

Subject: Email to Mike Mazzei as a Follow Up To Our Discussions Last Week

Date: 3/9/2004, 9:25 AM

From: [Spencer Young <SpencerCYoung@aol.com>](mailto:SpencerCYoung@aol.com)

To: ["Tom: Barclays Capital \(NYK\) Kalaris" <Thomas.Kalaris@barclayscapital.com>](mailto:Thomas.Kalaris@barclayscapital.com)

Tom --

Thanks for your call yesterday, and for the support provided.

The below email provides perspicuous context to my discussions with Mazzei. Upon reflection, my team of Principals and Advisory Triad agree that working for Mike could in the end turn out to be far more powerful and effective than any other scenario. I've never met a person more tenacious and competitive than me until I ran into Mazzei in the market.-- it would be an honor to work for him.

Section I summarizes the key discussion points Mike and I have had. I would also like to point your attention to Section II, especially the last paragraph, and you'll understand why certain people at Morgan Stanley have been vociferous in casting aspersions on my character and professional competence. Thank you for the courage you have demonstrated in supporting me and my team.

Section III contains much of what you have already seen; however, you may want to look at the Top Ten List (a 3 page auto-launch presentation) attached in the Summary Section.

All the best,

Spencer

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

Subject: Follow Up To Our Discussions Last Week

Date: 3/9/2004, 12:29 AM

From: [Spencer Young <SpencerCYoung@aol.com>](mailto:SpencerCYoung@aol.com)

To: mike.mazzei@barcap.com

Mike --

Following up on our discussions to date, I've addressed salient matters, segregated as follows:

- **Section I - Discussion Topics** -- responses by my team to that which we discussed;
- **Section II - Project Atlas** -- review of the core plan, along with some elucidating, albeit necessarily shrouded features;
- **Section III - Skill Sets** -- a cogent list of what I bring to the table; and a
- **Summary** -- which pulls it all together.

Please bear with copious nature of this email, as it addresses a range of subjects germane to what you are looking to accomplish.

Section I - Discussion Topics

I spoke with each of the “Principals” of Project Atlas, seeking their candid reaction to the topics we discussed.

1. Sequential Hires – I sought each Principal's response to my joining Barclays Capital (“Barclays”) in the role you outlined, and indicated there may or may not be a slot for some team members, and that certain aspects of Project Atlas (“Atlas”, or the "Atlas plan") may not come to fruition in the context of the CMBS franchise you envision for Barclays.

RESPONSE: As you know, this possibility was discussed previously among the Principals, and is somewhat consistent with our expectations, given the scope and magnitude of Atlas. Hence, all were supportive; however, I would like have your assurance that you will give Rob Cestari a hard look, as he would otherwise be the only Principal not gainfully employed at a major financial institution. In addition to being very capable (\$22 billion of experience in new issue CMBS), he's naturally bright (High school valedictorian, and Ivy league educated), and he's got one of the highest emotional IQs of traders I've worked with – he's just so darn likable and client-friendly – very much like you in that regard. He carries no inflated ego and his affability would be a nice complement to the trader you confided in me about. In the event there was not a fit for Rob, I would like to indulge your willingness to earnestly help get him placed, similar to what you have done for so many other people in the past. Conclusion: Not an issue.

2. Revised Roles – I asked each Principal about their willingness to join Barclays, but with no assurance that they would be able to undertake the responsibilities contemplated under the Atlas plan. I also inquired of the roles they would be interested in fulfilling, where their skill sets would be well-suited.

RESPONSE: The primary criterion in my recruiting this vaunted team was “athleticism”, to wit, an ability to effectively cross over various functions. I can discuss specifics by person with you separately, but will need to

preserve their identities until certain protections are in place. Conclusion:
Not an issue.

3. Opinion of Mazzei? – I elicited candid opinions about their willingness to work in a banking and trading operation, where you are group head.

RESPONSE: Positive – a couple were very favorably disposed – some had a neutral view (based on their individual knowledge base and timing -- principally driven by the fact that you got out of this area of the business before these people became actively involved in it); however, in reliance on my endorsement, they are similarly supportive and enthusiastic.
Conclusion: Not an issue.

My endorsement is from the heart, and is consistent with what I articulated in my 2/26/04 email to Messrs. Diamond, Kalaris, Kvalheim & Keegan when I found out that you got the nod to run CMBS.

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

Subject: Congratulations on Your Selecting Mike Mazzei . . .

Date: 2/26/2004, 12:59 PM

From: [Spencer Young <SpencerCYoung@aol.com>](mailto:SpencerCYoung@aol.com)

To: robert.diamond@barcap.com, grant.kvalheim@barcap.com, "Tom: Barclays Capital (NYK) Kalaris" <Thomas.Kalaris@barclayscapital.com>, "Mike : Barclays Capital Keegan" <Mike.Keegan@barclayscapital.com>

. . . he is prominent, well respected and has an outstanding track record in CMBS -- and to lure him from what I think must be a 20 year + career at Lehman is quite an accomplishment. Mike has deep experience in:

1. Building CMBS Businesses From Scratch -- he built the Lehman CMBS business at about the same time I did so at JPMorgan -- Lehman became the #1 Global CMBS issuer for 5 years -- Morgan Stanley took the crown for the ensuing 3 years (but at a time when Mike decided to try his hand at reinsurance and investment banking);
2. Both Sides of the Trade -- at Lehman, he ran the trading desk and established a formidable originations capability -- a tenacious competitor
3. Developing and Branding CMBS products -- the LBUBS brand of CMBS gets some of the best execution in the business; and
4. Establishing Competitive Advantages and Creating Effective Teams -- as evidenced by his track record.

You have made a tremendous selection.

All the best,

Spencer

4. Non-Formulaic Compensation – I inquired of their willingness to join Barclays without being paid pursuant to a formula.

RESPONSE: The short answer is if I endorse it, they will join; however, there were concerns and divergent opinions concerning this. While many Principals are accustomed to this, without guidelines or parameters, it could potentially contradict the concepts of meritocracy and entrepreneurial reward (key features that attracted them to Atlas), and potentially introduce capricious subjectivity (which is the antithesis to the key precepts of Atlas). It could also end up looking like all the other Wall Street shops with their disloyal mercenaries, whereby a key competitive advantage of attracting and retaining talented people who really know how to make money could be lost. As certain people would be leaving a 20 year + career at an insurance company, I would want to be sure there were appropriate incentives and protections to those who delivered on planned production, profitability and fostered collaborative teamwork.

Conclusion: Not an issue; however, I would like to better understand the parameters you have in mind, as well as your response to the noted visceral concerns. It might be helpful to discuss after you have had an opportunity to review the Atlas business plan summary attached in Section II. You may end up concluding that the approach outlined (or perhaps a derivation thereof) would be less risky and cultivate a level of production and creative thinking that will astound.

5. Retained Risk -- I asked each of the Principals to respond to the notion that they might not be able to invest in the subordinate securities of our primary issues backed by the loans they originated.

RESPONSE: Similar reaction to #4 because there is loyalty and unity of purpose among the team; however, this further abdicates a key competitive advantage of Atlas. I sensed you were warming up to this idea, yet I had not gone into any detail about institutional investor interest in sourcing the contemplated Atlas High Yield Fund. In my earlier discussions with Mike Keegan, he indicated institutional investor sponsorship in the Atlas Funds would go a long way. Conclusion: Not an issue, subject to further discussion.

Section II - Project Atlas

I have attached the memorandum to Mike Keegan, which provides a good overview to the Atlas business plan.

[Project Atlas - Memo to Mike Keegan - Dec 21, 2003.doc \(198KB\)](#)

Based on our discussions, it seemed apparent to me that this document was not shared with you, which also spoke volumes to me about the professional integrity of Barclays' senior management. I am not concerned about now sharing this with you, as similar versions were circulated to prospective investors in the Atlas High Yield Fund, and because there are actually other features to Atlas that have remained shrouded in secrecy to protect the integrity of the overall initiative, and ergo, obviate plagiarism. The other six Principals are aware these features exist, however, nothing more. Why have I done this? In a word . . . prudence.

Depending on how you break it down, there are anywhere from 4 to 8 additional segments to Atlas. Two of which create a competitive advantage that most of the major CMBS market players would be hard pressed to replicate.

Including all segments of Atlas, there are four Principals (who currently head up real estate lending / capital markets at insurance companies, and who have participated in Morgan Stanley sponsored transactions, an example of which is IQ®) who are firmly committed to join Barclays upon my arrival. In addition, another three Principals (in similar roles at insurance companies) would join if the segments currently shrouded in secrecy were approved for launch; however subject to negotiation and final resolution of the aforesaid Discussion Matters. As a result, this would have a declensional impact on the Morgan Stanley CMBS franchise generally and the IQ® brand specifically, so you should keep this in mind, when conducting your own due diligence.

Section III - Skill Sets

Reproduced below are redacted sections of emails previously sent to Messrs. Diamond, Kalaris, Kvalheim, and Keegan, which speak to my skill sets, and how they may be applicative to your overall vision of a Barclays' US CMBS Franchise.

Overview

Through my nine years at "the House of Morgan" (six years at Morgan Stanley and three years at J.P. Morgan), I have successfully built and grown business

franchises and created highly successful new products in real estate lending and related capital markets -- and in a manner that has established long-term value.

What are these Businesses and Products?

Reflected below are the more noteworthy achievements germane to that which I understand Barclays Capital is looking to accomplish:

- Established **CMBS Principal Transaction Business** at J.P. Morgan
- Created the **J.P. Morgan Conduit** fulfilling the role of Chief Operating Officer
- Created and Trademarked the **IQ® ("Institutional Quality") Brand** of CMBS at Morgan Stanley
- Firmly Established **Morgan Stanley's Conduit** and Dramatically Filled Production increasing annual production 5 fold (to \$2.5 billion) in less than two years
- Created the **CreditSource® Commercial** Program at Morgan Stanley -- direct lending program marketed through the 13,000 Dean Witter retail brokers.

A diverse range of skills and personal attributes were regularly called upon in order to successfully bring each of these initiatives to fruition, as noted below.

What Do I Personally Bring to the Table?

The ensuing comments have been redacted from personnel evaluations across a wide range of people (bosses, peers & staff) with whom I have worked at J.P. Morgan and Morgan Stanley:

- Leadership & Organizational Skills-- "Spencer has strong leadership abilities. He knows how to map out a strategy, make it apparent to others and follow through on it." -- "Great at motivating" --- "**Takes initiative and is decisive**" --- "**Promotes teamwork and his motivation is contagious**" --- "A strong leader" --- "very effective" -- "Sets goals, keeps track of them and achieves results" -- "Buttons up all details." --- "Very professional and thorough"
- Teamwork & Staff Development -- "A team member who works well with everyone" --- "**Natural team player**" --- "Strong team player and good about providing feedback" -- "Spencer is quick to include team members in on calls and meetings. This **fosters a healthy collegial approach to the business.**" --- " He trusts his team members and delegates authority as much as he is able. He is open and honest with his feedback and

shows patience." -- "**Spencer empowers his subordinates** to take on as much responsibility and leadership as possible." -- "**Spencer's dedication to assisting others in their development is outstanding**"

- Ethics & Strength in the Face of Adversity -- "Spencer truly stood behind me and trusted my judgment when a client expressed its dissatisfaction. Eventually, we learned that certain loans originated by this client under its aggregation program were in default. It felt good knowing that Spencer was behind me even before these consequences were realized." -- "**Highly ethical and protective** of JPMorgan's reputation." -- "**Core Values are strong in every respect**"
- Initiative & Work Ethic -- "He **brings to his work an intensity and enthusiasm that is rare**" -- "Tremendously hard working, highly motivated individual" -- "Incredible work ethic "
- Problem Solving & Productivity -- "Spencer has a knack for solving knotty problems" -- "**Exceptionally creative**" -- "**Incredibly knowledgeable**" -- "**Manages to handle a bewildering array of responsibilities** on an ongoing basis - able to juggle constantly conflicting tasks and keep moving ahead at all times."
- Customer Focus & Business Development -- "**Spencer is highly client oriented**" --- "**Really understands client goals and plans out ways to achieve them**" -- "Really solidifies Morgan Stanley's relationships by being **fully engaged and highly knowledgeable** about his product area. Result is a **high level of credibility with clients**" -- "Pays attention to detail, follows up, **well liked by clients**" -- "Spencer's presentations are well-organized and well presented, thoughtful and sometimes humorous. He has an ability to express his thoughts in a clear, understandable fashion." -- "Very thoughtful and creative in his business pitches " -- "**Spencer has a strong business development capability**" -- "**Very good at converting leads to real revenue for the firm**"
- Excellence & High Impact -- "Spencer is **dedicated to producing a quality product**. A significant number of clients and potential clients have remarked on the thoughtful design and careful implementation of Morgan's program as compared with other Wall Street firms." -- "**Overall assessment of performance: Outstanding. Far beyond expectations at the time of hiring.**" -- "**The quality of Spencer's work is outstanding -- the program is one which Morgan can be proud**"

What Else Do I Offer?

- Vaunted Team Ready To Go -- This is probably the salient attribute I am most proud of. This is a highly talented and cohesive team of experienced real estate capital markets professionals with whom I have previously worked. We have collaborated over the past 7 months to establish a multi-segment business platform that would possess dramatic competitive advantages. Collectively, we bring an experience base of:
 - Average experience base = 17 years
 - CMBS Issuance = \$53 Billion
 - Capital Markets Loan Originations = \$18 billion
 - Managed Real Estate Investment Funds = \$8 billion

(Note that the above statistics relate only to the core team of Principals and NOT the Principals who would head up the other segments, which have been kept confidential)

- Mental Aptitude - my IQ has been measured to be 138 - 140 (top 1%) -- certain others on the team make this look remedial -- for instance, one is a valedictorian and another a chess master.
- Detailed Plan of Execution -- When you see the level of detail and forethought involved, you will immediately realize Atlas represents something special -- particularly when you see how the latent segments fit in.
- Processes & Infrastructure Ready to Go -- This includes underwriting guidelines, policies & procedures, integrated systems, communications and analytics, and time lined execution strategies for each segment.
- Immediate Earnings -- we can comfortably operate in the black in first year of operation because of our entrepreneurial focus and extensive planning that will enable us to hit the ground running.
- Disciplined Approach -- As a First Degree Brown Belt in the martial art of Tae Kwon Do (currently practicing under world champion John Chung), I cognize and embrace the benefits of discipline, especially with regard to the launch of a business initiative of this magnitude.
- Integrity -- my word is my bond -- all Atlas Principals uphold and practice this
- Axioms -- Steeped in the foundation of the Atlas business plan are 17 axioms that would be practiced to ensure the success of the initiative. They have been developed from a bibliography of 15 masterpiece books on business practices and philosophy, encompassing over 5,200 pages -- as you can probably tell, I am a voracious reader.

- Media Relationships-- I am well known in the CMBS industry, and personally have a very strong relationship with the managing editors of the two primary trade publications of the CMBS industry, Commercial Mortgage Alert ("CMA") and Real Estate Finance & Investment. As a result, I tend to receive favorable press, as noted in the attached article:

[CMA -- 1-23-04 -- Pages 1 & 7.pdf \(744KB\)](#)

- Senior Advisors -- Throughout the development of Project Atlas, the sagacious counsel of three senior Wall Street executives was assimilated and would continue for our benefit throughout implementation:
 - Charles Trunz -- former President of J.P. Morgan Securities (for strategy and general management)
 - Howard Keenan -- One of the Founders of Yorktown Energy Partners (for investment management and money raising)
 - Michael Hanna -- former head of various asset backed and derivatives businesses at DLJ and Smith Barney (for banking & trading)
- Ability to Attract Talent -- This will be demonstrated upon knowledge of who all the Atlas Principals are, and ultimately their agreeing to join Barclays
- Known Quantity - As Head of Fixed Income at J. P. Morgan at the time, Tom Kalaris saw first hand how I swiftly, yet carefully established the JPMorgan CMBS franchise.

Summary

In closing, I've utilized a Top Ten List format (a la David Letterman) to succinctly summarize my message and rationale.

[Top Ten Reasons - 3-8-04.pps \(1013KB\)](#)

All the best,

Spencer



Project Atlas

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December 21, 2003

To: Michael Keegan – Barclays Capital:

With this memo, I share the summary of a meticulously excogitated business plan (the “Plan”) that can establish an integrated CMBS franchise at Barclays Capital (hereinafter “Barclays”). The U.S. operation would proffer competitive advantages that would be difficult to replicate by existing CMBS market participants. The initiative, coined “Project Atlas” engages a highly qualified team of seven senior managers with storied track records in commercial real estate and related capital markets, “athletically” diverse skill sets, and most importantly, the proven ability and dogged determination to create enduring and noteworthy incremental value.

In the context of this Plan, Barclays would realize immediately accretive earnings, and attractive returns on capital in the first year of operation. We would reach stabilized operations in the second year (i.e., all components of the business would be generating solid contributions to earnings) and by the third year, pre-tax earnings for Barclays would near \$100 million per annum. With the establishment of this franchise, incremental shareholder value would soon exceed \$1.0 billion, and in so doing, position Barclays to educe other fixed income opportunities across a global spectrum.

This memo provides an overview to the platform, market, team, implementation, economics, resources, and suggested next steps toward realization.

Platform

The contemplated business platform is ideally suited for a global financial services firm determined to establish an immediate CMBS market presence in the United States, and with it, derive substantial earnings, return on capital and generate meaningful business growth that will source other opportunities in Barclays’s Fixed Income franchise.

Project Atlas entails the integration of three lucrative areas of commercial real estate, to wit: Banking, Capital Markets and Investments, such that we offer “one-stop shopping” and the ability to cross-sell other Barclays products and services in fixed income, asset management and investment banking:

- Banking encompasses the origination of commercial mortgages in three distinct market segments stratified by size (small loans, conduit, and large loans).
- Capital Markets entails the structuring, transaction management and distribution of primary issue CMBS, Real Estate CDOs, and related hedging activities and secondary trading to support our deals.



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- Investments relates to the operation of two separate funds – one mandated to invest in organically originated and structured real estate debt (from our Banking area) including mezzanine loans, B-notes, subordinate tranches of our primary issue deals, and selectively structured leveraged I/O bonds. The Equity Fund will make value-added investments in what are known as “fix and flip” situations.

These areas will be further stratified into six distinct business segments of Project Atlas, each managed by one of the aforesaid Principals, whose experience base coincides with the undertaking (i.e., no learning curve), as follows:

Banking

1. Small Loans (< \$4 million)
2. Conduit (\$4 million to \$25 million)
3. Large Loans (> \$25 million)

Capital Markets

4. Structuring & Trading
5. Deal Management

Investments

6. High Yield Funds (Real Estate Debt & Equity)

Risk positions will be originated and managed by former life company lenders and highly experienced capital markets risk managers. The Principals of Project Atlas (“Principals”) will have first loss risk on all positions and their financial interests will be aligned with Barclays’ shareholders. Accordingly, Principals will be formulaically compensated after covering direct expenses. A large percentage of this compensation will then be reinvested in the two separate off-balance sheet investment funds, the “Debt Fund” and “Equity Fund” and retained in these funds for a meaningful period of time. This incentive structure will be sententious to investors in the associated primary issue CMBS and CDO transactions, as it will be viewed in the market place as a demonstrative vote of confidence in the underlying collateral and the comprehensive deal.

To operationally leverage the business, we will establish joint ventures with market-leading firms to assimilate complementary capabilities that may not be readily available at Barclays. This may apply to initially renting distribution from other broker dealers, establishing interim, master and special servicing arrangements and co-investing in real estate equity opportunities with operating partners indigenous to the markets where the properties are located. If the Barclays is interested in growing its fixed income sales force, the concomitant debt issued from Project Atlas will substantially support this effort.



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Market

The U.S. commercial mortgage market now exceeds \$2 trillion, with \$200 billion + requiring refinancing each year. The annual U.S. market in CMBS issuance is approximately \$80 billion, globally it is slightly north of \$100 billion. While underlying credit and interest rate conditions can impact these numbers by +/- \$15 billion, the CMBS market continues to develop as securitization technologies competitively evolve vis-à-vis traditional lenders. Seven years ago, 17% of commercial mortgages were securitized, and today it stands at 25%, and the difference between portfolio mortgages and mortgages originated for securitization continues to blur. Accordingly, the securitization of commercial mortgages is still in its nascent stage.

There are approximately 50 market participants who originate commercial mortgages for securitization, but only a dozen are Market “Players”, with operations that consistently originate and securitize \$2 billion + in commercial mortgages annually. The business strategy subsumed in this Plan is not practiced by any of the Players, and there are compelling reasons why they would be unable to replicate. Accordingly, Project Atlas will provide an ability to readily excise market share.

In addition, the insurance company portfolio lending market for fixed rate mortgages continues to grow (the most recently reported quarter grew 33% from two years ago and 9% from last year). This sector now tracks at a robust \$40 billion + per year with outstandings approaching \$250 billion. Interestingly, the current Players have been unable to effectively grab any meaningful market share in this arena. Project Atlas would be able to do this, again because of the inherent competitive advantages and lending teams with existing relationships with borrowers accustomed to insurance company financing.

As the floating rate CMBS market has taken hold, driven in part by an expanding global investor base, the opportunity to extract market share from U.S. commercial banks in “mini-perm” loans on stabilized properties, or in “repositioning” situations has improved dramatically. Importantly, the associated capital markets arbitrage can now rival that of fixed rate product. This market is estimated to be \$600 billion in outstandings. Project Atlas will also be positioned to capture market share from this sector.

Perhaps the most intriguing aspect of Project Atlas is its inherent diversification of earnings that we expect to not only weather market dislocations, but be positioned to capitalize on the opportunities thus created, and even prosper in a rising rate environment.



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Team

The operation will be established by a cohesive team of seasoned and multitalented professionals with whom I've worked previously, and who practice business ethics that are beyond reproach. They are all firmly committed to move in Q1 of 2004, and will be arriving from vaunted Insurance Companies, Broker-Dealers, and Finance Companies, with hand selected teams ready to execute their respective operating plans, which have been painstakingly suffused and amalgamated to form the consolidated Project Atlas Operating Plan.

Summarized below is the collective experience base of the seven "Principals" who will manage the critical components of Project Atlas. Collectively, we possess diverse skill sets that are poignant and multifarious:

- Years in Real Estate = 122 years (Average = 17 years)
- Loans Originated = \$18.4 Billion (6 have experience here)
- Funds Managed = \$8.3 Billion (3 have experience here)
- Securitization / Dispositions = \$53.3 billion (All have experience here)
- Appraisals Completed = \$6.4 billion (2 have experience here)

The team is diverse by personality, gender and ethnic background, and there exists a collaborative "chemistry" and anticipatory excitement toward actualizing our objectives. Importantly, we have a shared philosophy and commonality of purpose manifested in a creative entrepreneurial spirit that will surely create significant franchise value.

Implementation

In building this business, we will:

- 1) Maintain a Cohesive Team -- Making sure we have the right people to execute consistently improving results;
- 2) Sustain Our Focus -- Putting into practice an unwavering faith in our success, by confronting issues immediately, and executing alternative contingency plans as the need arises;
- 3) Be The Best – Pursuing business in a manner where we can legitimately "be the best" from a competitive standpoint, and execute with the highest ethical aplomb. Our collaborative approach and incentives foster creativity and sound decision making from a rigorous risk / reward paradigm.
- 4) Establish a Culture of Discipline -- Each Principal has developed a cogent and thoughtful business plan for their respective business segment. We will execute with teams cultivated with instilled discipline, such that deliverables are carried out in a timely manner.



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- 5) Be Technology Savvy – Making effective use of technologies that will enhance productivity and foster communication, thereby driving efficient business growth
- 6) Be Cost-Conscious -- Being bottom-line focused, as supported by the proffered incentive structure
- 7) Sustain Results – the confluence of the six business segments will create natural diversification in our operating results that in turn will deliver consistent and dependable results.

Economics

A summary of the key operating plan parameters for 2004 and 2005 are summarized below:

(\$ million)	2004	2005
Production		
- Loan Originations	990	2,555
- Investments	104	392
- Primary Issuance	700	2,600
- Secondary Trading	1,685	4,450

Operating Revenue	30	110
Direct Expenses	13	21
Operating Margin	17	89

Incentive Compensation	6	31
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Earnings from Operations	11	58
Investment Fund Earnings	2	25
Pre-Tax Earnings	13	83

***Note:** The production numbers above represent 50% of what the Principals have previously originated, and do not take into account the natural fillip to business volumes from the competitive advantages of a fully integrated operation. In addition, 33% of the incentive compensation (derived as 35% of Operating Margin) will be invested on a pre-tax basis in the Debt and Equity Funds on a 75% / 25% split, and remain invested for five years.*

Pre-tax net earnings in the third year of operation, would approach \$100 million with further growth thereafter. Based on an effective tax rate of 35%, and a normalized price-earnings multiple of 14.5x (for money center banks), the incremental shareholder value realized would exceed \$1.0 billion shortly thereafter.



Project Atlas

Resources

Staffing – To create this prodigious value, staffing by area would be as follows:

Staffing	2004	2005
Banking	29	35
Investments	7	15
Capital Markets	9	13
Management & Coverage	<u>2</u>	<u>2</u>
	47	65

A newly created, wholly-owned subsidiary of Barclays would house the staff, with dual employment at the Broker-Dealer / Section 20 for staff having investor client interaction.

Capital – the capital requirements to support Operations would encompass positioning whole loans, hedging and secondary trading activity. This would increase commensurate with business growth. For the High Yield Funds (“Investments”), the capital call would peak at the end of year 2 (i.e., 2005) and then wind down over the ensuing 3 years. Over five years, Barclays would have roughly \$200 million in net capital supporting both components of a franchise conservatively valued in excess of \$1.0 billion. At that point, Barclays could continue investing in the High Yield Funds, or in the alternative, an institutional capital raise could be instituted to partially or fully supplant Barclays’ interest. A summary of the average capital requirements follows:

Average Capital Requirements	2004	2005	2004 - 2008
Operations	17	71	82
Investments	<u>19</u>	<u>125</u>	<u>138</u>
	36	196	220

The projected return on capital would exceed 30%

Infrastructure – we will have five office locations and competitive technology that will be phased in over an 18 month time period, with the base operations located at the main New York City offices of Barclays located in Manhattan. The other locations will be Cincinnati, Dallas, Denver and San Francisco.



Project Atlas

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Summary & Next Steps

The aegis of a well-capitalized financial institution such as Barclays is sought, whose strategic plans coincide with the establishment of the proposed seminal business framework of Project Atlas. With a presumed interest in furthering discussions, the following steps are proffered:

- Meet to review detailed Operating Plan
- Meet the other Principals (Would need to coordinate this with the utmost discretion)
- Gain approval to proceed
- Complete contract negotiations with Principals
- Begin executing Operating Plan in Q1 2004

I have attached my curriculum vitae, which describes the three highly successful franchises I have played an instrumental role in creating on the “buy-side” and “sell-side” of real estate debt capital markets at J.P. Morgan and Morgan Stanley. If provided the opportunity and resources, Project Atlas will dwarf these successes. Furthermore, implementation can be structured for immediate impact, or “slow-walked” initially and ramped up in a manner suitable to Barclays’s strategic plans.

Project Atlas is more than just a business plan – it represents the elucidation of erudite business practices that have been judiciously integrated through the collective efforts of the seven aforesaid Principals over a six-month period. Our attention to detail and enduring puissance are steeped in a shared philosophical foundation that spans a daunting collection of axioms. Our mantra throughout its formulation (and which will be preserved through implementation) has been the phrase made famous by Winston Churchill during WW II: ***“We Shall Never Give Up and We Shall Not Fail”***.

Sincerely,

Spencer C. Young III

COMMERCIAL MORTGAGE ALERT

The Weekly Update on Real Estate Finance and Securitization

www.CMAAlert.com

JANUARY 23, 2004

- 8 REIT UNDERWRITER RANKING
- 10 CMBS DEALS IN THE WORKS: US
 - 2 Wachovia Funds NY Office Tower
 - 2 Lehman Financing Carlyle Deal
 - 3 Jitters Back Over Terror Insurance
 - 3 Bear Readies Debut Deal in UK
 - 3 REITs Keep Stoking Bond Market
 - 4 Bear Placing Hotel Mezz Loans
 - 5 Add-On Planned for Australian Deal
 - 6 MetLife Promotes Exec to New Post
- 10 ORIX Directs Sarcasm at Lehman

THE GRAPEVINE

Goldman Sachs is putting together the first conduit deal backed solely by loans with five- and seven-year terms, in hopes of feeding the strong demand for shorter-term securities with a fixed rate. Investors usually have to buy such paper in the secondary market.

Goldman and a couple of unidentified partners have already amassed a \$750 million pool of loans. They are looking to bring in additional players to increase the offering's size to \$1 billion, with an eye toward an April launch. Goldman started securitizing five- and seven-year loans a couple of years ago, but until now has sprinkled them in deals with longer-term mortgages.

Banc of America has two offerings headed for the market. The first, a \$1 billion fusion deal, is expected to be

See GRAPEVINE on Back Page

GMAC Seen Trimming Huge Balance Sheet

Even though **GMAC Commercial Mortgage** is no longer on the block, changes are still in store for the giant finance company.

GMAC is likely to downsize its massive balance sheet, arrange cheaper sources of financing, reduce bloated compensation packages over time, and streamline operations in order to eliminate redundancies and weed out poorly performing businesses.

People outside the firm said the moves are aimed at addressing weaknesses that became apparent during the long and ultimately unsuccessful effort to sell GMAC. They said GMAC would adjust its operations after being disappointed by how suitors valued the business.

But GMAC chief executive officer **Bob Feller**, while acknowledging GMAC

See GMAC on Page 5

CMBS Pro Planning Securitization Venture

Former **Morgan Stanley** executive **Spencer Young** is working on an ambitious venture that would team up with a commercial bank to originate mortgages, trade commercial MBS and invest in B-pieces.

The company would source loans for the bank, which in turn would fund the mortgages and hold them for securitization. Young's company would also form a commingled fund that would buy the B-pieces of resulting deals.

Young is in talks with several U.S. banks interested in using the venture as a springboard into the securitization market. He expects to finalize a deal by the end of the first quarter. The goal is to originate nearly \$1 billion of loans by yearend. The company's name will be tied to the name of the bank partner.

Young said he has recruited seven veteran CMBS executives for the effort, including originators, investment bankers and investment managers. He would

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BofA Tops Ranking of REIT Dealers Again

Banc of America has snared its third consecutive crown as most-active bookrunner for REIT bonds, squeaking past **Deutsche Bank**.

BofA led \$1.74 billion of offerings last year, finishing a bare \$40 million ahead of Deutsche (see ranking on Page 8).

The firms competed for business against a backdrop of slightly declining issuance and strong investor demand. Issuance totaled \$10.4 billion, down 2% from \$10.6 billion in 2002. Meanwhile, the growing appetite of investors for high-grade paper drove average REIT spreads down by about 125 bp.

While BofA retained its crown, the rest of the ranking was shuffled. No other member of the Top 5 in 2002 repeated the feat last year. Deutsche climbed to second place from 10th in 2002. **Lehman Brothers**, which captured third place with \$950 million of volume, had finished sixth the year before. **UBS**, with \$925

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CMBS ... From Page 1

identify only one — **Rob Cestari**, a former **Nomura** executive, who will head CMBS trading. The others do not want their names disclosed yet because they have not given notice at their firms, he said.

While many start-ups adopt a narrow focus, Young's venture is taking a soup-to-nuts approach. The operation will write loans, passing on the senior portions to the bank partner and retaining any mezzanine portions. When the loans are securitized, the venture will keep some of the junior bonds. And it will support the deals in the secondary market through trading.

The firm's capital markets group is also expected to buy CMBS and corporate REIT bonds in order to issue collateralized debt obligations. The B-pieces and mezzanine loans will be held by a \$100 million commingled fund that the venture plans to set up.

The venture will source institutional-quality loans of all sizes. With the strategy, Young is drawing from his experience at Morgan Stanley, where he helped form the "IQ" brand program, in which insurance companies, commercial banks and pension funds contribute high-quality loans to securitizations led by the investment bank. The venture's

loans will be contributed to securitizations conducted jointly with other conduit programs.

According to Young's business plan, the bank partner's projected return is 30% annually. The firm would be based in Manhattan, with four regional offices in the Midwest and West. It would employ 47 people by the end of the year and 65 by the end of 2005.

Young was one of the founders of J.P. Morgan's conduit program. He was hired by former J.P. Morgan CMBS chief **Michael Jungman** in 1994 and served as chief operating officer of the firm's first conduit operation. He left J.P. Morgan for **Morgan Stanley** in 1997. At Morgan Stanley, Young initially worked as a senior executive in the conduit group. He later became a senior coverage officer in the finance group before leaving the firm in November 2002. Since then, he has been developing his business plan and managing private-equity investments.

Cestari spent six years at Nomura, at one point running the CMBS trading desk. He left in 2000 to set up a trading platform at **CapitalEngine.com**, a Web-based real estate finance operation. The firm went out of business in 2001. After that, Cestari had a stint at **CIBC World Markets** and formed his own consulting firm, **Sinjin Fixed Income Advisors**, based in Manhasset, N.Y. ♦

Senior Mortgage Professional Charlotte, North Carolina

TIAA-CREF (Teachers Insurance) is currently filling a senior commercial mortgage origination position with extensive borrower client contact and new client development responsibilities. Will source, structure, negotiate, price and present mortgage investment opportunities from clientele consisting of REIT's, large national developers and pension fund advisors. Will additionally utilize capital markets knowledge to structure and price transactions with investment banks, and facilitate other real estate debt and equity investment opportunities across TIAA's product lines.

Requirements

Bachelor's degree required, MBA preferred with minimum of 10 years related experience in originating, analyzing, and negotiating large commercial mortgage loans in all property types. Position requires sophisticated technical, negotiating, marketing and client service skills. Credit background, investment banking and relevant real estate capital markets experience viewed favorably.


If you are qualified and ready for a challenge in a dynamic, innovative environment, you may mail or e-mail your resume and salary history to:



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Top Ten List

Reasons Why
Spencer Young
Should Be Mazzei's
"Go To Guy"
@ Barclays Capital



10. Have Plan that creates a competitive advantage CMBS "Players" Can't Mimic
9. Established CMBS Business at Sec. 20 Previously Working for Tom Kalaris
8. Teams for airlift from Insurance Companies (e.g., IQ® CMBS issuers)
7. Have Guidelines, Models, Offices, etc.
6. Innovative products ready to go
5. Market-tested Cross-Sell Plans all set
4. Will create "IQ®"-Type Quality Brand
3. Will Draw Institutional Clients / JV Ptrs.
2. In the Black in '04 / Top 10 in '05



. . . And the # 1 Reason . . .

COMMERCIAL MORTGAGE ALERT March 13, 1995

Morgan Conduit Blankets Nation

J.P. Morgan & Co. has signed up Norwest Corp. of Minneapolis as a conduit lender, rounding out an impressive, nationwide list of commercial mortgage originators.

The roster of participants in J.P. Morgan's conduit now consists of four big regional banks, the nation's largest thrift, an insurance company and a mortgage banking operation. No other alliance can boast of having such a diverse and high-powered group of players.

The conduit, which J.P. Morgan began assembling last spring, has not yet brought any commercial MBS deals to market. But with its stable of originators now lined up, it is expected to soon start pumping out volume.

J.P. Morgan will acquire the mortgages from originators and pool them for securitization. The program marks the first time that J.P. Morgan is acquiring loans outright, as opposed to acting as a distributor of commercial MBS for clients.

By focusing on regional lenders, Morgan has been able to establish a significant presence throughout the country:

- Northeast — John Hancock Mutual Insurance Co. will originate all types of commercial mortgages. The Boston-based insurer will also originate loans in other regions through 10 offices.
- Middle Atlantic — Midlantic Corp. of Edison, N.J., will originate in New Jersey and Pennsylvania.
- Southeast — First Union Corp. of Charlotte, the ninth-largest bank in the country, will originate commercial mortgages from Florida to Washington, D.C. However, it has reserved the right to securitize multi-family mortgages itself.
- Midwest and Southwest — Banc One Corp., the nation's eighth-largest bank, operates banks throughout the Midwest and in Texas and Arizona.
- Upper Midwest — Norwest, the 13th-largest bank, will originate loans in Minnesota, Iowa, Colorado, New Mexico and Arizona.
- West Coast — The nation's largest thrift, Home Savings of America FA of Irwindale, Calif., will originate multi-family loans (for more than \$8 million) and mobile-home-park loans through 10 offices in California.

The regional originators will be supplemented by Amresco

1. I am motivated to grab market share from Morgan Stanley as I did at JPMorgan – but in a completely different manner. Never lost a client “bake-off” to Morgan Stanley, however, virtually all clients moved to Morgan Stanley once I joined Mike, our collaborative efforts would no doubt create an enterprise of prodigious success