

To: Ricardo S. Chiavenato/JPMCHASE
cc:
David A. Weisbrod Subject: Re: LB Excess Collateral Compared to GF Pricing

08/09/2008
11:01 AM

Ricardo

Very well articulated...I have separately emailed Susan Stevens asking that she get more personally involved. I think we need another meeting with Paolo with Barry, Susan, me, etc. attending to clear the air and to make sure we are all on track.

David

PS -- the CRMPG document is now public and is available at www.crmpolicygroup.org. Triparty is covered on pps 113-117. I am confident that we are acting within the context of the recommended best practices outlined.

DW

✉ Ricardo S. Chiavenato/JPMCHASE



Ricardo S. Chiavenato/JPMCHASE

08/09/2008 10:42 AM

To: Mark G Doctoroff/JPMCHASE@JPMCHASE1, Ed Corral/JPMCHASE@JPMCHASE
cc: David A. Weisbrod/JPMCHASE@JPMCHASE, Diane Eshleman/JPMCHASE@JPMCHASE, Henry E Steuart/JPMCHASE@JPMCHASE, "Jeffrey Aronson" <JAronson@bear.com>, Piers Murray/JPMCHASE@JPMCHASE, Susan F Stevens/JPMCHASE@JPMCHASE1, Thomas H Mulligan/JPMCHASE@JPMCHASE1, Donna Dellosso/JPMCHASE@JPMCHASE

Subject: Re: LB Excess Collateral Compared to GF Pricing

Mark,

Our goal is and has always been to ensure that our intraday exposure to Lehman is properly collateralized.

To meet our margin requirements, including the \$5 bi extra temporary collateral, they pledged \$9.7 bi in additional collateral. However, they did it through LCPI and \$5.8 bi of that are CDOs priced by Lehman, most of it at face value. We never intended to have our margin requirements met by CDOs, which are the worst type of collateral they could use, but if we have to take them we want to use prices from Gifford Fong (a pricing vendor that specializes in hard to value securities). Doing that the \$5.8 bi would be worth less than \$2 bi so they need to top it up.

We also found out that within the tri-party collateral shells Lehman has \$3.9 bi in CDOs, mostly self-priced and close to or above face value. Using Gifford Fong's prices this collateral would be worth less than \$1.5 bi so they also need to top this up.

All we are telling them is that we will not use their overstated prices to value CDOs as collateral. This is not a change in approach, by the way. In all our discussions with dealers and the Fed we have emphasized the need to get the most accurate price possible for securities used as collateral for tri-party repos.

I don't think this is unreasonable. In fact, I think it is very unreasonable that they pledged CDOs priced at face value and I am sure that the Fed would consider this inappropriate as well.

I am available for a call during the week end or on Monday.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Mark G Doctoroff

Sent: 08/08/2008 10:58 PM AST

To: Ed Corral; Ricardo Chiavenato

Cc: David Weisbrod; Diane Eshleman; Henry Steuart; Jeffrey Aronson; Piers Murray; Susan Stevens; Thomas Mulligan

Subject: Re: LB Excess Collateral Compared to GF Pricing

Ed, and herein lies the problem and my plea for getting our facts/asks straight. Unless I am wrong, Barry, Piers and others had asked for coverage of our intraday risks, and Paolo agreed to that as he understands our risk. If we are deviating from that approach, we need to call Paolo and re-craft these conversations and make sure philosophically we are all on the same page. He will go to the Fed about this as he told me he would if he feels we are asking for things that will harm the market or are unreasonable in the overall context of the discussions Lehman is having with them.

I am available Monday my night Singapore time after 9:30am your monday am.

From: Ed Corral

To: Ricardo S. Chiavenato

Cc: David A. Weisbrod; Diane Eshleman; Henry E Steuart; Jeffrey Aronson; Mark G Doctoroff; Piers Murray; Susan F Stevens; Thomas H Mulligan

Sent: Fri Aug 08 22:23:52 2008

Subject: Re: LB Excess Collateral Compared to GF Pricing

I had a conversation with Dan Fleming from Aruba on vacation this evening.

Craig Jones gave him the take down from our conversation from earlier this evening. His concerns:

Feels like the original agreement was for intra-day coverage. Now we are looking for overnight.

Generally feels like the goalposts keep moving.

Recognized our concerns around valuation of the ABS' and agreed to work with us on that.

Agreed to wait until Monday to see the legals before he spoke with Paolo who he felt might speak to the Fed about the "hard time JPM is giving Lehman".

Let me know your availability Monday morning and I'll arrange an internal call.

Thanks,

EC.