

Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress report for the period
30 October 2008 to 29 April 2009

26 May 2009

Contents

Section	Page
1 Purpose of the Joint Administrators' progress report	2
2 Background information	3
3 Joint Administrators' actions to date	4
4 Statutory and other information	5
5 Financial information	6
6 Receipts and payments account for period ended 29 April 2009	7
Appendix	
A Joint Administrators' Remuneration	8

Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the first progress report by the Joint Administrators of Lehman Commercial Mortgage Conduit Limited ("LCMC" or the "Company").

Creditors were sent the Joint Administrators' proposals on 23 December 2008 which were approved at a meeting of creditors held by correspondence on 6 January 2009.

This report provides details of the work we have undertaken and the progress we have made during the first six months of our appointment.

Objective of the Administration

The Joint Administrators (the "Administrators") are pursuing the objective of achieving a better result for the creditors of LCMC as a whole than would be likely if LCMC were wound up (without first being in Administration).

The specific aims of this Administration are to:

- protect and control the Company's assets, namely its portfolio of commercial mortgages;
- identify future cash flows and secure payments for the benefit of the Company;
- maximise trading income from utilisation of the assets; and
- maximise value for the Company at the time of sale or transfer of the assets.

Creditors' Committee

There were insufficient nominations to enable the formation of a Creditors' Committee.

Administrators' remuneration

Creditors resolved that the Administrators' remuneration should be fixed by reference to the time properly given by them and the various grades of their staff on a time cost basis and that remuneration could be drawn from time to time. Details of the Administrators' remuneration drawn to 28 February 2009 are shown at Appendix A of this report.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend

to ordinary unsecured creditors as there are uncertainties regarding future net realisations. The timing and level of any dividend, therefore, remains uncertain.

What steps should be taken now

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

Until there is more certainty regarding dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

Future reports

The Administrators' next progress report to creditors will be sent in approximately six months time.

Signed



DA Howell
Joint Administrator
Lehman Commercial Mortgage Conduit Limited
(in Administration)

Section 2: Background information

Background information

LCMC is a subsidiary of LB SF No.1 (“LBSF1”) and part of the Lehman Brothers group of companies (the “Lehman Group”). LBSF1 was itself a subsidiary of LB UK Financing Limited (“LBUKF”), which managed the flow of funds from Lehman Brothers Holdings Inc (“LBHI”), the ultimate US registered parent of the Lehman Group, into the LBSF1 sub group.

LCMC owns a portfolio of loans, which were purchased from Northern Rock with funding from LBSF1.

Events immediately preceding the Administrators’ appointment

On 15 September 2008, LBHI announced that it was preparing to file for Chapter 11 insolvency protection in the USA, precipitating the appointment of Administrators to protect the business and assets of Lehman Brothers International (Europe), and other Lehman Group companies based in the UK, on the same day.

LBUKF and LBSF1 entered Administration on 2 October 2008.

After a review of the Company’s affairs by the Administrators of LBSF1, it was decided that the Company was insolvent on a balance sheet basis and was no longer able to meet its servicing and other obligations to its borrowers. Therefore, the directors took the decision to appoint Administrators to manage the Company’s mortgage portfolio in order to preserve its value until a strategy for the disposal of the asset can be implemented.

The Company was placed into Administration on 30 October 2008.

Section 3: Joint Administrators' actions to date

Background

The Company purchased a portfolio of commercial property loans from Northern Rock which, with the exception of a small sub group of loans, was securitised by the Company into a Special Purpose Vehicle ("SPV") known as "Diversity". Since the Administrators' wrote to creditors with their proposals, servicing of the loans has been transferred from Northern Rock to a third party loan servicing specialist but the Lehman team continues to have extensive day-to-day involvement in this process.

Although at the time of the Joint Administrators' appointment a balance of c\$400m of mortgages was shown in the accounts as owned by LCMC, three loans, with a book value of c\$150m, had been transferred to a third party as part of a wider group financing transaction. Therefore, the mortgage portfolio to which LCMC has title has a book value of c\$250m.

As mentioned previously, the purchase of the Northern Rock loans was financed by LBSF1, resulting in an inter-company balance due from LCMC to LBSF1 totalling some \$421m. No impairments to any loans in the portfolio have been applied.

Administrators' actions to date

Upon their appointment, the Joint Administrators immediately set about ensuring that the servicing of the loans continued and that all queries in relation to these loans were being dealt with promptly and efficiently

The Joint Administrators arranged for the Company's cash at bank as at the date of appointment to be transferred to an account under their control and implemented a strategy to ensure that all future payments due to the Company would be properly received and accounted for.

The Administrators continue to monitor the Company's contractual interest in the loans securitised in the Diversity SPV and to date a total of c\$4.5m has been received into the estate as deferred purchase consideration.

Of the 20 loans which were not securitised by the Company through Diversity, 3 were financed to a third party and LCMC has no title to them. Therefore, the Administrators intend to return the recoveries on these loans to the third party and work on this is ongoing.

Northern Rock no longer service the remaining 17 loans in the portfolio. This function is now carried out by another third party servicer. However, the Administrators still have an extensive involvement and have retained the services of a former LCMC employee to assist in this process.

The Administrators are of the opinion that, given the current market conditions, it would not be in the best interests of creditors to sell the loan portfolio at present. This decision will be kept under review.

Section 4: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - Court Case 9635 of 2008
Full name:	Lehman Commercial Mortgage Conduit Limited
Trading name:	Lehman Commercial Mortgage Conduit Limited
Registered number:	06221756
Registered address:	25 Bank Street, London E14 5LE.
Company directors:	Barry Porter and Paul Anthony Sherwood
Company secretary:	Emily Sarnia Everard Upton
Shareholdings held by the directors and secretary:	Neither of the directors own shares in LCMC
Date of the Administration appointment:	30 October 2008
Administrators' names and addresses:	DA Howell, AV Lomas, DY Schwarzmann and GH Martin of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	The directors of the Company, 25 Bank Street, London E14 5LE
Objective being pursued by the Administrators:	Achieving a better result for LCMC's creditors as a whole than would be likely if LCMC were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Schedule B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
Proposed end of the Administration:	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LCMC's net property:	Not applicable as there is no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable as there is no prescribed part.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

Section 5: Financial information

Statement of Affairs

The Directors have provided their Statement of Affairs (the "Statement"). This Statement is not attached to the progress report as disclosure of the information therein may impact adversely upon future realisations.

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 6 January 2009, creditors resolved that the Administrators remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration on account from time to time.

The Administrators' have drawn remuneration of £364,454 which reflects time costs incurred in the period 30 October 2008 to 28 February 2009. In accordance with Statement of Insolvency Practice 9, a detailed analysis of these time costs is set out in Appendix A.

The Administrators have also incurred time costs totalling £195,438 for the period 1 March 2009 to 30 April 2009. The Administrators have yet to draw any remuneration in relation to these outstanding time costs.

Section 6: Receipts and payments for the period ended 29 April 2009

RECEIPTS	GBP
Cash at Bank on Appointment	15,288,640
Residual Interests - Diversity	4,588,238
Assets held on Trust	3,457,942
Recoveries on Loan Portfolio	3,089,224
Total Receipts	26,424,044

PAYMENTS	
Joint Administrators' Remuneration	364,454
Loan Portfolio Servicing Fees	204,947
Legal Fees and Disbursements	143,306
Loan to Group Company	51,800
Office Holder's Category 1 Disbursements	2,355
Statutory Advertising	462
Bank Charges	410
VAT Receivable	94,961
Total Payments	862,695

Cash at Bank	25,561,349
---------------------	-------------------

Represented by	
HSBC Current Account	25,561,349

Appendix A: Joint Administrators' Remuneration

Joint Administrators' time costs for the period 30 October 2009 to 28 February 2009

Classification of work	Partner / Director (Hrs)	Senior Manager / Manager (Hrs)	Senior Associate (Hrs)	Associate / Support (Hrs)	Total hours (Hrs)	Time cost (£)	Average hourly rate (£)
Asset Disposals	52.75	156.10	71.00	102.90	382.75	132,089.42	345.11
Statutory Compliance, Accounting and Other Strategy and Planning	54.81	242.61	87.16	7.34	391.92	152,710.50	389.65
	34.58	106.85	4.87	49.36	195.67	79,654.71	407.09
Total to date	142.15	505.56	163.03	159.60	970.34	364,454.63	375.60
Total time cost: (£)	93,084.16	200,231.67	45,968.05	25,170.75			
Average hourly rate: (£)	654.83	396.06	281.97	157.71			

The Joint Administrators' policy for charging for disbursements is:

Photocopying is charged at 3p per sheet for creditors and bulk copying
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)
All other disbursements are charged at cost

Total

Costs to date (£)

-

Current charge out rates	Business Recovery Services	Specialist*	
Grade	Max £/hr	Max £/hr	
Partner	670	860	The Administrators' fees are to be fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. These fees are to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration
Director	570	770	
Senior manager	425	720	*Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown give an indication of the maximum rate per hour.
Manager	365	406	
Senior Associate	220	320	In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors' committee in the next statutory report.
Associate	190	135	
Support Staff	95	85	

Appendix A: Joint Administrators' Remuneration

Narrative in support of the Joint Administrators' time costs for the period 30 October 2008 to 29 April 2009

Asset Disposals - £132,089

- Reconciled loan assets to original Lehman ledgers;
- Completed portfolio review of each of the 17 LCMC loans;
- Verified ownership of three loans by a third party; and
- Identified alternative loan servicer and negotiated competitive contract

Statutory, compliance accounting and other - £157,710

- Circularised initial notifications to creditors and other stakeholders;
- Managed LCMC Administration database;
- Monitored claims received and liaised with the Administrators on statutory issues;
- Identified and retained key Lehman staff to assist the Administration;
- Sent letters to freeze bank accounts for LCMC;
- Ensured return of funds held in pre administration accounts
- Set up new Bank accounts; and
- Prepared Administrators' proposals.

Strategy and planning - £79,654

- Reviewed financial information;
- Prepared detailed fee summary;
- Performed fee analysis for Administrators' update;
- Analysed timesheets for completeness and accuracy;
- Weekly review of activity on the estate by PwC staff and retained Lehman staff; and
- Worked on options surrounding loan portfolio.