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Subject: Update - RE
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We received most of our requested stratifications of Lehman's real estate portfolio and are now requesting property/valuation level information for our stratified sample of approximately 30 investments, which we plan to review with Lehman in their offices next Monday. The sample will include their top ten investments, as well as representative investments in Europe and Asia, select land and mixed-use investments, and select high LTV mezz and senior loans.

In the meantime, by the end of day tomorrow, we will provide our initial rough cut of valuation ranges based on our general knowledge of movement in market values by property type, and the resulting impact on their investments in the various parts of the capital structure. Because 80% of the portfolio was originated in 2006 & 2007 w/ aggressive underwriting, with high LTVs and significant "first loss" exposure, we expect this will result in a substantial discount to current carrying value in our base case and further downside risk in the stressed scenario.

Some additional observations:

714 loans totaling over \$9B are reported as having final maturity date in 2008. It is likely that a number of these loans have already matured and are in default.

A significant, but as yet undetermined, percentage of loans are serviced from interest reserves or are accruing interest.

Particularly on their largest investments, Lehman holds both debt and equity positions. This may limit their ability to enforce remedies as a lender, and may increase litigation risk.

Many of the assets are developmental or transitional; some entail substantial future funding needs. If 3rd party financing cannot be secured to meet these needs, Lehman will be faced with funding the additional capital or potentially writing off their investment.

Ongoing management of the portfolio will require substantial human and capital resources to address defaults, foreclosures, workouts and litigation.

Our initial review of Archstone, the largest RE investment, indicates all of Lehman's \$4.5B equity and subordinate debt positions are at risk of write-off.

{Proforma income generated by properties owned by Archstone totals \$493MM. At a 5.0% cap this indicates net real estate value of \$9.8B, against \$17B in total debt. Value of the management company is perhaps \$200-300MM. First mortgage debt, held by the agencies, BofA, and Barclays totals \$9.5B. The original transaction attributed significant value to profit from potential future development, which is doubtful, particularly in this economic climate. Approx \$4B of Lehman's exposure is in equity, bridge equity, and unsecured revolving and term debt which appears badly underwater. Another \$.5B is in mezz that is likely out of the money. To date, they have taken \$635MM in marks.}

The reason for Lehman's high motivation for a bulk sale of real estate is becoming clear.