

Capital Markets Retrospective

December 16, 2008

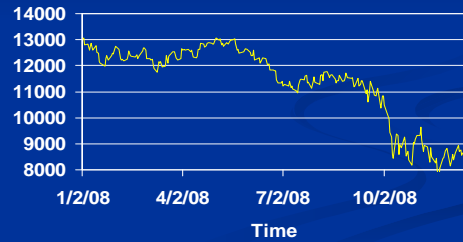
Agenda

- Overview
- Background of Credit Crisis
- Recap of Major Market Events & Effects
- Drivers of the Crisis
- Outlook for 2009

Overview

DJIA YTD

Dow Jones Industrial Average



Source: Bloomberg

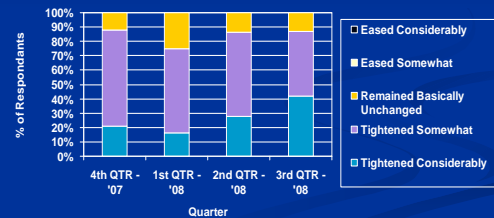
1M Libor YTD



Source: Bloomberg

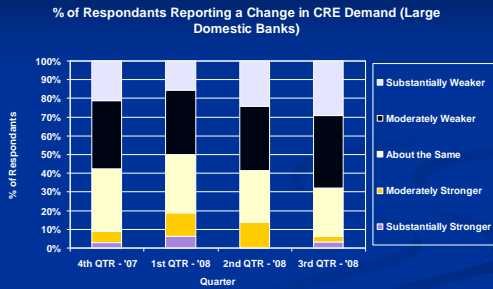
Change in Lending Standards

% of Respondents Changing Credit Standards (Large Domestic Banks)



Source: Federal Reserve Board, Senior Officer Lending Surveys - October, July, April, & October 2008

Change in CRE Loan Demand



Source: Federal Reserve Board, Senior Officer Lending Surveys – October, July, April, & October 2008

Background of Credit Crisis

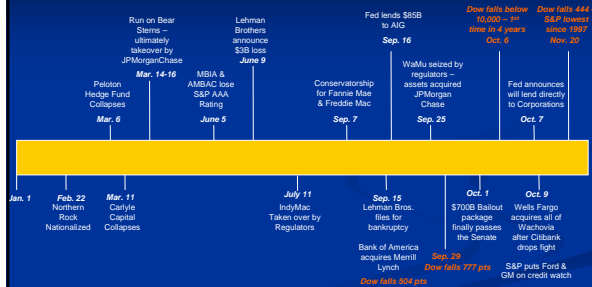
Credit Crisis - Background

- 2001 – 2004 Interest Rates Decline
- Low interest rates + policy push = increased home loans
- 2004 - Interest Rates Begin to Rise
- 2006 – Increasing defaults in subprime sector
- 2007 – Housing markets begin to unravel
 - February - HSBC announces \$10B+ of subprime losses
 - June - Bear Stearns commits \$3.2B to one of its two Hedge Funds
 - August - 2 of Bear Stearns' Hedge Funds Collapse
 - August - BNP Paribas freezes withdrawals on 3 Investment Funds
 - September - Rumors about UK's Northern Rock begin surfacing
 - October - Merrill Lynch announces \$8B of losses

August '07 marks the beginning of the "Credit Crisis"

Recap of Major Market Events & Effects

2008 Key Events



Spillover Effects of Crisis

- Auction Rate Security Markets
- Money Market Funds
- Commercial Paper Markets
- Commodity Markets
- Global Impacts

U.S. Government Intervention

- Direct Bank/Financial Institution Intervention
 - \$29B backstop to JPMorgan Chase for Bear Stearns acquisition
 - AIG investment of \$85B
 - \$27B purchase of Citibank preferred stock;
- Troubled Asset Relief Program (TARP) - \$700B plan to buy troubled assets from banks
- Lowered Fed Funds Rate from 5.25% to 1%
- Term Auction Facility (TAF) providing short-term loans to banks increased from \$20B to \$300B
- Expanded acceptable collateral to include Commercial Paper (Oct. 08)
- Term Asset Backed Securities Loan Facility (TALF) - \$200B to support the issuance of Asset Backed Securities
- \$600B program to buy MBS of Fannie Mae & Freddie Mac

Drivers of the Credit Crisis

Causes of Credit Crisis

- Rise & Collapse of Housing Market Bubble
- Extent of speculative demand in Single Family sector
- Low interest rates in first half of decade
- Too much leverage
- Government policies
- Lending practices
- Rise of new credit products – i.e. Credit Default Swaps
- Rating Agency Mistakes
- Complexity & Lack of Transparency

Outlook for 2009