Ricardo S. Chiavenato To: David A. Weisbrod/JPMCHASE@JPMCHASE
cc:
Subject: Lehman Summary

08/20/2008
06:38 PM

Here is a summary of tri-party repo initiatives and issues for Lehman.

The data I sent below includes yesterday's unwind collateral, the TPI margin, our current margin (100% of TPIMg + 125% Mg for equities), and the risk-based margin (increased due to higher risk of CDOs, ABCPs, and HELOC ABSs, although they are not fully separated yet).

1 - Titling Issues

LBH-LBI guarantee sent to Lehman but not signed yet. Other guarantees for entities with clearing boxes in BDAS sent as well.

2 - Risk-Based Margin Implementation

Conceptual discussion held in July. No implementation plan yet.

We are calculating daily the risk-based margin using a semi-automated process but have the following gaps that require a fix in BDAS:

- BDAS collateral extract uses one-day old prices and is sent between 9am and 11am (too late)

- segmentation of CDOs, ABCPs, and HELOC ABSs not completed

To implement the risk-based margin we need to:

- fix the BDAS process and classification (above)

- produce and share the risk-based margin over a period of time with dealers

- agree on an implementation plan, which can be phased, with each dealer

3 - Price Issues

BDAS uses dealer prices for securities not priced by IDC or SST. This includes CDOs and ARSs that are predominantly priced at 100.

This is overstating the collateral value and increasing our intraday financing risk.

To fix this we need:

- a complete list of dealer priced securities and their details in BDAS (including the dealer prices) - for Lehman and all other dealers

- implementation of Gifford Fong's prices for hard to value securities in BDAS, using a manual process for large positions in CDOs and ARSs if the automated feed will require time/work

- vendor prices in BDAS for all other securities using dealer prices that Gifford Fong can not price

4 - Trust Receipts for MBSs and CMOs being repackaged by GSEs

I am sending a separate note summarizing the new process we agreed upon for trust receipts tomorrow.

The trust receipts create risk of our tri-party intraday financing because we send CMOs and MBSs to GSEs on a free delivery basis, get a trust receipt 1-3 days later, and after these securities are repackaged into one mega deal we get the new security back.

In the meantime, BDAS continues showing the securities we sent to GSEs as if we held them and they count as collateral for the NFE calculationm

We agreed to:

- use a control agreement that ensures a perfected interest in the securities we send to GSEs, as opposed to the trust receipt

- reduce the time to receive trust receipts from up to 3 days to 90 minutes

- confirm that trust receipts are an eligible collateral type in tri-party agreements

- flag the CMOs and MBSs held away from us so that we can adjust their risk-based margin to reflect their 3-day liquidation period

- check if we need additional disclosures to investors or dealers

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Sent from my BlackBerry Wireless Handheld

Ricardo S. Chiavenato

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

From: Ricardo S. Chiavenato
Sent: 08/20/2008 05:30 PM EDT
To: David Weisbrod
Subject: Re: quick question on LEH: please note and respond

will send you the summary tonight.

ricardo.s.chiavenato@jpmorgan.com Phone: 212-552-7505 Cell: 646-208-8186 1 Chase Manhattan Plaza, Floor 58, New York, NY 10005

David A. Weisbrod/JPMCHASE

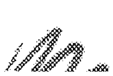
David A. Weisbrod/JPMCHASE

08/20/2008 05:28 PM

To Ricardo S. Chiavenato/JPMCHASE@JPMCHASE
cc
Subject Re: quick question on LEH: please note and respond

Thanks.
DAvid
T&SS Risk Management

T&SS Risk Management



Ricardo S.

To David A. Weisbrod/JPMCHASE@JPMCHASE
cc

Chiavenato/JPMCHASE Subject Re: quick question on LEH: please note and respond

08/20/2008 05:03 PM

Yes.

We have:

- 100% of tri-party investor margin for all securities except for equities
- 125% margin for equities
- $5 bi extra collateral

This looks like a big cushion but when you account for the equity concentration and CDO and ARS dealer prices I believe we have less than what we should.

Here are the latest figures for Lehman using the CDO data we are getting (which seems incomplete). This does not include the extra $5bi collateral.

US$ million Security Type	Count	Collateral Market Value	Overnight Financing Provided by Tri-Party Investors	%	Overnight Margin	Intraday Financi % of TPI Margin
Fed-Eligible - Total	**10,874**	**124,205**	**122,259**	**71%**	**101.6%**	**122,**
USTs	627	49,735	48,888	29%	101.7%	48,
Agency Securities	1,368	23,700	23,394	14%	101.3%	23,
Agency MBSs	7,708	46,357	45,669	27%	101.5%	45,
Agency CMOs	1,171	4,412	4,308	3%	102.4%	4,
DTC-Eligible - Total	**8,804**	**45,777**	**42,996**	**26%**	**106.5%**	**41,**
ABSs	799	3,188	2,768	2%	115.1%	2,
CDOs	160	1,314	1,166	1%	112.7%	1,
ARS	0	0	0	0%	0.0%	
Corporates	2,440	14,356	13,556	8%	105.9%	13,
CPs	224	8,828	8,310	5%	106.2%	8,
Money Market	6	3	3	0%	102.9%	
Multilaterals	20	444	436	0%	102.0%	[illegible]
Equities	2,400	9,440	8,908	5%	106.0%	7,
Munis	614	2,890	2,782	2%	103.9%	2,
Other	0	0	0	0%	0.0%	
CMOs	2,141	5,314	5,068	3%	104.9%	5,
Cash	2	346	346	0%	100.0%	[illegible]
Trust Recipt	16	3,554	3,546	2%	100.2%	
Letter of Credit	0	0	0	0%	0.0%	
Promissoroy Notes	0	0	0	0%	0.0%	
Whole Loans	0	0	0	0%	0.0%	
TOTAL	**19,696**	**173,882**	**169,147**	**100%**	**102.8%**	**164,**
Collateral Eligible for Intraday Financing		**170,328**				
Margin Held/Required			**4,735**			**6,**

[attachment "TP Margin Summary - Lehman - 8-19-2008.xls.zip" deleted by David A. Weisbrod/JPMCHASE]

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David A. Weisbrod/JPMCHASE

David A. Weisbrod/JPMCHASE

08/20/2008 04:57 PM

To Ricardo S. Chiavenato/JPMCHASE@JPMCHASE
cc
Subject quick question on LEH: please note and respond

Ricardo
One point of clarification please: when we say we have 100% of investor margin is that ON TOP of the $5bn in extra margin that they had given us previously?
Many thanks.
David