,

Attached is a memo that I prepared that outlines the rating agency approach to a liquidating trust structure and which includes a preliminary model and investment grade estimate. Please let me know if I should pass this along to Mark. JF had asked us to get back to him before the end of the week. I'll be out tomorrow, but available if you want to discuss. If you think it would be appropriate, I could have the desk run a breakeven on the deal and we can use it to compare to the corporate rating option.

Thanks.

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<<Estimated Rated Debt Proceeds.doc>>

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Memorandum

TO	Mark Walsh, Ken Cohen, Paul Hughson
FROM	Spencer Kagan
CC	
DATE	August 8, 2008
SUBJECT	Green Acres – Preliminary Estimated Liquidating Trust Rated Debt Proceeds

The purpose of this memorandum is to preliminarily estimate the potential rated debt proceeds that would be achieved by creating a liquidating trust structure for assets being contributed to Green Acres. The liquidating trust structure is a vehicle used to monetize recoveries from a sub-performing and non-performing commercial real estate loan portfolio through liquidation of assets. Proceeds from liquidation are used to first pay down the rated debt and returns to equity are achieved from the residual assets remaining after the repayment of the rated debt. Current debt service is maintained via current interest payment on the loans, income from REO or interest reserves.

Although the liquidating trust structure has been used relatively infrequently enough information exists on the performance of rated debt in these structures for the agencies to derive a perspective on potential recoveries for the assets proposed to be included in Green Acres. For purposes of preliminarily estimating the rated debt from Green Acres it is assumed that the rating agencies will arrive at expected recoveries within the same range as prior recoveries from other liquidating trust structures. Details available on the assets included in Green Acres was limited to overview charts of the potential portfolio, including regional breakdowns, property type and security interest. No property specific information was made available to arrive at these estimates. Consequently, these estimates should be viewed as highly preliminary.

In addition to preliminarily estimating debt proceeds, this memorandum also outlines the approach that the rating agencies would be expected to take in arriving at investment grade proceeds and potential loan structures. The information that would need to be made available to the rating agencies will also be described. It should be noted that if the transaction were to be publically rated the agencies would likely publish details on the largest exposures included in the transaction.

Derived Investment Value (DIV)

The primary property specific tool used by rating agencies and investors in determining recovery rates on sub-performing and non-performing commercial real estate loans is the Derived Investment Value (DIV). DIV is a valuation methodology similar to a discounted cash flow which projects a loan's future cash flows net of collection expenses. The details of the underlying property are projected along with the associated loan terms. Loans that cannot pay according to their original terms are modeled based upon expected cash flow during a recovery period, time to recovery and ultimate recovery rates. Individual business plans can range from loans paying according to terms, loans paying according to modified terms, discounted payoffs and foreclosures. Backup and support is needed for each business plan.

Prior Liquidating Trust Structures

In the US, the liquidating trust structure was used by both the RTC and private issuers during the early 1990's to maximize returns on pools of non-performing and sub-performing loans. Trust bonds were issued to third party, institutional investors. The N Series transactions performed well, paying off on average in 21 months. The RTC also created other liquidating programs which could be applicable for Green Acres assets, including one for land and construction loans.

RTC N Series

Between 1992 and1993 there were a total of six N-Series partnership transactions in which the RTC placed 2,600 loans with an approximate book value of $2.8 billion and a DIV of $1.3 billion. A total of $975 million of CMBS bonds were issued for the six N-Series transactions, representing 60% of the value of N-Series trust assets as determined by a competitive bid process and 75% of DIV for these same assets. The size of each N-Series trust was considerably smaller than the Green Acres portfolio. The average portfolio had a book value of $464 million and a DIV of $220 million. It required an equity investment between $30 and $70 Million.

Recovery rates for the N-Series averaged 57% of book value versus Derived Investment Value (DIV) which averaged 48% of book value. In other words, recoveries on the N-Series transactions averaged 119% of DIV. Over time, the RTC adjusted its DIV methodology to reflect the stronger than anticipated collateral performance.

In addition to the N Series transactions, the RTC created liquidating land trusts on a total of $2.2 Billion of book value land loans. The recovery rates on the land trusts were 27% of book value or 93% of DIV. Other methods of liquidating land and construction loans included Auction, Sealed Bids and Seller Financing, resulting in recoveries to book value of 47%, 30% and 26% respectively. Overall, the recovery rates on land assets were materially lower than the recovery rates on operating properties. (See Appendix 2 for N Series Recovery Rates).

Kearny Street

One of the largest private NPL transactions rated in the US was Kearny Street which comprised the 1993 spin off of $1.6 Billion of troubled commercial real estate loans from Bank of America to Morgan Stanley. In this case, the DIV of the portfolio was 35% of total assets while the investment grade advance rate was 31% of total principal balance. Approximately 93.5% of these assets were operating properties and 6.5% was land. The capitalization rates used in the DIV model were a weighted average 11.75% which is substantially higher than what would be utilized today.

European Deals

More recently, the non-performing deal structure was utilized in Italy and Germany for liquidating pools of non-performing loans. In 2004, S&P noted that it had rated 14 Italian NPL transactions with a total Gross Book Value (GBV) €18.0Billion and total rated debt of €6.3 Billion. Overall, recovery rates averaged 65% of GBV with most of the pools containing primarily secured loans. Unsecured loan recovery rates averaged 35%, but the sample size is relatively small. The rating agencies gave only 0%-15% credit for unsecured loans. Expenses for these pools averaged 5% to 15% of GBV. Fitch has also published on Italian NPL transactions and noted overall recovery rates of 62% gross book value (GBV) with a range of 55% to 70%.

NPL portfolios have also been structured in Germany. Between 2003 and 2006 approximately €25.7 Billion of NPL's were traded in 21 separate transactions ranging between €0.35 and €3.60 Billion. Unfortunately, solid information on recovery rates has not been made available. With regard to rated debt the Blue Bonnet Finance transaction issued in 2006 is illustrative of the NPL transactions rated in Germany. The transaction contained an outstanding principal balance of €1.517 Million, aggregate legal claims of €2.772 Million, aggregate property value of €2.231 and a discounted portfolio business plan value (BPPV) of €1.642. The composition of the portfolio was approximately 50% NPL, 25% non-performing and 25% performing. The advance rate on investment grade bonds was 81% of discounted BPPV (7.5% discount rate) and 48% of outstanding legal claims. It should be noted that the structure contained a twelve month liquidity facility which aggregated to 9.7% of the issued debt.

Rating Agency Methodology

Since there have not been any recent liquidating trust structures rated in the US the bulk of the rating agency published criteria comes from European transactions, particularly in Italy. Since the legal environment in Italy is significantly different than the jurisdictions covering most of the Green Acres assets the criteria would most likely need to be adjusted to fit the legal and market environment for the Green Acres portfolio.

The rating agency approach mirrors the DIV analysis, especially for Moody's and S&P. First, the property level cash flows are derived and then loan level cash flows are evaluated. The cash flow achievable from the loan is analyzed, along with the timing for a recovery. The rating agencies can be expected to derive a mortgage value taking into account the potential legal environment and security interest of the position, as well as the ability of the servicer to realize on the business plan. The legal environments of assets included Green Acres vary considerably from region-to-region, so the potential recoveries will be adjusted on a regional basis.

Some of the key considerations taken into account in determining the loan specific business plan and valuation would include the following:

- Liquidity in deal
- Recovery volume and Velocity rates
- Geographic location
- Property type
- Granularity
- Litigation/out of court resolution
- Special Servicer capabilities

Generally, recourse is not considered in the loan recovery analysis unless the entity providing the recourse is rated. Depending on the rating agency's analysis of the property, borrower, loan structure and business plan, stresses will be applied to the loan cash flows, time to recovery and ultimate recovery amount.

The expectation is that the rating agency advance rates will be driven off of their adjusted DIV analysis which will vary between security interests, region and property type. For example, valuations of equity and mezz will be substantially lower than for senior interests. In the attached rating agency model (Appendix 1), the loan valuation of mezz is half of that used for first mortgages. Additionally, advance rates against rating agency value in Europe are assumed to exceed those in the US and Asia by ten percent.

Conclusion

For the Green Acre's assumed liquidation trust structure the estimated investment grade proceeds and total bonds issued would be 33.2% and 35.7%, respectively of outstanding principal balance. According to the Green Acres Model of July 30th, a total of $28.7 Billion in assets to be leveraged would result in investment grade bonds of $6.65 Billion. Given the highly preliminary nature of this estimate the range of final outcomes could be 10% to 15% in either direction. The expected liquidity requirement would range from 12 to 18 months. Capital reserves would be required, but would need to be determined after a further review of the portfolio

Next Steps

In order to better access the potential viability of the liquidating trust structure, the following additional steps would be needed:

- Price bonds and compare execution to corporate debt option
- Obtain more detailed breakdowns of the portfolio
- Determine current cash flow available globally and calculate DSCR for the bonds
- Explore capital requirements for the portfolio
- Review Trimont and/or additional valuations of underlying assets
- Conduct additional research of securitization parameters in Asia and Europe

Please let me know if you would like to discuss or if you have any questions.

Appendix 1

Projected Rating Agency Model

Aggregate Green Portfolio Per Model	**$ 20,081,000,000**					
Assumed Recovery Rates by Security Interest as % of Outstanding Balance	**Recovery Rates**	**Green %**				
First Mortgages	60.0%	46.0%				
Mezz	30.0%	13.0%				
Equity	20.0%	18.0%				
Securities	90.0%	11.0%				
Other	50.0%	8.0%				
NPL	50.0%	4.0%				
Wtd. Avg./Total	51.0%	100.0%				
Expected IG Advance Rate as % of Rating Agency Valuation	**Americas**	**Europe**	**Asia**			
AAA	30.0%	40.0%	30.0%			
AA	40.0%	50.0%	40.0%			
A	50.0%	60.0%	50.0%			
BBB	55.0%	75.0%	55.0%			
BBB-	60.0%	80.0%	60.0%			
NR	65.0%	85.0%	65.0%			
Green Percentage by Region	57.0%	25.0%	18.0%			
Advance Rates as % of Outstanding Balance						
	Americas	**Europe**	**Asia**	**Overall**	**$ Leverage**	**CS Level**
AAA	15.3%	20.4%	15.3%	16.6%	$ 3,328,425,750	53.6%
AA	20.4%	25.5%	20.4%	21.7%	$ 4,352,556,750	39.3%
A	25.5%	30.6%	25.5%	26.8%	$ 5,376,687,750	25.0%
BBB	28.1%	38.3%	28.1%	30.6%	$ 6,144,786,000	14.3%
BBB-	30.6%	40.8%	30.6%	33.2%	$ 6,656,851,500	7.1%
NR	33.2%	43.4%	33.2%	35.7%	$ 7,168,917,000	0.0%

Appendix 2

Recovery Rates Achieved by the RTC
RTC Equity Partnerships Compared by Asset Type
Stated As a Percentage of Book Value *($ in Millions)*

Disposition Strategy for Commercial/Multi-Family Assets

	NPV of Actual and Projected Collections	Book Value	Collections as a Percentage of Book Value
SN Series	**$254**	**$440**	**58%**
N Series	**1,573**	**2,782**	**57**
S Series	**571**	**1,019**	**56**
MIF Series	**995**	**2,034**	**49**
Auctions	211	466	45
MAST (Multi-Asset Sales Transactions)			
Seller Financing	887	2,053	43
Sealed Bids	3,132	7,472	42

Disposition Strategy for Land and Construction Assets

Auctions	$122	$259	47
Sealed bids	122	407	30
NP Series	**145**	**537**	**27**
Land Funds	**592**	**2,218**	**27**
MAST Seller Financing	279	1,057	26

Recovery Rates Achieved by the RTC
RTC Equity Partnerships Compared by Asset Type
Stated As a Percentage of Book Value *($ in Millions)*

Disposition Strategy for Commercial/Multi-Family Assets

	NPV of Actual and Projected Collections	DIV	Collections as a Percentage of DIV
SN Series	**$254**	**225**	**113%**
N Series	**1,573**	**1,321**	**119**
S Series	**571**	**466**	**123**
MIF Series	**995**	**982**	**101**
Auctions	211	NA	NA
MAST (Multi-Asset Sales Transactions) Seller	887	795	112
Sealed Bids	3,132	3,830	82

Disposition Strategy for Land and Construction Assets

Auctions	$122	NA	NA
Sealed bids	122	163	75
NP Series	**145**	**119**	**122**
Land Funds	**592**	**640**	**93**
MAST Seller Financing	279	306	91

Source: FDIC

