

J.P. Morgan Securities Inc. To: Peter B. Smith, MD
Stephen G. Thieke, MD

From: Charles M. Trunz III, Pres. JPMSI
John P. Mullen, MD
Michael A. Jungman, VP
Spencer C. Young III, VP

Date: June 29, 1994

Subject: New Product Approval for Commercial Mortgage Securitization, Trading & Finance

Executive Summary

Morgan Guaranty Trust Company of New York (MGT) and the Commercial Mortgage Finance Group (CMFG) of J.P. Morgan Securities Inc. (JPMSI) seek approval to enter into the commercial mortgage securitization business as follows: MGT proposes to purchase (as Principal) commercial and multifamily (hereinafter "commercial") real estate loans and provide warehouse lending lines to credit-worthy conduit originators, and JPMSI proposes to underwrite commercial mortgage-backed securities (CMBS).

Specifically, approval is sought to position up to \$500mm in commercial real estate loans and \$100mm in CMBS, as well as underwrite up to \$300mm per CMBS issuance, and provide up to \$200mm in warehouse lending lines. It is proposed that these limits be phased in over a six month time frame to provide for an orderly entry into the business.

Significant effort was invested in ensuring that we covered all steps of the firm's new product program, as evidenced by the discussion and analysis which follows, as well as the four binders that contain the appendices referred to in the body of this memo. Consistent with your 7/1/93 memo re: New Product Approval Policy, the checklist of risks and tasks for "Type 2" new products was adhered to, the results of which are contained in Exhibit A to this document. In addition, a summary of the risks and issues identified by New Product Committee Members have been compiled in Exhibit B to this memo, as well as a response as to how each item is addressed. (Please note that the appendices referred to below (summarized in Exhibit C to this memo) are part of two large binders that we would be happy to make accessible to you at your convenience.)

Market Overview

Following the lead of the Resolution Trust Corporation (RTC), which was in a position to put up significant cash reserves to make a market in commercial mortgage backed securities (CMBS), private label executions led by Wall Street firms have now supplanted the role of the RTC in the marketplace. In 1993, there were 122 CMBS deals that came to market totaling \$17.8 billion. Expectations for 1994 are for higher levels, with significant growth expected thereafter. (Refer to Appendix I, section 12 for market overview and trends, as well as market overview charts contained in customer presentations.)

Business Plan

A business plan for the next six quarters has been developed and is included in Exhibit D. This plan contemplates completing three securitization mandates in the second half of 1994, and a series of securitization and advisory mandates in 1995. It further anticipates CMBS secondary trading activity, warehouse lending, and expansion of the conduit origination program. The revenue and P&L based on this plan are summarized as follows:

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(\$ in millions)	Q3 & Q4 1994	YTD 1995
Revenue	\$11.4	\$20.0
P&L	\$9.5	\$14.8

See below discussion of the three pending 1994 deals.

ROA / ROE

Based on the aforementioned business plan (for which the revenues have been probability adjusted), the projected return on equity (ROE) for the second half of 1994 and full year 1995 are 91.5% and 111.3%, respectively. The return on average assets (ROA) over the next six quarters would be 5.61%

Pending Deals

CMFG is working on three securitization mandates, that are expected to be completed in 1994:

Deal Name	Deal Description
Fidelity Federal	Sale of a portfolio of distressed commercial mortgage loans and REO on behalf of Fidelity, to be followed by a securitized financing on behalf of the purchaser of the portfolio (refer to Appendix II for a more detailed discussion of this planned execution).
Argo / Cal Fed	Investment in a limited partnership will receive the equivalent of L+200 plus fees; takeout and underwriting fees (final mandate is expected, albeit pending) will be realized from debt securitization pursuant to asset liquidation plan.
Amresco	Creation of conduit origination program, pursuant to underwriting criteria approved by rating agencies. Pilot transaction, covering \$1mm - \$7mm retail and industrial properties, to be \$100mm, to be followed by an expanded program of \$1mm - \$15mm loans with targeted volumes of \$250mm per quarter.

Risks and Mitigants

The risks associated with this business are classified into four primary areas: (1) market risk; (2) credit risk (including environmental matters); (3) structuring risk; and (4) compliance (including legal, regulatory, financial and operations) risk. The New Product Committee for Commercial Mortgage Securitization, Trading and Finance is a cross functional committee formed in April 1994 and chaired by Charles Trunz and Spencer Young. The committee has addressed each of these risks in the context of the New Product Approval Policy as outlined in the July 1, 1993 memo from Peter Smith and Steve Thieke (see Appendix III and Exhibit B). Other action steps and recommendations that address many of the risks and issues associated with this business are summarized in Appendix IV.

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At a meeting in April 1994, the associated risks and proposed mitigants for CMBS transactions were reviewed with Peter Smith and Tom Kalaris (see Appendix I). At that meeting, the proposed new product was determined to be a "Type 2," which is defined as an entry into new markets or significant modification of existing products, requiring signoff by Morgan's Credit Risk Management Group (CRMG). As a Type 2 product, the following steps toward approval are to be carried out:

Steps toward approval	Done?	Targeted Completion date
1. Review risks with CRMG	Yes	
2. Prepare new product proposal	Yes	
3. Form cross functional committee	Yes	
4. Develop interim procedures	Yes	
5. Obtain signoff by senior manager in CRMG		July 1 ??
6. Initiate phased implementation of business with the help of GTO, Financial, CRMG, etc.		July 1 ??
7. Conduct post implementation review with Audit		July 31

Position Limits

The position limits sought to initiate and grow the CMBS business are recommended to be phased in as summarized below:

Description	@7/1/94	@ 10/1/94	@12/31/94
Morgan Guaranty Trust & Co.			
- Commercial Loan Positions	\$200mm	\$350mm	\$500mm
- Warehouse Lending Positions	50mm	100mm	200mm
J.P. Morgan Securities Inc.			
- Underwriting Position	250mm	300mm	300mm
- Securities Position	50mm	100mm	100mm
Total	\$550mm	\$850mm	\$1,100mm

Many of our competitors (e.g., Goldman Sachs, Lehman Brothers) have positions well in excess of those set forth above. We believe the proposed limits are necessary to be competitive in the market place.

Legal Entities

The business of commercial mortgage securitization, trading and finance will utilize a four legal entity structure that houses assets consistent with the respective business charters and bylaws of each legal entity. As illustrated in the attached flowchart (Exhibit E) and detailed in the attached Appendix V, the commercial mortgage loan positions and warehouse loan assets will be held at MGT. After sufficient volumes have been accumulated for securitization, the commercial mortgage loans will be sold on an arm's length basis by MGT to a newly created wholly-owned subsidiary of J.P. Morgan Securities Holdings Inc. (JPMSH Sub). JPMSH Sub will be the registrant for the SEC shelf registration. In a "simultaneous closing", JPMSH Sub will deposit the commercial mortgage loans into a special purpose trust (unique to each commercial mortgage backed security issuance) in exchange for certificates

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representing interests in the trust's assets, and in turn sell those certificates to JPMSI in a securities underwriting. Securities positions (including those from secondary market trading) will be held at JPMSI. Potential conflicts with J.P. Morgan Investment Management (JPMIM) will need to be addressed.

In the event a loan necessitates foreclosure prior to securitization, the loan will be transferred to an entity designated to hold foreclosed real estate (such as DMHL) that may have to be licensed in the state that the collateral property is located. In certain instances, there will be a nominee owner to accommodate the applicable state law. The environmental risks associated with foreclosing on any particular loan will have to be addressed prior to actual foreclosure. The length of time required for foreclosure and the remedies and procedures available to a secured lender will vary in each state. Each of these matters will be determined, in consultation with our Special Servicer (BEI Management, Inc.), in advance of commencing foreclosure.

Firewall / Legal Issues

The firewall and legal issues associated with the above legal entity structure have been addressed with Rachel Robbins and Gina Maya of Morgan Legal. Refer to Appendix IV for a summary and resolution of these issues as well as highlights of other risks associated with the business, such as potential environmental liability.

The CMBS business would generate "ineligible revenues" for JPMSI under the Section 20 test, the precise impact of which is being dimensioned.

Capital Requirements

The capital requirements are predicated on the legal entity structure and funding requirements discussed above. As noted in the attached Appendix VII, the aggregate capital sought to launch and grow this business is \$191mm, broken out as follows:

J.P. Morgan Securities Inc.	\$120mm
Morgan Guaranty Trust & Co.	70mm
Depositor Entity (JPMSH Sub)	1mm
J.P. Morgan Ventures	--
DMHL	--
Total	\$191mm

The above amounts reflect the full capital requirements for the maximum position limits sought; lesser amounts will be required initially. JPMSH Sub requires \$1mm of funding to cover shelf registration and other start-up expenses, but should not require other funding given that transactions will be "simultaneously closed" (i.e., funding will pass from MGT to JPMSI concurrent with the securities execution). Funding for DMHL will be sought as required from J.P. Morgan & Co.

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Distribution

J.P. Morgan Securities Inc. has developed a reputation as a market leader in CMBS securities distribution, particularly for single asset, and retail backed deals. Over the past two years, Morgan has underwritten six such deals totaling \$702mm, which are described below.

- **Edison Mall** was a \$41mm 'AAA' rated bond offering, backed by a 900,000 square foot shopping mall located in Fort Myers, Florida. The mall is owned by Shopping Center Associates, an affiliate of The O'Connor Group.
- **Woodfield Mall** was a \$172mm 'AAA' rated bond offering, backed by an over 1.9 million square foot shopping mall located in Schaumburg, Illinois (a suburb of Chicago). The mall is owned by a partnership between Taubman Realty Group and CALPERS.
- **Homart** was a \$90mm multi-asset, multi-tranche execution of 'AA' through 'BBB' rated floating rate bonds, collateralized by 5 retail properties located California, Hawaii, Minnesota, and Oklahoma.
- **Danbury Building Trust** was a \$287mm 'Baa'/'BBB+' rated bond offering, backed by an office building located in Danbury, Connecticut.
- **Woodland** was a \$60mm 'AA' rated bond offering, backed by a shopping mall located in Grand Rapids, Michigan.
- **Stratford Square** was a \$52mm 'AA' rated bond offering, backed by a 1.3 million square foot shopping mall located in Bloomingdale, Illinois (a suburb of Chicago).

In many instances, the bonds were oversubscribed and executed at expected or tighter spreads. It is planned that the JPMSI Syndicate Desk (in the person of Randall Outlaw and managed by Bob Hugin) and JPMSI Sales Force (headed by Mark Sheridan) will head up the distribution effort. In addition, JPMSI was ranked number 3 in asset-backed securities in 1993, participating as lead manager and co-manager in more than 50% of the transactions in the United States. This is particularly significant in view of the similarities between CMBS and ABS (e.g., substantially reduced prepayment risk and emphasis on credit enhancement through subordinated tranching).

CMBS transactions typically include rated sub-investment grade tranches equal to 10-15% of the transaction and non-rated first-loss securities equal to 3% to 5% of the total. JPMSI has a very limited track record in distribution of securities of this type. However:

--The market for such securities is expanding at a healthy pace, driven by yield hungry real estate investors, high-yield mutual funds and real estate "vulture funds". A list of investors known to have purchased securities of this type is contained in Appendix VIII.

--We have held discussions with a number of these investors on a preliminary basis to determine their yield requirements, collateral preferences and other investment parameters. Several of the individuals in the Commercial Mortgage Finance Group have relationships with these investors through prior business activities.

--We have met with three pension fund advisors who have expressed strong interest in creating new funds for the sole purpose of investing in sub-investment grade and unrated CMBS. We believe that it will be possible to establish an ongoing relationship with one or more funds of this type.

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--Product knowledge sessions to the New York and Chicago sales forces have commenced, and the sales force has responded with expressions of strong interest from investors. (Many investors that have suffered losses as a result of rapid prepayments of residential MBS are now turning to CMBS due to the reduced prepayment risk.) We also have met with key sales personnel in the London office who have indicated strong interest in CMBS from their client base.

--With respect to the proposed Amresco conduit arrangement, Amresco will provide a backup commitment to purchase the first loss securities in each transaction and will secure its purchase obligation with an advance deposit of cash or letter of credit.

--If JPMSI's securities distribution capability fails entirely, the mortgage loans can be disposed of on a whole loan basis (albeit at less profit as compared to a securitized execution). Most of the major firms on Wall Street currently have an active CMBS business, and are hungry for commercial mortgage product to feed that business.

A strong research function also assists in the distribution of CMBS, and to this regard, interviews have begun in order hire an analyst with solid CMBS research experience.

Accounting & Marks-to-Market

Associated accounting issues have been reviewed with Deborah Cuny and Carl Mueller, both members of the New Product Committee. While in position at MGT, the commercial mortgage loans will be classified as loans held for resale and accounted for at LOCOM (lower of cost or market). Securities positions will be subject to MTM (marks-to-market). Marks on the portfolio (loans at MGT or securities at JPMSI) will be placed by the CMFG trader (Robert McGrath), and Randall Outlaw, which will be reviewed by Financial. As an added measure of control, we will engage a third party firm versed in the valuation of real estate and related securities to review marks on a monthly basis (refer to Appendix IX for proposals from Kenneth Leventhal & Co. and Univest).

Underwriting & Due Diligence

Conduit loans will be originated by approved third party originators pursuant to underwriting standards and due diligence procedures approved by CMFG and CRMG. These standards and procedures have been reviewed and approved by Standard & Poor's and Duff & Phelps and currently under review by outside legal counsel and are contained in Appendix X. In addition, the Commercial Mortgage Finance Group intends to hire an experienced real estate underwriter to re-underwrite conduit originated loans prior to purchase.

Also see attached Appendix XI for a summary of the due diligence procedures that will be carried out on existing loan pools to be purchased as Principal. It is contemplated that existing loan pool underwriting and due diligence will be reviewed with the New Product Committee prior to committing to purchase.

Remediation

Commercial mortgage loans in position will be sourced two ways: (1) conduit loans newly originated to approved specifications; and (2) purchase of existing loans or loan pools. Conduit loans will generally not require remediation while MGT has them in position, as they will be newly originated to approved underwriting standards and there will be some form of put back or first loss coverage by the originator in the event loans become delinquent during the pre-securitization warehousing period (three to six

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months). Commercial mortgage loans purchased as part of existing loan pools would generally not have put back provisions pursuant to reps and warranties, and due to the generally seasoned nature of the loans and their heterogeneous nature, a foreclosure remedy could be required. Should foreclosure be required, the loans will be transferred (at an arm's length value) from MGT to DMHL or another special purpose entity, and remediation procedures to be established and approved by the Real Estate Credit Committee, similar to those outlined in Appendix XII will be followed.

On foreclosure, or earlier if MGT is deemed to be an "owner" or "operator" of the underlying property for state or federal law purposes, MGT may be exposed to significant environmental liability that is not limited to the value of the loan or the property. The risk can be mitigated by taking certain actions such as requiring that environmental site assessments be done prior to MGT's purchase of a loan and prior to foreclosure.

Global Credit / Trading Limits

For conduit originated loans (e.g. loans originated by Amresco), underwriting guidelines approved by Standard & Poor's and Duff & Phelps, as well as CRMG will be the basis for the reunderwriting of each loan by JPMSI (as agent for MGT). The loan underwriting process will be managed by an experienced underwriter (to be hired). To this regard, interviews of candidates have commenced. Pending the arrival of this individual, JPMSI personnel having real estate/rating agency experience will re-underwrite the loans.

For purchases of existing loan pools, due diligence standards as contained in Appendix XI will be adhered to, and the underwriting and pricing of loan pools will be conducted by JPMSI (as agent for MGT). Please refer to Appendix XIII for a summary of pricing methodology for conduit originated product.

Servicing

For conduit loans, it is contemplated that the third party originator will also serve as a Primary Servicer (e.g., bill borrowers, monitor collections, apply principal and interest, administer escrow monies, pay property taxes and insurance, ensure compliance with loan covenants) and Special Servicer (e.g., handle delinquent loans, workouts and foreclosures) for the loans on behalf of MGT (pre-securitization) and the Trustee (post-securitization). As Morgan currently possesses no in-house operational capability to perform requisite control procedures over work performed by the Primary Servicer, a Master/Shadow Servicer approved by Morgan and two rating agencies will be engaged to: (1) verify the Primary Servicer's work; (2) provide advancing capabilities to bondholders (post-securitization); and (3) set up lockboxes and accounts to segregate funds and enhance the collateral position of MGT (pre-securitization) and the Trustee (post-securitization). For existing loan pools, separate Primary, Master and Special Servicers will be engaged to administer the requisite portfolio servicing. See Appendix XIV.

Documentation

Standard documentation is being developed through a collaborative effort with Amresco Capital Corporation, and will be completed for the mortgage loan acquisition phase. This documentation, a draft of which is included in the binder that accompanies this memo, is in process of being reviewed and approved by Legal, CMFG and the Real Estate Credit Committee. Two rating agencies (Standard & Poor's and Duff & Phelps) have already approved the criteria and documentation. The required

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mortgage loan acquisition documentation encompasses standard underwriting criteria, forms, policies and procedures, loan purchase agreements, interim servicing agreements, custodial agreements, etc.

The standardized documentation for the securitization phase of the business includes securitization agreements, pooling and servicing agreements, private placement memoranda, prospectuses, etc. These will be developed after the acquisition related documentation is completed. Morgan Legal has been and will continue to work closely with CMFG on the development of required documentation for the acquisition and securitization phases of the business.

SEC Registration

A shelf registration will be filed by the JPMSH Sub with the SEC to underwrite up to \$1.0 billion in commercial and multifamily multi-tranche securities. As compared with a 144A execution, this will tighten the spreads on the bond execution and lower capital requirements in JPMSI. There will however be instances where the benefits of a 144A execution will outweigh those of a public deal. Morgan Legal (Gina Maya and Bianca Russo) will work with Morgan's outside counsel (Cleary Gottlieb) to prepare this filing. Morgan Legal has concurred with the filing of a separate shelf registration, and will commence work shortly with Cleary Gottlieb.

Operations

The processing of trades will be carried out by GTO pursuant to the procedures outlined in Appendix XV. Initially, GTO will also monitor commercial mortgage positions, CMBS positions, and warehouse lending lines utilizing PC-based models. GTO believes Morgan Delaware can provide in-house processing capabilities through the Advanced Commercial Banking System to be implemented by early 1995; however initially, certain business reports will be produced by the Shadow Servicer (pre-securitization) and GTO, pursuant to the informational needs of CMFG, Credit Policy, CRMG and GTO (see Appendix XV for example reports).

GTO has indicated that certain issues (summarized in Exhibit B and detailed in Appendix IV) need to be addressed, most of which will be mitigated with the hiring of a Master/Shadow Servicer (see Appendix XIV), as well as approved staff hiring, and implementation of the interim procedures as outlined in their June 20 memo contained in Appendix IV. GTO has reviewed and approved this approach.

Trustee / Custodian Requirements

State Street Bank and Trust Company ('AA' rated) has been approved as Trustee and Custodian for Morgan sponsored CMBS issuances and commercial mortgage positions (see Appendix XIV). As Custodian, the requisite collateral documents and credit files will be secured and housed on behalf of MGT (pre-securitization) and the bond certificate holders (post-securitization). Custody will be evidenced by a custodial receipt, which is standard industry practice. The Trustee will also serve as backup advancer to the Primary Servicer and/or Master Servicer. GTO has reviewed and approved this arrangement.

Counterparties

Counterparties associated with the CMBS business will be approved in advance by the appropriate area of J.P. Morgan. Client Sponsors will be designated for all counterparties for which J.P. Morgan assumes credit risk. A summary of the counterparty types that require approval are summarized below:

Counterparty Type	Recommended Counterparties	J.P. Morgan area responsible for approval	Approved ?
Conduit originator	Amresco (also see Appendix VIII for targeted list of commercial banks)	Global Credit / CRMG	Yes
Primary Servicer	BEI Management EQ Services	Global Credit / GTO	Yes Yes
Master/Shadow Servicer	BEI Management First Chicago EQ Services	Global Credit / GTO	Yes Yes Yes
Special Servicer	BEI Management	Global Credit / GTO	Yes
Trustee	State Street	Global Credit / GTO	Yes
Custodian	State Street	Global Credit / GTO	Yes
Law Firms	Cleary Gottlieb Thacher Proffitt	Legal	Yes Yes
Accountant	Kenneth Leventhal	Financial	In process
Due Diligence	Univest	Global Credit / Financial	In process
Investors	See Appendix VIII	Global Credit / CRMG	In process

Hedge Strategy

The hedge strategy to be employed opposite fixed rate commercial mortgage loans and CMBS will be determined by JPMSI for its own account (in the case of CMBS positions) and as agent for MGT pursuant to an agency agreement (in the case of commercial mortgage positions). It is contemplated that the more likely strategy will encompass shorting treasury futures contracts or instituting short cash treasury securities positions. This arrangement has been reviewed and approved by Morgan Legal, Financial and GTO.

Approval Request

Based on the aforementioned, we seek your approval of the new product of commercial mortgage securitization trading & finance, pursuant to the guidelines and controls outlined in this memo and accompanying appendices, exhibits and procedures manual.

C.M.T.

J.P.M.

M.A.J.

S.C.Y.

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cc: William R. Barrett, MD
David W. Fisher, MD
Maureen A. Hendricks, MD
Robert J. Hugin, MD
Thomas L. Kalaris, MD
Mark A. Sheridan, MD
Peter L. Woicke, MD
Commercial Mortgage Finance Group
New Product Committee for Commercial Mortgage Securitization, Trading & Finance

Exhibit A
Summary of Risks / Tasks to be Completed
for a "Type 2" New Product

Risk/Task to be completed	Done	Reference
Business Strategy		
Sponsor New Strategy	Yes	Business Plan - Exhibit D
Understand and document the economics of the new activity	Yes	Business Plan - Exhibit D
Define the capital requirements for the new product	Yes	Capital Request - Appendix VII
Regulatory and Legal Risks		
Verify if Federal Reserve, or other regulatory agency approval is required to do this activity	Yes	No regulatory agency approval required to initiate this activity
Determine if it is subject to Regulation K restrictions	Yes	Not applicable as Regulation K pertains to equity underwriting to foreign affiliates. Legal is reviewing whether deeply subordinated tranches in CMBS transactions could be construed as equity under this regulation.
Ensure business complies with local regulations	Yes	Thacher Proffitt & Wood engaged to prepare state by state analysis of local business requirements and regulations. For mortgage loan purchases, business will comply with local laws through reps and warranties e.g., that counterparty is in compliance with all local laws.
Verify client / counterparty laws to see if the proposed activity is in compliance with those.	Yes	Distribution abroad will be complied with by JPMSL compliance procedures.
Determine what legal documentation is required	Yes	Legal documentation contained in Appendix XVI.
Establish guidelines regarding the type and retention of legal documents	Yes	See Custodian Agreement contained in Appendix XIV.
Develop and implement monitoring and review procedures to ensure compliance	Yes	Business will be monitored closely by Gina Maya and Bianca Russo of Morgan Legal, as each will be engaged in the negotiations of all business agreements associated with the CMFG business
Designate the supervisor responsible to ensure that the product is sold only to clients /counter-parties for which it is suitable	Yes	Michael Jungman - Head CMFG will be chiefly responsible for compliance based on reviews and evaluations of counterparties conducted by credit policy (e.g., Lynn Hopkins)

Determine if sufficient resources are available to support regulatory and legal requirements	Yes	Gina Maya (Legal), Bianca Russo (Legal), Carl Mueller (Financial) and Grace Vogel (Financial) will support the regulatory and legal requirements
Check if there are any insider trading concerns	Yes	No material concerns identified, as evaluated by Amy Certilman (Compliance), Gina Maya (Legal) and Bianca Russo (Legal)
Ensure traders are properly registered and/or all salespeople qualify for regulatory purposes	Yes	Traders (Rob McGrath and Randall Outlaw) are properly registered with the NASD, and salespeople (managed by Mark Sheridan) also properly registered
Credit Risk		
Identify and analyze credit risk of product	Yes	See June 22 memo re: Credit Analysis / Trading Limit Allocations, and Standard & Poor's Credit Review, both of which are contained in Appendix XI; also see Section 2 (pages 7-10) of the Summary of Business Risks contained in Appendix I
Develop methodology for measuring credit exposure	Yes	Subordination level methodology adopted by the rating agencies and underwriting criteria approved by rating agencies will be utilized (see Appendix X, and Appendix XI, respectively)
Define procedure for monitoring credit exposure	Yes	Credit exposures will be monitored through close tracking of conduit pipeline, commitments, holding periods, trading limits and sub-limits, etc...See Appendix XV for prototype credit monitoring reports.
Identify target clients/counterparties, determine suitability and request credit facilities	Yes	Target client and counterparty list provided to credit policy for suitability to conduct business with JPM and its affiliates. See Appendix VIII for listings.
Determine proper procedure for perfecting collateral	Yes	Interest in collateral will be perfected through recording security interest by title company at closing prior to funding

Determine if settlement is Delivery Vs. Payment	Yes	Settlement through DVP will be carried out through an approved title company (e.g., Chicago Title Co.) such that funds will not be wired until title company faxes receipt evidencing custody of collateral documents. Custodial receipt will be issued by custodian once received (roughly 2-3 days post closing).
Market Risks		
Identify and analyze market risk	Yes	See Section 2 (pages 5-6) of the Summary of Business Risks contained in Appendix I
Specify Management's intention	Yes	It is the intent of the business to accumulate commercial whole loans until a sufficient amount is aggregated (roughly \$150mm); expected hold period is 3 to 6 months
Approve pricing methodology	Yes	Loans will be priced to yield a minimum profit of 300bp - 500 bp (after expenses), depending on collateral type (see Appendix XIII for pricing matrix and analytical runs using Wall Street Analytics Structured Financing Software for the Amresco Conduit).
Define procedures to independently test trader's valuations	Yes	See "Accounting and Marks-to-Market" section of the 6/28/94 memo to P. Smith and S. Thieke and proposals from Univest and Kenneth Leventhal in Appendix IX.
Determine hedging approach	Yes	See "Hedge Strategy" section of the 6/28/94 memo to P. Smith and S. Thieke.
Establish separate VAR or other trading limits	Yes	See 6/22 memo to W. Barrett and D. Fisher in Appendix XI.
Determine impact on concentration limits	Yes	Confirmed with W. Barrett and D. Fisher that request for position limits will necessitate and increase in the real estate concentration limits for J.P. Morgan (currently, this amount is \$1.3 billion).
Define how to independently monitor those limits	Yes	Through GTO, the use of the AFS loan servicing system, and the use of a Master Servicer, the information on these limits will be reported and monitored by J.P. Morgan (see Appendix XV).

Establish and monitor special interim limits to control the new product expansion in a measured, gradual manner	Yes	See "Position Limits" section of the 6/28/94 memo to P. Smith and S. Thieke
Operational & Control Risks		
Verify if all departments involved in trading / processing this new product are able to handle the expected volumes	Yes	See June 20 memo from JPMSI Operations in Appendix IV.
Determine if the staff's and management's level of expertise is adequate	Yes	Nancy Alto, Dan Hubbard and Joe Liguori collectively have fixed income, residential and master servicing experience. This will be supplemented through the engagement of a consulting firm (e.g., Kenneth Leventhal, Univest) and a dedicated real estate CMBS staff person.
Develop and document control procedures to enable contingency processing	Yes	Business will be initially tracked on a PC based system that is automatically backed up daily through normal JPM LAN standard operating procedures. When business is converted to ACBS (projected date Q1 95), Morgan Delaware contingency systems will apply.
Define and, if necessary, develop credit and market risk monitoring systems	Yes	Credit and market risk market system are in the process of being developed by CRMG; proposed prototype risk monitoring framework is contained in Appendix XV.
Establish settlement confirmation procedures in compliance with corporate policy and regulations	Yes	Residential mortgage procedures funding procedures will be followed. Such that DVP settlement will occur upon executing properly authorized funding request and after receiving custodial receipt
Specify adequate controls for physical settlements and fails	Yes	All transactions will be settled DVP
Develop capability to report daily credit utilization to GEMS	Yes	FCS-Outstandings will feed GEMS. Work to ensure daily loads into FCS is in process between Operations, Financial and CMFG.
Define Management reporting requirements in conjunction with front office	Yes	See Appendix XV for detailed management reports
Provide accurate position data to front-office on a timely basis	Yes	Positions will be provided on a monthly basis to the front office

Ensure that P&L is compared and positions are reconciled on a daily basis to the back office	Yes	This control procedure will be conducted as necessary; initially it is not contemplated that this be done daily subject to JPM Policy stating otherwise
Ensure that the transaction will be recorded daily on the general ledger	Yes	MTM, LOCOM, and interest accruals will be recorded on the general ledger daily, if necessary.
Ensure that the new activity is being coordinated with other relevant offices	Yes	The primary functional area requiring coordination with other offices is sales. This will be coordinated through Mark Sheridan in New York.
Verify that the necessary new accounts/securities/books are being/have been opened	Yes	Per GTO, required accounts will be opened as necessary
Ensure that all deal/transaction documentation is maintained in a secure location, and is in compliance with all regulatory requirements	Yes	Custody of credit files and collateral documents will be maintained by custodian pursuant to custodial agreement (Appendix XIV).
Document and provide systems requirements to Systems Support	Yes	In process-discussions have been held with Shadow Servicer (First Chicago), Primary Servicer (BEI Management, Inc.), and Morgan Delaware.
Systems Risks		
Establish systems priorities and ensure that adequate resources are dedicated for systems development to meet processing/monitoring needs	Yes	In short term, GTO will arrange required systems development to meet CMFG information needs. Full systems needs to be defined.
Review systems solutions which exist in other areas to verify their possible use for the new product	Yes	Through conversations with Morgan Delaware, ACBS will be available Q1 95.
Ensure the existing systems support personnel will be able to also support the new activity and/or additional volume	Yes	In process-initially PC based information system will move to ABCS by Q1 95.
Determine cost effectiveness of proposed system solution given planned volumes, revenues, and expenses	Yes	NA for PC-based system; for ACBS, cost is justified given business plan. See Exhibit D.
Verify that all systems are properly backed up	Yes	PC-based system will be backed up daily as standard JPM operating procedure. When converted to ACBS, Morgan Delaware backup procedures will be followed.
Define, document and test contingency plans	Yes	Contingency plans will be developed once primary procedures are finalized.
Financial Risks		

Review the JPM Accounting Policies and approve the proposed treatment	Yes	See "Accounting & Marks-to-Market" section of the 6/28/94 memo to P. Smith and S. Thieke
Check if the new product involves commitments, guarantees, contingencies, or any other off-balance sheet items.	Yes	Generally, not applicable except when commitment is issued under newly originated conduit loan. There are no guarantees or credit enhancements provided by any JPM entity associated with this product.
Define how the positions will be valued (i.e., marked-to-market, LOCOM, cost) and the bases for the marks (including outsized and illiquid positions)	Yes	See "Accounting & Marks-to-Market" section of the 6/28/94 memo to P. Smith and S. Thieke
Review the financial reporting and disclosure implications	Yes	Financial reporting requirements are being reviewed by Reg. Reporting Group (response should be received by 1st week in July).
Define how price testing must be performed (frequency, scope, and independent source)	Yes	See "Accounting and Marks-to-Market" section of the 6/28/94 memo to P. Smith and S. Thieke and proposals from Univest and Kenneth Leventhal in Appendix IX.
Determine if external auditor (Price Waterhouse) should be consulted. If yes, do so and, if necessary, obtain a written opinion.	Yes	Price Waterhouse has been consulted regarding this new business - written opinion not required.
Determine if the new activity will be booked in a location not currently used. If so, discuss this with location's financial area and ensure local support is adequate	Yes	N/A
Verify impact of local capital requirements if this activity is to be booked in an entity other than MGT NY	Yes	Please refer to Appendix VII for a detailed review.
Make sure appropriate Financial resources are available to support this new activity	Yes	Carl Mueller, JPMSI Controllers, is dimensioning financial resource requirements.
Tax Risks		
Consider any tax consequences with this new product which might make the business unprofitable or expose the firm to unwanted tax exposure	Yes	State tax exposure is being evaluated by Thacher Proffitt & Wood. This is germane solely to foreclosures.
Considering the tax consequences, document the most advantageous booking strategy	Yes	CMFG's business activities will generally be taxed at the New York State and Federal taxing authority levels

Consider alternatives to minimize need for tax specialists	Yes	Reliance will be placed on trustee (State Street) and accounting firms (e.g., Kenneth Leventhal)
Make sure necessary tax resources are available to support this activity	Yes	Corp. Tax has been notified to support, as required

Exhibit B
Summary of New Product Committee Comments

Group	Issue	Mitigant
CRMG	<ul style="list-style-type: none"> Legal entity, including FIRREA and Section 20 requirements Use of JPMSI employees to transact business on behalf of MGT MGT's rights in states where foreclosure may be necessary 	<ul style="list-style-type: none"> Please see Appendix VI for a JPM legal opinion on these matters. See MGT-JPMSI agency agreement in Appendix VI. Outside counsel, Thacher Proffitt, is conducting a state-by-state survey.
CRMG	<ul style="list-style-type: none"> Measure and report two-year equivalents, the market risk measurement to be used as an interim step towards DEAR 	<ul style="list-style-type: none"> Methodology for these market risk measurements is pending from CRMG, once received it will be incorporated into risk monitoring framework (See Appendix X and XV for credit analysis and proposed reports, respectively)
CRMG	<ul style="list-style-type: none"> Expected loss model to support underwriting sales and trading on investment grade securities In the event non-investment grade securities cannot be put-back, there should be a credit research staff to independently rate securities 	<ul style="list-style-type: none"> CMFG has proposed using the expected loss methodology utilized by the rating agencies In the short term, CMFG will be engaging the services of an outside firm (e.g., Univest, Kenneth Leventhal). Long term, CRMG may wish to consider hiring for this function.
Financial	<ul style="list-style-type: none"> Will not be able to independently price raw commercial loans accumulated in MGT 	<ul style="list-style-type: none"> Financial will work with CMBS Trader (Rob McGrath), and a real estate valuation firm (e.g., Kenneth Leventhal) to determine and validate the monthly marks to portfolio
Financial CRMG Legal	<ul style="list-style-type: none"> No current systems support exists for the processing and monitoring of raw whole loans 	<ul style="list-style-type: none"> An interim plan has been worked out with GTO (see 6/20 memo contained in Appendix IV). In addition, a Master/Shadow Servicer will be engaged to provide consultative support. (See Appendix XIV for roles and responsibilities of proposed Master/Shadow Servicer, First Chicago)
Financial	<ul style="list-style-type: none"> Sales force's lack of experience with distribution of CMBS, especially non-investment grade 	<ul style="list-style-type: none"> See Distribution section to this memo
Financial	<ul style="list-style-type: none"> Legal/Environmental risk 	<ul style="list-style-type: none"> Cleary Gottlieb has issued a legal opinion on environmental risks associated with foreclosure actions. Foreclosure Committee will conduct requisite due diligence in conjunction with Special Servicer recommendations, pursuant to environmental standards outlined in Appendix X.

Financial	<ul style="list-style-type: none"> Lack of research on the product 	<ul style="list-style-type: none"> In conjunction with Fixed Income Research, we are interviewing potential candidates for CMBS research.
Financial Operations	<ul style="list-style-type: none"> Lack of CMBS knowledge outside of the Commercial Mortgage Finance Group 	<ul style="list-style-type: none"> We plan to work with each of the support groups during the initial period. In addition, we recommend that individuals take a one day seminar on the subject. From an operational perspective, a Master/Shadow Servicer will be hired to provide interim operational functions.
Operations	<ul style="list-style-type: none"> Presently, only PC based support is available to support this business. 	<ul style="list-style-type: none"> Pursuant to discussions with GTO and Morgan Delaware, a PC based system will be utilized in the short term, with the expectation of conversion to ACBS, a Morgan Delaware based mainframe system in 1Q 95. CMFG will work with GTO to assure data interfaces can be systematically achieved.
Operations	<ul style="list-style-type: none"> Not yet able to assess staff level requirements 	<ul style="list-style-type: none"> Pursuant to GTO 6/20 memo (see Appendix IV) an outside consulting firm will be engaged to help in this assessment. In addition, Nancy Alto, Christine Burgher, Dan Hubbard and Joe Liguori will be working closely with CMFG staff during the development stage of the business.
Operations	<ul style="list-style-type: none"> Require master servicer maintain loan level information 	<ul style="list-style-type: none"> Pursuant to First Chicago's proposal (see Appendix XIV), this service / control will be provided.
Legal	<ul style="list-style-type: none"> Applicability of FIRREA conforming appraisals for purchasing of existing pools 	<ul style="list-style-type: none"> A standard procedure of the due diligence process toward the purchase of existing loan pools, will be applicability of FIRREA, which is grandfathered for appraisals pre-August 1990.
Legal	<ul style="list-style-type: none"> Limitations on MGT's ability to buy real estate and pools of assets containing REO or loans in foreclosure 	<ul style="list-style-type: none"> It is not our intention to purchase pools of assets containing distressed loans and REO, as such portfolios will be referred to Argo for investment consideration. To the extent that a portfolio has a non-material amount (defined as comprising <10% of the portfolio's book value) of distressed loans and REO, trading limits for such product will apply, as well as environmental, business licensing and local tax considerations will be evaluated by an appointed Foreclosure Committee (See Appendix XI for an explanation of this Committee's responsibilities)

Legal	<ul style="list-style-type: none"> The depositor is deemed to be issuer of securities. As issuer, there is no due diligence defense to any liability under the Securities Act of 1933 	<ul style="list-style-type: none"> The appropriate mitigant is a thorough due diligence process. Refer to Appendix XI for an outline of the due diligence process.
Legal	<ul style="list-style-type: none"> Potential exposure to liability associated with the "bring down" of the reps and warranties from the point in time the loans are purchased to securitization 	<ul style="list-style-type: none"> Initial market feedback from B-Note buyers is that "pass-through" of reps from originator will be sufficient, thereby mitigating exposure on conduit originated loans. As it relates to reps on existing loan pools, where pass-through is insufficient for market needs, it is contemplated that a "bring down" of reps & warranties will be required of the depositor entity, which will be thinly capitalized. These approaches are sufficient for the rating agencies.
Legal	<ul style="list-style-type: none"> Environmental liability and steps that can be taken to mitigate exposure 	<ul style="list-style-type: none"> See above discussion
Legal	<ul style="list-style-type: none"> Licensing, doing business, tax, foreclosure issues in each jurisdiction in which we buy loans 	<ul style="list-style-type: none"> Thacher Proffitt & Wood has been engaged to dimension this.

Exhibit C
Listing of Appendices

- I. Summary of Business Risks / Market Overview
- II. Discussion of 1st Fidelity/Recovery Corp. Deal
- III. New Product Approval Policy
- IV. Issues and Proposed Resolutions
- V. Legal Entity Structure
- VI. Legal / Regulatory Matters
- VII. Capital Requirements
- VIII. Counterparties
- IX. Marks to Market/Due Diligence Services - Univest and Kenneth Leventhal Proposals
- X. Amresco Conduit Program Underwriting Guidelines
- XI. Credit / Trading Limits / Due Diligence
- XII. Remediation
- XIII. Pricing Methodology
- XIV. Servicing / Trustee / Custodian
- XV. Operations
- XVI. Mortgage Loan Documents

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Exhibit D

TO: Maureen A. Hendricks
Thomas L. Kalaris
John P. Mullen
Charles M. Trunz, III

FROM: Michael Jungman *MAJ*
Spencer C. Young *SCY*
Ronald A. Freyberg *RAF*

DATE: June 21, 1994

RE: Business Plan—Commercial Mortgage Finance Group

The Commercial Mortgage Finance Group (the "CMFG") anticipates initiating its conduit alliance with Amresco Capital Corporation on or about July 1, 1994, subject to receiving final approval from the New Product Committee for Commercial Mortgage Finance and Trading. The Committee has requested a preliminary business plan for the CMFG for the next six quarters, which is set forth in this memorandum and related attachments.

Estimated Revenues and Profit/Loss

We estimate the CMFG's revenues and profit/loss as follows:

\$ Millions	Q3 & Q4 1994	1995
Revenue	\$11.4	\$20
Profit/Loss	\$9.45	\$14.8

Preliminary Business Plan

3Q 1994:

- **Fidelity Federal:** The CMFG has been working with the Financial Institutions Group and the Real Estate Group for about nine months to complete a restructuring and recapitalization of Fidelity Federal Bank. During the third quarter, we expect to complete a sale and securitization of about \$443 million book value of troubled commercial real estate assets, and a bulk sale of an additional \$108 million of real estate assets. Estimated revenues include \$3.6 million advisory fees from the bulk sales and \$2.6 million underwriting fees from the securitization.
- **Argo-CalFed:** On June 17, the CMFG completed a \$180 million co-investment transaction in connection with Argo's acquisition of a portfolio of distressed commercial real estate assets from California Federal

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Bank. Revenues include a \$1.35 million structuring fee and net interest income of \$1.18 million (assuming that the co-investment remains outstanding for four months).

- *Amresco Conduit:* As noted above, the CMFG anticipates initiating the Amresco conduit relationship on or about July 1, 1994. We hope to acquire approximately \$25 million of mortgage loans late in the third quarter as a result of this program. Estimated revenues during this quarter from the Amresco conduit are nominal.
- *Ford/First Nationwide Financial Corporation:* The CMFG is working with Joe Walker and the Real Estate Group in providing advice to Ford/FNFC regarding the management and disposition of approximately \$1.5 billion of troubled commercial real estate assets remaining at FNFC following the sale of First Nationwide Bank. Advisory fees have not yet been determined, but are expected to be significant.

4Q 1994:

- *Argo-CalFed:* During the fourth quarter, the CMFG expects to complete two securitizations backed by the CalFed assets to fully retire the co-investment arrangement. Estimated underwriting fees are \$2.5 million.
- *Amresco Conduit:* The CMFG hopes to acquire an additional \$75 million of mortgage loans during the fourth quarter from the Amresco conduit, and to complete a \$100 million securitization by year-end. Estimated revenues include \$500,000 of net interest income and \$2.5 million of profit upon sale.
- *Ford/FNFC:* As noted above.
- *Other Conduit Activity:* The CMFG has had discussions with a number of potential conduit partners other than Amresco, including several major commercial banks. We hope to establish a conduit relationship with one or more firms other than Amresco during the fourth quarter. No significant revenues are projected from this activity during 1994.
- *Total 1994 Revenues and Profit/Loss:* Using a probability factor of 80%, total revenues are estimated at \$11.44 million for 1994. Quarterly direct expenses are estimated at \$750,000, and support expenses are estimated at 30% of direct expenses, resulting in estimated profit of \$9.45 million for the year.

1995:

- *Argo:* The CMFG anticipates the acquisition of one or two additional troubled asset portfolios by Argo during 1995. Estimated revenues include \$3 million of underwriting fees, \$1.5 million of co-investment structuring fees, and \$1.5 million of co-investment net interest income.

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- **Amresco Conduit:** The CMFG anticipates annual volume of \$250 million of mortgage loans, resulting in estimated revenues of \$2 million of net interest income and \$6.25 million of profit upon sale.
- **Ford/FNFC:** During 1995, the CMFG anticipates one or more portfolio sale or securitization transactions resulting from the Ford/FNFC advisory assignment. Estimated revenues include \$2.25 million of underwriting fees.
- **Other Advisory Assignments:** The CMFG anticipates one or more joint advisory assignments with the Financial Institutions Group during 1995. Estimated revenues include \$2.5 million of underwriting/advisory fees.
- **Other Conduit Activity:** During 1995, the CMFG hopes to generate an annual volume of \$200 million of mortgage loans from conduit sources other than Amresco. Estimated revenues include \$2 million of net interest income and \$5 million of profit upon sale.
- **Small Pool Transactions:** During 1995, the CMFG intends to initiate a program to securitize small pools of properties owned by a single borrower. Projected annual volume is \$200 million, and estimated revenues include \$2 million of structuring fees and \$3 million of underwriting fees.
- **CMBS Trading Activity:** During 1995, the CMFG hopes to initiate trading activity in investment-grade commercial mortgage-backed securities. Annual trading revenues are estimated at \$1.5 million.
- **Warehouse Lending:** The CMFG expects to initiate warehouse lending activities with approved borrowers during 1995. Estimated revenues include \$1 million of structuring or origination fees, and \$3.5 million of net interest income.
- **Total 1995 Revenues and Profit/Loss:** Using a probability factor of 55%, total revenues are estimated at \$20 million for 1995. Quarterly direct expenses are estimated at \$1 million, and support expenses are estimated at 30% of direct expenses, resulting in an estimated profit of \$14.8 million.

cc: New Product Committee

Commercial Mortgage Finance Group
Revenue and Average Balance Sheet Planning
 (Reflects the Consolidation of MGT and JPMSI Components)

	1994	1994	1995	1995	1995	1995	1995
	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
REVENUE							
Interest Income	2,820,938	2,169,479	5,792,969	4,996,094	5,792,969	4,996,094	21,578,125
Trading Assets - Product							
Trading Assets - Hedge							
Resales & Securities Borrowed-I/Co							
Resales & Securities Borrowed-3rd Party							
Other Assets							
Total Interest Income							
Interest Expense	1,935,938	1,374,479	3,417,969	2,871,094	3,417,969	2,871,094	12,578,125
Trading Short - Product							
Trading Short - Hedge							
Repos - I/Co							
Repos - 3rd Party							
Other Borrowings - I/Co							
Other Borrowings - 3rd Party							
Total Interest Expense							
NIE	885,000	795,000	2,375,000	2,125,000	2,375,000	2,125,000	9,000,000
Trading P&L			150,000	300,000	450,000	600,000	1,500,000
Underwriting Fees/Profits	2,600,000	5,000,000	2,812,500	6,562,500	2,812,500	7,312,500	19,500,000
Advisory/Structuring Fees	4,927,500	0	1,750,000	1,000,000	2,250,000	2,000,000	7,000,000
Total Non-Interest Revenue	7,527,500	5,000,000	4,712,500	7,862,500	5,512,500	9,912,500	28,000,000
Total Revenue	8,412,500	5,795,000	7,087,500	9,987,500	7,887,500	12,037,500	37,000,000
Probability Adjustment	80.00%	80.00%	55.00%	55.00%	55.00%	55.00%	55.00%
Probability Adj Revenue	6,730,000	4,636,000	3,898,125	5,493,125	4,338,125	6,620,625	20,350,000
Direct Expenses	750,000	750,000	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Support Expense (30% direct)	225,000	225,000	300,000	300,000	300,000	300,000	1,200,000
Total Expense	975,000	975,000	1,300,000	1,300,000	1,300,000	1,300,000	5,200,000
Net	5,755,000	3,661,000	2,598,125	4,193,125	3,038,125	5,320,625	15,150,000
Capital Request	191,000,000	191,000,000	191,000,000	191,000,000	191,000,000	191,000,000	191,000,000
Capital Request net of 2:1 req.	147,700,000	147,700,000	147,700,000	147,700,000	147,700,000	147,700,000	147,700,000
Utilized Capital - MGT	0	10,000,000	21,250,000	21,250,000	21,250,000	21,250,000	21,250,000
Utilized Capital - JPMSI	0	0	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Total Utilized Capital	0	10,000,000	24,750,000	24,750,000	24,750,000	24,750,000	24,750,000
Utilized Capital net of 2:1 request	0	10,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000
Annualized ROE	12.05%	7.67%	5.44%	8.78%	6.36%	11.14%	
Annual ROE - net of 2:1 requirement	15.59%	9.91%	7.04%	11.36%	8.23%	14.41%	
Annualized ROE - Utilized Capital	NA	183.05%	76.35%	123.21%	89.27%	156.35%	
Annual ROE - Utilized Capital net of 2:1	NA	183.05%	82.15%	132.59%	96.07%	168.24%	

Exhibit E

Commercial Mortgage Securitization, Trading & Finance
Proposed Legal Entity Structure

