

From: Weber, Mark <mark.weber@lehman.com>
Sent: Monday, June 4, 2007 5:45 PM (GMT)
To: Goodman, Jeffrey <jeffrey.goodman@lehman.com>
Subject: FW: Confirming CSE impact of Archstone deal

Jeff - do you have any documents that you could send me which describe the parts in more detail? Such would be useful in making sure that we have captured everything in the right risk calculations.

Thanks,
Mark

From: Yu, Anna
Sent: Monday, June 04, 2007 11:39 AM
To: Goodman, Jeffrey; Whitman, Eric; Leng, Manhua; Weber, Mark; Luken, Patricia; Kavalov, Andrew; Hansman, George; Hart, Janice
Cc: Lax, Stephen; Knapp, Brian; Shotton, Paul; Spahr, Eric
Subject: Confirming CSE impact of Archstone deal

Manhua/Mark - just want to confirm that the \$2.3 bn Bridge equity and \$8.55 bn secured debt facility will be incorporated in the Market risk charges for May 31? Even with the probability weighting and 60 day avg, I imagine the MR charges may still be high, given the Reg Y and possibly modelled specific risk?

Eric W - your piece will be the banking book unfunded \$250 mm investment in JV, prob weighted at 80%, 400% risk weight. I'm checking with PC right now to see who will submit the info to CSE.

Disclosure on Credit Risk reports:

Janice - I assume you will report the entire unfunded Archstone commitment together in the Top 10 commitments? i.e. \$11.1 bn

Disclosure on 10-Q (per External reporting, who's is checking with Treasury):

Either:

- (a) - \$250 mm (part of "Private equity and other principal investment commitments").
- \$10.85 bn (part of "Non-investment grade contingent acquisition commitments")

OR

- (b)

- \$250 mm (part of "Private equity and other principal investment commitments").
- \$8.55 bn (part of "High yield").
- \$2.3 bn (part of "Mortgage commitments").

thanks
Anna

From: Yu, Anna
Sent: Friday, June 01, 2007 4:57 PM
To: Higham, Paul; Kebede, Abebual A; Traversari, Ryan; Beldner, Brett; Spahr, Eric; Lax, Stephen; Knapp, Brian; Rossi, Stephen F; Whitman, Eric; Lechner, Scott; Cyrus, Keith; Nicholson, Brian; Lam, Samantha; Hughson, Paul A
Cc: Cohen, Jonathan; Steinberg, Fred E; Stewart, Marie; Stucchio, Anthony; Azerad, Robert; Lee, Matthew; Bismal, Anuraj; Goodman, Jeffrey; Shotton, Paul; Rossi, Stephen F; Grieb, Edward; Leng, Manhua; Weber, Mark
Subject: CSE impact of Archstone deal

All

It was determined that the Archstone commitments are legally binding unfunded commitments as of May 31, 2007. However, even though the Board has approved the bid, there is still a possibility that the shareholders may reject it, or another bidder may try to outbid us. Therefore, in light of this possibility, we will apply an 80% probability to the legally binding commitment amount to estimate the risk exposure.

In summary, the CSE impact is:

- (1) Permanent equity of \$250mm - Banking book, 80% probability applied to exposure
Estimated CSE Charge = \$32 mm
- (2) Bridge equity/Junior mezz of \$2.3 bn - Trading book, 80% probability applied to exposure
Estimated CSE Charge = VaR based (Risk mgmt to determine)
- (3) Secured debt facility of \$8.55 bn - Trading book, 80% probability applied to exposure, estimated internal rating = BB
Estimated CSE Charge = VaR based (Risk mgmt to determine) + 8% Reg Y charge
- (4) Revolver facility - 0 amount as of May 31. Still under discussion.
NO CSE Charge
- (5) Guaranty of \$1.25 bn (of which \$500 mm is backstopped by BofA) - Capped damages that Lehman may be liable for if we back out of the deal.

NO CSE Charge

The business expects to syndicate the deal down to 35% within the next 2 weeks so that by June 30, the exposure will likely be considerably lower than at May 31.

Thanks
Anna

From: Yu, Anna
Sent: Friday, March 28, 2003 12:42 AM
To: Yu, Anna; Higham, Paul; Kebede, Abebual A; Traversari, Ryan; Beldner, Brett; Spahr, Eric; Lax, Stephen; Knapp, Brian; Rossi, Stephen F; Whitman, Eric; Lechner, Scott; Cyrus, Keith; Nicholson, Brian; Lam, Samantha; Hughson, Paul A; Steinberg, Fred E

Cc: Cohen, Jonathan; Steinberg, Fred E; Stewart, Marie; Stucchio, Anthony; Azerad, Robert; Lee, Matthew; Bismal, Anuraj

Subject: Review details of Archstone deal
When: Friday, June 01, 2007 3:30 PM-4:00 PM (GMT-05:00) Eastern Time (US & Canada).
Where: Conf call: 1866 309-0557 ID:*4026913*

Optional attendance for those who may be interested.

Brett's snapshot of the deal:
Here's the proposed capital structure (in billions):

	Tishman	Lehman	B of A	Total	
Permanent Equity		0.25	0.25	0.50	
Bridge Equity		1.15	1.15	2.30	
Junior Mezzanine			1.15	1.15	2.30
Debt	8.55	8.55		17.10	
	0.25	11.10	10.85	22.20	

Other important facts:

- * Lehman's permanent equity is likely going to be owned by private equity. (It may go into a fund).
- * Tishman will get 65% of all asset management fees and promote, we will get 35%.
- * We will receive commitment fees on both the bridge equity and debt.
- * We do not own >50% of any class of security and therefore would not be required to consolidate.
- * We are still considering how to mitigate our exposure after closing, proposals include:

* Selling down our risk to about 33% exposure on the bridge equity/junior mezz and debt positions.

* Selling assets immediately after the acquisition closes so less financing is necessary.

* We are planning on syndicating all bridge equity into a fund that Lehman and Tishman will be co-GPs. This will likely take up to 12 months to sell.

My questions so far:

(1) Is term loan considered binding commitment? Is it Trading book or Banking book? What is the expected rating? What is the probability of winning? Do we expect to further syndicate prior to closing?

(2) What is the amount of the revolving credit facility that is shared 50-50 between LCPI and BofA? Is it considered legally binding? What is expected rating?

(3) What is composition of \$2.3 bn between bridge equity and junior mezz debt? If a portion is junior mezz debt, what is the expected rating?

(4) Further clarification of the terms of the \$1.25 bn guaranty.