

**From:** Schneider, Jerome (Exchange)  
**Sent:** Thursday, March 13, 2008 6:29 PM  
**To:** Browne, Terry  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Understand, and that's what I was addressing in terms of the best efforts below. But please remember, you control the notional but substituting. Not us.

I'm not sure where that leaves us as I believe the Bear termsheet puts you in the same place (if not better as I didn't include the exit fees). So please let me know. I'll be around tonight and would like to make some progress on this.

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**From:** Browne, Terry [mailto:tbrowne@asgip.com]  
**Sent:** Thursday, March 13, 2008 6:24 PM  
**To:** Schneider, Jerome (Exchange)  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Don't worry - we understand the distinction. We also understand the difference between how this line operated for years and how it's operated since August.

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**From:** Schneider, Jerome (Exchange) [mailto:JSchneider@Bear.com]  
**Sent:** Thursday, March 13, 2008 5:19 PM  
**To:** Browne, Terry  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Terry- As I discussed yesterday with you and Sean separately, neither what Liquid has offered or transacted, nor what Bear is offering is a committed facility of any type. It is a term repurchase agreement. Credit and commitment are two separate notions which shouldn't be confused. You always have the right to substitute collateral, but if you elect not to sub, then the transactions notional could be reduced.

Again, please give me a call so we can wrap this up. I'm sure it will be much more efficient for both of us.  
Jerome

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**From:** Browne, Terry [mailto:tbrowne@asgip.com]  
**Sent:** Thursday, March 13, 2008 5:59 PM  
**To:** Schneider, Jerome (Exchange)  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

My read of these documents has been that the amount of financing Amherst obtains from LF can deviate constantly without jeopardizing the amount of available funding. Thus, we could ask LF to finance \$80mm of securities on Day 1, \$95mm on Day 2, and \$65mm on Day 3, and not worry that, at the end of Day 3, our new credit limit would only be \$65mm.

Each purchase and repurchase of a particular security would be a "Transaction" under the relevant documents, and everything would be cool as long as Amherst (1) sufficiently collateralizes the positions still financed, and (2) does not request funding in excess of the "Maximum Amount" of the line. Consistent with this reasoning, a "substitution" would be a somewhat extraordinary situation where we would seek to swap out collateral but maintain the same level of financing.

As I read your explanation, the "Seller" in the repo arrangement would ask the "Buyer" to finance the "Maximum Amount" of securities on Day 1 (or thereabouts), and every subsequent day's repurchase of securities by Amherst would invoke a requirement that we "substitute" new securities of equal amount and quality in order to maintain the Maximum Amount available under the facility.

I now have a better understanding of your view of the documents, and we might not be that far apart. My view is based on both the relevant agreements and the manner in which the parties operated under these documents for many years. If we can fashion an agreement that is consistent with our desire for the same flexibility that we enjoyed for most of this relationship, I think we can get there.

Thanks Jerome.

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**From:** Schneider, Jerome (Exchange) [mailto:JSchneider@Bear.com]  
**Sent:** Thursday, March 13, 2008 3:35 PM  
**To:** Browne, Terry  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Ok. Understand your points. And I think we have and can address all of them except point #2. Under the terms of the current (Liquid) facility you have an agreement to repo the Purchased Securities for the term of the agreement. The repo'd securities on the line (Purchased Securities) have been approved by Buyer and are subject to the criteria we have agreed upon in the confirmation/termsheets. However, if you choose to remove the Purchased Securities from the agreement (ie they are sold) as is specified under the terms of each MRA you are allowed substitution rights which must conform to like or better collateral. This feature is very standard in all repo documents.

As I have pointed out to both Sean and yourself several times, neither facility is a "committed facility".

We have agreed to finance the Purchase Securities for the term of the agreement as long as they remain on the line. It is entirely the choice of Amherst to remove them. As far as putting on new assets, we will of course endeavor to put the securities on the line. Since there is no formal commitment, we will make a best effort to repo them if they meet the criteria specified in the trade.

I think we are almost there, so if there are other comments/concerns please give either myself, Matt, or Tommy a call to discuss further today.

Thanks  
Jerome

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**From:** Browne, Terry [mailto:tbrowne@asglp.com]  
**Sent:** Thursday, March 13, 2008 4:24 PM  
**To:** Schneider, Jerome (Exchange)  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Jerome:

The point of marking up the existing term sheet is to frame the changes you have requested in the context of what is currently in place. Bear has asked Amherst to agree to modify this existing facility so as to limit the collateral that can be financed, apply new eligibility requirements for such assets, and increase the margin requirements. These are significant and fundamental changes to the terms of our existing facility. Nevertheless, as we have previously indicated, we will agree to these changes.

In return, we need certainty that:

- (1) if we have collateral that satisfies these requirements (and in the absence of exigent circumstances that would justify a Bear determination to not fund these assets), we can count on Bear to provide this financing under these new, more rigorous terms;
- (2) the amount of available financing to us will remain constant, regardless of how much of the facility we are using on a day-to-day basis. If we only use \$35mm on Day 1, we should, on any subsequent day, be able to request financing for the balance available under this facility. In other words, the amount of available financing should not be tied to some "use it or lose it" mandate; and
- (3) there are no other new terms that represent a significant departure from the existing facility.

If the new documents you reference can achieve these objectives, we are indifferent to the form of documents you want to use.

Thanks,  
Terry Browne

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**From:** Schneider, Jerome (Exchange) [mailto:JSchneider@Bear.com]  
**Sent:** Thursday, March 13, 2008 2:36 PM  
**To:** Browne, Terry  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean; Chasin, Matthew (Exchange)  
**Subject:** RE: Mark-Up of Existing Terms

Terry: Could you or Sean please give me a call to discuss this. I appreciate the fact that you are using the Liquid confirmation to attempt to document this transaction, but the MRAs are different for the entities, and the defined terms which we discussed the other day (ie Purchase Price and Buyers Margin Ratio) are slightly different for the Bear/Amherst MRA.

I would be glad to walk thru with you both the differences between the confirmations to discuss this further. However, I don't entirely understand what you believe to be the critical differences between the documents (confirmation) aside from the haircuts. If you could please explain that, I think that we can get this done pretty quickly.

Please let us know when you are available.

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**From:** Browne, Terry [mailto:tbrowne@asglp.com]  
**Sent:** Thursday, March 13, 2008 3:12 PM  
**To:** Schneider, Jerome (Exchange)  
**Cc:** Marano, Tom - Fixed Income; Dobson, Sean  
**Subject:** Mark-Up of Existing Terms

Jerome:

Attached is a mark-up of the term sheet for our existing facility reflecting the following modifications that Bear has requested:

- (1) limitation of collateral to AAA rated RMBS only,
- (2) new eligibility criteria for financing these assets, and
- (3) new pricing/margin requirements

Sean has not yet reviewed, but he asked me to get it to right away. Let me know if you have any questions.

Thank you,

Terry Browne  
SVP & Chief Operations Officer  
Amherst Securities Group, LP  
512.342-3001

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