

OTS 2008 – CRE Examination

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“Confidential Treatment Requested”

LEHMAN BROTHERS

**LEHMAN BROTHERS
GLOBAL REAL ESTATE GROUP**

**APPROVAL POLICIES AND PROCEDURES
MANUAL**

May 2008 Edition

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Section I
Overview

The Lehman Brothers' Global Real Estate Group (GREG) is a unified debt and equity real estate team which offers a full range of real estate services throughout the world. GREG's primary products are:

Commercial Mortgage Loans:

Fixed Rate and Floating Rate Commercial Mortgage Loans directly with borrowers and through a select group of mortgage bankers.

Lines of Credit/Term Loans:

Short term secured and unsecured financing for a variety of real estate focused companies (primarily rated public companies).

Bridge Equity:

Short term bridge equity for acquisitions of properties by operating partner sponsors for redistribution into the pension fund, insurance company and endowment sector.

Securitization/Syndication

Securitization of proprietary commercial mortgage product on a principal basis and the securitization of mortgage product originated by select financial institution clients on an agency basis.

Syndication of proprietary first mortgage product on both a pari-passu and senior/subordinate basis, as well as the syndication of B-Note and mezzanine product.

Principal Investment

Short term loans (average duration 2.5 years) which are secured by first mortgages or ownership interests in properties.

Strategic equity for unique opportunities that require speed, agility, thoughtfulness offer significant returns.

Purchase of non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA).

Within GREG and the Fixed Income Division policies and procedures have been adopted and will be periodically updated to ensure compliance with Firm-wide and industry regulations. It is the responsibility of Senior Management to ensure the establishment and implementation of procedures and to minimize exposure to the risk of direct or indirect loss resulting from inadequate or failed internal processes, or systems, or as a result of actions or omissions by GREG personnel.

The Policies & Procedures set forth in this Manual have been established to maintain a strict and effective Internal Control Environment which can be clearly understood and adhered to by all GREG personnel. The GREG Policies and Procedures have been derived within Lehman's overall Control Framework which focuses on the following six components:

- Integrity and ethical values
- Commitment to competence
- Board of Directors (structure and influence)
- Management Philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility

GREG has established a rigorous approval process for all transactions throughout the world. Each product group first reviews and recommends for approval transactions prior to them being elevated to the GREG Regional Credit Committee. Depending on the size and other factors specifically described in this Manual, a transaction may require GREG Global Credit Committee approval as well as Lehman Brothers Firm Committee approvals.

Section II

*GREG and LEHMAN BROTHERS
APPROVAL COMMITTEES*

GREG Regional Credit Committees

The GREG Regional Credit Committees (each Regional Committee being referred to as the "Regional Committee") are responsible for the review and approval of all GREG loan, loan purchase and equity investment transactions in each region, including Bridge Equity transactions and Lines of Credit transactions.

- Each Regional Committee meets at least three times a week, and more frequently, if necessary.
- Transactions are reviewed at least once, and depending on the size and complexity can be reviewed several times before GREG commits to complete a transaction.
- A written description of each transaction (the "Submission") together with supporting materials must be submitted to the voting members of the respective Regional Committee to enable the voting members to have adequate time to review each transaction prior to a committee meeting. The Submission must include all underwriting materials and property level reviews and a discussion regarding proper FAS 144 classification. (See Tab C for a copy of the Firm's FAS 144 Controls procedures.) Copies of each Submission must be provided to the Risk Management Group.
- Tab A includes list of current members of each Regional Committee.

Regional Approval Levels:

- Americas:
 - 1. Fixed and Floating Rate Full Leverage Loans (excluding construction and condominium conversion loans) up to \$150 million and Fixed and Floating Rate Investment Grade Loans up to \$300 million can be quoted and committed with the signatures of the Regional Committee.
- Asia:
 - 1. Fixed and Floating Rate Loans up to \$300 million, Mezzanine Loans up to \$100 million, Equity investments up to \$25 million and the purchase of Non-Performing Loans with an investment of up to \$250 million can be quoted and committed with the signatures of the Regional Committee.
- Europe:
 - 1. Fixed and Floating Loans up to \$300 million, Mezzanine Loans up to \$100 million, Equity investments up to \$25 million and the purchase of

Non-Performing Loans with an investment of up to \$250 million can be quoted and committed with the signatures of the Regional Committee.

Attached to each approval signature page will be the Submission and a "quote sheet" which will summarize the economics of the Loan. (See Tab B for Underwriting Guidelines and sample signature pages)

All Loans in excess of the Regional Credit Committee limits, all Mezzanine Loans, Equity Investments and Non-Performing Loan Purchases in the Americas, all First Mortgage, Mezzanine Loans, Equity investments and Non-Performing Loan Purchases in China and Russia and all Bridge Equity transactions require GREG Global Credit Committee approval.

Certain Loans and Investments will also require review and approval of the Firm Commitment Committee, the Firm Investment Committee and/or the Firm Bridge Loan Committee, as described below.

A written schedule of "action items" (key points, concerns, follow up items, etc. should be maintained by each Regional Committee and should be included in the Submission to the Risk Management Group, together with copies of the approval signature page and quote sheet. As a matter of course, the Risk Management Group should be copied on all investment memos (short and long form).

Transactions where GREG contemplates buying out a senior encumbrance as part of foreclosure/deed in-lieu proceedings should be reviewed by the Risk Management Group prior to commitment and completion.

At the end of each week, summaries of all Loans in excess of \$50 Million that have been quoted during the week, must be distributed to all members of the Regional Committee and to the Risk Management Group.

GREG Global Credit Committee

The GREG Global Credit Committee is responsible for the review and approval of all GREG loan, loan purchase and equity investment transactions in excess of the limits described above for each region, all Mezzanine Loans, Equity Investments, purchases of Non-Performing Loans in the Americas, all Bridge Equity transactions and Lines of Credit transactions and all Loan, Equity and purchases of Non-Performing Loans in China and Russia. The Global Committee also will determine whether GREG will commit to invest time and capital in the development of a new product or the entry into a new business.

The Global Committee meets at least once week, and more frequently, if necessary.

Transactions are reviewed at least once, and depending on the size and complexity can be reviewed several times by the Global Committee.

A written description of each transaction (the "Submission") together with supporting materials must be submitted to the voting members of the Global Committee to enable the voting members to have adequate time to review each transaction prior to a committee meeting. The Submission must include all underwriting materials and property level reviews and a discussion regarding proper FAS 144 classification. (See Tab C for a copy of the Firm's FAS 144 Controls procedures.) Copies of each Submission must be provided to the Risk Management Group.

A written description of a new product (the "Proposal") together with supporting materials must be submitted to the voting members of the Global Committee to enable the voting members to have adequate time to review each new product prior to a committee meeting. The Proposal must include all descriptive materials, including potential profitability, market study, analysis of competition and a time line for release of the product. Copies of each Submission must be provided to the Risk Management Group.

Regions:

o Americas:

1. All Fixed and Floating Rate Full Leverage Loans in excess of \$150 million, all construction and condominium conversion loans, all Fixed and Floating Rate Investment Grade Loans in excess of \$300 million, all Mezzanine Loans, all Lines of Credit, all Equity Investments, all Bridge Equity transactions and all purchases of Non-Performing Loans require GREG Global Credit Committee (the "Global Committee") approval.

o Asia:

1. All Fixed and Floating Rate Loans in excess of \$300 million, all Mezzanine Loans in excess of \$100 million, all Lines of Credit, all Equity Investments in excess of \$25 million, all purchases of Non-Performing Loans with an investment in excess of \$250 million and all Bridge Equity

transactions require GREG Global Credit Committee (the "Global Committee") approval.

o Europe:

1. All Fixed and Floating Rate Loans in excess of \$300 million, all Mezzanine Loans in excess of \$100 million, all Lines of Credit, all Equity Investments in excess of \$25 million, all purchases of Non-Performing Loans with an investment in excess of \$250 million and all Bridge Equity transactions require GREG Global Credit Committee (the "Global Committee") approval.

Certain transactions may also require Firm Commitment Committee, Firm Investment Committee, Firm Bridge Loan Committee and/or Firm New Products Committee review, as described below.

See Tab A for current members of the Global Committee. Each transaction will require the signature of two of the three members of the Global Committee.

Firm Commitment Committee

- The Firm's Commitment Committee reviews and approves all a) senior loans with a principal amount of \$500 million or more; b) mezzanine loans with a principal amount of \$100 million or more; c) Equity investments of \$25 million or more; d) all purchases of Non-Performing loans with an investment of \$250 million or more; e) all loans, equity investments and purchases of Non-Performing Loans in China or Russia; f) all Bridge Equity commitments of \$35 million or more; g) loans in which the credit of a company is relevant to the underwriting decision; or h) loans with a principal amount of \$50 million or more which will be syndicated by Lehman Brothers by means of an offering document thereby raising due diligence, disclosure and legal issues, to determine whether Lehman Brothers should act as lead or co-managing underwriter, placement agent or arranger, or as lender, in a proposed transaction.
- In those instances in which GREG chooses to provide a combination of first mortgage debt, mezzanine loans, equity and or short term financing and each component is less than the above thresholds, but the aggregate commitment exceeds \$500 million, those transactions should be submitted for Firm Commitment Committee review and approval.
- Transactions that have an unusual structure, high leverage and/or close to Committee limits, should be flagged and Risk alerted so that a determination can be made as to whether they should be reviewed and approved by the Firm's Commitment Committee.

Firm Investment Committee

- The Firm's Investment Committee was established to review and approve investments and divestitures of principal investments. All GREG investments of \$25 million or more are submitted for review and approval to the Firm's Investment Committee prior to investment.

Firm Bridge Loan Committee

- The Firm's Bridge Loan Committee operates alongside the Commitment Committee, and considers all interim financings to be provided by the Firm and bridge equity investments over \$35 million. Interim financings include any financing that is expected to be refinanced through permanent loan facilities, the offering of debt or equity securities or asset sales. The Commitment Committee then reviews all financings, whether in the form of a permanent credit facility or an underwriting of securities, that are intended to take-out the interim loan.

Firm New Product Committee

- The Firm's New Product Committee is chaired by the Firm's Chief Legal Officer. The Committee determines whether the Firm will commit to market a new product or enter into a new business. Particular areas of focus include all aspects of risk (legal, credit, tax, finance, operational, sales, documentation and market) and awareness of the product or business throughout the Firm. The budget for any new product, including capital required, must be approved as part of the budget for the business unit proposing the product.

- The Firm's New Products Committee is composed of senior Firm employees representing support areas (Operations, Systems, Risk Management, Accounting, Treasury, Tax, Legal, Compliance, Credit, Audit, Documentation) and core businesses such as Investment Banking, Fixed Income, Equities, Private Client Services and Derivatives.

TAB A

Committee Members as of 5-1-08

GREG Regional Credit Committees

Americas

Kenneth Cohen
Paul Hughson
Larry Kravetz
Brett Ersoff
John Herman
Spencer Kagan
Kee Chan
David Nass

Europe

James Blakemore
Peter Hansell
Barry Porter
James Younger

Asia

Mark Gabbay
Tom Pearson
Hyung Lee
Marc Rubenstein

GREG Global Credit Committee

Kenneth Cohen
Paul Hughson
Mark Walsh
Donald Petrow

TAB B

Underwriting Policies and Procedures (see attached guidelines)

Large Loan Guidelines
Conduit Guidelines
Mezzanine Loan Guidelines

TAB C

Firm FAS 144 Procedures