

**PROPOSED TRADING AND STRUCTURING GROUP
EXECUTIVE SUMMARY**

**Prepared For Project Atlas
August 28, 2003**

**Presented by:
Robert Cestari**

Overview

The purpose of this summary is to discuss the formation and activities of a Trading and Structuring Group (the “Group”) within a newly formed integrated real estate finance and capital markets operation (“Project Atlas”). Project Atlas will be part of a larger financial institution (the “Firm”) that will be providing capital and other resources to us. This Group’s primary purpose is to ensure the best possible execution on all of the loans, B-notes and mezzanine financings created by Project Atlas. This optimization would occur by following four main lines of business activities; pricing and structuring support for all of the loan origination groups, new issue distribution, secondary trading and obtaining matched financing for our B-notes, mezzanine pieces and subordinate bonds.

In this summary I will discuss the four different business activities, the resources needed to develop them and, where appropriate, projected revenues. Next, I will spend some time discussing marketing the Groups activities both internally and externally. Finally, there will be a brief discussion of personnel and overhead requirements for establishing the business.

I. Business Activities

The trading desk would be structured so that a few people can leverage off of the other professionals within Project Atlas and execute on all of the business activities discussed herein. The head of the group would be responsible for overseeing all personnel and business activities. He should also be able to be the lead person in each area. Each individual working on the desk would be primarily responsible for one of the business activities, but should also be able to back up at least one other.

Pricing and Structuring Support

It would be the Group’s responsibility to develop and maintain the pricing and structuring models to be used by the loan origination groups and at securitization. The models will most probably be developed internally by a structurer working on the trading desk. An organically developed system can be easily adapted and modified to the changing needs of the different origination groups. Working with the securitization group to accurately predict rating agency levels, the models would produce pricing grids tailored for each of the three origination groups dependant on a current capital markets execution. In addition, the models would also test the impact of larger loans or structural innovations on the overall execution of a deal. It is important to constantly work with the different origination group to refine the pricing guidelines and discuss different loan structures and the impact they would have on a securitization.

I ultimately envision these matrixes and some modeling capability being available to most of Project Atlas’s professionals on the Firm’s intranet. We could allow varying

degrees of interactivity depending on the individual user. This may require an outside consultant if the Firm does not have the internal resources to develop this.

Although this activity is value added, it does not directly generate revenues unless some type of fee is charged to the origination groups for this service. Alternatively, a structuring fee may be added on to each securitization.

New Issue Distribution

With annual origination of approximately \$2 billion, Project Atlas would be in the market with a new issue securitization five or six times a year, The Group's role is to ensure the best possible execution. This is done by choosing the right securitization partner, extensive pre-deal marketing, trading support, and creating the most efficient structure for each deal. The joint venture that Project Atlas forms for its new issue originations is extremely important to the overall execution on our collateral. Working with the securitization group, we will interview all prospective partners and choose the best fit for Project Atlas based on 1) distribution capabilities; 2) quality of their collateral; 3) pricing and 4) how well the two sides work together. Before each securitization, face-to-face meetings with most of the major accounts across the country would need to be set up. Most of these road shows would be done with our partner, but individual meetings help bolster relationships and are better at furthering Project Atlas's own agenda.

Although we will be offering full credit for the league tables to our partner, we would retain distribution rights to a certain percentage of our bonds. This is extremely important in cultivating and maintaining our relationships with our institutional investors. It also helps in building our secondary trading volume. In the weeks leading up to a deal it is important to be viewed as active traders. This does not mean that we have to bulk up our inventory, but we need to be more aggressive in showing trade ideas to accounts and staying on top of what they are trading. Trading support may also involve doing some swaps for new issue paper. Finally, this trading activity will also generate different structural ideas. The Groups function of structuring the underlying collateral into bonds will be done in concert with our partner. However, we still need to be innovative and responsive to reverse inquiries from our clients. Also, because Project Atlas will be retaining certain bonds from the securitization, we will have the ability to tailor make bonds for our own account.

Revenues from new issue distribution would primarily come from our participation in the profits generated from the securitization. In addition, we would earn an underwriting fee on the retention bonds that the desk sells. This fee would be equal to the fee being paid to our securitization partner.

Secondary Trading

The key to secondary trading is distribution. A trader may know exactly where bonds are trading and be able to spot relative value, but without the account base to sell into it is very hard to do any kind of volume. It is possible for a trading group to support a large

origination group without doing secondary trading. CIBC securitizes almost \$1.5 billion a year while only selling about 20% of that at new issue. They only trade those bonds in the secondary if they can do it risk free while working an order. This may sound nice from a risk perspective, however, in adverse market conditions you are left at the mercy of your partner if you have no distribution capabilities. Secondary trading also helps the new issue distribution and provides market knowledge and feedback to the origination platform. Establishing a secondary trading platform will also be a valuable for sourcing bonds, whole loans, B-notes and mezzanine pieces for Project Atlas's two funds. Buying loans for a securitization is a good source of revenues for the trading desk and can be more profitable than newly originated loans. In addition, sourcing bonds and loans for the two funds should also be done as a profit center. On a deal-by-deal basis, they should be sold into the funds on an agreed upon bid/ask spread.

Now that the case has been made for being active in the secondary market, it is our understanding that there is currently little, if any, CMBS distribution capabilities at the proposed capital source. In the short term, some distribution capabilities would have to be available on the trading desk. The head of the group along with one "Product Manager" would cover the top twenty to thirty accounts directly from the desk. In addition, these two would also have to evaluate the current distribution capabilities at the Firm and cultivate any talent that may already be in place. There will be a discussion of this evaluation and cultivation in the Marketing Section. Under this scenario, average monthly trading volume would be approximately \$200 million and would focus on more value added trades rather than generic blocks of AAAs. The desk would look to leverage off of the origination groups to help get a better understanding of any collateral issues and to help convey the story to the investor. Balance sheet requirements would be approximately \$250 million with about 50% being AAAs and up to 10% being below investment grade. The estimated revenue from this would be \$1.1 million a quarter and is further broken done on the attached spreadsheet.

This secondary trading volume may sound light, but we are taking very little risk and working with very little distribution. If the Firm makes a decision to develop a mortgage sales force, the trading desk would take a lead role in recruiting and training the sales force. Under this scenario, average monthly volume should grow to closer to \$1 billion, with approximately 75% being in AAAs and up to 10% being below investment grade. The main difference in the percentage of AAAs being traded would be due to the ability to cover and trade volume with some of the larger hedge funds rather than focusing more on insurance companies. The balance sheet requirement would be \$1.2 billion and projected quarterly revenues would be \$3.6 million.

Matched Financings

One of the functions of the trading desk is to be constantly evaluating potential exits or matched financings for our two funds. In today's capital markets environment this most likely means some type of CBO/CDO program starting in 2005. However, we should always be looking to lock in long term financing if the terms are advantageous. How we execute our collateral in a CBO/CDO will also depend on our distribution capabilities. If

the firm has distribution in Europe, working with the securitization group, we would be able to underwrite our own deals. This would obviously represent the best execution as well as allow us to develop a separate CBO/CDO business. Combining distribution with collateral and structuring, we would be able to pitch third party business. If there is no European distribution, we would attempt to form a partnership similar to our new issue partner or we could simply sell our collateral into someone else's deal.

II. Marketing

Extensive marketing, especially during the launch of a new venture is key to conveying a well thought out message and business plan. As indicated earlier, we will be marketing to the institutional investor as well as to whatever internal sales force and other trading desks may exist at the firm. In addition to road shows and one-on-one meetings with investors prior to each new securitization, we will initially want to have face-to-face meetings with every investor possible. These meetings should be done in conjunction with the securitization group as well as with several senior bankers. Project Atlas's composition, competitive advantages and credit culture should be addressed by the securitization group and the bankers. The trading desk should address how we plan on covering that account for both new issue and secondary trading, what type of trading we will be doing and how we plan on developing our distribution in the future. It is very important to manage expectations up front about our plans. We need to delineate what our niche will be, and then show that we can execute as promised. Although we will not specifically advertise the trading desks services, industry publications should be targeted with press releases and stories that outline the trading desks value added approach and new issue distribution capabilities.

In addition to institutional investors, the Group will work with the securitization group to market our origination platform and trading capabilities to potential partners for new issue distribution. This will be focused on the larger Investment Banks who are eager to pick up league table credits.

Internally, as the newcomers, we need to be careful not to appear threatening to any existing groups. We will need to have good working relationships with other trading desks at the firm in order to execute certain hedges as well as develop the account base. We will also need to determine what product is being sold to accounts we hope to do business with and how well that account is being covered. In most cases, unless other mortgage or structured product is being sold, the contact person at these firms for CMBS will be different from the firm's existing relationships. We would need to speak with each salesperson about his account list and determine how deep his relationships go. Next, we need to evaluate the salesperson's ability to sell structured product as well as their desire to do so. A salesperson is not going to learn a new product if he is not convinced it will be profitable to do so. We need to demonstrate that we have the long term backing of the firm, we have substantial expertise, and we will be regularly coming to market with new issue paper and secondary trades. In addition, we need to be available to the sales force to explain our deals and bonds on the inventory. Ongoing seminars for

them over pizza on Friday afternoons not only educates, but also builds good will. However, even if we do all of these things, the firm's existing sales force may not have the capacity, especially domestically, to sell structured product. Even if we brought in an entire structured products sales force, unless the firm has other products for them to sell, we will not see the desired flow from our account base. Clearly the development distribution should be done in the context of a larger, firm wide business plan.

III. Personnel

The Group will work very lean. The personnel will need to have extensive capital markets and real estate expertise and be able to work in a variety of capacities. Below is a suggested list of required personnel as well as base salaries. Bonuses will be paid out of a bonus pool determined by a formula based on the Group's and Project Atlas's net profits.

<u>Position</u>	<u>Title</u>	<u>Base Salary</u>
Group Head	Managing Director	\$200,000
Product Manager	Director	\$150,000
Structurer	Director/VP	\$125,000
Structurer	Vice President	\$100,000
Junior Trader	Associate	\$75,000
Research	Associate	\$75,000
Administrative Assistant	n/a	\$45,000

This represents the staffing requirements at full capacity. We would expect to start the Group with the Group Head, Product Manager, one Structurer and an Administrative Assistant. We would add the rest of the staff as demand requires or as exceptional personnel present themselves.

IV. Overhead

The group would require standard trading desk space as well as the normal computers and technology package. This package includes Bloomberg's, Telerate, Intex, and Trepp Analytics as well as the firm's standard trading systems. Aside from salary and bonus, the Group would also have the Firm's standard benefits package. In addition, I would estimate Travel and Entertainment to be \$250,000 not including \$50,000 for special events.

V. Challenges

The biggest challenge the Group faces is in the success of Project Atlas's origination groups. If we can reach the projected loan origination numbers, the trading desk will have the clout to form the right partnerships and do some new issue distribution and secondary trading. Initially, the task is to convince the market place that we will be larger than even we expect. That is accomplished by having the right team in place early and having the

long-term commitment of the Firm. Even if we manage expectations as to how the trading desk will operate and grow, it will still be hard building secondary trading volume until we have new issue paper to distribute.

Distribution is also a limiting factor. While we can develop our own sales group, in order to reach the secondary trading numbers discussed and do our fair share of new issue sales, they will need more product to sell. How Project Atlas fits in to a larger strategic plan will ultimately determine what type of sales force we develop and how much secondary trading we can do.

VI. Conclusion

Project Atlas is an extraordinary opportunity to create and share ownership in an integrated business located within a larger financial institution. As with any new venture, building the right team is as important as having the right business plan. Having an integrated real estate group with the two funds attached to it will give Project Atlas the competitive advantage to quickly take its market share. Having the right professionals working together in building the group will provide the dynamic atmosphere for the group to flourish in. I believe that as head of the Trading and Structuring Group I would bring the necessary skill set and leadership characteristics needed to make Project Atlas a success. I look forward to achieving our goals together.

Project Atlas

Trading and Structuring Group

Introduction

- This Group's primary purpose is to ensure the best possible execution on all of the loans, B-notes and mezzanine financings created by Project Atlas.
- This optimization would occur by following four main lines of business activities; pricing and structuring support, new issue distribution, secondary trading and obtaining matched financing for our Funds.

Business Activities

- Pricing and structuring support for all of the loan origination groups.
- New issue distribution.
- Secondary trading.
- Obtaining matched financing for our B-notes, mezzanine pieces and subordinate bonds.

Pricing & Structuring Support

- The Group will develop and maintain the pricing and structuring models to be used by the loan origination groups and at securitization.
 - Models will most probably be developed internally.
 - Produce pricing grids tailored for each of the three origination groups dependant on a current capital markets execution.
 - Matrixes and some modeling capability being available to most of Project Atlas's professionals on the Firm's intranet.

New Issue Distribution

- With originations over \$2B annually, Project Atlas would be in the market with a securitization 5 or 6 times a year, The Group's role is to ensure the best possible execution.
 - Choosing the right securitization partner
 - Extensive pre-deal marketing
 - Trading support
 - Creating the most efficient structure for each deal.

Secondary Trading

- The key to secondary trading is *DISTRIBUTION*.
 - Without significant penetration into a diverse account base it is very hard to do any kind of volume.
- While it is possible to support a large origination effort with doing any significant secondary trading, it does provide several significant benefits:
 - Without distribution, you are left at the mercy of your partner in adverse market conditions.
 - Helps the new issue distribution and provides market knowledge and feedback.
 - Valuable for sourcing bonds, whole loans, B-notes and mezzanine.

Secondary Trading

- Developing the distribution capability
 - Short term distribution capabilities would have to be available on the trading desk.
 - Evaluate the current distribution capabilities at the Firm and cultivate any talent that may already be in place
 - If the Firm makes a decision to develop a mortgage sales force, the trading desk would take a lead role in recruiting and training the sales force.
 - Under this scenario, trading volume can grow to close to \$1B a month.

Matched Financings

- In today's capital markets environment this most likely means a CDO execution.
 - However, we should always be looking to lock in long term financing if the terms are advantageous
- Initially, we will look to partner for CDO transactions based on collateral mix and distribution capabilities.
- Depending on our capital sources distribution capabilities in Europe we would hope to run our own transactions and perhaps develop a separate CDO Business.

Marketing

- Externally:
 - Institutional Investors
 - Other Wall Street Banks
- Internally
 - Management, Risk and Compliance
 - Sales Force and Other Trading Desks

External Marketing

- We will initially want to have face-to-face meetings with every investor possible and road shows and one-on-one meetings with investors prior to each new securitization.
 - Meetings should be done in conjunction with the securitization group as well as with several senior bankers.
 - Project Atlas's composition, competitive advantages and credit culture should be addressed by the securitization group and the bankers.
 - Account coverage for both new issue and secondary trading, what type of trading we will be doing and how we plan on developing our distribution in the future need to be discussed.

External Marketing

- Choosing the right partners for both CMBS and CDO transactions and creating the right joint ventures.
 - Market our origination platform and trading capabilities; attempt to create a “brand”.
 - Choose partners based on collateral quality, distribution capabilities, ancillary business opportunities offered and how well we work together.

Internal Marketing

- Need to have good working relationships with other trading desks in order to execute certain hedges as well as to develop the account base. .
- Need to speak with each salesperson about his account list and determine how deep his relationships go and to evaluate the salesperson's ability to sell structured product.
 - Convince the sales force it will be profitable to sell our product and demonstrate that we have the long term backing of the firm, substantial expertise, and we will be regularly coming to market with new issue paper and secondary trades

Resources

- The Group will work very lean. The personnel will need to have extensive capital markets and real estate expertise and be able to work in a variety of capacities.
- In the first year we will be staffed with five professionals and an Executive Assistant
 - Group Head
 - Product Manager/Sales Person
 - 2 Structurers
 - Junior Trader

Initial Steps

1. Lock up key personnel.
2. Complete all pricing models for both whole loans and CBO/CDOs.
3. Meet with risk management, compliance and back office systems people.
Have all guidelines and processes put in writing and in a centralized location.
4. Meet with all other traders exchange hedging ideas and get a good idea of how everything at the firm works.
5. Make sure all systems are up and running correctly.
6. Meet with all sales people to go over account lists and to judge their capabilities and interest in distributing CMBS.
7. Formalize marketing plan to both investors and other Wall Street firms and begin to set up meetings with these groups.

Project Atlas Hedging Strategies

There are a variety of instrument that are generally used to hedge CMBS and commercial whole loans prior to a securitization. In addition to these different types of hedges, there are also strategies as to when and in what relation to use each instrument. None of these instruments alone adequately hedge a commercial whole loan book or a portfolio of bonds at a reasonable cost. A hedge should be dynamic and change over time and according to market conditions. As a general rule I believe it is best to keep the hedge as simple as possible.

The different types of hedges include swaps, US Treasury shorts and total rate of return swaps. You can also short Agencies and the CMBS index. In most normal conditions, a combination of 5 and 10 year swaps and US Treasury shorts would be used to hedge both the whole loan position and the bond positions. For whole loans approximately 85% of the value would be hedged with swaps. The remaining 15% would be duration matched Treasury shorts. Initially, most of the swaps would be in the 10 year sector, adding 5 year swaps as you approach a securitization to end with a duration match between the collateral and the swaps. This 85%/15% ratio would change +/- 5% depending on market conditions. For example, in a rising interest rate environment we would move out of some of the shorts. Most bonds would be hedged almost exclusively with swaps, except for lower rated bonds and IOs that trade off of Treasury Benchmarks. These bonds would be hedged mostly with Treasury shorts with some swaps if they are being held over a longer time period. Total rate of return swaps also provide excellent protection, however it is much more expensive and less flexible.

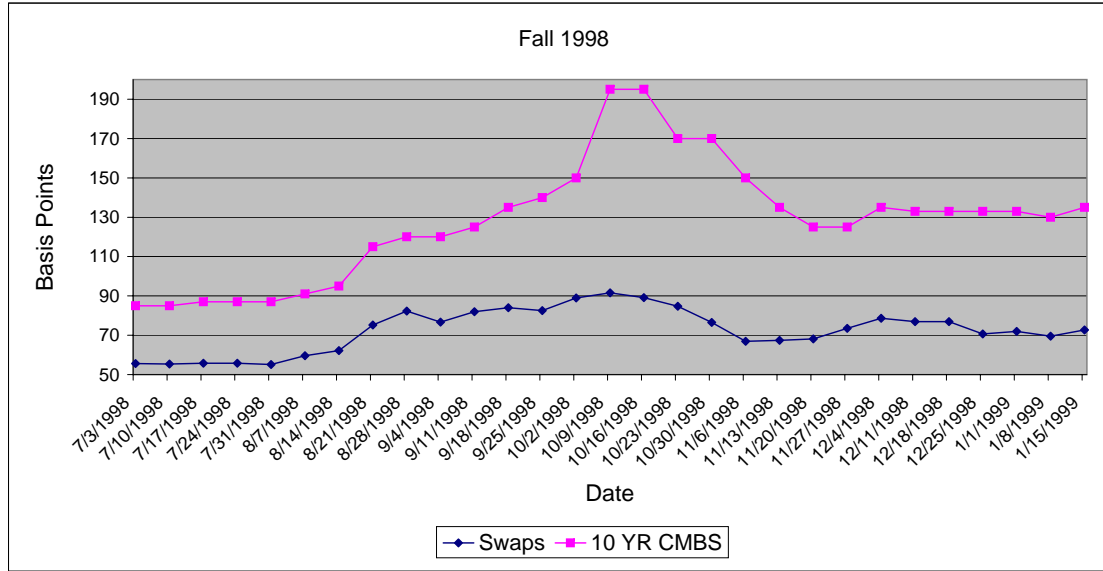
Shorting the Index, while probably the best hedge, is also the most expensive. This type of hedge would be used in periods of great volatility and could also be used as a short term hedge coming into a securitization. Agency shorts are also a good hedge in times of overall market instability, however, they are not that closely correlated with CMBS. Although they are an inexpensive hedge, they need to be used cautiously.

Sensitivity Analysis

Fall 1998

Date	Swaps	10 YR CMBS	
7/3/1998	56	85	29
7/10/1998	55	85	30
7/17/1998	56	87	31
7/24/1998	56	87	31
7/31/1998	55	87	32
8/7/1998	60	91	31
8/14/1998	62	95	33
8/21/1998	75	115	40
8/28/1998	82	120	38
9/4/1998	77	120	43
9/11/1998	82	125	43
9/18/1998	84	135	51
9/25/1998	83	140	58
10/2/1998	89	150	61
10/9/1998	92	195	103
10/16/1998	89	195	106
10/23/1998	85	170	85
10/30/1998	77	170	94
11/6/1998	67	150	83
11/13/1998	67	135	68
11/20/1998	68	125	57
11/27/1998	74	125	52
12/4/1998	79	135	56
12/11/1998	77	133	56
12/18/1998	77	133	56
12/25/1998	71	133	62
1/1/1999	72	133	61
1/8/1999	69	130	61
1/15/1999	73	135	62

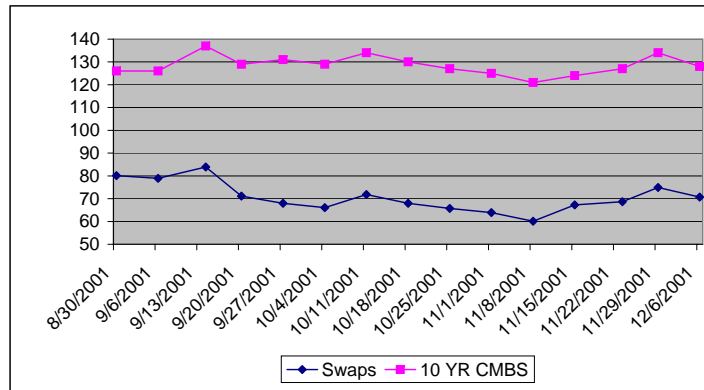
High	106	77
Low	29	
Points	5.775	
6 month Hold	2.25	



September 11, 2001

Date	Swaps	10 YR CMBS	
8/30/2001	80	126	46
9/6/2001	79	126	47
9/14/2001	84	137	53
9/20/2001	71	129	58
9/27/2001	68	131	63
10/4/2001	66	129	63
10/11/2001	72	134	62
10/18/2001	68	130	62
10/25/2001	66	127	61
11/1/2001	64	125	61
11/8/2001	60	121	61
11/15/2001	67	124	57
11/23/2001	69	127	58
11/29/2001	75	134	59
12/6/2001	71	128	57

High	63	17
Low	46	
Points	1.275	
3 month hold	0.75	



Talking Points To Investors – February 28, 2004

1. Captive source (i.e., no bids in comp) of high yield CMBS;
2. Underlying collateral & related mortgages underwritten pursuant to IQ® - type quality standards;
3. Ability to customize the underwriting guidelines ("Guidelines") to their investment needs;
4. Authority to approve or reject mortgage loan proposals with salient features not meeting Guideline parameters;
5. Mortgages originated and exposures managed by senior life insurance company portfolio lenders;
6. Incentive compensation predicated on the long term credit performance of the underlying mortgage loans;
7. Collaborative operating environment supported by line and group components to incentive compensation;
8. Operational leverage through joint ventures with other high quality CMBS market participants (broker-dealers, servicers, real estate debt & equity investors, etc.);
9. Advisory counsel from a triad of vaunted senior Wall Street executives
10. Competitive advantages in originating mortgage loans;
11. Transaction velocity and enhanced liquidity in whole loan positions through partnered CMBS and Real Estate CDO deals;
12. Expanded target for capturing market share (from insurance companies and banks);
13. Deep experience base of Principals (page 4 of the Memorandum)
14. Accommodative stipulations to the non-investment grade CMBS;
15. Substantive philosophical foundation to the management of the business ;
16. High quality branding and liquidity support through secondary trading;
17. Emphasis on long term value creation;
18. Focus on technology for productivity and sound decision making; and
19. Philosophical basis for the initiative

**Project Atlas
Trading and Structuring Group
Secondary Trading Projected Expenses**

Assumed Annual Expenses

	2004					2005				
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Personnel Base	\$92,500	\$148,750	\$173,750	\$173,750	\$588,750	\$173,750	\$192,500	\$192,500	\$192,500	\$751,250
Bonus						\$875,000				\$875,000
T&E	\$25,000	\$50,000	\$70,000	\$60,000	\$205,000	\$70,000	\$60,000	\$70,000	\$50,000	\$250,000
Special Events			\$15,000		\$15,000	\$25,000		\$15,000	\$10,000	\$50,000
Technology*	\$5,000	\$5,000	\$5,000	\$5,000	\$20,000	\$5,000	\$5,000	\$5,000	\$5,000	\$20,000
					\$828,750					\$1,946,250