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>

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I spoke to all of you last Friday about the fact that ignoring the effect of guarantors for either PD estimation or LGD estimation would result in a less risk sensitve calibration for middle market lending. Some of you asked for a soft copy of the illustration, and so I have attached it below.

<<LGD Example.xls>>

I have also included a brief document that describes additional lending practices where the data produces more enlightening results when analyzed with slight modifications of the basic framework. We believe the basic framework is indeed the proper starting point for understanding PDs, LGDs, and EADs, but have found that some situations require us to go beyond. I expect that as banks get to use the data we will have to collect for Basel implementation, additional situations will be found where an innovative structure explains risk better than the basic framework. Innovation will drive best practices.

<<alternative framework examples.doc>>

I'd be happy to discuss further, and I imagine we will. We are working on getting our data and analysis into our documentation.

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