

Fixed Income (Americas)

**Commercial Real Estate - Mezzanine & Equity**

*Business Description*

The PTG business is a subdivision of Lehman's Global Commercial Real Estate Group (GCRE). GCRE is subdivided into the Large Loan, Conduit, and PTG Groups. The Large Loan and Conduit groups (see separate control template) are responsible for originating and securitizing senior loans. PTG primarily underwrites/ originates mezzanine and equity financing for properties that are in the process of being repositioned or redeveloped.

*Control Identification and Testing*

Walkthrough Status: Complete

Template Status: Complete

*Control Area Signoff*

Required Signoff	Signer	Signoff Status	Office	City	Phone
Finance	Jonathan Cohen	<input type="checkbox"/>	Product Control	New York	+1 212 526 2469
Finance	Gerry M Reilly	<input type="checkbox"/>	Finance Administration	New York	+1 212 526 9486
Fixed Income	Ken C Cohen	<input type="checkbox"/>	Real Estate	New York	+1 212 526 5191
Fixed Income	Mark A Walsh	<input type="checkbox"/>	Real Estate	New York	+1 212 526 2158
Fixed Income	Anthony J Barsanti	<input type="checkbox"/>	Real Estate	New York	+1 212 526 7880
Operations	Gerardo Calo	<input type="checkbox"/>	Fixed Income Operations	New York	+1 212 526 2388
Operations	Steve P Vena	<input type="checkbox"/>	Operations Administration	New York	+1 212 526 3331
Operations	Paul A Puskuldjian	<input type="checkbox"/>	Fixed Income Operations	New York	+1 212 526 3057

## A - Deal Origination - Data Entry/Capture

### 1 - Commercial real estate transactions are recorded timely and reconciled to the books and records systems.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>New Deal Funding Request Report / Loan Documents used to book trades (A.1-a)</b>					
<i>PTG sends over a deal name to Middle Office. PTG will manually create a New Deal Funding Request Report that lists pertinent aspects of the origination transaction. The Report will be used by MO to create an MTS ID.</i>	Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Closing Memo (A.1-b)</b>					
<i>Middle Office inputs trade details into MTS based on signed closing memo prepared by PTG for origination and restructuring of loans.</i>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<i>The Closing Memo, accompanied by a Deal Summary/New Deal Funding Request, (which summarizes the terms of the transaction, including analyses performed by the Underwriters) must be approved and signed by an individual of GREG before proceeds can be distributed.</i>					
<b>Origination and restructuring terms/MTS (A.1-c)</b>					
<i>Origination and restructuring terms from the New Deal Funding Request Report are entered into MTS, a sub ledger to the GL.</i>	Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Inventory and Stock Record (A.1-d)</b>					
<i>Upon funding, loan is recorded in Inventory and Stock Record on MTS and the amount funded via wire transaction is recorded in MTS. This applies to funding on originated and restructured loans.</i>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
<b>Foreclosed loan property (A.1-e)</b>					
<i>Once title is taken on a foreclosed loan property, the original loan is removed from Lehman's books and the property is properly recorded at the loan balance amount in a Single Purpose Entity as an REO</i>	Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Fund Packagaing: Create ID in MTS (A.1-f)</b>					
<i>PTG sends over a deal name to Middle Office. PTG will manually create a New Deal Funding Request Report that lists pertinent aspects of the origination transaction. The Report will be used by MO to create an MTS ID on a timely basis.</i>	Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

\* - Open Issue  
Entity Control Evaluation

FOIA CONFIDENTIAL TREATMENT REQUESTED BY LEHMAN BROTHERS HOLDINGS INC.

LBHL\_SEC\_07940\_ICP\_010892

KC001289

**1 - Commercial real estate transactions are recorded timely and reconciled to the books and records systems.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<p><b>RAMP vs. MTS Reconciliation (A.1-g)</b></p> <p><i>Some of the positions are hedged with a Treasury which are booked in Ramp. Treasuries automatically feed to MTS after trade detail match with CATS. As such, MO monitors breaks between the mainframe system via Ramp vs MTS reconciliation.</i></p>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>WLT vs. MTS Reconciliation (A.1-h)</b></p> <p><i>Whole Loan Tracking, which is utilized to track additional loan data (i.e. data feed from external servicers, borrower address, loan id), is reconciled to MTS. Reconciling items are investigated and cleared timely.</i></p>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
<p><b>Servicer vs. MTS Reconciliation (A.1-i)</b></p> <p><i>The loans are also managed by external servicers. The external servicer data is reconciled to MTS on a monthly basis to ensure P&amp;I completeness. Reconciling items are investigated and cleared timely.</i></p> <p><i>* - Automate processing of P&amp;I</i>  <i>* - Automate the manual PCCP process</i>  <i>* - Automate manual reconciliation of principal balances between MTS and Servicer</i>  <i>* - MO should assume complete responsibility for reconciling inventory in WLT to Trimont servicer files.</i></p>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)

**2 - Commercial real estate transactions are properly authorized.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<p><b>New Deal Summary (A.2-a)</b></p> <p><i>The underwriters and deal manager research deal, negotiate terms and underwrite transaction. New Deal Summary is issued based upon the transaction and investment types. Internal counsel of Global Real Estate Group (GREG) is involved in the negotiations of the Loan Documents with the Underwriter and outside Counsel. The New Deal Summary is presented for approval by the relevant committee and approval minutes are maintained.</i></p> <p><b>Closing memo (A.2-b)</b></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

2 - Commercial real estate transactions are properly authorized.

*The Closing Memo, accompanied by a Deal Summary/ New Deal Funding Request, (which summarizes the terms of the transaction, including analyses performed by the Underwriters) must be approved and signed by an individual of GREG authorized to initiate wires. All transactions are discussed with a head/ Managing Director of GREG before proceeds can be distributed.*

**Default notices (A.2-c)**

*Upon default, the Deal manager and Legal Counsel must approve default notices before being sent to Borrower.*

**Workout Counsel (A.2-d)**

*On foreclosed loans, the Workout Counsel members cannot be original members of the Closing Counsel (This applies to the External Counsel.)*

**Approval of Workout Counsel (A.2-e)**

*The GREG Legal Counsel must approve the Workout Counsel.*

**Pre-Negotiation Letter Agreement - PNLA (A.2-f)**

*For loans in default, a "Pre-Negotiation Letter Agreement - PNLA" is signed by the borrower and member of GREG before negotiations can proceed. This is dependent upon status of loan.*

**Taking Title to an Asset (A.2-g)**

*Prior to taking title to an asset, a default letter, acceleration notice, signed pre-negotiation letter agreement, and/or forbearance agreement are issued. Internal counsel retains workout counsel during the proceedings. Lehman Brothers takes title to a property via deed-in-lieu or foreclosure.*

**Committee Reviews (A.2-h)**

*GREG presents the relevant approval Committee information on deals that are going to be originated. Front Office and Risk Management are involved in the approval and monitoring of all deals, as per set limits. At the time of deal approval, Risk Management and GREG Asset Management (both groups are represented at the applicable committee meetings) consider and verify that the portfolio is properly diversified with regard to property type and geographic region.*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Testing not Required
Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

\* - Open Issue  
Entity Control Evaluation

**3 - Commercial Real Estate activity is properly supervised**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<p><b>Closing and Draws (A.3-a)</b></p> <p><i>Lehman's GREG sends a list of "Closing and Draws" to mortgage servicer. The mortgage servicer is responsible for monitoring and collecting P&amp;I.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>Escrow agents (A.3-b)</b></p> <p><i>Escrow agents create a Closing Statement that contains a detailed summary of the distribution of proceeds.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Loan-monitoring efforts (A.3-c)</b></p> <p><i>GREG Front Office and Risk Management review and monitor the list of loans, provided by the servicer, that may be in danger of default.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>Pending Payoff Report (A.3-d)</b></p> <p><i>Loan maturity dates are monitored by Trimont Real Estate Advisors (servicer), Risk Management, Deal Managers and Internal Counsel. Evaluate the loan and collateral value and exit strategy for the loan as maturity approaches (within 90 days).</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Workout Counsel-restructure or foreclose (A.3-e)</b></p> <p><i>For defaulted loans, LB Deal Management, Internal Counsel and The Workout Counsel evaluates the loan and determines whether it should be restructured (extended) or foreclosed</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Property Manager to handle operations (A.3-f)</b></p> <p><i>Lehman assigns a Property Manager to handle day-to-day operations on REO properties</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Monitoring of REO positions (A.3-g)</b></p> <p><i>The Property Manager, Deal Manager and a servicer asset manager monitor REO positions until the disposition strategy is achieved. The asset manager visits the property and monitors progress of the strategy.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**3 - Commercial Real Estate activity is properly supervised**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<p>Monthly balance sheets, P&amp;L reports and reserve schedules (A.3-h)</p> <p><i>GREG uses monthly balance sheets, P&amp;L reports, servicer remittance reports and reserve schedules to monitor GREG activity.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**4 - Adequate due diligence is performed on the underlying assets.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<p><b>Pending Payoff Report (A.4-a)</b></p> <p><i>Loan maturity dates are monitored by Trimont Real Estate Advisors (servicer), Risk Management, Deal Managers and Internal Counsel. Evaluate the loan and collateral value and exit strategy for the loan as maturity approaches (within 90 days).</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Extension report (A.4-b)</b></p> <p><i>When a loan is near maturity, the Deal Manager and Legal Counsel analyzes the borrower and the servicer-prepared Extension report, which summarizes the impact of restructuring (extending) the loan.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Loan Enforcement Action Summary (A.4-c)</b></p> <p><i>Upon loan default, Lehman and the servicer analyze the Loan Enforcement Action Summary (which outlines why the loan went into default) and determine what further action should be taken on the loan. Status of a deal is reviewed by Internal Counsel &amp; Deal Management and Trimont Asset Manager.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>The Workout Counsel (A.4-d)</b></p> <p><i>For defaulted loans, The Workout Counsel evaluates the loan and determines whether it should be restructured (extended) or foreclosed.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<p><b>Evaluation of counterparty credit risk. (A.4-e)</b></p> <p><i>GREG Front Office and Risk Management review and monitor the list of loans, provided by the servicer, that may be in danger of default.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

\* - Open Issue  
Entity Control Evaluation

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHL\_SEC\_07940\_JCP\_010896

KC001293

# B - Settlement

## 1 - Cash receipts / disbursements are adequately controlled.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<p><b>Cash receipts/ disbursements for each deal (B.1-a)</b></p> <p><i>The Deal manager reviews all cash receipts/ disbursements for each deal.</i></p>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Testing not Required
<p><b>Fee Expense Processing (B.1-b)</b></p> <p><i>GREG receives invoices for fee expense (e.g. - payment of custodian fees for safekeeping of collateral) and obtains proper approval prior to disbursement.</i></p> <p><i>* - Maintain support for deal expenses paid.</i></p> <p><i>* - The Core Balancing Report should distinguish between expenses and good faith deposits. It should also give aging of the reconciling items.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Issues Identified
<p><b>Closing Memo (B.1-c)</b></p> <p><i>Middle Office inputs trade details into MTS based on signed closing memo prepared by PTG for origination and restructuring of loans.</i></p> <p><i>The Closing Memo, accompanied by a Deal Summary/New Deal Funding Request, (which summarizes the terms of the transaction, including analyses performed by the Underwriters) must be approved and signed by an individual of GREG before proceeds can be distributed.</i></p>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>Closing and Draws (B.1-d)</b></p> <p><i>Lehman's GREG sends a list of "Closing and Draws" to mortgage servicer. The mortgage servicer is responsible for monitoring and collecting P&amp;I.</i></p>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>Servicer vs. MTS Reconciliation (B.1-e)</b></p> <p><i>The loans are also managed by external servicers. The external servicer data is reconciled to MTS on a monthly basis to ensure P&amp;I completeness. Reconciling items are investigated and cleared timely.</i></p> <p><i>* - Automate processing of P&amp;I</i></p> <p><i>* - Automate the manual PCCP process</i></p> <p><i>* - Automate manual reconciliation of principal balances between MTS and Servicer</i></p> <p><i>* - MO should assume complete responsibility for reconciling inventory in WLT to Trimont servicer files.</i></p>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)
<p><b>Clean-up entries to R&amp;D LAN are automatically posted to MTS. (B.1-f)</b></p>					

\* - Open Issue  
Entity Control Evaluation

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHL\_SEC\_07940\_JCP\_010897

KC001294

**1 - Cash receipts / disbursements are adequately controlled.**

*Middle Office, Cash Management, and Branch personnel reviews and researches their AR/AP open items and post clean-up entries to the R&D LAN, which automatically post the MTS G/L.*

*(Note: Clean-up of the open AR/AP items are performed by Middle Office, Cash Management, and Branch personnel. This control is tested in coordination with other SOX templates).*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Middle Office	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<b>Aged Fails - MIS Reporting (B.1-g)</b>				
Operations	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<b>Resolution of Fails (B.1-h)</b>				
Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
<b>WLT vs DBS reconciliation (B.1-i)</b>				
Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)

*Daily GOBI reports of top fails and DKs are produced and distributed to Operations management. Management reviews the daily and monthly GOBI and RB2237A (for MTS) reports for all aged fails to examine the reason for the aging and to ensure proper resolution. Each area (MTS, TMS, and ITS clearance) is responsible for researching and resolving these fails/DKs and providing comments as to the status of each item.*

**Resolution of Fails (B.1-h)**

*Middle Office reviews fails report.*

**WLT vs DBS reconciliation (B.1-i)**

*Middle office performs a reconciliation of WLT to DBS to ensure that all expenses have been captured correctly.*

*\* - Automate WLT to DBS expense reserve reconciliation*

**2 - The stock record is accurate.**

**Single Purpose Entity (B.2-a)**

*Once title is taken on a foreclosed loan property, the original loan is removed from Lehman's books and the property is properly recorded at the loan balance amount in a Single Purpose Entity as an REO.*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Testing not Required
<b>Inventory and Stock Record (B.2-b)</b>				

2 - The stock record is accurate.

Upon funding, loan is recorded in Inventory and Stock Record on MTS and the amount funded via wire transaction is recorded in MTS. This applies to funding on originated and restructured loans.

Comparison and Exception Reports (B.2-c)

Positions files received from custodian banks and depositories are electronically compared to the Firm's Stock Record, which shows the location of securities as well as the ownership and number of shares.

Exception reports are generated via LIBRA, Infopac, GSSR, and CORE for all positions that do not match. Exception reports are available via a consolidated LIBRA report to originating departments for investigation and resolution. Breaks are assigned by the VP level.

Stock Record Exception Reports include: MTS Chase Physical, MTS Chase Wireable, ADP Book Exceptions, ADP Customer Exception, ADP and ITS GSSR Reports.

Performed By	§404 Control	System Control	Documentation	Testing Status
Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
Operations (Operations Control)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

FOIA CONFIDENTIAL TREATMENT REQUESTED BY LEHMAN BROTHERS HOLDINGS INC.

LBHL\_SEC\_07940\_JCP\_010899

KC001296

# C - Credit Risk Management

## 1 - Counterparty credit reviews are performed.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Evaluation of counterparty credit risk. (C.1-a)</b>					
<i>GREG Front Office and Risk Management review and monitor the list of loans, provided by the servicer, that may be in danger of default.</i>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

## 2 - Due diligence is applied on transactions.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Pending Payoff Report (C.2-a)</b>					
<i>Loan maturity dates are monitored by Trimont Real Estate Advisors (servicer), Risk Management, Deal Managers and Internal Counsel. Evaluate the loan and collateral value and exit strategy for the loan as maturity approaches (within 90 days).</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Extension Report (C.2-b)</b>					
<i>When a loan is near maturity, the Deal Manager and Legal Counsel analyzes the borrower and the servicer-prepared Extension report, which summarizes the impact of restructuring (extending) the loan.</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Loan Enforcement Action (C.2-c)</b>					
<i>Upon loan default, Lehman and the servicer analyze the Loan Enforcement Action Summary (which outlines why the loan went into default) and determine what further action should be taken on the loan. Status of a deal is reviewed by Internal Counsel &amp; Deal Management and Trimont Asset Manager.</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>The Workout Counsel (C.2-d)</b>					
<i>For defaulted loans, The Workout Counsel evaluates the loan and determines whether it should be restructured (extended) or foreclosed.</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Evaluation of counterparty credit risk. (C.2-e)</b>					
<i>GREG Front Office and Risk Management review and monitor the list of loans, provided by the servicer, that may be in danger of default.</i>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

\* - Open Issue  
Entity Control Evaluation

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHL\_SEC\_07940\_JCP\_010900

KC001297

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KC001298

\* - Open Issue  
Entity Control Evaluation

## D - Collateral Management

**1 - Collateral is monitored.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Collateral follow-up credit review (D.1-a)</b>					
<i>Status reports of the collateral is reviewed and monitored by Senior Management as needed.</i>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**2 - Collateral is accurately valued.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Underwriting guidelines (D.2-a)</b>					
<i>Detailed Underwriting guidelines are utilized to properly value the collateral</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Testing not Required
<b>Price Verification (D.2-b)</b>					
<i>Product Control performs independent pricing analysis on a monthly basis. Please refer to the Price Verification and Procedures document.</i>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**3 - Exposures are aggregated and reported to management.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Monitoring status of loans/collateral. (D.3-a)</b>					
<i>Senior Management monitors the status of the loans/collateral.</i>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

\* - Open Issue  
Entity Control Evaluation

# E - Documentation

## 1 - Proper documentation from the borrower, legal counsel and underwriters is obtained and retained.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Original documentation retention (E.1-a)</b>					
<i>The original documentation such as loan agreements, promissory notes, direction letter etc is maintained offsite by the custodian and copies at the servicer in a fire-proof cabinet. Copies are disbursed to the deal managers and to risk management as necessary.</i>	Servicer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

## 2 - There is management reporting and action for missing documents

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Custodian deal documentation checklist (E.2-a)</b>					
<i>The custodian must obtain all relevant documentation and complete a checklist.</i>	Custodian	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Servicer deal documentation checklist (E.2-b)</b>					
<i>During origination, the servicer maintains a checklist on a deal by deal basis to ensure all required documents are obtained.</i>	Servicer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Trimont missing document report (E.2-c)</b>					
<i>The servicer is responsible for obtaining and maintaining copies of all relevant documentation. Upon close, deal is serviced by servicer. Copies of documents are obtained post closing. Servicer prepares a missing document report and forwards it to GCRE.</i>	Servicer	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Testing not Required
<b>Review of missing document report (E.2-d)</b>					
<i>GREG obtains and reviews the missing document report (All documents are however in place before any funding is approved)</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

\* - Open Issue  
Entity Control Evaluation

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC\_07940\_JCP\_010903

KC001300

# F - Price Verification

## 1 - Loans are valued correctly.

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Independent pricing of portfolio (F.1-a)</b>					
<p><i>Product Control performs independent pricing analysis on a monthly basis. Please refer to the Price Verification and Procedures document.</i></p> <p><i>* - Enhance policy and procedures policy.</i>  <i>* - PC should price verify PTG US Treasury positions and positions that are serviced internally.</i>  <i>* - PTG pricing summaries should identify the total conservative or aggressive effect for each book as supported by the detailed price verification analysis performed by PC.</i></p>	Finance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective (Enhancements Identified)
<b>Watchlist (F.1-b)</b>					
<p><i>Product Control prepares the monthly "Watchlist", which includes all positions that need to be monitored closely, based on thresholds established in the pricing policy.</i></p>	Finance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

## 2 - Valuation adjustments are recorded in accordance with policy and GAAP.

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Footnote adjustments (F.2-a)</b>					
<p><i>Footnotes are entered by Middle Office and reviewed by Product Control for compliance with the Footnote policy.</i></p>	Finance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

## 3 - Less liquid or esoteric positions are closely monitored and reported.

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>Valuation of complex positions (F.3-a)</b>					
<p><i>Alternative price verification procedures are applied for positions that fall outside of the regular Debt, Equity and REO models.</i></p>	Finance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC\_07940\_JCP\_010904

KC001301

# G - Market Risk Management

**1 - Market Risk is monitored.**

	Performed By	§404 Control	System Control	Documentation	Testing Status
<b>GREG / risk management (G.1-a)</b>					
<i>Risk Management and GREG Asset Management monitor that property types and geographic regions are diversified throughout the portfolio.</i>	Risk Management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

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**H - P/L**

**1 - The daily flash is accurate and complete.**

**P&L Management Report is reconciled to Quest (H.1-a)**

*Product Control obtains daily estimates from Front Office. PNL commentary is provided by Product Control after review and discussion with the Front Office. Once Middle Office is finished reconciling Quest, it is closed and Product Control generates its management report. Product control verifies that its management report reconciles to Quest, then makes the distribution to the Front Office and Senior Management in Finance for review.*

*Product Control prepares a daily flash. Activity is checked by PTG. DBS (G/L) and Quest reconciliation is prepared monthly by Middle Office and reviewed by Finance.*

*The Quest Flash Report is reviewed monthly by Middle Office on a daily basis.*

*\* - Strengthen the daily P&L generation process*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective (Enhancements Identified)

**2 - Adjustments are properly verified and supported.**

**Adjustments are monitored and reviewed by Product Control (H.2-a)**

*Adjustments are entered by Middle Office and reviewed by Product Control. Please refer to the Reserve Policy and Procedures document.*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

**3 - The flash is reconciled to books and records systems.**

**Daily Flash (H.3-a)**

*Product Control obtains daily estimates from the Front Office. PNL commentary is provided by Product Control after review and discussion with the Front Office. Once Middle Office is finished reconciling Quest, it is closed and Product Control generates its management report. Product Control verifies that its management report reconciles to Quest, then makes the distribution to the Front Office and Senior Management in Finance for review.*

Performed By	\$404 Control	System Control	Documentation	Testing Status
Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

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KC001303

**3 - The flash is reconciled to books and records systems.**

**DBS to Quest reconciliation (H.3-b)**

*Finance prepares a daily flash. Activity is checked by PTG. DBS (G/L) and Quest reconciliation is prepared monthly by Middle Office and reviewed by Finance.*

Performed By	§404 Control	System Control	Documentation	Testing Status
Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective

**Quest to GL reconciliation reviewed by Product Control (H.3-c)**

*Middle Office reconciles the daily flash(Quest) to G/L. Product Control monitors the Flash vs. GL Analysis schedule to ensure that any material differences are resolved and or understood.*

Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
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**4 - The reserve process is documented, complete and accurate.**

**Reserve policy (H.4-a)**

*Please refer to Reserve Policy and Procedures document*

Performed By	§404 Control	System Control	Documentation	Testing Status
Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**Reserves are reviewed and monitored by Product Control (H.4-b)**

*Product control performs a monthly review of reserves.*

Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
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**5 - P&L is reconciled between front and back office.**

**Monthly balance sheets, P&L reports and reserve schedules (H.5-a)**

*GREG uses monthly balance sheets, P&L reports, servicer remittance reports and reserve schedules to monitor GREG activity.*

Performed By	§404 Control	System Control	Documentation	Testing Status
Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**Middle Office performs Quest to GL reconciliation (H.5-b)**

*GREG uses monthly balance sheets, P&L reports, servicer remittance reports and reserve schedules to monitor GREG activity.*

Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
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**6 - The daily P&L is analyzed and explained independent of the front office.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Product Control reviews daily P&amp;L (H.6-a)</b>					
<i>Product Control reviews the daily P&amp;L and provides commentary to senior management.</i>	Finance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
<b>Quest Flash Report (H.6-b)</b>					
<i>The Quest Flash Report is reviewed by Middle Office on a daily basis.</i>	Middle Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required
<b>Monthly balance sheets, P&amp;L reports and reserve schedules (H.6-c)</b>					
<i>GREG uses monthly balance sheets, P&amp;L reports, servicer remittance reports and reserve schedules to monitor GREG activity.</i>	Front Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

**7 - Lehman records interest on loans accurately.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Servicer vs. MTS Reconciliation (H.7-a)</b>					
<i>The loans are also managed by external servicers. The external servicer data is reconciled to MTS on a monthly basis to ensure P&amp;I completeness. Reconciling items are investigated and cleared timely.</i>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)
<ul style="list-style-type: none"> <li>* - Automate processing of P&amp;I</li> <li>* - Automate the manual PCCP process</li> <li>* - Automate manual reconciliation of principal balances between MTS and Servicer</li> <li>* - MO should assume complete responsibility for reconciling inventory in WLT to Trimont servicer files.</li> </ul>					

**8 - Issuance expense is accurately accrued.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Reserve Set Up Request form (H.8-a)</b>					
<i>Once a deal manager fills out a Reserve Set Up Request form, a copy is sent to Front Office.</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Not Tested
<b>Core numbers (H.8-b)</b>					

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**8 - Issuance expense is accurately accrued.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<i>The Request form is given a "core number" which will be used by Lehman's core system to identify all activity related to the reserve</i>	Front Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Not Tested
<b>review of expense/rate lock reserves (H.8-c)</b>					
<i>On at least a Quarterly basis, if not more often, Middle Office performs a review of reserves in WLT to ensure there are no aged expenses/rate lock reserves greater than 270 days. Items aged over 270 days are sent to the head of the business to determine what action should be taken.</i>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective
<b>WLT to DBS expense/rate lock rec (H.8-d)</b>					
<i>Middle Office performs a weekly reconciliation of WLT to DBS for ratelock/expenses. All differences are investigated and cleared timely. * - Automate expense reserves reconciliation between WLT and DBS</i>	Middle Office	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)

**9 - Management oversight of suspense, wash and error accounts**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Suspense Reporting (H.9-a)</b>					
<i>Throughout the day, monitoring procedures are performed to resolve items in suspense reported on the daily 'P&amp;S Suspense' report.</i>	Operations (Clearance and Settlement)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective

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# I - Inventory Close

## 1 - There is a sub-ledger to G/L reconciliation.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Quest vs. DBS reconciliation (1.1-a)</b>  <i>Middle Office performs the QUEST vs DBS reconciliation. This is reviewed by Product control and reconciling items investigated and resolved.</i> <i>* - Develop a documented variance threshold for Flash to GL reconciliation</i>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)

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# J - External Reporting

## 1 - External financial reporting is complete and accurate.

	Performed By	§404 Control	System Control	Documentation	Testing Status
<p><b>Unfunded Commitments (J.1-a)</b></p> <p><i>Unfunded balance for the business is provided to external reporting.</i></p>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Tested - Effective
<p><b>FIN 46 gross-up analysis (J.1-b)</b></p> <p><i>Product Control performs a FIN46 gross-up analysis for all PTG debt and equity positions.</i></p> <p><i>* - Enhancements surrounding FIN46 reporting (documentation of controls over 3rd party consolidated figures and P&amp;L pick up on consolidated deals)</i></p>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)
<p><b>C.R.A.P Disclosure (J.1-c)</b></p> <p><i>Product Control is required to disclose the total inventory of real estate that is held for sale as well as how much is at risk (i.e. Lehman's net investment in real estate after giving effect to non-recourse financing.) This information is provided to external reporting to be disclosed.</i></p> <p><i>* - Document product control procedures for external reporting disclosures.</i></p>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)
<p><b>FAS 144 Reporting (J.1-d)</b></p> <p><i>Product control performs a FAS 144 analysis to verify that assets are properly categorized as held for sale and meet the criteria required under FAS 144 to be recorded at the lower of cost or market.</i></p> <p><i>Assets that do not meet the FAS 144 requirements are considered held for use and held at cost and depreciated over its useful life.</i></p> <p><i>* - Enhancements surrounding FAS 144 reporting</i></p>	Product Control	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tested - Effective (Enhancements Identified)

# K - Servicing

## 1 - Validation of settlement instructions before payment.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Validity of settlement instructions (K.1-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

## 2 - Verification of Wire Instructions

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Validity of wire instructions (K.2-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

## 3 - Debtors are in compliance with loan agreement.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Compliance with loan agreements (K.3-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

## 4 - Interest payments are correct and collected from debtors timely

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Accuracy of interest (K.4-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

## 5 - Loan and property attributes are accurately reflected by the Servicer and reported.

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Accuracy and validity of servicer information (K.5-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

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**6 - Service provider valuations are reviewed and approved.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Validity of valuations (K.6-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**7 - Valuations are monitored and reviewed for reasonableness.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Accuracy and validity of valuations (K.7-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**8 - Capital structure for each position is accurately reflected by the servicer and reported**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Accuracy and validity of servicer reports (K.8-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**9 - Data entry into Strategy is complete and accurate.**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Accuracy and completeness of data entry (K.9-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**10 - Valid and accurate disbursements**

	Performed By	\$404 Control	System Control	Documentation	Testing Status
<b>Validity and accuracy of disbursements (K.10-a)</b>					
<i>Refer SAS 70 type II report from BDO.</i>	Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**11 - Segregation of duties**

Segregation of duties within the servicers key functions (K.11-a)

Refer SAS 70 type II report from BDO.

Performed By	\$404 Control	System Control	Documentation	Testing Status
Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**12 - Accurate quote received by borrower**

Accuracy of pay off quotes (K.12-a)

Refer SAS 70 type II report from BDO.

Performed By	\$404 Control	System Control	Documentation	Testing Status
Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**13 - Remittance Reports are accurate and sent to Lehman timely. (Remittance Reports)**

Accuracy and timeliness of remittance reports (K.13-a)

Refer SAS 70 type II report from BDO.

Performed By	\$404 Control	System Control	Documentation	Testing Status
Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**14 - Equity Preferred Returns are calculated correctly and reported on a timely basis**

Accuracy of preferred returns (K.14-a)

Refer SAS 70 type II report from BDO.

Performed By	\$404 Control	System Control	Documentation	Testing Status
Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

**15 - Funds are disbursed in accordance with the loan/partnership agreements**

Disbursement of funds (K.15-a)

Refer SAS 70 type II report from BDO.

Performed By	\$404 Control	System Control	Documentation	Testing Status
Servicer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Testing not Required

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