

DATE: 5/6/04
TIME: 10:57 a.m.
ACTIVITY: Home Telephone 3 incoming from (847) 267-0265
CALL#: 112

SPEAKERS:
LEVINE: Stuart Levine
GONZALEZ: Adrianna Gonzalez
LOREN: Steven Loren

* * * *

1 LEVINE Hello.
2 GONZALEZ Stuart, I have Steve Loren.
3 LEVINE Oh, put him on.
4 (PAUSE)
5 LEVINE Hi Steve.
6 LOREN Hi.
7 LEVINE I told Dick Betty to have...pardon?
8 LOREN How you doin'?
9 LEVINE Good, how are you?
10 LOREN Good.
11
12 LEVINE Uh, I told uh, uh, Dick Betty to have
13 um, uh, uh, what's his name uh, Wills,
14 you know call you um, uh, and I told him
15 he can call today and just leave a
16 message when, when he can be reached.
17 LOREN Do you have a minute?
18 LEVINE Sure.
19 LOREN Alright let me get that out one sec.
20 (voices in background)
21 (PAUSE)
22 LOREN The, they're...

1 LEVINE Yeah, let, let me change phones Steve,
2 hold on.

3 (PAUSE)

4 LEVINE Hi.

5 LOREN The, the actual business concept here
6 that you and I need to decide...

7 LEVINE Mm hm.

8 LOREN how it is you wanna go about structuring
9 this.

10 LEVINE Mm hm.

11 LOREN For-, Forget about the legal issues
12 'cause, uh, the way this was approached,
13 we're just gonna need to give them
14 better directions...

15 LEVINE Mm hm. Right.

16 LOREN what it is we need.

17 LEVINE Mm hm.

18 LOREN Th-, they're proposing uh, a management
19 fee of 65 basis points. And then they
20 would split, I think 50/50 uh, if I
21 remember this correctly. They would
22 split 50/50... the... actually 70, uh,
23 they, they would split some of that with
24 uh,...

25 LEVINE Killian?

26 LOREN with, with TRS...

27 LEVINE Oh.

28 LOREN I think uh, 75/25. Here, here's my
29 suggestion, uh, the 65 basis, th-,
30 they're gonna make all their money uh,
31 the sub, sub-manager...

32 LEVINE Mm hm.

1 LOREN on the actual loan origination fees that
2 they have with the borrowers.

3 LEVINE Mm hm.

4 LOREN I would think that uh, it would be
5 better if they reduced the management
6 fee. Well, he-, here's the way I would
7 approach this if I were them. I think
8 it would be the most saleable because...

9 LEVINE Mm hm.

10 LOREN you can go in and say look these people
11 are guaranteeing us an 8 1/2 percent
12 return as a base floor, uh, and that's
13 our hurdle rate.

14 LEVINE Mm hm.

15 LOREN The actuarial hurdle rate.

16 LEVINE Mm hm.

17 LOREN If they set this up so that TRS is gonna
18 get an 8 1/2 percent return as a floor,
19 the management fee would be 20 basis
20 points and then, the uh, to the extent
21 that TRS doesn't achieve the 8 1/2
22 percent return, they would subsidize the
23 return out of their origination fees.

24 LEVINE Mm hm.

25 LOREN So that we get the 8 1/2 and then it'd
26 be 50/50 in terms of the, the excess.

27 LEVIN How, what is that, they're, they're
28 gonna, they're an asset manager.

29 LOREN Mm hm.

30 LEVINE Uh, uh, uh, we give 'em the money and
31 they uh, they, they, they loan it out.
32 Uh,...

33 LOREN Right.

1 LEVINE They are uh, gonna be charging us a fee
2 for managing that money.

3 LOREN Right. He-, here, here's the way that,
4 that this is being set up. We're gonna
5 enter into a separate account with
6 Killian.

7 LEVINE Mm hm.

8 LOREN Killian in turn is gonna sub-, is gonna
9 contract out with, with IMH.

10 LEVINE Right.

11 LOREN And, and their deal we shouldn't care
12 about.

13 LEVINE Right.

14 LOREN You know that, that, that's between the
15 two of them.

16 LEVINE Mm hm.

17 LOREN Our only focus should be on, on the
18 relationship with our contractual party
19 which is gonna be Killian.

20 LEVINE Right.

21 LOREN What I would suggest we do is we have
22 uh, agreement where they're going to
23 give us a minimum hurdle rate of 8 1/2
24 percent on committed, not, not committed
25 capital, but actually drawn down
26 capital.

27 LEVINE Mm hm.

28 LOREN 'Cause if we give 'em \$200 million
29 dollars who knows how long it's gonna
30 take, but...

31 LEVINE Mm hm.

32 LOREN the minute that we start uh, funding
33 them proceeds, the clock would tick to

1 the 8 1/2 percent return.

2 LEVINE Mm hm.

3 LOREN They, in turn, have opportunities that
4 they told us about to make the 3
5 percent...

6 LEVINE Mm hm.

7 LOREN that they originate between the, the,
8 the borrowers and IMH.

9 LEVINE Right.

10 LOREN We, we, we, we don't need to have any of
11 that.

12 LEVINE Right.

13 LOREN They then have this paragraph in here.
14 The investment account, which is TRS
15 will receive 75 percent of any
16 foreclosure, sale proceeds or late
17 penalties after the payment of
18 principle, interest, cost blah, blah,
19 blah. What I would suggest they do with
20 that cash flow is they use that to
21 underwrite TRS' 8 1/2 percent to the
22 extent that...

23 LEVINE Mm hm.

24 LOREN they don't get that number.

25 LEVINE Mm hm.

26 LOREN And then that money just be split 50/50.

27 LEVINE Um,...

28 LOREN They, they, the, they're charging I
29 think too high a management fee.

30 LEVINE Well just, just, just, just, uh, th-,
31 th-, they will take, I'm, I'm not quite
32 sure that I'm, I'm, they are, they are,
33 uh, uh, um, uh,... I, they're not,

1 LEVINE And if it's legitimate we can discuss
2 it. But they need, they need direction.

3 LOREN What (UI) should do is Dick, Dick needs
4 to set up a conference call for me with
5 them one day next week.

6 LEVINE Well he's, they're gonna call you.

7 LOREN Okay.

8 LEVINE And uh, and you can, you can uh, uh, uh,
9 probably it's not a bad idea to have
10 Dick on the line so that um, uh, uh, he
11 just hears what's going on because I
12 wouldn't be on the line. But uh, this
13 is, this, this, this is great. You uh,
14 uh, you think that TRS uh, could, would,
15 could give 'em 2?

16 LOREN Ih, if you go to TRS and essentially say
17 look this, this really isn't real
18 estate.

19 LEVINE Mm hm.

20 LOREN This, this is a loan origination
21 program...

22 LEVINE Mm hm.

23 LOREN let's not take it out of real estate.

24 LEVINE Mm hm.

25 LOREN These people their, their track record
26 is such that they're going to give us a
27 hurdle rate of 8 1/2 percent.

28 LEVINE Mm hm.

29 LOREN You're essentially being able to, to
30 have an investment where you hit your
31 actuarial hurdle.

32 LEVINE Wh-, wh-, h-, what do we have in, in uh,
33 in fixed income? P-, in our p-, port,
34 portfolio? How big is it?

1 LOREN Thirty percent. You know you almost
2 have 9 billion, 10 billion dollars.

3 LEVINE Oh it'd be very easy to give 'em a
4 couple hundred million.

5 LOREN Yeah. But, but what we're gonna need to
6 do is, is we're gonna make this have to
7 have the, the, the transaction much more
8 consistent with the system's current
9 investments.

10 LEVINE No you, they need, th-, th-, th-, they,
11 I, I wanted to see a sample of what it
12 is that they would uh, bring to TRS for
13 this very reason and uh, you know they,
14 they sent this, this uh, stuff out.
15 Now, you'll tell them what they should
16 do and, and, and they'll uh, they'll,
17 they'll do it and we'll get this started
18 and we'll take it into the other 2
19 systems too. This is...

20 LOREN It's actually as long as they can put
21 the money out, it's a fairly good
22 program, but why I'm suggesting that the
23 8 1/2 percent hurdle...

24 LEVINE Mm hm.

25 LOREN be triggered as they draw down the
26 money.

27 LEVINE Mm hm.

28 LOREN Is that then, then they're protected.

29 LEVINE Mm hm.

30 LOREN It's not as if they have to, you know
31 (UI).

32 LEVINE No that's, that, that's, that, that,
33 that, that's a great idea. They don't
34 uh, the money um, uh, as they, as they
35 uh, uh find loans, they draw down and
36 uh, that's, that, that, that's great,
37 that's a great idea. Um, Margot talked

1 to me but she was in Welch's office and,
2 you, you have no idea what the hell
3 happened uh, there. He seemed really
4 down yesterday. She was...

5 LOREN Really.

6 LEVINE Yeah he just seemed...

7 LOREN Who is it Mike or Margot?

8 LEVINE Oh no, Mike. Well I was with Mike and
9 Margot.

10 LOREN Okay.

11 LEVINE And uh, but I, I suspect that uh, that
12 um, uh, that, you know, I mean there's
13 problems everywhere and, and, and he
14 wants to uh, he, he, you know, he just
15 can't move on. But I said to him, I,
16 you know I said isn't Steve great. I
17 said you know he's, he's a calm voice of
18 mine. Everybody's, you know I, this
19 thing, this thing will get settled. He
20 said, well you know the Springer money
21 is supposed to be, I said even if the
22 school has to spend some money. If it's
23 too much we won't do it. But if it is
24 this thing has to get behind us. And
25 uh,...

26 LOREN But Bob hits the nail on the head with
27 Mi-. M-, Mike is more concerned with
28 looking good than doin' good... Uh,...

29 LEVINE Uh, d-, does, does Mike think that he'd
30 look good uh, if the uh, the schoo-.
31 He, Mike, Mike's problem is that he is
32 the university and the university is a
33 reformed whore... with some old clients
34 hangin' around.

35 LOREN Let, let's put it this way, I think
36 you're usin' the wrong verb. It's a,
37 it's a work in progress.

38 LEVINE Well that's you know I don't wanna get,

1 I, I don't wanna get too straight you
2 know I'd like to have a little fun too.
3 Anyway uh, uh,...

4 LOREN Did, did Margot open up to you about
5 what had happened with her with uh,...

6 (TELEPHONE RINGING IN BACKGROUND)

7 LEVINE Well I was with Margot with, hold on a
8 second.

9 (PAUSE)

10 LEVINE Um, I haven't been alone with her, but
11 she'll call me later. Uh, whether
12 she'll share it or not I don't know.

13 LOREN You think uh, it would be over-reaching
14 to ask these guys to reimburse the
15 system for their reasonable legal fees
16 or should the system just be...

17 (TELEPHONE RINGING IN BACKGROUND)

18 LEVINE Hold on a sec.

19 (PAUSE)

20 LEVINE Uh, go ahead, I'm sorry.

21 LOREN Do you think it'd be over-reaching to
22 ask these guys to reimburse the system
23 for their legal fees or?

24 LEVINE Um, you mean the mortgage guys?

25 LOREN Yeah.

26 LEVINE Uh, uh, is there some bene-? I mean uh,
27 you know, let's have rochmunas on them,
28 they're paying other people.

29 LOREN Okay.

30 LEVINE (chuckles)

31 LOREN That's fine. Uh,...

1 LEVINE Is that a, is that a typ-, typical thing
2 we do? You know the teachers are very
3 wealthy. They got, they're guaranteed
4 by...

5 LOREN Not as wealthy as they used to be.

6 LEVINE They got the State of Illinois.

7 (PAUSE)

8 LEVINE It doesn't look like the Governor's
9 education bill is in uh, is uh, is
10 workin' out at the moment.

11 LOREN I'm in the lovely capital today.

12 LEVINE Huh?

13 LOREN I'm in our lovely capital today.

14 LEVINE Yeah, what are you doin'? You workin'
15 on your uh,...

16 LOREN Uh, we're closin', we're, we're bringin'
17 in a huge group from a law firm they
18 were here we're just we're voting on it
19 tomorrow.

20 LEVINE I thought you workin' on, on, on, your
21 uh, malpractice case?

22 LOREN Uh, well that, act, actually came up
23 with these guys 'cause they said well
24 now that you told us all the good things
25 tell us about the calamities and I said
26 well the only one we really need to talk
27 about is this lawsuit. Shit happens.

28 LEVINE Sh-, uh, uh, I have come to understand
29 that shit happens and, and, and I am uh,
30 I am uh, the chairman of the board of
31 it. I understand...

32 LOREN I have uh, gotten Hurtgen involved with
33 something with one of my clients that,
34 he can be helpful in Wisconsin and also
35 make some money.

1 LEVINE Oh that's great. I, I'm a firm believer
2 in, in uh, in uh, in all that kind of
3 shit. Um, tttttt, what else uh, oh you,
4 you're still gonna get the stuff on uh,
5 on uh, on Vista right?

6 LOREN I, I've sent it out to Jacob.

7 LEVINE Oh you sent it out to Jacob?

8 LOREN I sent him a package yesterday.

9 LEVINE Uh,...

10 LOREN I don't know whether it was hope,
11 helpful. I got him everything that we
12 could lay our hands on.

13 LEVINE As to who they are?

14 LOREN And Am, Amboian, uh, are buying another
15 house.

16 LEVINE Oh they are?

17 LOREN (UI).

18 LEVINE Are you representing 'em?

19 LOREN Well I, I've got someone workin' on it,
20 yes.

21 LEVINE Uh huh. Good. Good. They're good,
22 they're good folks. I told 'em that you
23 charge \$150 in closings.

24 LOREN Uh, well,... the uh, this is not gonna
25 be a large fee.

26 LEVINE Yeah but you know uh, uh, charge a fee
27 but uh, you know John is um, um, uh,
28 wiggle your way in there somehow, you're
29 very good at that.

30 LOREN Okay.

31 LEVINE Talk to you later.

1 LOREN Talk. Bye.
2 LEVINE Bye.