From: Meg McConnell/NY/FRS
Sent: Sep 14, 2008 06:18:39
To: Timothy Geithner/NY/FRS@FRS; ""Thomas Baxter"" <Thomas.Baxter@ny.frb.org>
Cc: Michael Silva/NY/FRS@FRS; Michael Held/NY/FRS@FRS; ""Christine Cumming"" <Christine.Cumming@ny.frb.org>; Bettyann Griffith/NY/FRS@FRS
Bcc: Michael Silva/NY/FRS@FRS; Michael Held/NY/FRS@FRS; ""Christine Cumming"" <Christine.Cumming@ny.frb.org>; Bettyann Griffith/NY/FRS@FRS
Subject: Fw: Update on Valuation Workstream

Please see update below on the status valuation group's work, including the concerns raised at the end by the banks. Note also that this email appears to have gone to two FRB Chicago employees (Guenever Scheuermann and Arthur Nelson, both must have been filled in by the auto feature in Notes or on the blackberry). I don't know what the best thing to do here is vis a vis Guenever and Arthur, but in the meantime I will reply to the rest of the group and indicate that they should not ""reply to all"" to the message that Sarah sent.

Margaret M. McConnell
Federal Reserve Bank of New York
212-720-8773

From: Sarah Bell
Sent: 09/14/2008 03:08 AM EDT
To: Meg McConnell; Sandy Krieger; Helen Mucciolo; Maria Ambrosio; Guenever Scheuermann; Arthur Nelson
Cc: Jennifer Brett; Jennifer Hicks; Charles Gray
Subject: Update on Valuation Workstream

I understand that some of this was discussed in the 10pm meeting, but I wanted to send a quick summary of today's developments.

We had a meeting at 7pm with the three banks involved at that point (Citi, Goldman and Credit Suisse). The general takeaways were that 1) they are not sure whether they would act through an SPV or whether each bank would bid on a particular segment of these portfolios, and 2) there was not enough time or enough information to do the amount of work that would need to be done to thoroughly review this portfolio

CRE - they expressed particular concerns with coming up with marks on the equity pieces and getting a better understanding of unfunded obligations and hidden contingencies. They gave a price of $17-20 billion (compared to Lehman's mark of $41 billion)
Residential - they estimated a price of $9 billion, not including derivatives (compared to Lehman's mark of $17.2 billion)
Derivatives - They have a lot of work left to do as there are about 18,000 trades. In addition, they are having a big problem resolving the differences between the data they received from the back office vs. front office.

Subsequent to this meeting we put together a list of areas where the group needed additional information from Lehman and we are expecting to receive that sometime tonight. Apparently the US information was just uploaded to the shared website a few minutes ago and the regions will be coming. In any case, we are planning to touch base again with the group at 6am. In the meantime Jennifer Brett will be coordinating additional information requests for Lehman.

At midnight we had a conference call on the legal transferability issues related to the commercial portfolio. Lehman provided some diligence prior to the call and had their external counsel walk everybody through it. The banks in the valuation group again raised indemnification as a critical deal point from their standpoint. They are extremely concerned about environmental and other liabilities that might be associated with these CRE holdings, and would want indemnity from a creditworthy party with respect to these liabilities. Not only will the Lehman entity they would presumably be buying from no longer be solvent, Lehman would have breached its contractual obligations in a whole host of instances by selling the assets without obtaining the necessary third-party consents. The banks suggested that the only solution to this would be to hold back a potentially significant portion of the sales proceeds in escrow to provide for future payment of liabilities incurred in connection with curing the breach of the assignability restrictions. They questioned whether the Fed would accept the degree of "conditionality" in the deal that this feature would make necessary. They suggested that the holders of the consent rights would have every incentive to gouge them for obtaining the consents ex-post.

Charles has put together a summary (attached) of the call and the consent issues for the portfolio.

So far the group has been focused on the commercial and residential portfolios, however, we recently heard that they should also be focusing on private equity. We have received some information from Lehman which I have passed on to the group, but I do not know when they will be able to get the right people in to look at it and start having conversations with Lehman.

Also, late this evening Deutsche Bank began looking at these portfolios and will be involved in the discussions going forward.

Please let me know if you have any questions. I am headed home now but Jen Brett will be covering the night shift.

Sarah Bell
Federal Reserve Bank of New York
212-720-2496

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1 Attachment