

From: Martinelli, Joseph [CMB-FIN] [jim37770@imcnam.ssmb.com]  
Sent: Wednesday, May 21, 2008 3:56 PM  
To: Mauerstein, Michael [CMB-GBKG]  
Subject: FW: Draft CMAC for the Lehman Funding trade

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

From: Mellina, Thomas [CMB-FICC]  
Sent: Friday, May 16, 2008 2:09 PM  
To: Martinelli, Joseph [CMB-FIN]; Randall, Stephen [CMB-FIN]; Kambo, Raj [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

In theory, what you are saying is accurate. When the market becomes concerned about a given party, the market should not be willing to lend against assets issued by or guaranteed by that party.

For better or worse, the market is extremely inefficient and we would remain able to repo such a party's issued assets as if it were any other "investment grade" asset. It took months for customers to begin asking about SIV liabilities and telling us that they did not want them in triparties.

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

From: Martinelli, Joseph [CMB-FIN]  
Sent: Friday, May 16, 2008 1:52 PM  
To: Mellina, Thomas [CMB-FICC]; Randall, Stephen [CMB-FIN]; Kambo, Raj [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

Thanks,  
What if they do not become insolvent but suffer a loss of investor confidence- similar to what just happened while BSC was tanking or in 1990, 1993 and again in 1998.  
Wouldn't we be sitting with yet another illiquid, non-financable asset

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

From: Mellina, Thomas [CMB-FICC]  
Sent: Friday, May 16, 2008 1:47 PM  
To: Martinelli, Joseph [CMB-FIN]; Randall, Stephen [CMB-FIN]; Kambo, Raj [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

If Lehman becomes insolvent, we can try to sell the note or accelerate the maturity and get the underlying assets from the trust. Citi's Commercial Real Estate group is valuing the assets and establishing haircuts so the firm is protected if Lehman defaults and we own the assets. The Finance Desk and Commercial Real Estate group are sharing risks and revenues for this deal.

In order to underwrite the RACERS, the purchaser will need to go through the process of understanding what is in the trust (the underlying commercial real estate assets). The type of people that can value these types of assets either work at hedge funds (including REITS) or banks and broker dealers. Hedge Funds need to fairly high return, so they will either need a very high coupon (which would increase Lehman's cost) or they will need to leverage the asset with banks and broker dealers. The banks and broker dealers don't have available balance sheet to

support owning this asset. And if they did, they would charge a higher coupon (which would increase Lehman's cost. Since banks and broker dealers don't have the available balance sheet to own the asset, I cannot imagine they have the balance sheet for lower returning financing trades.

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

From: Martinelli, Joseph [CMB-FIN]  
Sent: Friday, May 16, 2008 1:26 PM  
To: Randall, Stephen [CMB-FIN]; Mellina, Thomas [CMB-FICC]; Kambo, Raj [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

1)The other issue is our LEH credit capacity - what would have happened in March if BSC was substituted for LEH?  
2) since we will be liquidity neutral, why do we need the BVP in the first place and instead underwrite the Racer and sell it to the market

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

From: Randall, Stephen [CMB-FIN]  
Sent: Friday, May 16, 2008 11:21 AM  
To: Mellina, Thomas [CMB-FICC]; Kambo, Raj [CMB-FIN]; Martinelli, Joseph [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

Tom,

I have taken a look at this. If my understanding is correct CGML will sit between Lehman and CGMI so ultimately it is whether we are able to raise liquidity from the street out of CGMI using the notes. I am assuming that this is not an issue but I am not sure what previous discussion you have had. The one question I have is what will be the haircuts on the trades between Lehman and CGML, CGML vs CGMI and CGMI vs street be.

Regards,  
Stephen

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

From: Mellina, Thomas [CMB-FICC]  
Sent: Friday, May 16, 2008 3:59 PM  
To: Kambo, Raj [CMB-FIN]; Randall, Stephen [CMB-FIN]; Martinelli, Joseph [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: RE: Draft CMAC for the Lehman Funding trade

See my reponses below in all caps.

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

From: Kambo, Raj [CMB-FIN]  
Sent: Friday, May 16, 2008 10:25 AM  
To: Mellina, Thomas [CMB-FICC]; Randall, Stephen [CMB-FIN]; Martinelli, Joseph [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Subject: Re: Draft CMAC for the Lehman Funding trade

Tom,

I am quite tied up until 5pm but I will call you. It may be in the

document already, but just a couple of questions.

1) Who is the issuer of the US securities, Fannie Mae? What is the rating.

IT IS A BVP TRADE, WHERE CGML BORROWS A NOTE ISSUED BY A LEHMAN AFFILIATE AND PLEDGES US AGENCY MORTGAGES.

2) What is rating of both securities.

THE BORROWED NOT WILL BE GUARANTEED BY LEHMAN AND WILL HAVE THIER RATING A1/A+. THE AGENCY IS ASSUMED TO BE AAA.

3) What is the maturity date of both securities.

THE BORROWED NOT WILL HAVE A MATURITY OF BETWEEN 1 AND 3 YEARS. PLEASE LET ME KNOW THE IMPLICATIONS OF THE TENOR. THE AGENCY MORTGAGE IS LIKELY TO BE 30-YR LEGAL FINAL WITH AN AVERAGE LIFE OF 10 YEARS.

4) Are the currencies of both securities the same YES, BOTH USD.

5) What is the tenor of the transaction.?

13 MONTHS EVERGREEN. EACH MONTH THE MATURITY EXTENDS BY 1 MONTH IF BOTH PARTIES AGREE.

Is CGML essential in the transaction.

YES, BECAUSE WE WANT TO BE ABLE TO RECEIVE A HAIRCUT, WHICH WE CANNOT DO ON THE US BROKER DEALER FOR A BVP.

I will call you later.

Regards  
Raj

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

From: Mellina, Thomas [CMB-FICC]  
To: Kambo, Raj [CMB-FIN]; Randall, Stephen [CMB-FIN]; Martinelli, Joseph [CMB-FIN]  
Cc: Markouizos, Grigorios [CMB-FICC]  
Sent: Fri May 16 12:41:52 2008  
Subject: FW: Draft CMAC for the Lehman Funding trade

Raj and Stephen,  
Attached, please see the draft CMAC for the Lehman Funding transaction.  
I will call you later today to walk you through it. If you have any comments or proposed changes, please let me know.

Joe,  
I believe we previously discussed this transaction. If not, feel free to call me to discuss. Please let me know if you have any comments or proposed changes.

Thank you,  
Tom