

# LB RE Financing No.3 Limited – In Administration

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

27 May 2009

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# Section 1: Purpose of the Joint Administrators' progress report

## Introduction

This is the first progress report by the Joint Administrators of LB RE Financing No.3 Limited ("LBREF3" 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 LBREF3 as a whole than would be likely if LBREF3 were wound up (without first being in Administration).

The specific aims of this Administration are to:

- protect and control the Company's assets, namely the B class notes in a Special Purpose Vehicle held by the Company;
- maximise income from the assets;
- identify future cash flows and secure payments for the benefit of the Company; 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

The Administrators' made a request in their Proposals for the approval of their 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.

The Administrators are yet to draw any remuneration in relation to their outstanding time costs.

## 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 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:  
For and on behalf of the Company



DA Howell  
Joint Administrator

# Section 2: Background information

## **Background information**

LBREF3 is one of a sub-group of three LB RE Financing companies directly owned by LB UK RE Holdings Limited (“LBUKRE”). It is therefore part of the Lehman Brothers group of companies (the “Lehman Group”) with Lehman Brothers Holdings Inc (“LBHI”), being the ultimate, US registered, parent.

LBREF3 is a vehicle which was established to hold the Lehman Group’s interest in loan notes issued by a number of off-balance sheet Special Purpose Vehicles (“SPV’s”).

## **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 LBUKRE, amongst other Lehman Group companies based in the UK, on the same day.

After a review of the Company’s affairs by the Administrators of LBUKRE, it was concluded that the Company was insolvent on a balance sheet basis and the Director decided that in order to maximise realisations of the loan notes held by LBREF3, the Company should be placed into Administration.

The Company was placed into Administration on 30 October 2008.

# Section 3: Joint Administrators' actions to date

## Background

As mentioned previously, the Company was established to hold the Lehman Brothers group's interest in SPV's. The underlying assets in these SPV's are commercial mortgage backed securities. The Company was financed by Lehman Brothers Holdings Inc via its immediate parent companies.

Originally assets held by the Company in SPV's had a combined book value of c\$6billion. However in May 2008 c\$4.9billion of these assets were financed to Bankhaus and then in turn to a third party institution. The only asset held by LBREF3 on the date of appointment was a B note in an SPV ("the SPV"), with a notional value of c\$1.1billion. The A Note in the SPV is held by a third party institution ("the A Note Holder") which acquired it as part of the financing arrangement with Bankhaus mentioned above.

## Administrators' actions to date

The Administrators contacted the relevant stakeholders in relation to LBREF3's holding of a B Note in the SPV. This included the SPV's, Trustees, Servicer and Collection agent. The Administrators also made contact with the A Note Holder. The Administrators decided to hold the B Note and collect quarterly interest payments in respect of the B Note.

The Administrators have retained Lehman staff to assist them in the management of the underlying commercial loans held by the SPV. Day to day management of all positions is undertaken by the SPV servicer. Where individual loans go into default the Servicer is required to get B Note direction on the appropriate work out strategy. Lehman staff have assisted the servicer in several such cases and preserved value for the benefit of both the A and B Note.

The Administrators are also assisting in the performance and release of the security agent role performed by Lehman Brothers International Europe (in Administration) in respect of several loan positions in the SPV.

The Administrators have presented a restructuring proposal to the A Note Holder. This was to address specific issues they had raised and to provide options as to how the A and B Note Holders could work together towards recovering value from these assets.

The Administrators believe that by working

collaboratively with the A Note Holder, utilising Lehman Staff and PwC expertise, a better recovery will result on these assets than would be achieved by working independently.

To date, no interest or principle payments have been received by LBREF3 in relation to its B Note holding. The Administrators are working with the various stakeholders to address this.

The Administrators will focus on four areas going forward:

1. Recovery of interest and principle payments due from the B Note;
2. Agreeing a restructuring plan with the A Note Holder;
3. Day to day involvement in specific loan positions in the SPV to preserve value; and
4. Sale of the B Note to a third party.

In the event that a suitable offer is received by LBREF3 for its B Note and the Administrators believe that such a sale is in the best interests of LBREF3's creditors, a sale will be pursued.

Alternatively if a consensual restructuring agreement could be achieved with the A Note Holder a hold strategy could be followed.

## Section 4: Statutory and other information

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - Court Case 9634 of 2008
<b>Full name:</b>	LB RE Financing NO.3 Limited
<b>Trading name:</b>	LB RE Financing NO.3 Limited
<b>Registered number:</b>	06454161
<b>Registered address:</b>	25 Bank Street, London E14 5LE, England.
<b>Company directors:</b>	Paul Anthony Sherwood
<b>Company secretary:</b>	Emily Sarnia Everard Upton
<b>Shareholdings held by the directors and secretary:</b>	The director does not own shares in LBREF3
<b>Date of the Administration appointment:</b>	30 October 2008
<b>Administrators' names and addresses:</b>	DA Howell, AV Lomas and DY Schwarzmann of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<b>Appointer's name and address:</b>	The directors of the Company, 25 Bank Street, London E14 5LE
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for LBREF3's creditors as a whole than would be likely if LBREF3 were wound up (without first being in Administration)
<b>Division of the Administrators' responsibilities:</b>	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.
<b>Proposed end of the Administration:</b>	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.
<b>Estimated dividend for unsecured creditors:</b>	It is too early to estimate the likely dividend for unsecured creditors.
<b>Estimated values of the prescribed part and LBREF3's net property:</b>	Not applicable as there is no prescribed part.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	Not applicable as there is no prescribed part.
<b>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No 1346/2000 of 29 May 2000):</b>	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' time costs for the period 30 October 2008 to 29 April 2009 are £642,008, which represents 1,279 hours at an average hourly rate of £501.96. The Administrators have yet to draw remuneration in relation to these outstanding time costs, due to a lack of funds.

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

<b>RECEIPTS</b>	<b>GBP</b>
Loan from group company	700
<b>Total Receipts</b>	<b>700</b>
<b>PAYMENTS</b>	
Statutory advertising	620
Bank charges	40
<b>Total Payments</b>	<b>660</b>
<b>NET POSITION</b>	<b>40</b>
<b>Represented by</b>	
HSBC Current Account	40