

**From:** Tonucci, Paolo [paolo.tonucci@lehman.com]  
**Sent:** Thursday, March 20, 2008 9:57 AM (GMT)  
**To:** Dauhajre, Munir [munir.dauhajre@lehman.com]; Callan, Erin [ecallan@lehman.com]; O'Meara, Chris M (NY) [comeara@lehman.com]  
**Subject:** Re: Important changes likely coming to financing markets of NON Investment Grade Assets [Fixed Income and Converts] - Please Read

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They don't give names but we do talk to them about size and \$25-50 bn is what it takes to be in top 10 at ECB.

Will try and get more colour.

Paolo

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

From: Dauhajre, Munir  
To: Callan, Erin; O'Meara, Chris M (NY); Tonucci, Paolo  
Sent: Thu Mar 20 00:18:52 2008  
Subject: Fw: Important changes likely coming to financing markets of NON Investment Grade Assets [Fixed Income and Converts] - Please Read

Erin / Chris / Paolo - I sent this note earlier today and thought I should fwd to u as well... Changes in funding mkts I am sure are dear to u in you all..

Just today, our desk rolled 1 bill non inc grade fixed inc assets in repo for our match books at o/nght Libor + 100 bpts!!! Or around Fed Funds + 150sh... When we quoted today to GSAM's Liberty Harbor that their high yield would be funded at FF + 175 bpts, they almost had a heart attack!!!

One last thought for you... European Banks are all over the ECB window daily ... And seem desperate for cash... I recently read that the ECB had 5 bill Euros in their liquidity auction, and they got 50 bill Euros in bids!!! I think UBS and DB are very large borrowers there... In a recent interview DB's Barry Bausano made in the FT on PBs - he made the point that "HF mgrs needed to work with firms like DB because its direct access to the ECB and therefore a more reliable funding platform"

I trully believe that the Window at the Fed is going to become as actively used as that of the ECB over the next few months - I wonder if the ECB publishes the banks that use their window etc..

Good night, M

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

From: Dauhajre, Munir  
To: McDade, Bart; Morton, Andrew J; Walsh, Mark; Orlan, Fred S; McKinney, Richard; Whalen, Patrick J; Bouzouba, Rachid; Grimeh, Mohammed  
Cc: Humphrey, Thomas P; Nagpal, Ajay; Lessing, Stephen M; Burkhart, Gunner; Coghlan, John F. (Prime Services); Jennings, Jeffrey D; McBryan, John N; Wannemacher, Tim; Wickham, John  
Sent: Wed Mar 19 06:38:59 2008  
Subject: Important changes likely coming to financing markets of NON Investment Grade Assets [Fixed Income and Converts] - Please Read

Guys, with recent Fed facility it has become clear to us that financing / funding availability for NON INVESTMENT GRADE Fixed Income and Converts will become far more challenging to get. We have seen a significant wave of requests for us to fund High Yield, EMG in the last 24 hours and we have also noticed that many of our lenders are asking to "improve" the assets we have out to them on the secured lending facilities to a min rating of BBB- ...

In doing so, we are doing a careful review of our own funding for clients books in the High Yield, EMG, Non-Investment Grade Converts assets that today may be included in some of our PB accounts. At a minimum you need to expect hair cuts to go up significantly, and funding spreads to Libor to go up materially as well. We are going to be communicating with our PB clients most likely today about these important changes as we can't ultimately put this collateral into the FED and / or may not be able to match fund it.

In my humble opinion, this is going to have medium term adverse price impact on these asset classes. We are NOT the only house that is looking into this .... Given the "potential" lack of availability for funding from the sec lenders and banks for this types of products, I expect Hedge Fund managers to scramble in getting this stuff funded along with US in our own balance sheets -

This obviously brings me to my final point - WE NEED TO USE THIS HEALTHY MKT UPTICK YESTERDAY, AND BRING OUR EXPOSURES DOWN ON OUR SHEETS.... RUNNING A FIRM WIDE BALANCE SHEET OF 15.3 X LEVG IS NOT GOING TO BE A SUSTAINABLE BUSINESS MODEL FOR THE FIRM.

If any of you have any questions, please don't hesitate to ring me back. John Coghlan will be running this meeting today and we will post you all of the outcome on what we end up doing for the PB accounts.

PS We are very happy to provide funding for ANY assets that our house sales - just yesterday our RMBS team sold some product, client requested funding, we happily provided it - don't be shy ! Use us!!!!

Best Munir.