

From: McGinn, Kevin
Sent: 11/20/2007 05:58:16 PM
To: Narayanan, Paul
BCC: Shamieh, Charlie
Subject: RE: A Credit Perspective for the CFO.

Paul:

I take issue with your first statement. All units were apprised regularly of our concerns about the housing market. Some listened and responded; others simply chose not to listen and then, to add insult to injury, not to spot the manifest signs. "Nero playing the fiddle while Rome burns" is my assessment of that.

As to your forum suggestion, I am not clear it would add a lot, but am not closed to the idea either. We continuously outline concerns on products; cover the country angle at the CRRC with written minutes that get distributed to a wide audience; and share concerns on asset types and specific credits with all the company presidents and investment heads through my regular monthly and quarterly updates, through the Alert List, the CRC meetings and at the CRC Portfolio Reviews. The question is whether people are listening and responding.

Second, at Bob's suggestion, I am starting a company-wide monthly conference call among all the credit officers to reinforce CRC concerns.

Third, I do usually prepare a list of my concerns for AIGGIG every year for their credit conference and other units when I address them publicly. I am happy to work something like that into a more formal document to share with Steve. Top of my list right at present is the recession risk, and all units are aware of my concern there. It is not shared totally by Jacob Frankel, although he is starting to worry more, and Markus Schomer; and I think they are wrong. We have to prepare the company for that risk. Other issues that are on top of everyone's list with wide agreement are the mortgage markets in Spain and the UK.

Lastly, in the same spirit you are referring to, Bob has asked me to start pointedly sharing my concerns on credit issues in writing. Perhaps Charlie's slides would help there. The reason for this is that we can only do so much with the limit control system and using ORRs to force down risky exposures is a crude instrument. You only had to hear my heated exchange with Richard this morning on Rescap to understand that point.

Kevin

From: Narayanan, Paul
Sent: Monday, November 19, 2007 12:30 PM
To: McGinn, Kevin
Subject: A Credit Perspective for the CFO.

Kevin,

As I had discussed with you in a recent update meeting, Charlie Shamieh is developing a short "hot issues memo" format (I paraphrase here) that will be provided to the CFO / Senior management on a recurring basis so that this information can be used to influence the direction taken by the organization. As you might recall, the desire for such a reporting mechanism was presumably instigated by the subprime crisis where some parts of our organization were cognizant of the emerging risks and were able to avoid them whereas some others were not made aware of it and so did avoid the risk. I had also mentioned to you that I disagreed with this assessment since we do have a forum where these concerns are transmitted to those concerned (e.g. the portfolio reviews and the various other forums).

Whatever the underlying reasons for starting such a reporting mechanism may be, it would certainly help rather than hurt. Charlie is seeking inputs from the four major sources of risk, insurance, market, credit and operational. I had discussed this with you, and together we'd come up with a list of the subject heading for credit risk.

Charlie has now requested a brief write up for each of the headings; using as a model, the one provided by Jamie Stewart on market risk (I will forward it to you separately). I have some problems with using this as a model because I tend to think that market risk is "for the moment" whereas credit risk viewpoints kind of develop over time. In addition, I feel it would be presumptuous of me to put forth views without knowing what the credit leadership thinks are the issues are. This brings up the reason for this memo. I would like to propose a forum where credit concerns can be aired and then condensed into a few short paragraphs for Steve. The topics would be specific names (this could refer to the alert list), specific asset classes (of which subprime is one example), specific business units, specific product/transaction types, and specific countries.

I am reluctant to prepare something for Charlie just for the sake of complying with his request and would appreciate your inputs/guidance.

Paul