



Ed Corral
08/09/2008
02:16 PM

To: Thomas H Mulligan/JPMCHASE@JPMCHASE1, Ricardo S. Chiavenato/JPMCHASE@JPMCHASE, Mark G Doctoroff/JPMCHASE@JPMCHASE1
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, Donna Delloso/JPMCHASE@JPMCHASE
Subject: Re: LB priorities - term repo

We are working on an accelerated solution to address DTC only. We should have a line of sight on it this week.

EC.

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

From: Thomas H Mulligan
Sent: 08/09/2008 02:00 PM AST
To: Ricardo Chiavenato; Mark Doctoroff; Ed Corral
Cc: David Weisbrod; Diane Eshleman; Henry Steuart; Jeffrey Aronson; Piers Murray; Susan Stevens; Donna Delloso
Subject: LB priorities - term repo

LB' recognizes the need to cover the margin. They feel the margin will be reduced dramatically once we can stop the daily unwind of the term repo. Do we have a target date for delivering that capability?

Tom

From: Ricardo S. Chiavenato
To: Mark G Doctoroff; Ed Corral
Cc: David A. Weisbrod; Diane Eshleman; Henry E Steuart; Jeffrey Aronson; Piers Murray; Susan F Stevens; Thomas H Mulligan; Donna Delloso
Sent: Sat Aug 09 13:25:52 2008
Subject: Re: LB Excess Collateral Compared to GF Pricing

Mark,

Let's have a call first thing on Monday (and before if you want) and clarify all details.

I don't think we are changing course and what we are saying is 100% aligned with the best practices we have proposed, which have been published: the CRMPG document is now public and is available at www.crmpolicygroup.org. Triparty is covered on pps 113-117.

If we need to take the CDOs because that is the only option we should price them using Gifford Fong (and not Lehman's overstated prices) and apply liquidation risk factors compatible with CDOs.

I am not affirming that Lehman acted in bad faith but all the way we have told them that we need margin to

cover the risk of the collateral we hold so when they give us CDOs priced at face value I wonder if they really did not notice that this was not what we asked for.

Jeff is sending them the docs to get the collateral legal issues addressed so that is moving separately from the discussion on the CDO prices.

If you want to have a call tomorrow send me a note. Monday morning works as well.

Thanks.

Sent from my BlackBerry Wireless Handheld

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

From: Mark G Doctoroff

Sent: 08/09/2008 11:05 AM AST

To: Ricardo Chiavenato; Ed Corral

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

Subject: Re: LB Excess Collateral Compared to GF Pricing

Ricardo,

Totally in agreement. The issue I had is that it seemed by Ed's note that we had changed tact in terms of securing intraday risk (ie that we wanted overnight collateral) I was pointing out that if this is the case, Paolo will have philosophical difficulties - which he has repeatedly stated.

it is possible that the best collateral they can provide is CDOs and other like collateral. If this is the case, I think we need to think about whether this is a real problem for us. The price is something we need to agree to, but if in fact this is the best they can provide, we need to think whether we need to ask for something else, and if we push - which will have liquidity considerations for them.

I do not remember, but I am not aware that we asked for collateral with specific characteristics - although I also assume they would give us the best they have to make us comfortable.

I did mention to Paolo that the collateral they provided, if all CDOs was not what we ideally wanted, but told him that first issue is getting entity/legal docs in place (ie the facility to provide collateral) and then alter the collateral components if needed.

My only issue, and I could be wrong, is that it sounds like we think they have been acting in bad faith, which I disagree with as we did not give clear instructions to them when we asked for the \$5bn in terms of entity, collateral type. It's a work in process and we are both seemingly finding our way. We did agree with them that this was intraday security not overnight, so I was a little alarmed when I read this may be an issue - this is a hotpoint for Paolo.

Understand the need to get better collateral and the legal docs signed. Let me know when we need to call the client. Thanks, Mark

From: Ricardo S. Chiavenato

To: Mark G Doctoroff; Ed Corral

Cc: David A. Weisbrod; Diane Eshleman; Henry E Steuart; Jeffrey Aronson; Piers Murray; Susan F Stevens; Thomas H Mulligan; Donna Dellosso
Sent: Sat Aug 09 10:42:14 2008
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.