

**From:** Reilly, Gerard <greilly@lehman.com>  
**Sent:** Wednesday, May 2, 2007 10:55 AM (GMT)  
**To:** O'Meara, Chris M (NY) <comeara@lehman.com>  
**Subject:** Re: Balance Sheet Action Plan

---

Agree but gross up is not the reason RE is over it is origination pipeline.

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

From: O'Meara, Chris M (NY)  
To: Reilly, Gerard  
Sent: Wed May 02 06:37:14 2007  
Subject: RE: Balance Sheet Action Plan

Still don't get it. I think we should eliminate the concept of "gross-up" from everyone's vocabulary. Gross up equals balance sheet usage. Risk is a diff concept altogether, and should be considered in the context of the various hedging instruments we may have in place (I realize that this hedging concept is less applicable in Walsh business). Do you agree? COM

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

From: Reilly, Gerard  
Sent: Friday, April 27, 2007 6:44 PM  
To: O'Meara, Chris M (NY)  
Subject: Fw: Balance Sheet Action Plan

Pressure on fid but still a risk

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

From: Cohen, Jonathan  
To: Umezaki, Kentaro  
Cc: Cohen, Kenneth; Hughson, Paul A; Reilly, Gerard; Stabenow, Sigrid M  
Sent: Fri Apr 27 16:03:54 2007  
Subject: Balance Sheet Action Plan

Ken,

I spoke with Paul yesterday and Gerry earlier today about the RE balance sheet forecast for end of Q2. Paul, Kenny and their global team have been extremely active in trying to delay fundings, syndicate loans and reduce FIN46/FAS140 gross-up where possible to meet the \$45bn target. The best estimate now puts us between \$48bn-\$49bn and while everyone is still tasked to push it down further, we wanted to send an early warning signal to try and deal with this issue in the best way. Sigrid does not yet have a firm grasp on where other businesses will end up as it is still very early. I know you sent out to the business heads a presentation discussing the possible trading of balance sheet with other businesses (would seem there would be a negotiation of \$2mm-\$4mm per \$1bn of Bal Sht). That could be a good solution if there are businesses willing to commit now since we run out of options as the quarter moves on. If they don't commit now, we need to look at the possibility of disposing of loans at discount prices as we discussed on our call earlier in the month. We are not certain this would be successful, but we would need to start marketing immediately to ascertain interest and attempt to sell at the most advantageous price. The cost of selling to third parties is not clear, but hopefully could be learned early in the process. Please advise how you would like us to proceed. Thx.

Regards,

Jonathan