

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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**In re:** :   
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**LEHMAN BROTHERS INC.** : **Case No. 08-01420 (JMP) SIPA**  
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**Debtor.** :   
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**DECLARATION OF MARICARMEN LOGROÑO TORRES**

Maricarmen Logroño Torres, under penalty of perjury, declares as follows:

1. I am currently employed by Doral Bank. I submit this declaration in connection with the response of CarVal Investors UK Limited (“CarVal”) to the Motion by James W. Giddens (the “Trustee”) for an Order Confirming the Trustee’s Determination of Claims Related to Repurchase Agreements. On or about January 28, 2009, Doral Bank and Doral Financial Corporation (together, “Doral”) filed proofs of claim (the “Claims”) in the above-captioned liquidation proceeding of Lehman Brothers Inc. (“LBI”) under the Securities Investor Protection Act (“SIPA”) on account of certain long-term repurchase transactions (the “Repurchase Transactions”) entered into between Doral and LBI. Copies of the Claims are attached hereto as Exhibit 1. On or about December 16, 2010, Doral assigned all of its rights and interest in the Claims to CarVal. I am aware that the Trustee has denied customer treatment to the Claims and asserts that they should be treated as general creditor claims.

**I. Background**

2. Following my graduation from the University of Puerto Rico in 1999, I began working at Banco Santander PR as a Market Risk Analyst. In June 2001, I received a Master of Business Administration degree from the University of Puerto Rico and, around that time, I began working at Citibank, N.A. as a Portfolio Manager in its credit risk department. In August 2005, I left Citibank and became a Financial Risk Manager and Assistant Vice President at Banco Santander PR. I joined Doral in March 2008 as a Vice President of Asset Liability Management in the Treasury Department. In June 2009, I became a Senior Vice President and Treasurer of Doral. In my current position, I manage Doral's liquidity, investments, wholesale borrowing, trading and security dealings, and counterparty relationships, and also manage certain back-office functions in the Treasury Department.

3. The information contained in this declaration is based upon my experience gained during the course of my employment at Doral, including my exposure to Doral's books and records such as certain of (i) the documents governing the Repurchase Transactions and (ii) Doral Financial Corporation's periodic filings on Forms 10-K and 10-Q with the U.S. Securities and Exchange Commission (the "SEC") that are exhibited to this declaration.

**II. The Repurchase Transactions**

4. I first became aware of the Repurchase Transactions when I joined Doral in March 2008. As a Vice President of Asset Liability Management, I was responsible for measuring and managing Doral's exposure to interest rate risk across its portfolio of investment securities, including the securities delivered to LBI under the Repurchase Transactions (the "Purchased Securities").

5. As described in the Claims, the Repurchase Transactions were long-term transactions, with nine- or ten-year terms, involving the sale of the Purchased Securities by Doral

to LBI, with the simultaneous agreement by LBI to resell the Purchased Securities to Doral at a fixed price on a date determined at the inception of the Repurchase Transactions (the "Repurchase Date"). The Purchased Securities consisted primarily of highly liquid U.S. Treasury securities and fixed-income securities issued by the Federal Home Loan Bank, Freddie Mac and Fannie Mae (collectively, "U.S. Agency Securities").

6. Although the Repurchase Transactions were structured as purchases and sales, Doral retained all economic interest in the Purchased Securities throughout the term of the Repurchase Transactions. Pursuant to paragraph 5 of the Master Repurchase Agreements entered into between Doral and LBI, excerpts of which are attached hereto as Exhibit 2, Doral was entitled to receive from LBI "all interest, dividends or other distributions . . . paid or distributed on or in respect of the Securities that is not otherwise received by [Doral], to the full extent it would be so entitled if the Securities had not been sold to [LBI]." Doral received such payments from LBI from the inception of the Repurchase Transactions through the commencement of LBI's liquidation. Certain of the Purchased Securities (primarily those consisting of mortgage-backed securities and collateralized mortgage pass-through obligations) contained "repo codes," instructing the obligor to make payments of principal and interest directly to Doral, bypassing LBI, notwithstanding the sale of such Purchased Securities to LBI under a Repurchase Transaction.

7. Moreover, Doral expected that, as required under the Master Repurchase Agreements, it would repurchase from LBI the Purchased Securities on their respective Repurchase Dates at the price agreed upon at the inception of the applicable Repurchase Transaction. Accordingly, Doral bore all of the market risk associated with fluctuations in the market value of the Purchased Securities.

8. When one of the Purchased Securities was called by the obligor, requiring Doral to deliver replacement securities to LBI, Doral would frequently purchase additional U.S. Agency Securities in order to maintain its investment in such securities. At times, Doral would look to LBI for assistance in identifying and supplying such replacement securities. For example, in February 2008, Doral Financial Corporation purchased from LBI \$200 million of debt securities issued by Fannie Mae (CUSIP 31398APA4), which it subsequently delivered to LBI as Purchased Securities under the Repurchase Transactions.

9. Paragraph 9 of the Master Repurchase Agreements, and paragraph 6 of Annex 1 thereto, permitted Doral to deliver replacement securities to LBI in substitution for some or all of the Purchased Securities. In such event, LBI would be obligated to return the original Purchased Securities to Doral in connection with the settlement of the substitution. In the event that LBI elected not to accept such substitution, Doral would have the right to terminate the Repurchase Transaction. This provision provided Doral with the ability to receive the Purchased Securities from LBI upon request during the term of the Repurchase Transactions.

10. It also is my understanding that Doral had a long-term relationship with LBI as a broker-dealer that involved a variety of transactions in addition to the Repurchase Transactions. In particular, Doral regularly purchased and sold securities, including U.S. Agency Securities, through LBI.

11. As reflected in Doral Financial Corporation's periodic filings on Forms 10-K and 10-Q for the years 1998 through 2008, Doral held the Purchased Securities as assets on its balance sheet during the term of the Repurchase Transactions; its obligations to "repurchase" the Purchased Securities on their respective Repurchase Dates were recorded as corresponding liabilities.

12. I understand that at various times before I joined Doral, the Purchased Securities were classified as "held to maturity," but by the time I joined Doral they were classified as "available for sale" and retained that classification through the inception of the SIPA Proceedings.

13. Doral sought to take positions in the U.S. Agency Securities in part because interest payments received in respect of certain U.S. Agency Securities were exempt from U.S. federal and Puerto Rico income taxes, which increased Doral's return and enhanced the spread it was able to earn over its cost of financing such securities. Page 13 of Doral Financial Corporation's filing on Form 10-Q for the quarterly period ended September 30, 1998, excerpts of which are attached hereto as Exhibit 3, describes this investment strategy:

**Interest income with respect to investment securities increased by \$9.3 million during the third quarter of 1998, as compared to the same period of 1997, from \$1.0 to \$10.3 million. Interest income on investment securities was \$25.7 million for the nine months ended September 30, 1998, as compared to \$2.5 million for the same period a year ago. The increase in interest income from investment securities reflects the strategy of Doral to increase its tax exempt interest income by investing in U.S. Treasury and agency securities, the interest on which is tax exempt under Puerto Rico law and in the case of Doral, is not subject to U.S. income taxation because of its status as a foreign corporation for U.S. income purposes. Doral's investment securities were approximately \$516.2 million as of September 30, 1998, compared to approximately \$156.2 million as of September 30, 1997. [Emphasis added.]**

14. Additionally, under applicable bank capital requirements, Doral was required to maintain less Tier 1 capital on account of its ownership of U.S. Agency Securities relative to certain other fixed-income securities. Thus, Doral's investment in U.S. Agency Securities, including the Purchased Securities, in effect increased the amount of capital available for use in Doral's operations, such as its mortgage origination business.

15. In order to maximize the spread it expected to receive from its leveraged investments in U.S. Agency Securities, Doral sought to employ the least expensive form of

leverage available to it, which often took the form of long-term repurchase transactions. Such arrangements are not an uncommon means of financing the purchase of U.S. Agency Securities by institutional investors. While retail brokerage customers generally leverage the purchase of securities through margin accounts, institutional investors often utilize long-term repurchase transactions to achieve the functional equivalent of margin financing.

16. In contrast to short-term repurchase transactions into which Doral has entered from time to time for purposes of managing its short-term liquidity needs and to fund its operations, which generally have overnight, three-month or six-month terms, Doral entered into long-term repurchase transactions, such as the Repurchase Transactions, as a means of obtaining external funding to enable it to build and maintain a long-term inventory of, and to take positions in, U.S. Agency Securities for investment purposes. Because the Repurchase Transactions enabled Doral to gain or maintain a leveraged investment in the Purchased Securities under the Repurchase Transactions, the Repurchase Transactions were an important part of Doral's long-term investment strategy for U.S. Agency Securities. In entering into the Repurchase Transactions, Doral sought to obtain a positive spread between the interest payments it expected to receive in respect of the Purchased Securities and its expected cost of financing them through the Repurchase Transactions.

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I declare under penalty of perjury that the foregoing is true and correct.

Executed at San Juan, Puerto Rico, this 17<sup>th</sup> day of July, 2012.

/ s / Maricarmen Logroño Torres  
Maricarmen Logroño Torres