

Term Sheet for 23A Exemption for Lehman Brothers Commercial Bank (“Bank”)

Capital Ratios

Bank maintain the following capital ratios: total capital of 12%, tier 1 risk-based of 9%, and tier 1 leverage of 7.5%.

Capital Contribution

Bank currently has approximately \$1 billion in capital. Lehman Brothers Holdings, Inc. (“Parent”) to contribute an additional \$4 billion, in the following form:

1. Cash or approved cash equivalents (any amount, but at least 25% of total contribution)
2. Investment grade corporate loans ($\leq 75\%$ of total contribution)
3. Investment grade collateralized loan obligations (“CLOs”) ($\leq 25\%$ of total contribution)
4. Commercial real estate loans ($\leq 30\%$ of total contribution)

Note that the cash portion of the capital contribution will come from excess capital currently held by Lehman Brothers Bank, FSB, and extraction of this excess capital will require OTS approval, which we anticipate will be received.

Lehman Brothers will contribute \$1 billion of this capital immediately following approval of the exemption.

Parent Guarantee

The Master Forward Agreement currently in place between Bank and Lehman Commercial Paper Inc. (“LCPI”), will apply to all assets transferred to Bank under the proposed 23A exemption. Elements of this agreement include:

1. Quarterly payments (or more frequently if required) by LCPI to Bank to make it whole for any diminution in the market value of all assets transferred to Bank from any Lehman Brothers affiliate.
2. If an asset becomes impaired, LCPI or any one of its affiliates will buy it back from Bank and make Bank whole for any diminution in market value.
3. Because LCPI is guaranteed by its parent, these obligations are also guaranteed by the parent.

We believe that this should be sufficient protection, but if the Federal Reserve considers it appropriate, Lehman will also include the low-quality asset buyback provision that the Federal Reserve has generally required as part of other 23A exemption requests.

Assets Transferred

Lehman will transfer \$17.5 billion of assets to Bank pursuant to the exemption.

The assets will be:

- Corporate Loans
- CLOs
- Commercial Real Estate Loans
 - US, Asian and European 1st Lien, B Notes, Mezzanine and Seller Financing

- US Real Estate Development and Land loans including 1st Liens, B notes and Mezzanine
- Investment Grade Non Residential ABS/ABS Whole Loans
- Investment Grade Variable Rate Funding Notes
- High Yield Seller Financing
- Money Market Preferred

Additional detail on these assets is included in the attached asset list.

Haircuts

All assets transferred to Bank pursuant to the exemption would be transferred at Lehman Brothers's estimate of their current market value as disclosed in its audited financial statements, minus a 5% haircut.

Timing of Asset Transfer

Lehman Brothers would like to be able to conduct the asset transfers to Bank in phases over the course of one year. The capital to be contributed to Bank will also be conducted in phases, but at no time will the ratio of the value of assets transferred pursuant to the exemption to Bank's capital be higher than 3.5:1, and the amount of capital contributed on a periodic basis will comply with the percentages outlined above under "Capital Contribution."

Ex Ante Review

As per the Federal Reserve's comment, Lehman will provide for an ex ante review by Federal Reserve examiners of the assets transferred to Bank pursuant to the exemption.

FDIC

Relief from the restrictions of the Bank's *de novo* business plan.