Confidential **Presentation to:**

Standard & Poor's

Lehman Brothers
Securitized Products Businesses

7th October 2005

LEHMAN BROTHERS

Objectives for This Meeting

- To provide an overview of Lehman Brothers' Securitized Products businesses
  - Organization, strategy, performance, and future initiatives
- To discuss the risks facing the businesses and the mitigation strategy in place
  - Specifically, to review stress cases involving material changes in the macroeconomic environment (e.g. house prices and interest rates)
- To answer any questions you may have

Overview

Lehman has developed highly effective origination, securitization, and sales & trading businesses which are well diversified, have tight risk Management, and a flexible cost base. Securitized products are an increasingly significant part of the capital markets and we believe there are opportunities to profitably capture additional share of this business.

- **Growth has been significant across a wide number of products and we are a market leader in many segments of the market**
  - Market leadership position in all aspects of our business (sales, trading, research, finance, and origination)
  - Strong diversification across asset classes, geographies, channels, and client base, with a track record of continuously finding additional outlets for our products
- **Our success is based on a disciplined business model**
  - "Moving" rather than "storage", meaning minimal risk retained
  - Vertical integration to accelerate speed to market and responsiveness
  - Commitment to research (Lehman is recognized as the #1 fixed income research franchise)
  - Commitment to product innovation
  - Focus on less commoditized, less interest rate sensitive, higher margin products
- **Strong controls and investments made to support growth**
  - Experienced management team and strong governance
  - Strict quality standards in origination and sourcing
  - Short warehousing time, proactive hedging of the balance sheet and pipeline exposure
- **These businesses are resilient and can withstand potential economic downturn without an adverse impact to the Firm as a whole**
  - Diversified platform, allowing to target different markets and geographies and limiting exposure to any single market
  - Capacity to increase market share – ability to mitigate market decline in an adverse economic scenario
  - Flexible cost base that can be rapidly adjusted to operating volume – minimizing profit impact of potential volume contraction
  - Several initiatives have been launched to further decrease cost, improve controls/risk management, and further diversify the business

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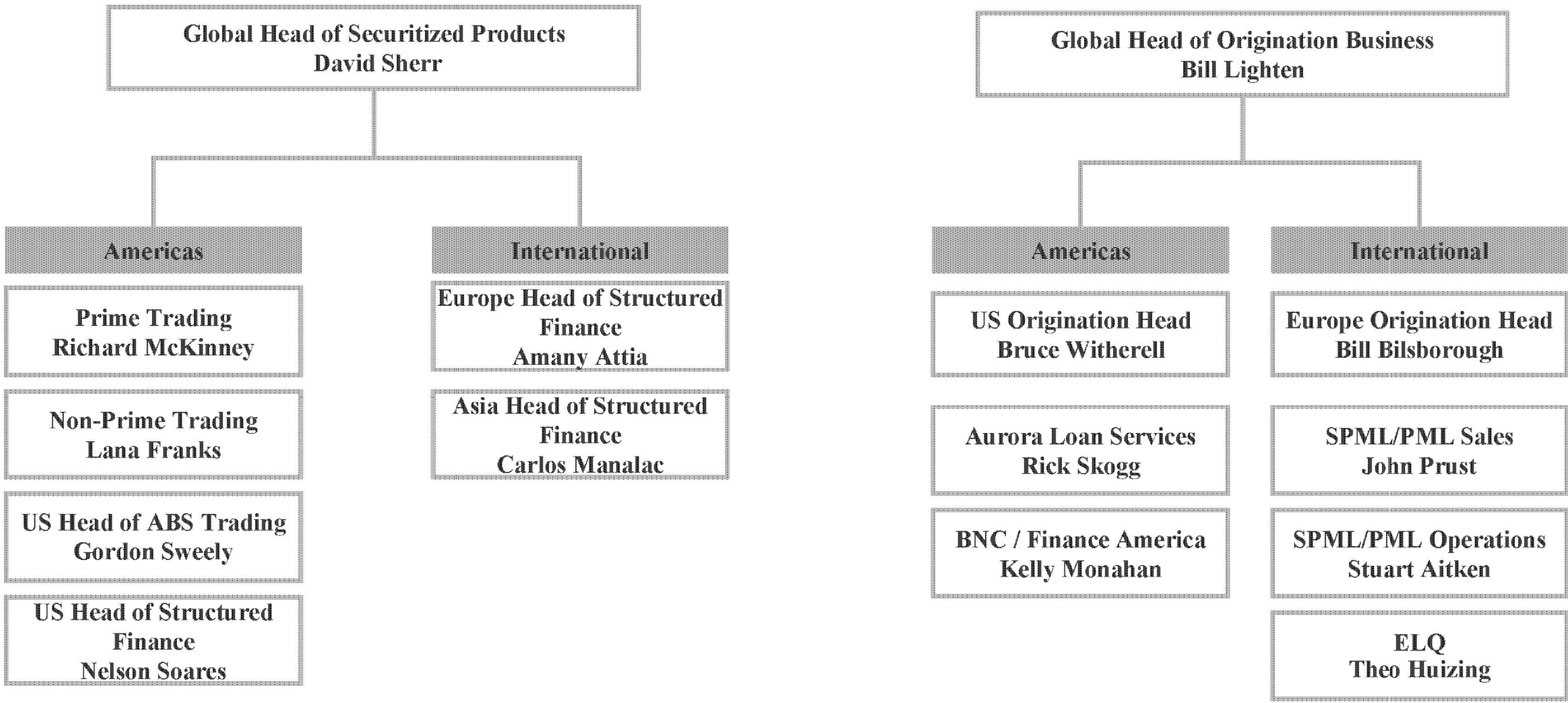
Overview

Competitive Advantage: Organizational Structure

Independent organizational structures ensure an appropriate level of separation and control



Competitive Advantage: Management Team (I)

Lehman has deep managerial strength in securitization, trading…

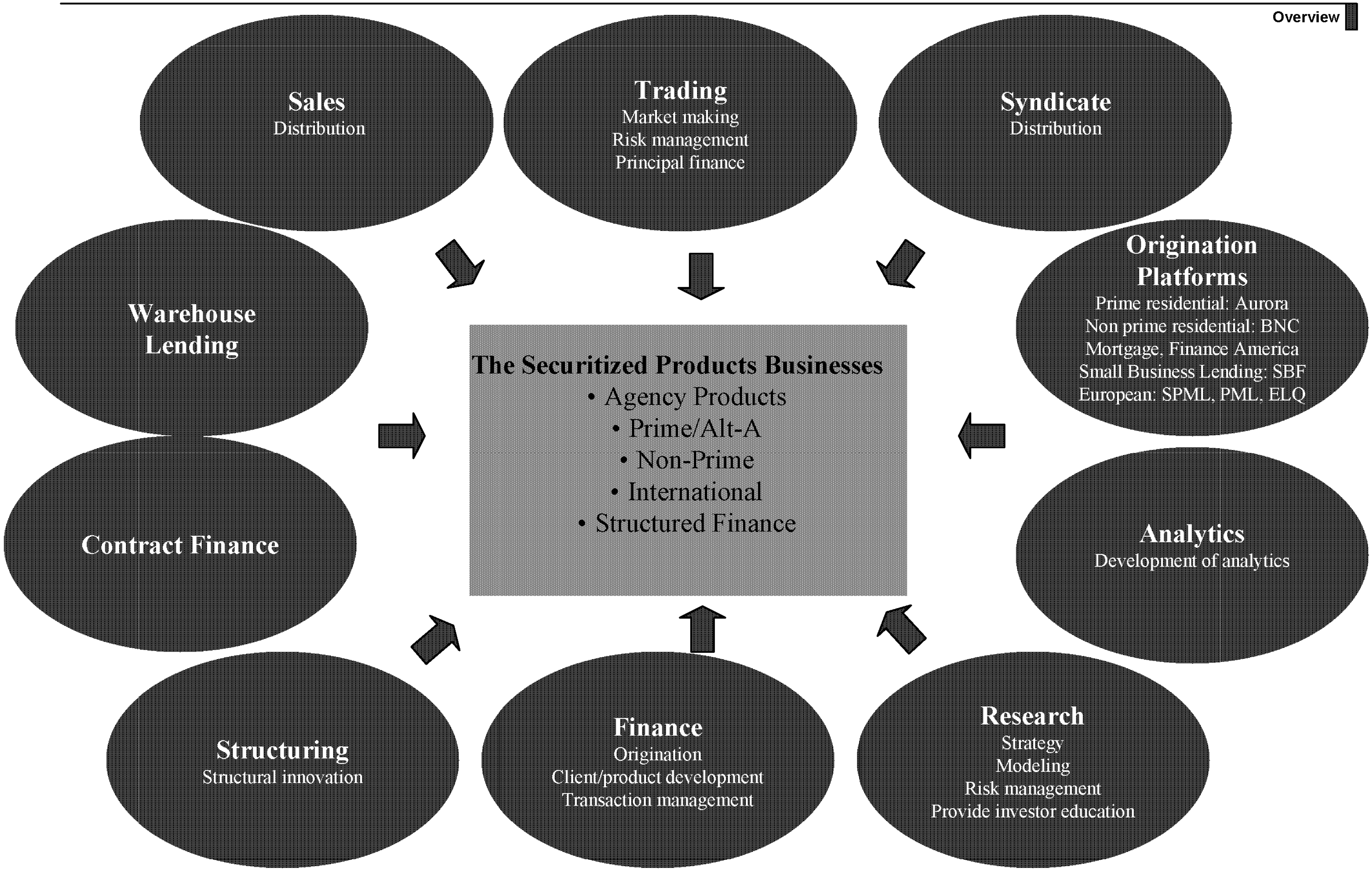
Management Team			
Name	**Region**	**Years at Lehman**	**Years in Industry**
David Sherr *Global Head of Securitized Products*	U.S.	19 years	19 years
Amany Attia *Europe Head of Structured Finance*	Europe	10.5 years	18 years
Nelson Soares *US Head of Structured Finance*	U.S.	10 years	20 years
Richard McKinney *Head of Prime Trading*	U.S.	14 years	18 years
Lana Franks *Head of Non-Prime Trading*	U.S.	18 years	18 years
Michael Glover *Head of Mortgage Sales*	U.S.	5 years	16 years
Jeff Biby *Head of Liquid Markets Strategy*	U.S.	17 years	17 years
Dev Joneja *Head of Mortgage Quant Research*	U.S.	10 years	10 years
Carlos Manalac *Asia Head of Structured Finance*	Asia	8 years	16 years
Gordon Sweely *US Head of ABS Trading*	U.S.	16 years	19 years
Chris Patrick *Europe Head of Structured Finance*	Europe	6 years	12 years

Competitive Advantage: Management Team (II)

… and origination

Management Team			
Name	**Region**	**Years at Lehman**	**Years in Industry**
Bill Lighten *Global Head of Origination Business*	Global	14 years	19 years
Bruce Witherell *US Head of Origination Business*	U.S.	15 years	23 years
Mark Russell *Global Chief Technology Officer*	Global	6 years	19 years
Rick Skogg *COO for Alt-A Origination*	U.S.	20 years	20 years
Kelly Monahan *CEO for Non-Prime Origination*	U.S.	10 years	12 years
Jeff Schaefer *US Head of Sales for Alt A-Business*	U.S.	4 years	26 years
Bill Bilsborough *Europe Head of Origination Business*	Europe	1 year	17 years
John Prust *UK Head of Sales*	Europe	6 years	22 years
Stuart Aitken *UK Head of Operations*	Europe	6 years	26 years

Securitized Products Businesses Overview



Competitive Advantage: #1 in Fixed Income Research

2005 *Institutional Investor* All-American Fixed Income Research Team Awards

Preeminent Research in Structured Products for 2005

Institutional Investor

2005 — #1

Total 2005 Positions	
Lehman	**39**
JPM	38
CSFB	28
UBS	21
Bear Stearns	20

2005 MBS/Adjustable Rate Mortgages — #1

2005 ABS/Other — #1

2005 ABS/Real Estate — #2

2005 ABS/Prepayments — #2

Consistent Tradition of Excellence in Fixed Income Research

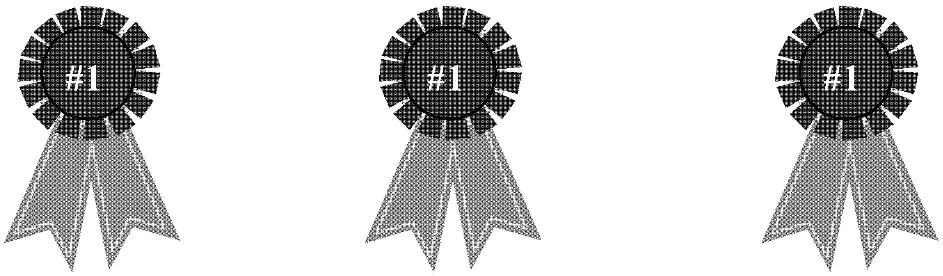
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
#1	#2	#1	#2	#4	#3	#1	#1	#1	#1	#1
Total 1994 Positions	**Total 1995 Positions**	**Total 1996 Positions**	**Total 1997 Positions**	**Total 1998 Positions**	**Total 1999 Positions**	**Total 2000 Positions**	**Total 2001 Positions**	**Total 2002 Positions**	**Total 2003 Positions**	**Total 2004 Positions**
Lehman 21	Bear Stearns 20	**Lehman 27**	Merrill Lynch 31	Merrill Lynch 32	Merrill Lynch 36	**Lehman 40**	**Lehman 35**	**Lehman 35**	**Lehman 35**	**Lehman 39**
DLJ 15	**Lehman 17**	Merrill Lynch 27	**Lehman 28**	Salomon 28	Salomon 26	Merrill Lynch 33	Merrill Lynch 34	CSFB 31	CSFB 33	CSFB 37
Merrill Lynch 14	Merrill Lynch 17	Bear Stearns 18	DLJ 25	Bear Stearns 26	**Lehman 24**	Salomon 27	CSFB 32	JPM 31	JPM 30	JPM 31
Bear Stearns 8	DLJ 16	DLJ 17	Bear Stearns 23	**Lehman 24**	Bear Stearns 24	Goldman Sachs 23	SSB 27	SSB 25	Citi 19	Citi 22
Kidder Peabody 6	Goldman Sachs 10	Goldman Sachs 14	Goldman Sachs 18	DLJ 18	DLJ 20	Chase 20	JPM 23	Merrill Lynch 23	UBS 17	UBS 21

Competitive Advantage: Structuring and Distribution

Recognized For Premier Structuring & Distribution Capabilities by Issuers and Investors

GREENWICH ASSOCIATES
Focused financial intelligence

ABS – United States Survey 2004



Market Penetration

- 1st – tied – for trading relationships among all investors.

ABS Sales

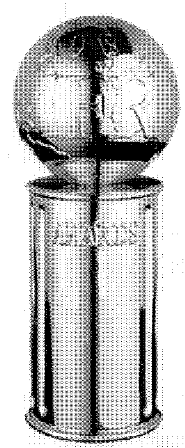
- 1st – for all categories

Relationship Quality

- 1st – for all categories

- #1 ranked in market share by Moody's in ABCP
- "World's Best ABS House" for 2004 by Euromoney
- "North American Securitization House of the Year" for 2004 by IFR

IFR
INTERNATIONAL FINANCING REVIEW



2004
North American
Securitization
House of the Year

Competitive Advantage: Vertical Integration

One of Lehman Brothers' competitive advantages in the sector is vertical integration

- Constant feedback from execution to origination
- Borrowers' rate is a function of secondary market execution
- Added value of our trading and risk management franchise
- Removal of intermediary increases margins
- Distribute virtually all of the risk, limiting balance sheet exposure
- Intelligence into market demand

Competitive Advantage: Limited Balance Sheet Exposure

Lehman holds products on its balance sheet for a limited time period for two purposes: warehousing of whole loans ahead of securitization and securities to support trading activity; both activities are hedged

- 97% of our balance sheet turns within approximately 2 months, limiting credit exposure
  - The remaining 3% turns within approximately 3.5 months
- 97% of our balance sheet is composed of investment grade securities and whole loans
  - Strong risk management procedures are in place to manage the risk
- Lehman retains a minimal percentage of non-investment grade residuals from its securitizations
  - Currently, retained interest consists of 268 different investment positions totaling $557 million
- Lehman holds non-investment grade residuals for the following reasons:
  - General market making
  - CDO repackaging

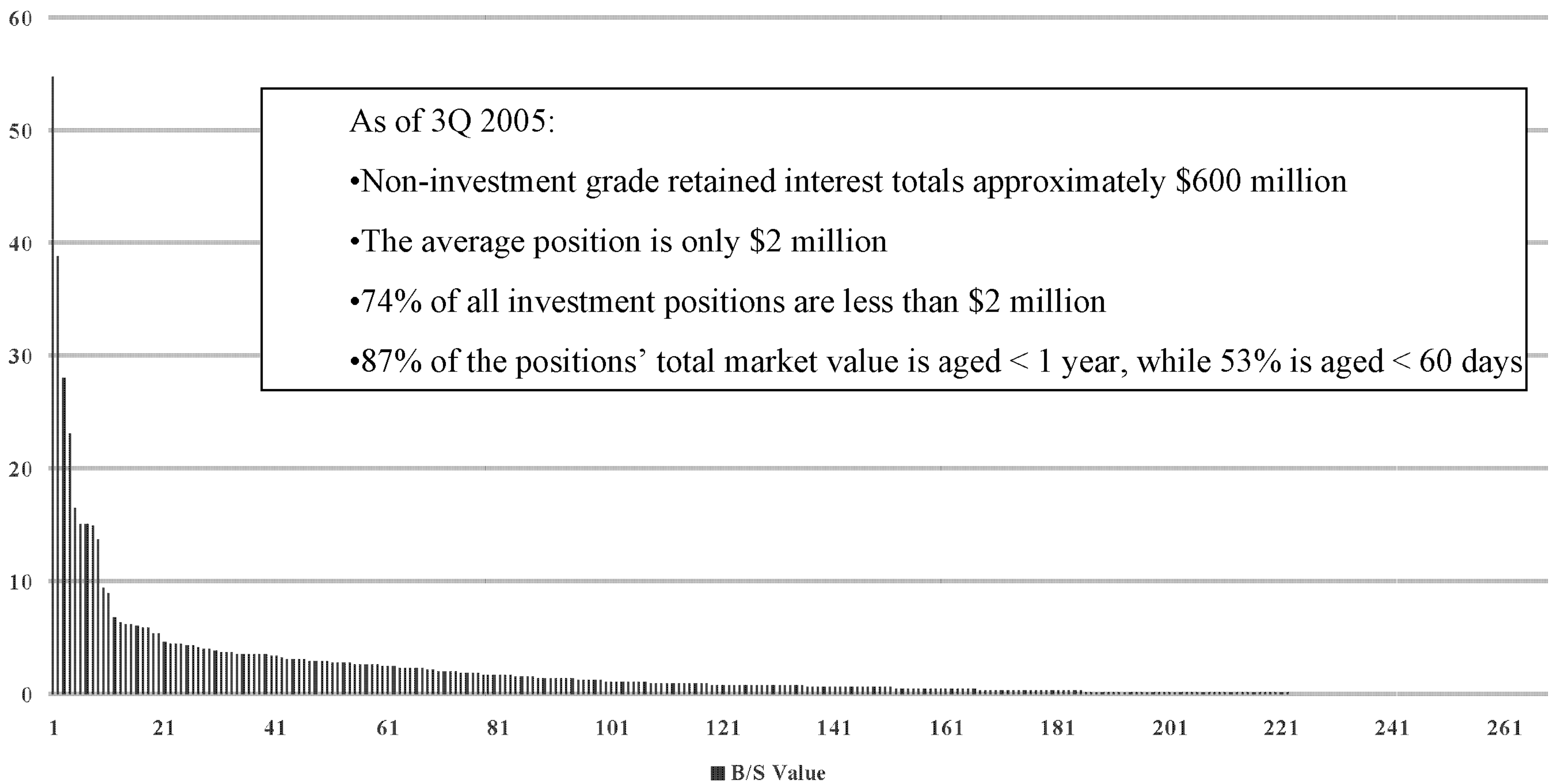
Balance Sheet (as of August 31, 2005)

	Balance	Turnover
Whole Loans	**19.8**	**6.6x**
Prime	7.9	8.1x
Nonprime	11.9	5.9x
Non-Agency Securities	**8.1**	**6.3**
Retained Interests	**0.6**	**2.6x**
Subtotal	28.5	

Composition of Non-Investment Grade Retained Interest

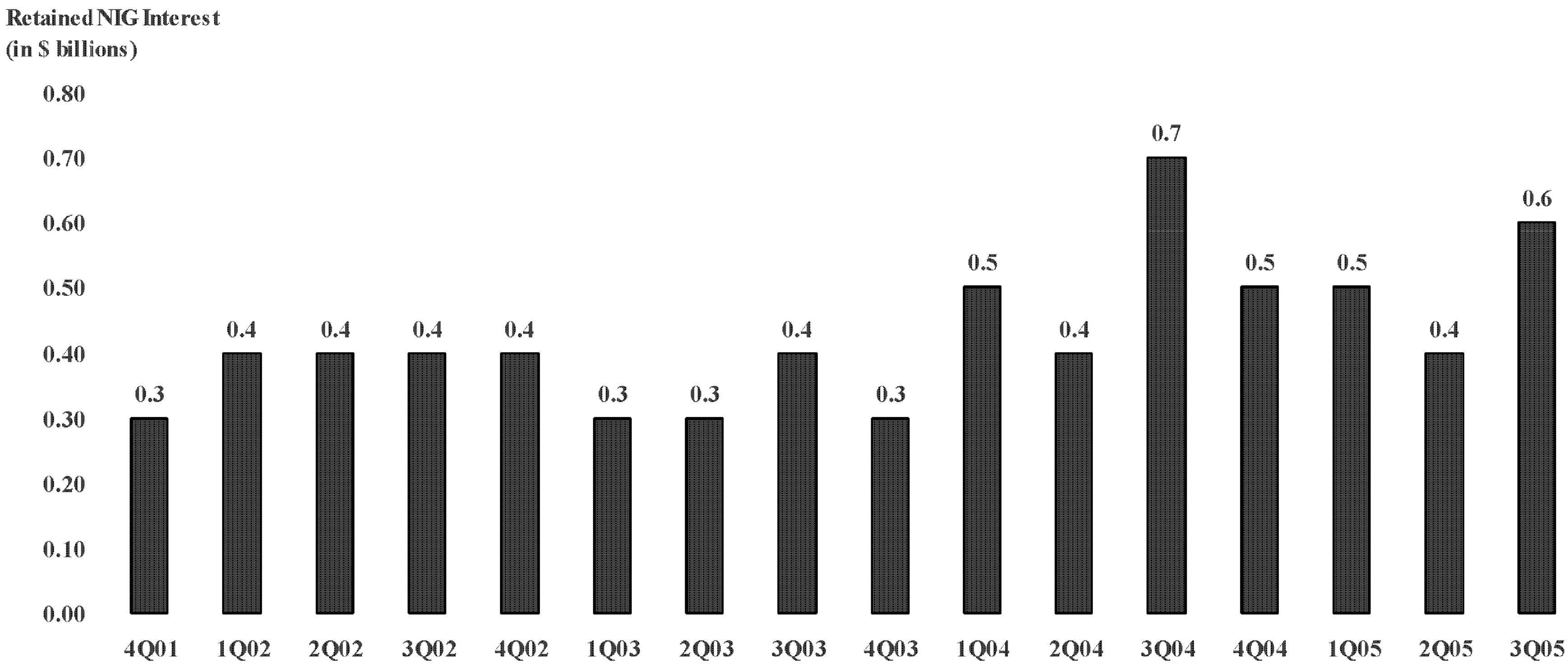
Lehman's retained interest holdings are highly diversified

Retained Interest Portfolio By Position (in $ millions)



Consistently High Levels of Equity to Retained MBS Interest

Retained interests have been maintained at extremely low levels, and relative to Firm total tangible equity has fallen from 4.5% in 2001 to 3.5% in 2005.



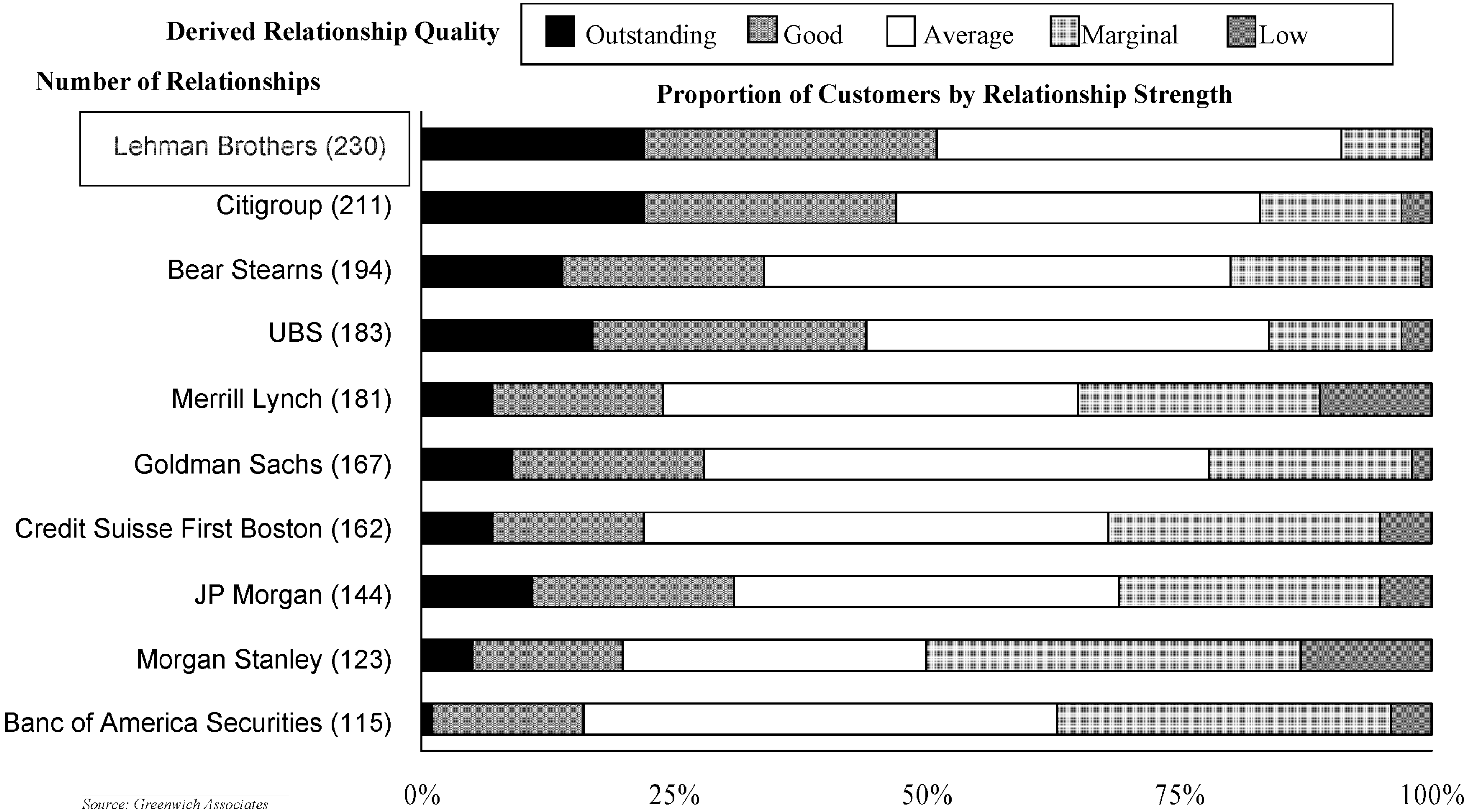
Competitive Advantage: Risk Management

Risks facing the Securitized Products businesses are managed within the overall Lehman Risk Management framework

	Nature of Risk	Mitigation
Market risk	◆ Potential daily mark-to-market loss on all positions ◆ The key drivers for mortgage VaR are: Interest Rates, Yield Curve, IR Volatility, OAS / Credit Spread, Agency/Non-Agency Basis and Mortgage Current Coupon Spread (prepayment risk)	◆ Daily VaR is measured at a 95% confidence level and based on simulated P/L from 4 years of historical data ◆ Both linear and non-linear components are accounted for ◆ Risk limits are set at senior management level ◆ Risk exposure mitigated by short loan warehousing time and by proactive hedging of on balance sheet and pipeline exposure
Event risk	◆ Associated with a so-called "event": such as security downgrades, defaults, and property value losses	◆ Mitigated by strict underwriting criteria, short loan warehousing time, and selling of residuals ◆ Ownership of origination platforms enables Lehman to control suitability both for securitization and for borrowers
Credit risk	◆ Measures the potential loss due to the business' forward settlement, financing and derivative transactions	◆ The majority of Lehman's counterparties are highly rated
Operational risk	◆ Potential litigation risk caused by predatory lending, etc.	◆ Seasoned management teams ◆ Established policies and procedures ◆ Strong internal controls

Competitive Advantage: Strength of Relationships

We have the broadest & highest quality customer relationships with MBS investors…

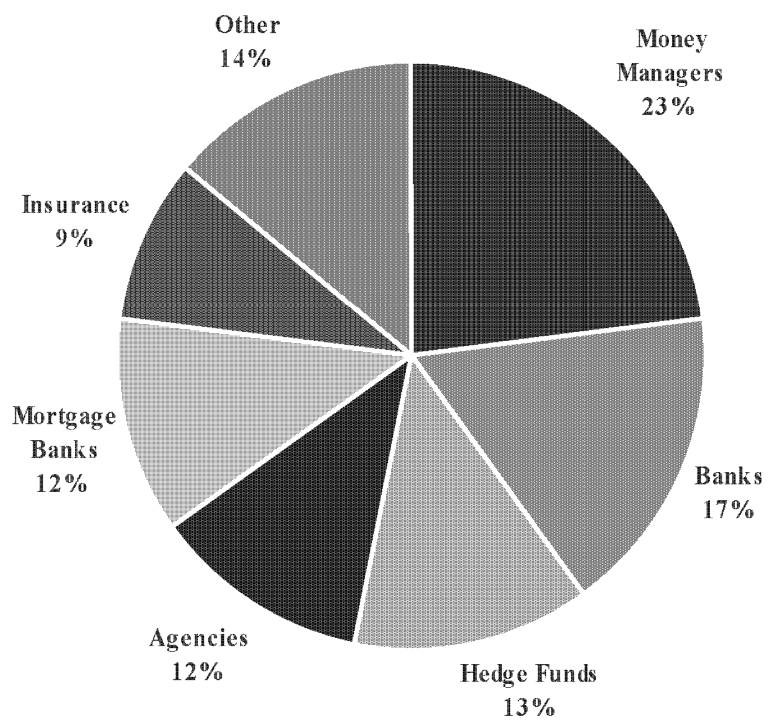


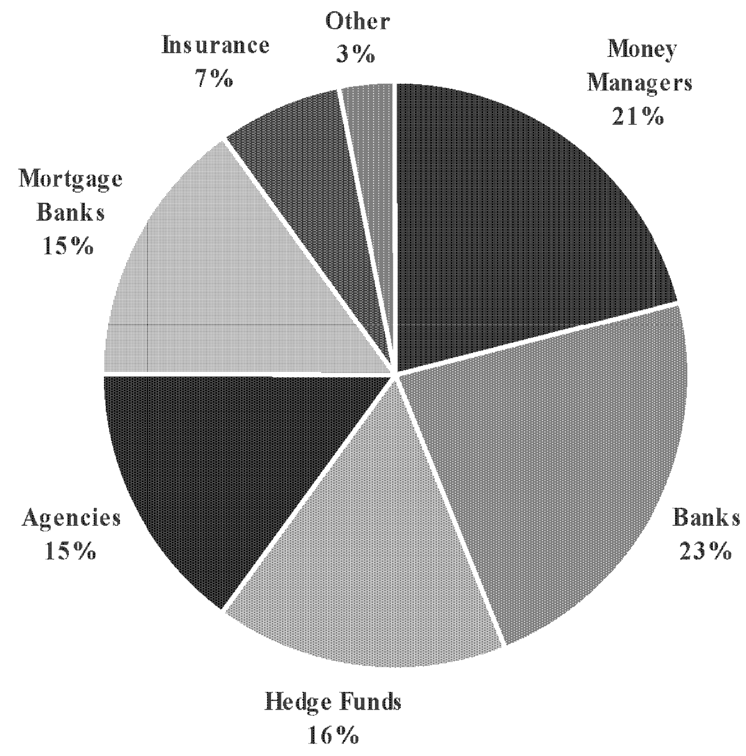
Source: Greenwich Associates

Competitive Advantage: Diversified Investor Base

…and a highly diversified client base (reliance on large hedge funds remains limited)

2004	2005 YTD





Market Leadership - US Securitization

Lehman's securitization business has maintained a leadership position in the US…

U.S. Agency MBS

Rank	Book Runner	1Q2005	2004	2003	2002	2001
1	UBS	14.8	15.4	13.0	15.9	19.0
2	Bear Stearns & Co Inc	10.6	9.6	9.6	10.9	11.7
3	Royal Bank of Scotland Group	10.2	5.3	6.3	6.4	5.6
4	**Lehman Brothers**	**8.6**	**9.4**	**9.4**	**10.1**	**9.7**
5	Citigroup	8.3	9.0	10.6	11.9	12.3
6	Morgan Stanley	7.6	7.9	8.1	4.6	0.0
7	Credit Suisse First Boston	7.3	5.7	7.0	9.7	8.9
8	Banc of America Securities LLC	6.8	8.8	8.2	5.2	4.9
9	Deutsche Bank AG	6.3	6.5	1.8	0	0.0
10	Nomura	5.3	1.7	0.7	0.8	0.1
	Other	14.2	20.7	25.3	24.5	27.8
	Total Market	100.0	100.0	100.0	100.0	100.0
	Total Proceeds ($Bn)	74.4	338.1	564.2	537.8	378.5

U.S. Non-Agency MBS

Rank	Book Runner	1Q2005	2004	2003	2002	2001
1	Bear Stearns & Co Inc	12.5	14.7	13.3	14.6	15.6
2	**Lehman Brothers**	**11.2**	**10.8**	**12.0**	**14.0**	**11.7**
3	UBS	10.8	6.5	8.7	7.9	8.0
4	Banc of America Securities LLC	10.6	9.9	8.3	8.1	8.8
5	Credit Suisse First Boston	9.5	8.5	12.2	14.4	15.4
6	Royal Bank of Scotland Group	9.3	8.2	4.8	8.5	6.4
7	Goldman Sachs & Co	6.7	6.9	8.5	7.1	5.3
8	Countrywide Securities Corp	5.5	6.5	5.6	4.8	4.0
9	Morgan Stanley	5.3	6.0	7.0	4.2	3.7
10	Washington Mutual Inc	4.4	1.8	0.0	0.0	0.0
	Other	14.2	20.2	19.6	16.4	21.1
	Total Market	100.0	100.0	100.0	100.0	100.0
	Total Proceeds ($Bn)	114.2	411.8	351.8	267.9	217.8

U.S. Asset-Backed Securities

Rank	Book Runner	1Q2005	2004	2003	2002	2001
1	**Lehman Brothers**	**10.3**	**8.5**	**8.8**	**7.7**	**10.8**
2	Morgan Stanley	9.6	7.6	8.3	7.7	5.5
3	Bear Stearns & Co Inc	8.6	6.6	5.5	4.2	6.2
4	Credit Suisse First Boston	7.8	8.0	8.7	11.2	13.1
5	Countrywide Securities Corp	7.8	8.6	4.0	4.5	1.6
6	Merrill Lynch & Co Inc	7.8	6.1	4.7	3.6	4.8
7	Deutsche Bank AG	7.7	6.9	8.0	9.1	9.6
8	Citigroup	7.4	9.7	11.2	10.8	14.3
9	Royal Bank of Scotland Group	5.9	7.3	5.3	2.7	3.8
10	Banc of America Securities LLC	4.8	6.2	6.3	8.3	5.8
	Other	22.3	24.5	29.2	30.2	24.5
	Total Market	100.0	100.0	100.0	100.0	100.0
	Total Proceeds ($Bn)	226.5	858.1	581.3	446.6	351.4

Market Leadership - European Securitization

… has demonstrated growth and consistency in Europe…

Securitizations – All European Issuers Bookrunners 2002 – 2004

2002[1]

	Lead Manager	Proceeds (US$ mm)	% Share
1	Deutsche Bank	14,569.10	10.8
2	JP Morgan	11,272.20	8.4
3	Morgan Stanley	10,221.40	7.6
4	Citigroup	10,179.00	7.6
5	ABN AMRO	9,484.10	7.0
6	Barclays Capital	7,676.40	5.7
7	Credit Suisse First Boston	6,912.70	5.1
8	Merrill Lynch & Co	5,117.10	3.8
9	Societe Generale	4,788.80	3.6
10	Lehman Brothers	4,474.40	3.3
	Total Volume	**134,630.00**	

2003[2]

	Lead Manager	Proceeds (US$ mm)	% Share
1	Citigroup	18,805.20	9.4
2	Barclays Capital	17,947.80	9.0
3	Lehman Brothers	15,247.00	7.6
4	CSFB	15,057.20	7.6
5	Deutsche Bank	13,604.10	6.8
6	ABN AMRO	12,857.00	6.5
7	Morgan Stanley	12,576.70	6.3
8	JP Morgan	9,857.60	4.9
9	Merrill Lynch	8,922.80	4.5
10	RBS	8,360.00	4.2
	Total Volume	**199,447.70**	

2004[3]

	Lead Manager	Proceeds (US$ mn)	% Share
1	Citigroup	27,668.50	11.3
2	Barclays Capital	21,548.70	8.8
3	Lehman Brothers	18,468.50	7.5
4	Deutsche Bank	16,411.30	6.7
5	Morgan Stanley	16,277.60	6.6
6	UBS	15,532.90	6.3
7	JP Morgan	15,499.50	6.3
8	Société Générale	14,246.80	5.8
9	RBS	12,888.40	5.3
10	CSFB	12,642.50	5.2
	Total Volume	**245,247.60**	

1) *Securitizations – All Euromarket. Including self-funded issuers. Source: Thomson Financial January 4, 2003*
2) *Including Euro, foreign, global and domestics , excluding CDOs. Source: Thomson Financial January 10, 2004*
3) *Securitizations – All Euromarket. Including Euro, foreign, global issues and domestic. Excluding CDOs. Source: Thomson Financial January 8, 2005*

Market Leadership - US Origination

… and has developed a strong presence in origination in the US

Q2 2005

	Top Residential Originators (Excluding Subprime)	
1	Countrywide Financial Corp.	$120,347
2	Wells Fargo Home Mortgage	$84,783
3	Washington Mutual	$63,546
4	Chase Home Finance	$46,710
5	Bank of America	$40,472
6	CitiMortgage, Inc.	$37,602
7	GMAC Residential Holdings	$23,084
8	ABN Amro Mortgage	$15,426
9	National City Mortgage	$15,389
10	Wachovia	$14,725
11	IndyMac Bancorp, Inc.	$14,199
12	GMAC-RFC	$13,189
13	PHH Mortgage/Cendant	$13,090
14	Golden West Financial Corp./World	$13,083
15	*Aurora Loan Services, Inc. (Lehman)*	*$12,865*
16	GreenPoint Mortgage Funding	$12,422
17	First Horizon Home Loans	$11,484
18	SunTrust Mortgage, Inc.	$11,203
19	American Home Mortgage Investment	$10,781
20	Flagstar Bank, FSB	$6,990
21	First Magnus Financial Corp.	$6,755
22	MortgageIT	$6,400
23	U.S. Bank Home Mortgage	$5,692
24	Impac Funding Corporation	$5,324
25	Branch Banking & Trust Co.	$5,307

	Top Alt-A Originators	
1	*Aurora Loan Services, Inc. (Lehman)*	*$12,685*
2	IndyMac Bancorp, Inc.	$11,053
3	GreenPoint Mortgage Funding	$8,233
4	WMC Mortgage Corp.	$6,429
5	Impac Funding Corporation	$5,320
6	GMAC Residential Holdings	$4,075
7	GMAC-RFC	$3,741
8	Branch Banking & Trust Co.	$3,353
9	Credit Suisse First Boston	$2,916
10	First Horizon Home Loans	$2,763
11	SunTrust Mortgage, Inc.	$2,116
12	HSBC Mortgage Services/Household	$2,010
13	National City Mortgage	$1,436
14	American Home Mortgage Investment	$1,391
15	Opteum/Homestar Mortgage	$1,313
16	American Mortgage Network	$1,266
17	Waterfield Mortgage	$1,134
18	E*Trade	$883
19	Secured Bankers Mortgage Co.	$733
20	NovaStar Mortgage, Inc.	$729
21	Wells Fargo Home Mortgage	$724
22	CTX Mortgage	$681
23	Irwin Mortgage Corp.	$665
24	PHH Mortgage/Cendant	$651
25	HSBC Mortgage Corp. USA	$639

	Top Subprime Originators	
1	Ameriquest Mortgage Corp.	$17,500
2	New Century Financial Corp.	$13,444
3	Countrywide Financial Corp.	$10,436
4	Option One Mortgage Corp.	$10,041
5	Fremont Investment & Loan	$9,244
6	Washington Mutual	$8,753
7	Wells Fargo Home Mortgage	$8,520
8	WMC Mortgage Corp.	$8,151
9	First Franklin Financial	$8,086
	Lehman Brothers	*$7,007*
10	HSBC Mortgage Services/Household	$5,087
11	GMAC-RFC	$4,605
12	CitiFinancial	$4,313
13	*BNC Mortgage, Inc.*	*$4,255*
14	Accredited Home Lenders	$4,139
15	Decision One Mortgage	$3,681
16	Encore Credit Corporation	$3,163
17	*Finance America Corporation*	*$2,752*
18	Aegis Mortgage Corporation	$2,600
19	Chase Home Finance	$2,501
20	NovaStar Mortgage, Inc.	$2,339
21	Ownit Mortgage/Oakmont	$2,082
22	ResMAE Mortgage Corp.	$1,771
23	Fieldstone Mortgage	$1,634
24	Aames Financial Corporation	$1,597

Source: National Mortgage News.

Market Leadership - European Origination

Lehman Brothers is also a major player in the UK non-prime market

2004 Specialist Lenders (Gross Advances)

Rank 03	Rank 04	Lender	Parent Company	2004 $bn
1	1	Birmingham Midshires	HBOS	20.1
2	2	GMAC-RFC	General Motors	12.3
3	3	iGroup	GE Capital	7.2
4	4	SPML/PML	Lehman Brothers	6.0
4	5	Platform Home Loans/Verso	Britannia Building Soc.	4.9
5	6	Kensington		4.3
6	7	Amber Homeloans	Skipton Building Soc.	2.7
7	7	Mortgages plc	Merrill Lynch	0.9
		Total		**73.1**

2004 All Lenders (Gross Advances)

Rank 03	Rank 04	Lender	2004 $bn
1	1	HBOS	128.7
4	2	Lloyds TSB	49.7
3	3	Nationwide BS	51.8
2	4	Abbey National	47.3
6	5	Northern Rock	37.9
5	6	Barclays	33.1
7	7	Royal Bank of Scotland	28.7
8	8	HSBC	18.5
9	9	Alliance & Leicester	16.4
12	10	GMAC-RFC	12.3
10	11	Bradford & Bingley	12.1
13	12	Britannia BS	11.9
11	13	Bristol & West	10.5
15	14	Standard Life Bank	8.7
14	15	igroup	7.2
16	16	Portman BS	6.8
18	17	Lehman Brothers	6.0
17	18	Yorkshire BS	6.1
21	19	Nat. Australia Bank	4.4
20	20	Chelsea BS	4.3
		Total	**551.5**

Source: Annual reports and Lehman Brothers Estimates
Note: Conversion ratio - £1.00 = $1.89

Diversified Revenue Sources

Lehman has developed successful and integrated securitized products businesses encompassing independent product categories and comprising of components across the value chain

Securitized Products Revenue, 2004 ($millions)

	Origination	Securitization	Sales & Trading
Agency Products	$0	$69	$149
Prime/Alt-A	$250	$247	$219
Non-Prime	$510	$351	$242
International	$192	$46	$86
Structured Finance	$0	$100	$158
Small Business Lending & Other*	$40	$14	$26
Total	**$992**	**$826**	**$879**

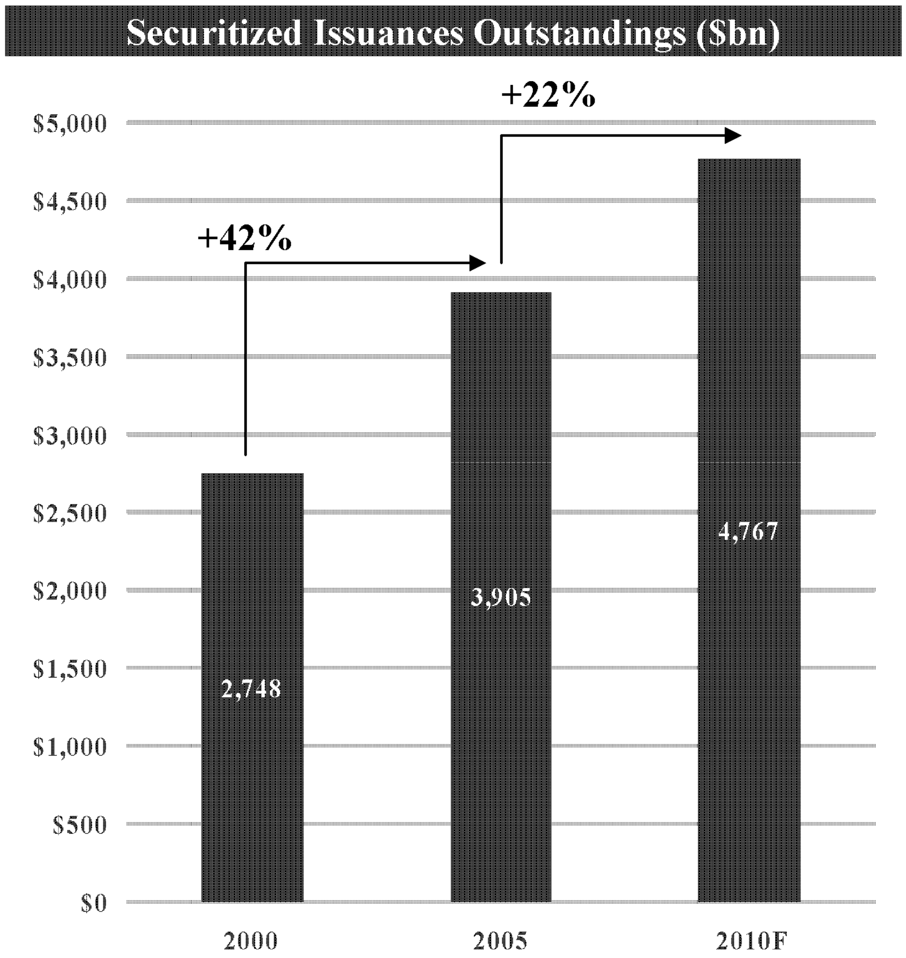
Securitized Products Revenue, 1Q05 to 3Q05 ($millions)

	Origination	Securitization	Sales & Trading
Agency Products	$0	$35	$86
Prime/Alt-A	$251	$135	$108
Non-Prime	$474	$240	$326
International	$187	$26	$78
Structured Finance	$0	$92	$142
Small Business Lending & Other*	$22	$61	$62
Total	**$934**	**$589**	**$800**

** The majority of "Small Business Lending & Other" revenues came from Financial Freedom securitizations in 2004 and Small Business Lending and the Distressed Business in 2005*

Strong Market Growth Opportunities

Securitized products market is expected to continue to grow.



Source: Lehman Brothers US Aggregate Index, securitized products include agencies, ABS, MBS and CMBS

Lehman's Securitized Products Businesses

Securitized Products revenue as a percentage of the Firm's revenues has remained in the range of approximately 20% over the last three years.

Securitized Products as a % of Firm Revenue			
	Origination	**Securitization**	**Sales & Trading**
2003	4%	7%	7%
2004	8%	7%	8%
2005 YTD	9%	5%	7%

Agency Products

Market Trends

- Steady issuance in agency CMOs
- Slower run-offs on bank portfolios due to higher rates
- Strong competition from hybrids
- Increasing demand from overseas buyers

The LB Business

- LB remains one of the top players in the agency CMO sector
- Our strategy is to use collateral with better qualitative features
  - E.g. Low loan balance, Relocation and State specific pools

Primary Market Risk

- Decline in overseas demand for mortgages
- Shifting bank demand to ARMs
- Tighter mortgage spreads

Key Risks

- Prepayment and interest rate risk
- CMO specific spread risk

Tracking Exposure

- RAMP (Risk Capture and Reporting System) captures risks from duration, convexity, spreads, prepayments and implied volatility changes
- State-of-the-art Lehman models for risk capture

Managing Risk

- Hedging strategy: aggregate interest-rate, spread, convexity and prepayment exposure and hedge them separately
- Hedging mix has short TBA FN/FH positions, euro-dollar futures, IO/PO strips and interest-rate options

Prime Mortgages

Market Trends

- Prime represents a decreasing share of the market, but share of Alt-A originations still high
- Increased issuance in ARMs and hybrid ARMs
- Greater leverage in prime products
- Strong ARM performance in recent months

The LB Business

- Increasing share of Alt-A /ARM originations in recent years
- Most of our production comes from Aurora Loan Services
- Loans securitized as agency pools / non-agencies or sold as whole loans

Primary Market Risk

- A slower housing market
- Risk from rising rates
- Credit risk from levered borrowers at reset
- Limited risk from waning GSE demand

Key Risks

- Pipeline and closed inventory risk
- Risk on secondary positions
- Servicing and IO exposure
- Credit exposure

Tracking Exposure

- RAMP is a one stop shop
- Capturing risks on pipelines as well as secondary positions from rates, spreads and volatility
- Integrated systems with Aurora infrastructure

Managing Risk

- Devise the 'optimal' mix of hedges for hybrid ARMs
- Use 15-/30-yr TBAs, Euro-dollar futures and Swaps to hedge duration risk
- Use short TBA positions to manage convexity exposure
- Recognize the 'idiosyncratic' risk in hybrids vs. fixed rates and non-agencies vs. agencies

Non-Prime Mortgages

Market Trends

- A strong year for non-prime, with industry volumes significantly higher than last year
- Increasing share of non-prime borrowers as a percentage of the total market
- Decreasing profit margins in the non-prime market

The LB Business

- Increased securitization volumes
- Largest street issuer
- Heavy use of mortgage insurance (MI)
- 40% of collateral comes from BNC and Finance America

Primary Market Risk

- Rising interest rates
- A slower housing market
- Weaker GSE demand

Key Risks

- Spread risk on pipelines
- Secondary and retained position exposure
- Long credit, MI rescission, breaches to reps and warrants

Tracking Exposure

- RAMP monitors our pipeline, secondary positions, and interest rate & spread exposure

Managing Risk

- Credit risk of loans
  - Loan due-diligence by the mortgage risk mgt group, property valuation, credit & compliance
- Interest rate exposure
  - Duration/convexity exposure hedged using swaps, caps and Eurodollar futures
- Spread exposure
  - Forward sales of securities; Limit gestation period to less than 3 months

Structured Finance

Market Trends

- Single-digit growth in traditional ABS (autos, credit cards etc.)
- Surge in Asset-Backed Commercial Paper Conduit market
- Growth in non-traditional applications (whole co. securitizations, insurance etc.)
- Growth in international NPL opportunities
- Surge of Private Equity capital

The LB Business

- #1 Global ABCP dealer (15.5% market share)
- #5 US ABS new issue with 7.1% share (excluding HEL and self-funding)
- Leader in Asia and Europe NPL transactions

Primary Market Risk

- Geopolitical, currency and macro economy
- Consumer debt burden
- Slowdown in consumer spending

Key Risks

- Deterioration in credit and collateral quality
- Competitive intensity / excess liquidity
- NPL asset resolution risks

Tracking Exposure

- Whole loan tracking in-house loan by loan monitoring system
- Asset and credit monitored monthly by both business group and internal credit department
- Asset valuations reaffirmed by trading desks and research models

Managing Risk

- Diligence process including corporate, financial, operational and legal reviews
- Hedging of interest rate risk
- Strong internal oversight procedures
- Processes to address and remedy credit occurrences

International

Market Trends	◆ The overall market in the UK is expected to decline y-o-y for the next few years, but the non-conforming market is expected to grow at 4-6% for the foreseeable future ◆ Netherlands is the second largest mortgage market in Europe
The LB Business	◆ Our European platforms contributed 15% of origination revenues in 2004 and are forecasted to contribute 18% in 2005 ◆ This contribution is expected to grow as consumer demand for these products continues to expand and the European securitization market continues to mature. ◆ ELQ, Lehman's Dutch entity, is in start-up mode and not contributing to P&L at this time
Primary Market Risk	◆ Unemployment, rising interest rates, more levered borrowers, slower housing market
Key Risks	◆ Spread risk on exit ◆ Secondary and retained position exposure ◆ Breaches to reps and warrants
Tracking Exposure	◆ Various systems to monitor our pipeline, secondary positions, interest rate & spread exposure ◆ RAMP being introduced
Managing Risk	◆ Credit risk - external audit of loans by Eurorisk, property valuation, credit & compliance ◆ Interest rate exposure - duration exposure hedged using swaps, caps, and futures ◆ Spread exposure - forward sales of securities, spread locks ◆ Multiple exits maintained

Origination Platforms

Business Overview

Our origination platforms span diverse geographies, products, and channels

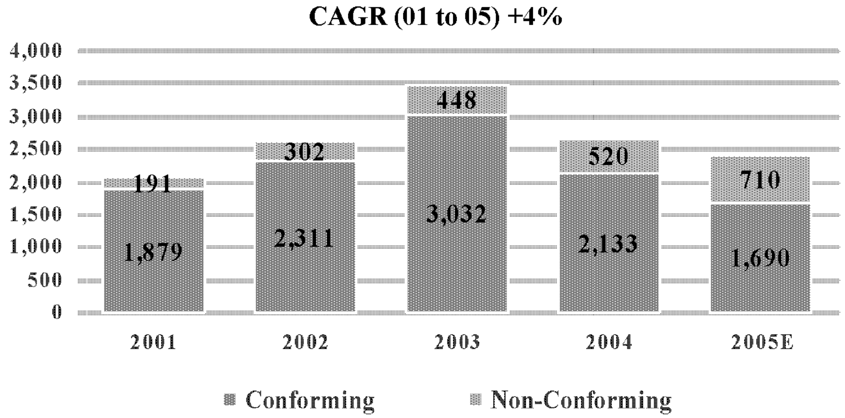
	US				UK		Netherlands	
	AURORA LOAN SERVICES	bncmortgage.inc	A FINANCE AMERICA	**Lehman Brothers Small Business Finance**	SPML	Preferred	**ELQ**	**Total**
Product Originations	Primarily Alt-A	Non-prime	Non-prime	Small Balance Commercial Loans	Non-prime	Non-prime	Non-conforming	
Servicing	Yes	No	No	Yes	Yes	Yes	Yes	
Master Servicing	Yes	No	No	No	No	No	No	
Channels[1] (2004)	Conduit: 65% Wholesale: 33% Retail: 2%	Conduit: 4% Wholesale: 96%	Conduit: 10% Wholesale: 90%	Retail: 86% Wholesale: 14%	Packager: 100%	Packager: 68% Independent Broker: 32%	Independent Broker: 100%	**Conduit: 53%** **Wholesale: 44%** **Retail: 3%**
Product Mix[1] (2004)	Alt-A: 93% Non-prime: 2% Conv/Govt/Other: 5%	Non-prime: 100%	Alt-A: 4% Non-prime: 96%	SBA: 12% Conventional: 88%	Niche Prime: 34% Non-prime: 66%	Niche Prime: 12% Non-prime: 88%	Non-conform.: 94% Prime: 6% *(2005 Projected)*	**Alt-A: 63%** **Non-prime: 34%** **Conv/Govt/Other: 3%**
Origination Rankings[2]	#1 Alt-A Originator #16 Servicer	#13 Non-prime Originator	#17 Non-prime Originator	#78 SBA Lender	#4 U.K. Non-standard and Non-prime Lending		1st Dutch Non-standard Lender	**#1 Alt-A US Originator** **#10 Non-prime Originator** **#4 U.K. N/C Originator**
No. of Locations	15	44	8	18	2	2	1	**92**
2004 Volume ($bn)	$44.2	$10.7	$7.8	n/a	$4.3	$1.7	$0.0	**$68.7**
2005(E) Volume ($bn)	$52.9	$16.0	$9.2	$0.6	$4.5	$2.4	$0.1	**$85.6**

1. *Total 2004 Channels and Product Mix exclude Lehman Brothers Small Business Finance.*
2. *U.S. rankings as of 4Q 2004; U.K. rankings as of entire 2004.*

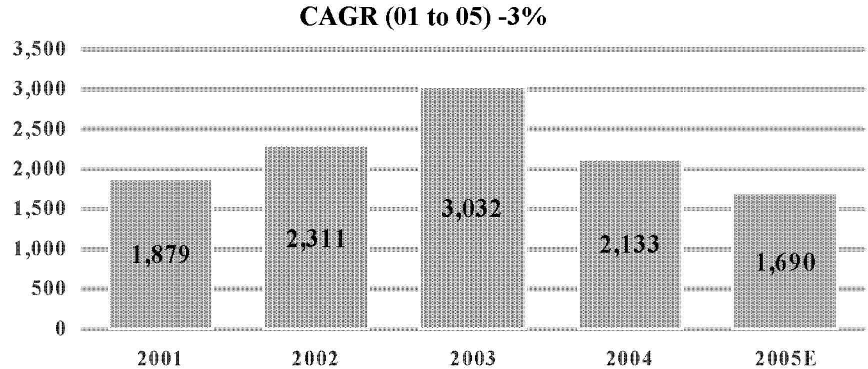
Lehman Growth Compared to the Market

Lehman has outperformed all segments of the market in the US

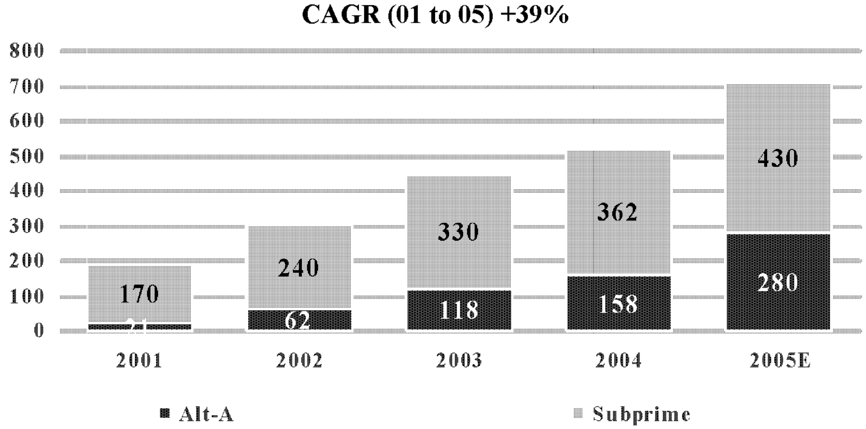
US Total ($bn)



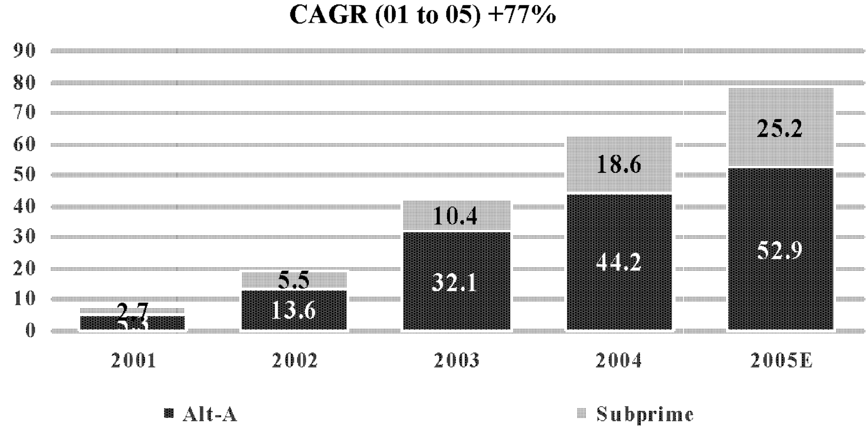
US Conforming ($bn)



US Non-Conforming ($bn)



Lehman's US Non-Conforming ($bn)



Source: Lehman Mortgage Research, MBA, National Mortgage News

Competitive Advantage: Product Mix

Focus on higher margin and less rate sensitive products

- Lehman focuses on higher margin Alt-A and non-prime collateral while the industry is dominated by lower margin prime product
  - Alt-A and non-prime origination is more resilient to rates than conventional products
  - Conventional loans are mainly for new home purchases and rate driven re-financings
- Lehman's origination business is less rate sensitive given its focus on purchase and cash-out refi loans
- Lehman does not offer a negative amortization product

Origination by Product ($bn)

	2002 Full YR Actuals	2003 Full YR Actuals	2004 Full YR Actuals	2005 YTD Aug	2005 Full YR Forecast
Alt-A	13.6	32.1	44.2	40.7	52.9
Non-Prime	5.5	10.4	18.5	19.4	25.2
Small Business	-	-	-	0.4	0.6
International	1.6	3.1	6.0	5.0	6.9
Total	**20.7**	**45.6**	**68.7**	**65.5**	**85.6**

Origination by Loan Purpose ($bn)

	2002 Full YR Actuals	2003 Full YR Actuals	2004 Full YR Actuals	2005 YTD Aug	2005 Full YR Forecast
Purchase	38%	35%	46%	56%	57%
Refinance - Cash Out	40%	39%	39%	36%	35%
Refinance - Interest Rate	21%	26%	15%	9%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Competitive Advantage: Credit Profile

Lehman has grown its origination business without relaxing underwriting standards

- Conservative underwriting criteria with comprehensive risk infrastructure
- Over the cycle, Lehman has managed to grow its origination business without relaxing its credit standards
  - FICO scores have been stable
  - LTVs have been declining

US Origination by FICO

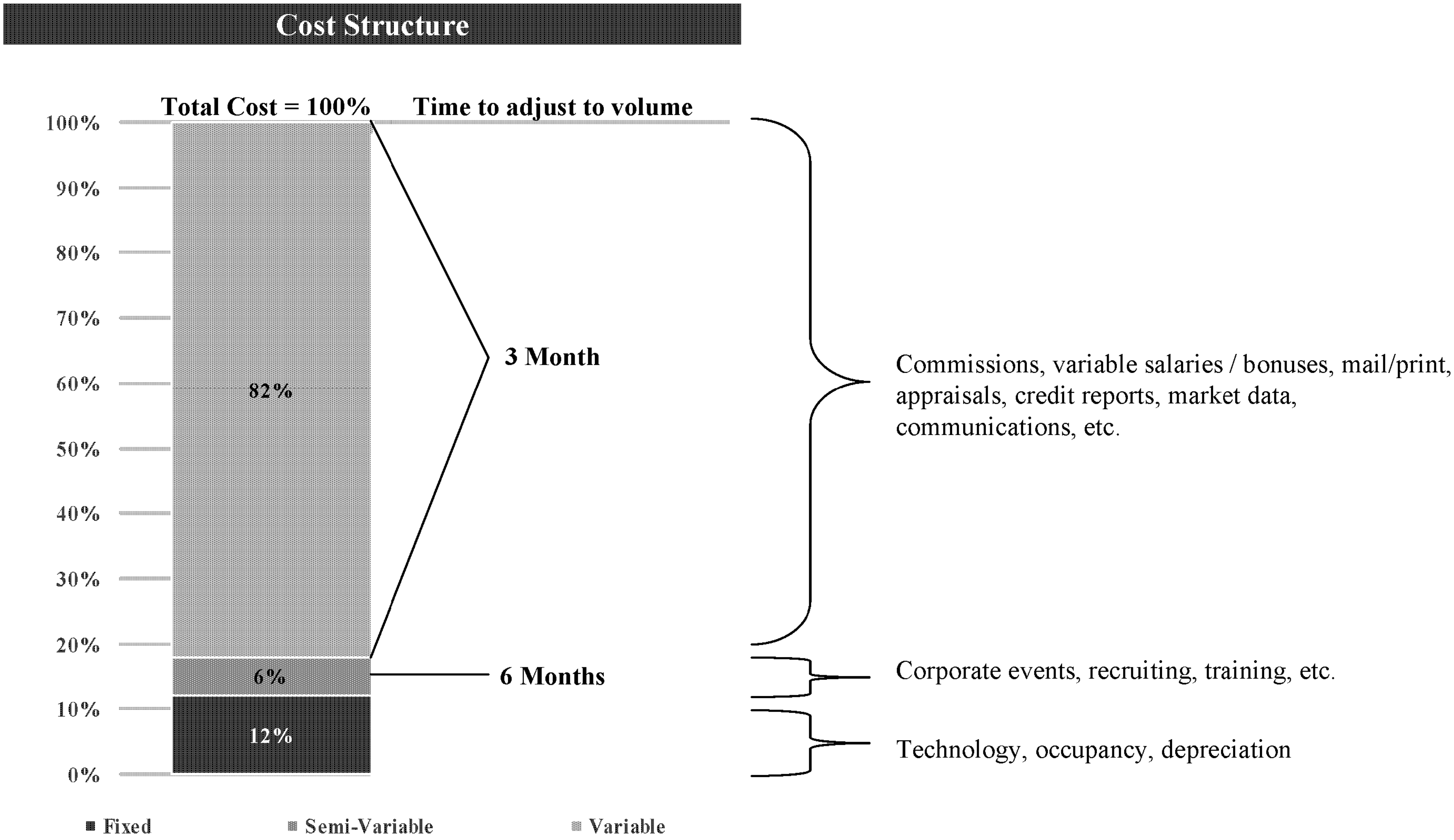
	2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Alt-A							
Aurora	721	724	724	722	722	724	727
Sub-prime							
BNC Mortgage	619	623	624	618	623	635	633
Finance America	635	633	636	632	633	631	627
Small Business							
SBF	-	-	-	-	711	716	720

US Origination by LTV

	2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Alt-A							
Aurora	70%	69%	72%	71%	70%	69%	69%
Sub-prime							
BNC Mortgage	81%	82%	81%	80%	78%	78%	78%
Finance America	83%	81%	80%	80%	79%	79%	78%
Small Business							
SBF	-	-	-	-	73%	75%	75%

Competitive Advantage: Flexible Cost Structure

The cost structure of the origination business is highly variable



Key Risks and Mitigants

Lehman Brothers is addressing certain risks and changes in market dynamics

Key Risk	Description	Mitigant
Slowing Growth	◆ Market growth is likely to slow in the future driven by interest rate cycles, record high indebtedness, and slow down in house price appreciation. Growth is projected to be 4-6% through 2007 in the UK and 6% in the U.S. through 2006	◆ Focus on growing market share and improving operational efficiency ◆ Moving towards less rate-sensitive products ◆ Ability to scale down cost rapidly
Tightening Margins	◆ Margins have tightened in non-prime in the U.S.	◆ Operational re-engineering to respond to tighter margins
Operational Risk	◆ The business continues to face certain operational risks: – Cost control (increasingly important) – Risk of fraud	◆ Development of a consolidated shared service platform to ensure the standardization of risk mitigation and quality control processes
Liquidity Risk	◆ Ability to fund during market disruptions	◆ Reliable and flexible financing through Lehman Brothers Bank FSB
Credit Risk	◆ Historically high debt burdens and significant expansion in "affordable" products increasing credit risk	◆ Continuing to focus and invest in credit related infrastructure (e.g. building out specialty servicing, improving collections) ◆ Stringent underwriting standards
Reputational Risk	◆ Suitability issues around more leveraged products	◆ Completing an in-depth analysis of all suitability issues

Efficiency and Risk Management Initiatives

We are currently engaged in several initiatives to ensure continued strong performance

Cost Reduction	**Ongoing Integration**	◆ Continue to develop optimal business model to rationalize costs and maximize operating efficiencies across entities and operations
	Shared services development	◆ Create a shared service platform to maximize synergies across the subs and improve/standardize risk control processes
	Process Re-engineering	◆ Re-engineering origination processes through the deployment of best practices to improve efficiency and effectiveness (e.g., centralization/offshoring)
	Technology investment	◆ Deployment of key technologies (i.e. Automated Underwriting, Loan processing, Imaging/paperless work flow)
	Indian offshoring	◆ Begin shifting a portion of operations offshore to take advantage of labor arbitrage
Credit Risk Management	**Continued Development of Credit infrastructure**	◆ Improve analytics/ surveillance tools; expand risk transfer distribution; and develop/improve special servicing capability

Future Growth

International Expansion

Future Growth

International expansion is projected to contribute over $150 million in revenue by 2008

Netherlands	◆ Estimated to be the second-largest non-prime market in Europe ◆ Expect nearly $50 million in revenue by 2008 ◆ Lehman Brothers has first mover advantage
Japan	◆ $227 billion in residential mortgage origination in 2004 ◆ Untapped non-prime opportunity ◆ Leverages Lehman's strength in Japan RMBS issuance ◆ $50-$75 million revenue opportunity by 2008
Korea	◆ $45 billion in residential mortgage origination in 2004 ◆ Opportunity to develop a non-conforming lending market ◆ Leverages Lehman expertise in Korean real estate and structured finance ◆ $60-$80 million revenue opportunity by 2008
Other Opportunities	◆ Spain, Australia, Italy, Canada and Ireland ◆ $621billion in residential mortgage origination in 2004 ◆ Fast growing mortgage markets undergoing disintermediation

Product Expansion

Product expansion will contribute approximately $100 million in revenue by 2008

Small Business Lending	◆ Lehman Brothers Small Business Finance (Dec. '04) ◆ Small balance commercial lending and servicing ◆ High margin niche with product / market growth potential ◆ Leverages Lehman's strengths in operating residential platforms
Private Student Loans	◆ $10.6 billion in private student loans originated in 2004 ◆ Originations expected to grow 16% annually to 2010 ◆ Attractive securitization economics ◆ Opportunity to transform the segment
Life Insurance Embedded Value	◆ Significant new application of securitization technology ◆ Capital relief (XXX) and release of Embedded Value ◆ Outperforms in higher interest rate environments ◆ Leverages Lehman's leading capabilities in the sector

Scenario Analysis

Defining the Scenarios

Base-case and Stress Scenarios for Originations & Securitizations

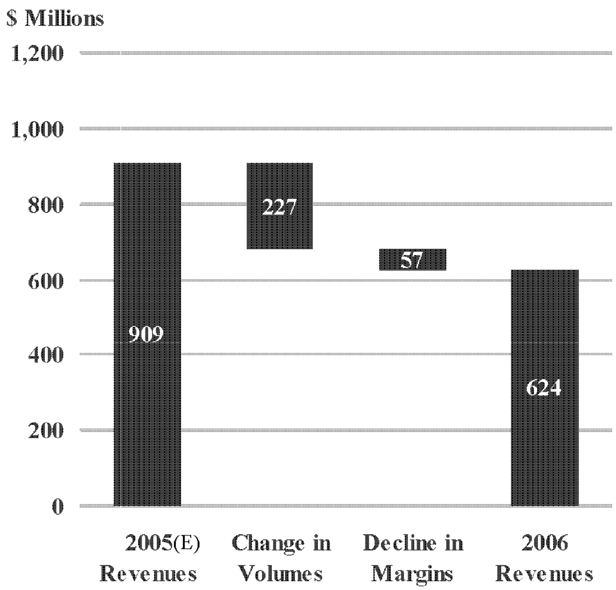
	2004	2005	Scenarios for 2006 Base-case	Scenarios for 2006 6% on 10s	Scenarios for 2006 HPA	S&P HPA
10-yr yields	4.26	4.20	4.25	6.00	4.25	4.25
HPA (annualized)	11%	12%	5%	5%	-10%	-10%
Home-sales (mn)	7.8	8.1	7.4	7.4	5.0	6.9
Market Originations $bn	**2,653**	**2,400**	**2,350**	**1,255**	**1,550**	**NA**

- Lehman frequently runs several scenarios to better understand, anticipate, and manage market risk
- The above represents scenarios that we run in the normal course of business
- Lehman's house price appreciation scenario assumes a more significant downturn in unit sales than does the S&P model

Housing Price Depreciation Stress Test

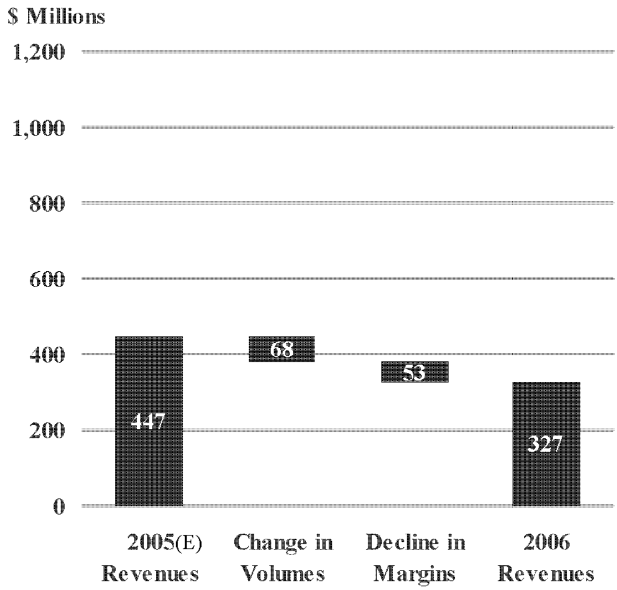
Originations

Revenue impact	($285)
Net earnings impact	($72)



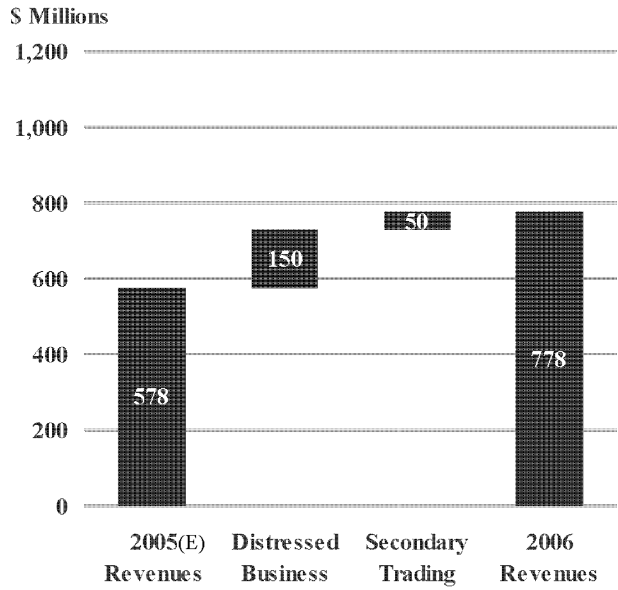
Securitizations

Revenue impact	($120)
Net earnings impact	($29)



Sales and Trading

Revenue impact	$200
Net earnings impact	$49

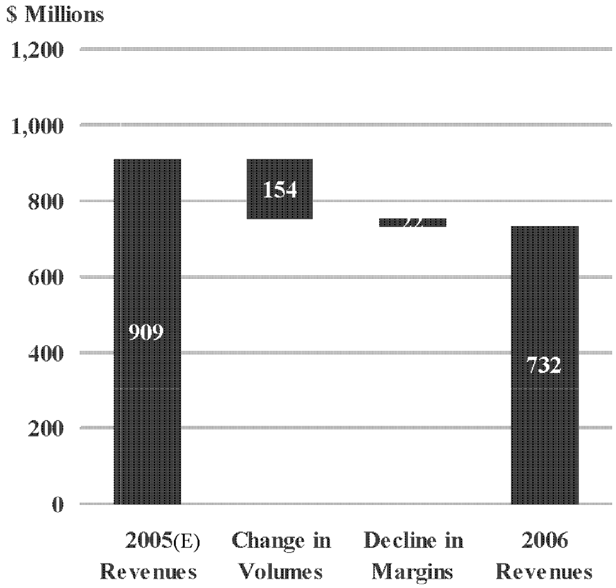


- ♦ Net revenues from origination and securitization drop by $400mn
- ♦ This is partially offset by a $200mn increase in secondary trading and distressed business revenues
- ♦ The net earnings decrease is $52mn (about 2% of past 12 months Firm results)

Rates Increase Stress Test

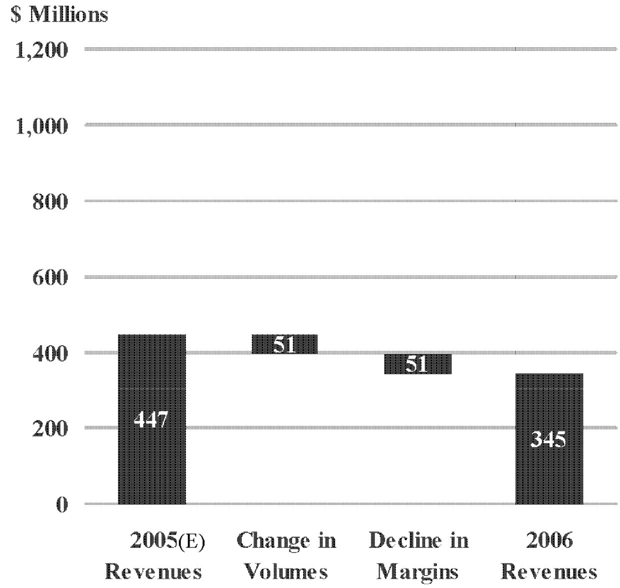
Originations

Revenue impact	($177)
Net earnings impact	($37)



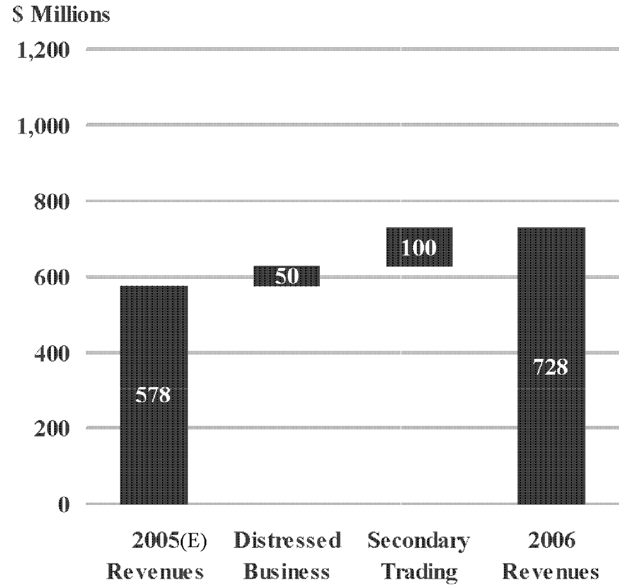
Securitizations

Revenue impact	($102)
Net earnings impact	($25)



Sales and Trading

Revenue impact	$150
Net earnings impact	$37



- Origination and Securitization net revenues drop by $280mn
- This is partially offset by a $150mn increase in secondary trading and distressed business revenues
- The net earnings decrease is $25mn (about 1% of past 12 months Firm results)

Projections: Key Assumptions and Rationale

Assumption	Rationale
Market Originations	
♦ Alt-A and sub-prime originations are less rate sensitive than prime loans	♦ Rate/term refinancings, the rate sensitive component of originations, are a small part of non-prime pools.
♦ Non-prime originations drop by about 40% in the S&P housing market scenario	♦ Cash-outs and purchase loans are HPA sensitive, but expect some prime borrowers to take out alt-A/sub-prime loans in a slower HPA market.
Lehman's Volumes	
♦ Lehman's share of alt-A originations could increase from 19 to 24% in the stress scenarios	♦ Our share of alt-A originations in '04 was about 28%. We have chosen not to offer negative-amortization ARMs and hence lost share in '05. In a stress scenario, we expect volume in this product to drop the most.
♦ Our share of securitizations can increase when volumes decline	♦ As originations decline, we can use our balance sheet for more purchase related securitizations.
Margins	
♦ Margin shrinkage should be limited as volumes decline.	♦ 80% of our costs are variable. Over a 6 month horizon, 90% of our costs are variable.
Offsets from Other Sources	
♦ Earnings from distressed entities should increase in the HPA scenario	♦ Foreclosures and delinquencies are projected to double in the S&P housing market scenario

Estimating LB's Origination & Securitization Volumes

Market and LB Origination Volumes $bn

	2004	2005	Projections for 2006: Base-case	Projections for 2006: 6% on 10s	Projections for 2006: HPA	% Change from 2005: Base-case	% Change from 2005: 6% on 10s	% Change from 2005: HPA	Rationale
Originations in the Entire Market ($bn)									
Prime	2,133	1,690	1,650	743	1,107	-2%	-56%	-34%	Alt-A/sub-prime originations are less rate-sensitive. In a slower HPA market, some prime borrowers need non-prime loans.
Alt-A	158	280	275	180	175	-2%	-36%	-38%	
Sub-prime	362	430	425	332	268	-1%	-23%	-38%	
Total	**2,653**	**2,400**	**2,350**	**1,255**	**1,550**	**-2%**	**-48%**	**-35%**	
LB's share of originations and securitizations (% of total originations in a sector)									
Alt-A									
Originations	28.5%	18.9%	20.0%	24.4%	23.4%	1.1%	5.5%	4.5%	We currently do not offer Neg-am loans. This product should die out in a HPA/rate stress scenario
Securitizations	29.1%	22.1%	22.5%	28.9%	29.1%	0.4%	6.7%	7.0%	
Sub-prime									
Originations	5.4%	5.8%	6.1%	6.4%	6.4%	0.3%	0.6%	0.6%	We can use our balance sheet for more securitization volume
Securitizations	9.8%	10.2%	10.6%	12.7%	14.6%	0.4%	2.4%	4.3%	
LB Originations and Securitizations ($bn)									
Alt-A									
Originations	45	53	55	44	41	4%	-17%	-23%	Origination volumes drop by 27% while securitization volumes drop only 15% in the S&P HPA scenario
Securitizations	46	62	62	52	51	0%	-16%	-18%	
Sub-prime									
Originations	19	25	26	21	17	4%	-15%	-31%	
Securitizations	35	44	45	42	39	2%	-5%	-11%	

1. *The base-case assumes 5% HPA and 4.25% on 10s.*
2. *The HPA scenario assumes 20% depreciation by 2008, with rates unchanged.*
3. *The '6.0% on 10s' scenario assumes HPA at 5% and 10-yr yields at 6%*

The Impact on Origination Revenues

Revenues from Originations

	2004	2005	Projections for 2006: Base-case	Projections for 2006: 6% on 10s	Projections for 2006: HPA	% Change from 2005: Base-case	% Change from 2005: 6% on 10s	% Change from 2005: HPA	Rationale
LB Origination Volumes $bn									
Alt-A	45	53	55	44	41	4%	-17%	-23%	Our volumes in alt-A should drop less than the market as neg-am products vanish
Sub-prime	19	25	26	21	17	4%	-15%	-31%	
Gross Margin (%)									
Alt-A	0.56%	0.63%	0.60%	0.60%	0.60%	-5%	-5%	-5%	Margins in the alt-A / sub-prime markets have stabilized
Sub-prime	2.63%	2.30%	2.20%	2.20%	2.20%	-4%	-4%	-4%	
Origination Revenues $mn									
Alt-A	250	335	330	264	246	-1%	-21%	-27%	**A 20-30% drop in origination revenues**
Sub-prime	510	574	573	468	378	0%	-18%	-34%	
Total	**760**	**909**	**903**	**732**	**624**	**-1%**	**-19%**	**-31%**	

1. *There is an overlap between our securitizations and originations. In 2005, about $47bn of our alt-A originations and $20bn of our non-prime originations went into our securitizations. Other captive originations were sold as whole-loans. The residual volume of securitizations came through loans purchase from other originators.*

The Impact on Securitization Revenues

Revenues from Securitizations

	2004	2005	Projections for 2006 Base-case	6% on 10s	HPA	% Change from 2005 Base -case	6% on 10s	HPA	Rationale
LB Securitization Volumes $bn									
Alt-A	46	62	62	52	51	0%	-16%	-18%	We can use our balance sheet for more securitizations
Sub-prime	35	44	45	42	39	2%	-5%	-11%	
Gross Margin (%)									
Alt-A	0.54%	0.26%	0.22%	0.22%	0.22%	-15%	-15%	-15%	We have assumed greater shrinkage in securitization margins
Sub-prime	0.99%	0.65%	0.55%	0.55%	0.55%	-15%	-15%	-15%	
Securitization Revenues $mn									
Alt-A	247	161	136	114	112	-15%	-29%	-30%	**A 25% drop in securitization revenues**
Sub-prime	351	286	248	231	215	-13%	-19%	-25%	
Total	**599**	**447**	**384**	**345**	**327**	**-14%**	**-23%**	**-27%**	

1. *There is an overlap between our securitizations and originations. In 2005, about $47bn of our alt-A originations and $20bn of our non-prime originations went into our securitizations. Other captive originations were sold as whole-loans. The residual volume of securitizations came through loans purchase from other originators.*

The Offsets from Sales & Trading

- **Secondary Trading**
  - New issue has dominated the past few years due to high origination /securitization volumes
  - When origination volumes drop off, activity in secondary bonds should pick up, as it has historically
  - We will also be able to commit more balance sheet /resources to secondary trading activity

- **Distressed Business**
  - Revenues from trading in non-performing, re-performing loans
  - The volume of such loans should increase in a housing market event

- **Other Opportunities**
  - In environments like the late 90s, we have found opportunities in heavily under-priced assets.
  - Aurora, Finance America, PML and manufactured housing are examples of where Lehman has profited in distress situations

Lehman Has Capitalized on Sales & Trading Opportunities

In the past, distressed market conditions have created opportunities to acquire operating platforms at book value or less, and will continue to do so in the future

	Description
AURORA LOAN SERVICES A Lehman Brothers Company bncmortgage.inc FINANCE AMERICA	◆ Lehman opportunistically acquired a significant equity stake with a minimal capital investment in its US operating subsidiaries . ◆ Aurora, BNC Mortgage, and Finance America were acquired during periods of distressed market conditions.
SPML southern pacific mortgage ltd	◆ While in distress, Lehman provided a warehouse line and working capital facility in December 1999 ◆ As a condition of the initial funding, the capital was secured by warrants equal to 70% of SPML ◆ Acquired an additional 15% in equity from SPML's bankrupt parent and obtained the remaining 15% through the purchase of outstanding shares in September 2002
Manufactured Housing	◆ Lehman has profited during the peaks and troughs of the manufactured housing business cycle by rapidly reallocating resources as market conditions changed – Managed credit risk through superior research and modeling capabilities – Distressed trading capabilties

The Bottom-line Impact

The net earnings impact in these scenarios range from ~$25-$50 million (1-2% of the Firm's net earnings over the past 12 months)

	Origination	Securitization	Sales &Trading	Total
'05 Estimated Revenues	909	447	578	1,934
Impact of the HPA Scenario (1)				
Revenues	(285)	(120)	200	(205)
Earnings	(72)	(29)	49	(52)
Impact of the Rate Scenario (2)				
Revenues	(177)	(102)	150	(129)
Earnings	(37)	(25)	37	(25)

Lehman expects our International franchise and our small business franchise to increase earnings by approx. $100mn, further muting the impact of the above scenarios

1. *The HPA scenario assumes a 20% drop in home-prices by 2008 with rates unchanged*
2. *The Rate scenario assumes a 6% yield on 10s and home-price appreciation at 5% annualized.*
3. *The earnings estimates for securitization and sales/trading do not encompass LB's allocated cost.*

Summary

Summary

Lehman has developed highly effective origination, securitization, and sales & trading businesses which are well diversified, have tight risk management, and a flexible cost base. Securitized products are an increasingly significant part of the capital markets and we believe there is opportunities to profitably capture additional share of this business.

- **Growth has been significant across a wide number of products and we are a market leader in many segments of the market.**
  - Market leadership position in all aspects of our business (sales, trading, research, finance, and origination)
  - Strong diversification across asset classes, geographies, channels, and client base, with a track record of continuously finding additional outlets for our products
- **Our success is based on a disciplined business model:**
  - "Moving" rather than "storage", meaning minimal risk retained
  - Vertical integration to accelerate speed to market and responsiveness
  - Commitment to research (Lehman is recognized as the #1 fixed income research franchise)
  - Commitment to product innovation
  - Focus on less commoditized, less interest rate sensitive, higher margin products
- **Strong controls and investments made to support growth**
  - Experienced management team and strong governance
  - Strict quality standards in origination and sourcing
  - Short warehousing time, proactive hedging of the balance sheet and pipeline exposure
- **These businesses are resilient and can withstand potential economic downturn without an adverse impact to the Firm as a whole**
  - Diversified platform, allowing to target different markets and geographies and limiting exposure to any single market
  - Capacity to increase market share – ability to mitigate market decline in an adverse economic scenario
  - Flexible cost base that can be rapidly adjusted to operating volume – minimizing profit impact of potential volume contraction
  - Several initiatives have been launched to further decrease cost, improve controls/risk management, and further diversify the business