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When Will The Banks Start Lending?

Conference Call Presentation Package

January 15, 2009



Long-Term Interest Rates - 1900 to 2007

Almost \$1 Trillion In Losses

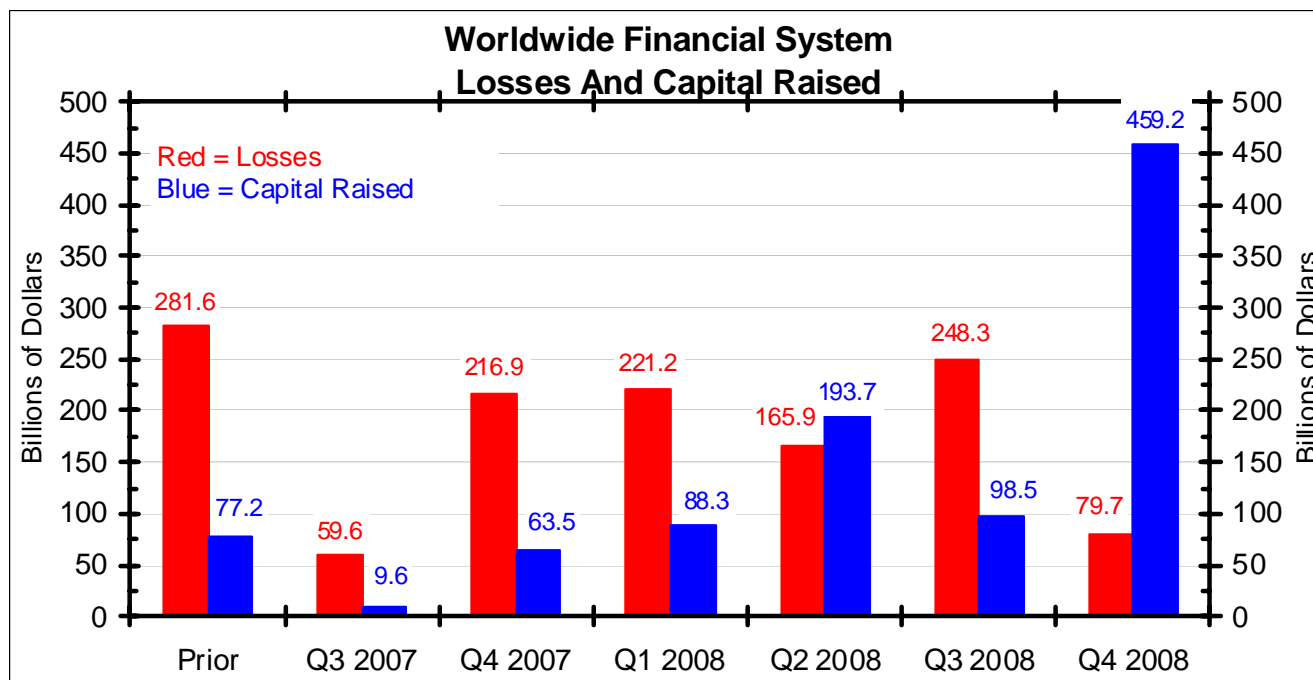
Worldwide Financial System Losses and Capital Raised

As of January 14, 2009

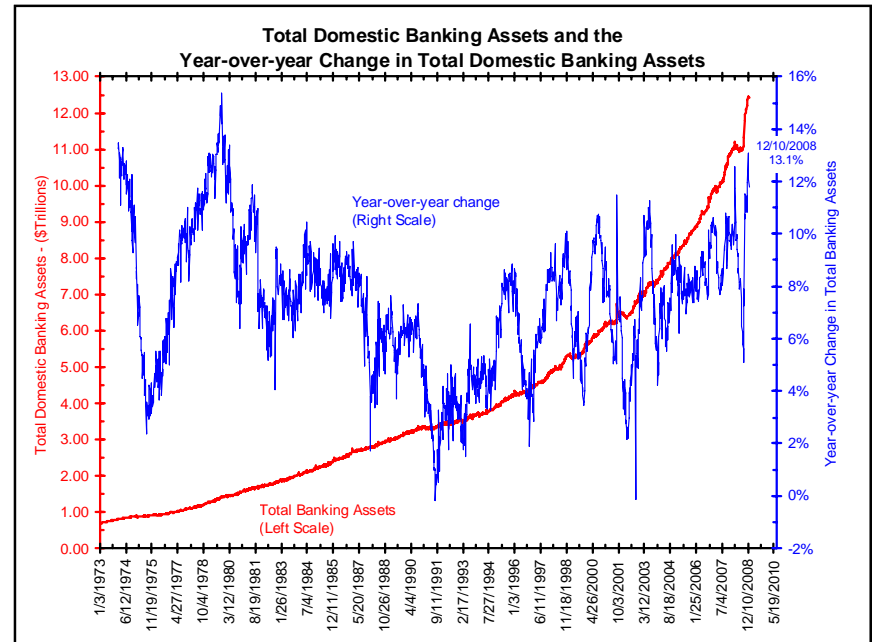
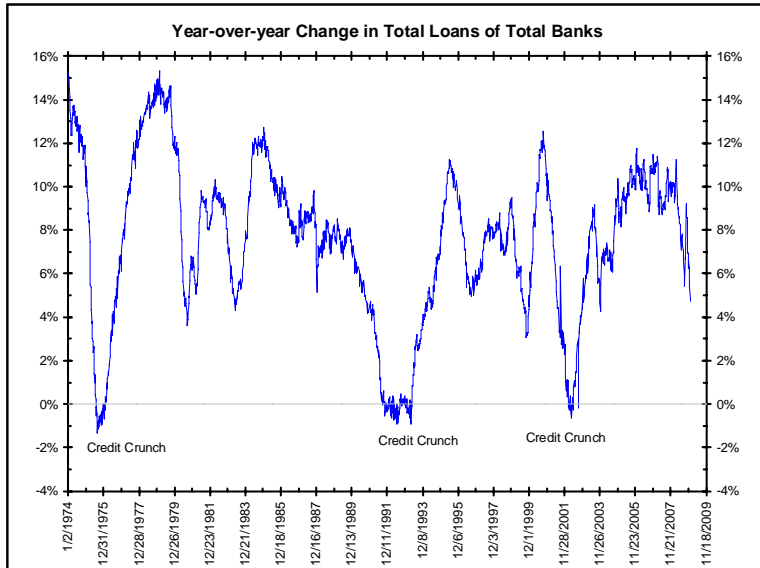
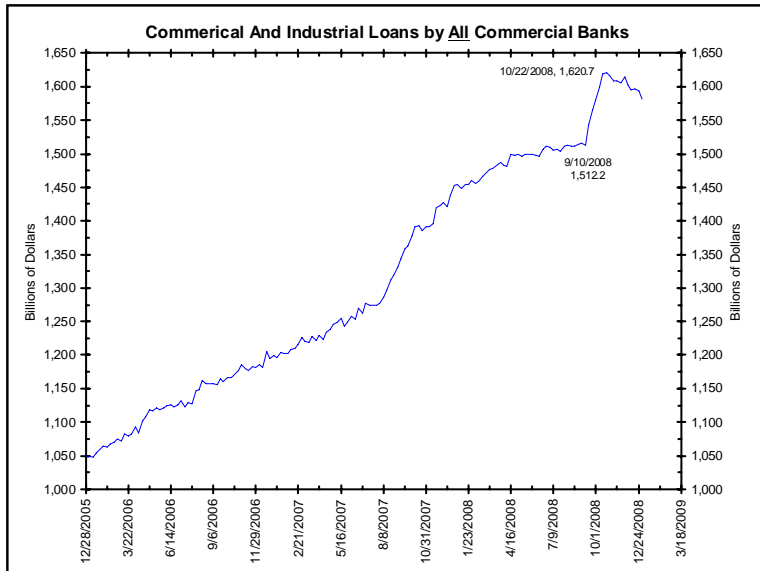
In Billions of Dollars

	Total		Q1 2009		Q4 2008		Q3 2008		Q2 2008		Q1 2008		Prior	
	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital
Banks/Brokers	736.6	807.5	0.0	19.6	78.7	392.7	173.3	96.9	123.3	159.1	154.3	85.1	207.0	54.1
Insurance Cos	145.6	94.3	0.0	1.7	1.0	52.7	36.7	1.6	13.6	27.5	42.3	3.2	52.0	7.6
GSEs	114.5	36.4	0.0	0.0	0.0	13.8	38.3	0.0	29.0	7.1	24.6	0.0	22.6	15.5
Worldwide	996.7	938.2	0.0	21.3	79.7	459.2	248.3	98.5	165.9	193.7	221.2	88.3	281.6	77.2

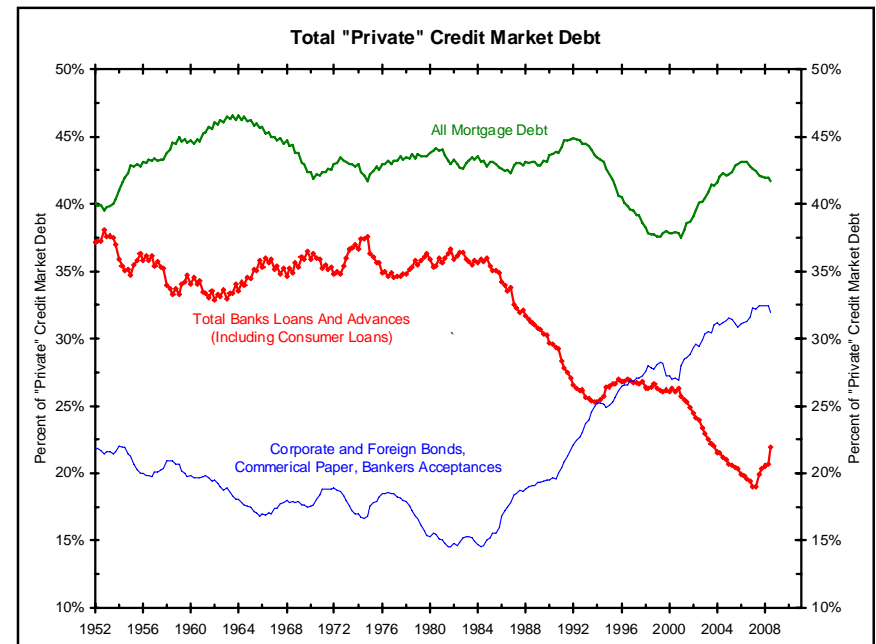
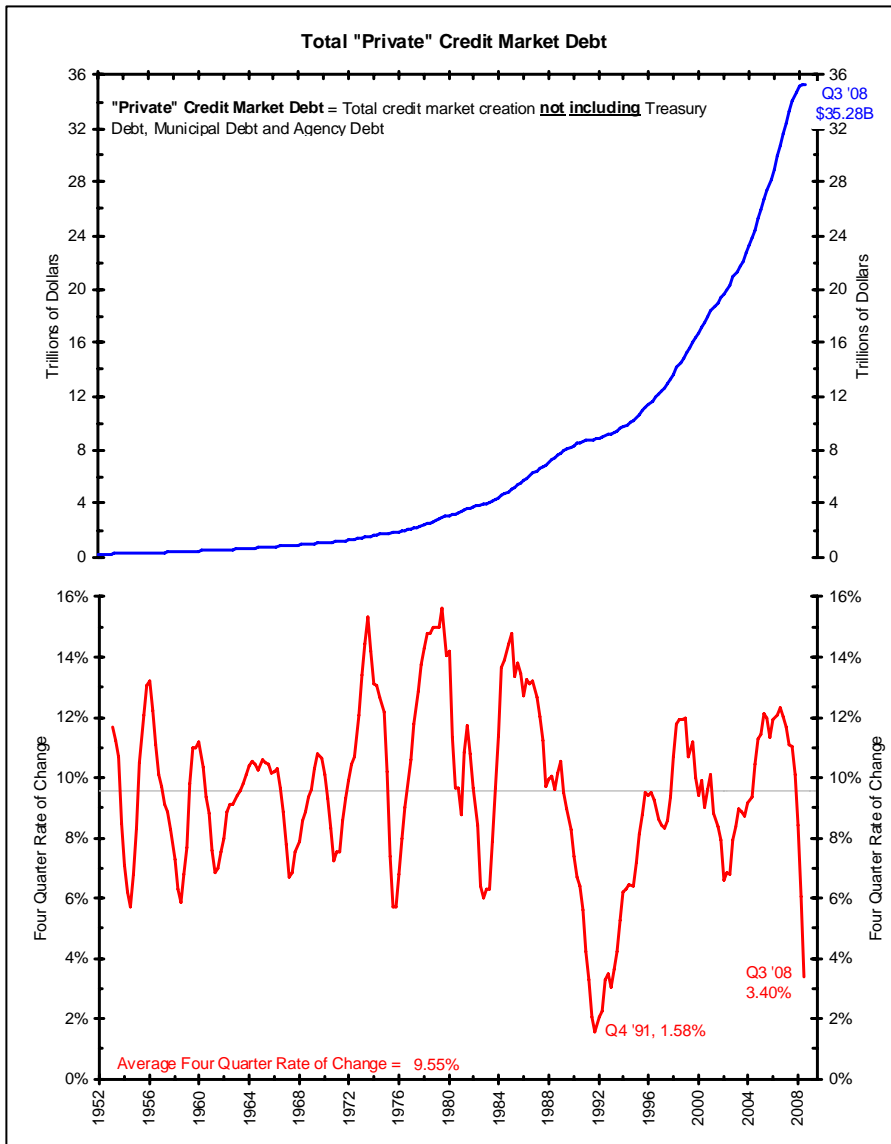
Source: Bloomberg



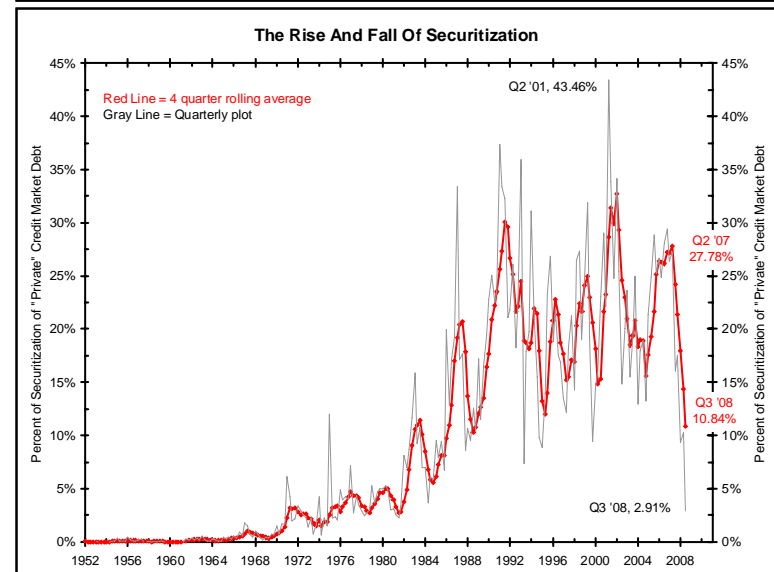
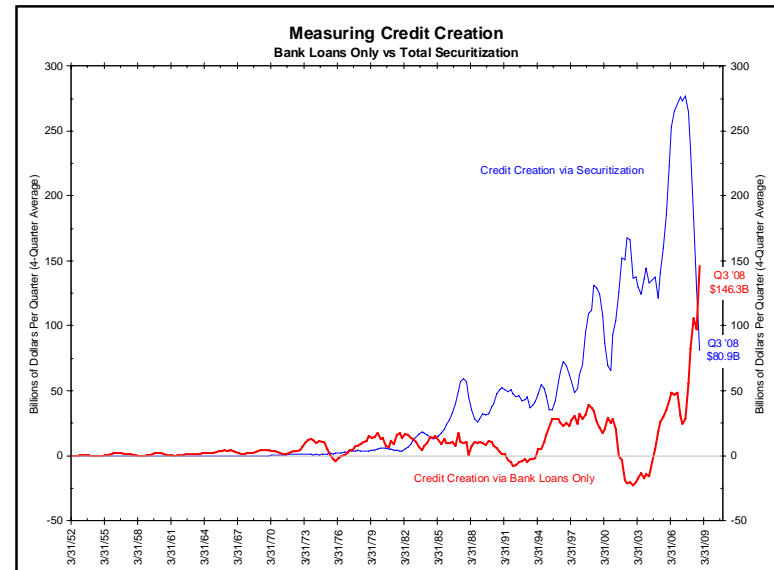
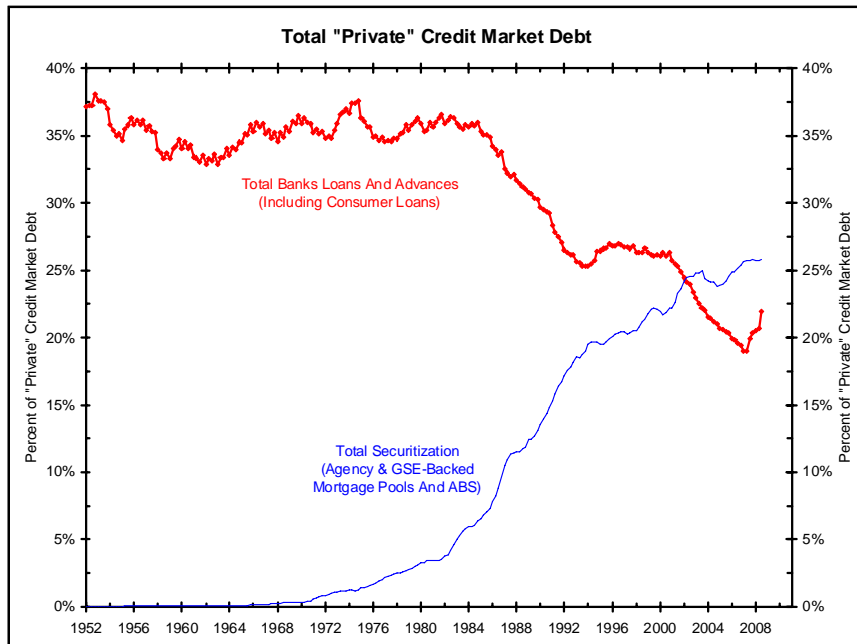
Banks Are Lending!



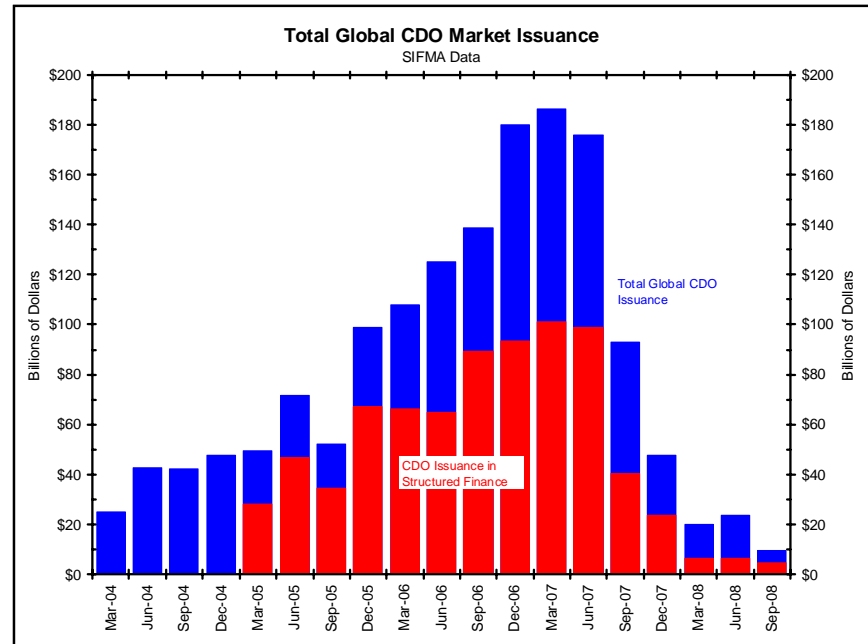
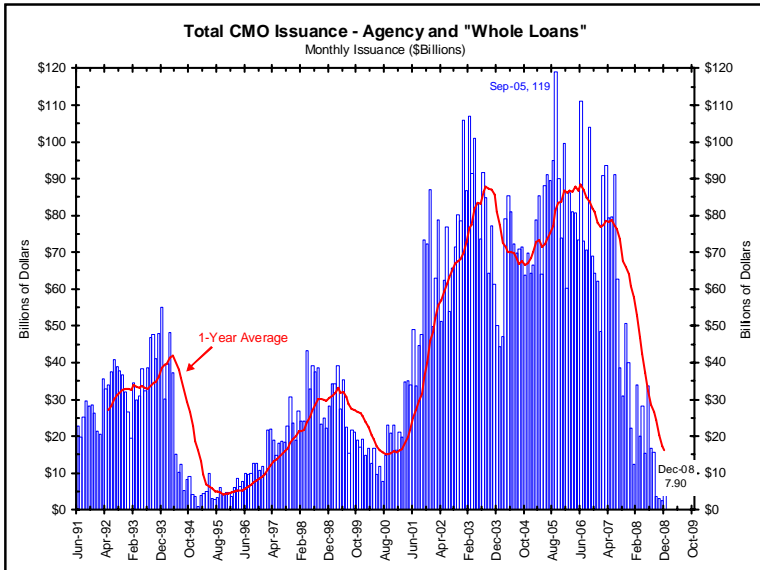
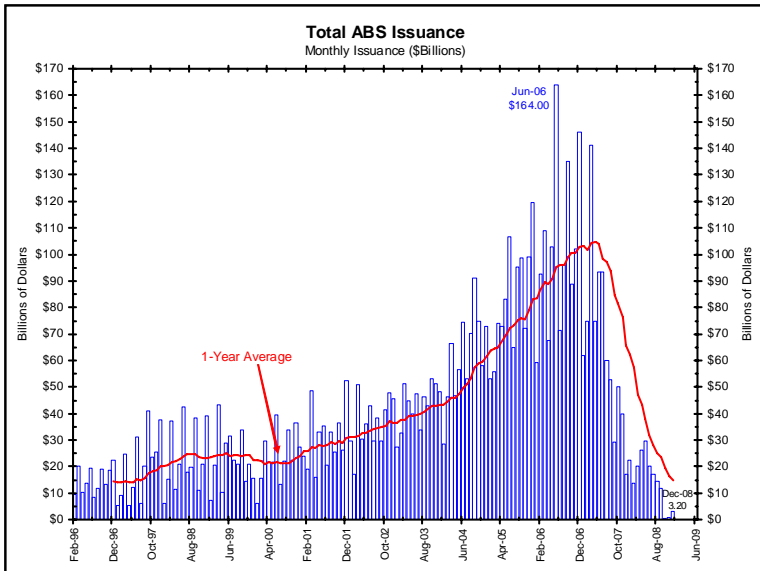
Measuring Credit Creation



Measuring The Size Of Securitization - 1



Measuring The Size Of Securitization - 2



The Credit Crisis: The Largest Outlay In American History

From Our [Newsclips/Daily Commentary](#)

Measuring The Size Of The Bailouts As of December 29, 2008

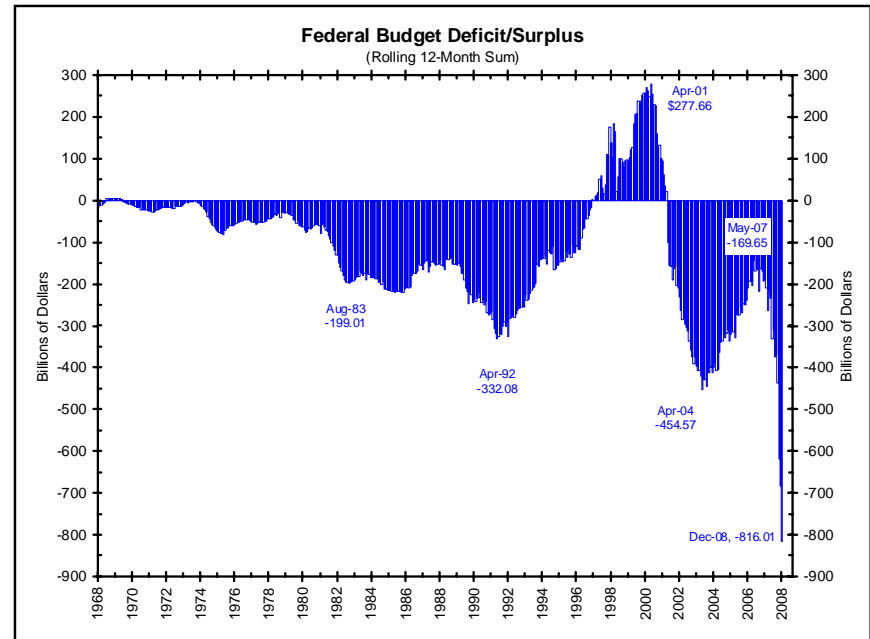
The Federal Reserve		
Program (Description)	Maximum Amount	Current Amount
Net Portfolio Commercial Paper Funding (Purchases ST Debt directly from corporate issuers)	\$1,800.0	\$325.8
Term Auction Facility (TAF) (Banks get loans for as many as 28 days by posting collateral)	\$900.0	\$421.0
Other Assets	\$601.9	\$613.9
MMIFF (Money Market Investor Funding Facility)	\$540.0	\$0.0
MBS/FHLB/Agency In Reverse Auctions	\$600.0	\$0.0
Term Securities Lending Facility (TSLF) (Allows primary dealers to borrow Tsys by posting collateral)	\$250.0	\$190.2
Other Credit Extensions (The AIG Loan)	\$122.8	\$122.8
Primary Credit Discount (Original Fed lending program for commercial banks)	\$86.3	\$86.3
Asset-Backed Commercial Paper (ABCP) Liquidity (Loans to banks to buy ABCP from mutual funds)	\$61.9	\$61.9
Primary Dealers and others (A discount window for all primary dealers and securities firms)	\$45.7	\$45.7
Net Portfolio Maiden Lane (Bear Stearns Assets)	\$38.8	\$26.9
Securities Lending Overnight (one-day loans to banks on collateral)	\$10.3	\$10.3
Secondary Credit	\$0.1	\$0.1
Federal Reserve Total	\$5,057.8	\$1,904.9
The FDIC		
FDIC liquidity guarantees (Guarantees bank-to-bank loans)	\$1,400.0	\$0.0
Loan Guarantee To Lending Arm of GE	\$139.0	\$139.0
FDIC Total	\$1,539.0	\$139.0
Treasury Department		
TARP	\$700.0	\$350.0
Fannie Mae/ Freddie Mac (bailout)	\$350.0	\$100.0
Stimulus Package (Spring 2008)	\$168.0	\$168.0
Treasury Exchange Stabilization Fund (Buys and sells Foreign currencies to moderate their fluctuation)	\$50.0	\$50.0
Tax Break For Banks	\$29.0	\$29.0
Citibank Asset Backstop	\$306.0	\$0.0
TALF	\$200.0	\$8.0
Treasury Total	\$1,803.0	\$705.0
FHA		
Hope for Homeowners (provides loan guarantees for struggling mortgage borrowers)	\$300.0	\$300.0
Other		
Auto Loans (via Dept. of Energy)	\$25.0	\$0.0
Grand Total	\$8,699.8	\$3,048.9

Sources: CNBC, Bloomberg, WSJ

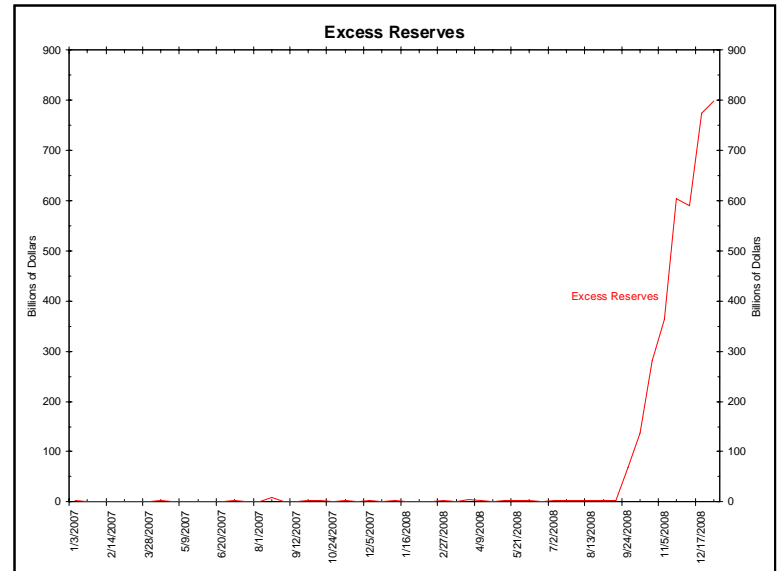
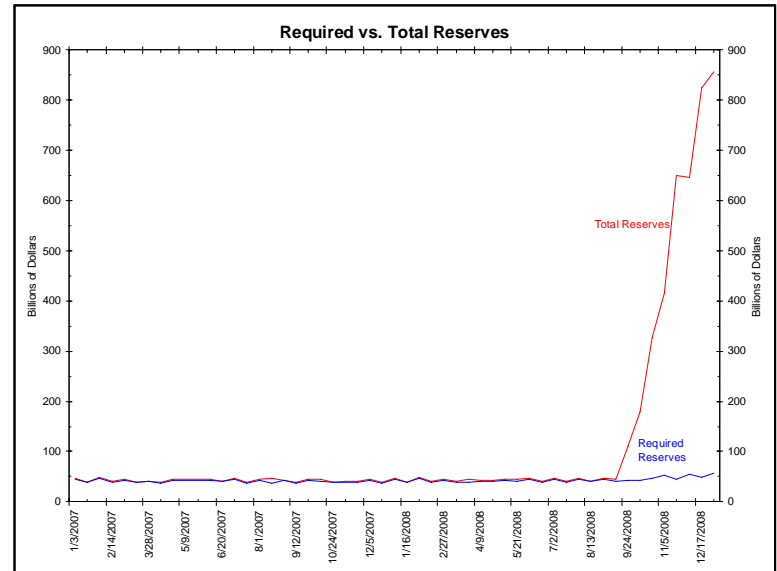
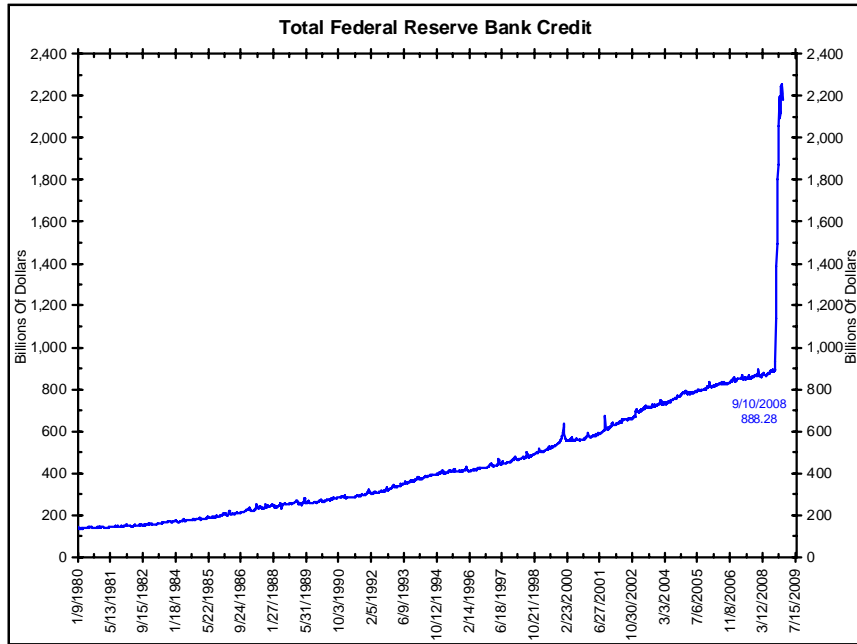
- Marshall Plan:** Cost: \$12.7 billion, Inflation Adjusted Cost: **\$115.3 billion**
- Louisiana Purchase:** Cost: \$15 million, Inflation Adjusted Cost: **\$217 billion**
- Race to the Moon:** Cost: \$36.4 billion, Inflation Adjusted Cost: **\$237 billion**
- S&L Crisis:** Cost: \$153 billion, Inflation Adjusted Cost: **\$256 billion**
- Korean War:** Cost: \$54 billion, Inflation Adjusted Cost: **\$454 billion**
- The New Deal:** Cost: \$32B (Est), Inflation Adjusted Cost: **\$500 billion (Est)**
- Gulf War II / War on Terror:** Cost: \$551b, Inflation Adjusted Cost: **\$597 billion**
- Vietnam War:** Cost: \$111 billion, Inflation Adjusted Cost: **\$698 billion**
- NASA (Cumulative):** Cost: \$416.7B, Inflation Adjusted Cost: **\$851.2 billion**

Collectively, all the "big budget items" above totaled **\$3.92 trillion**.

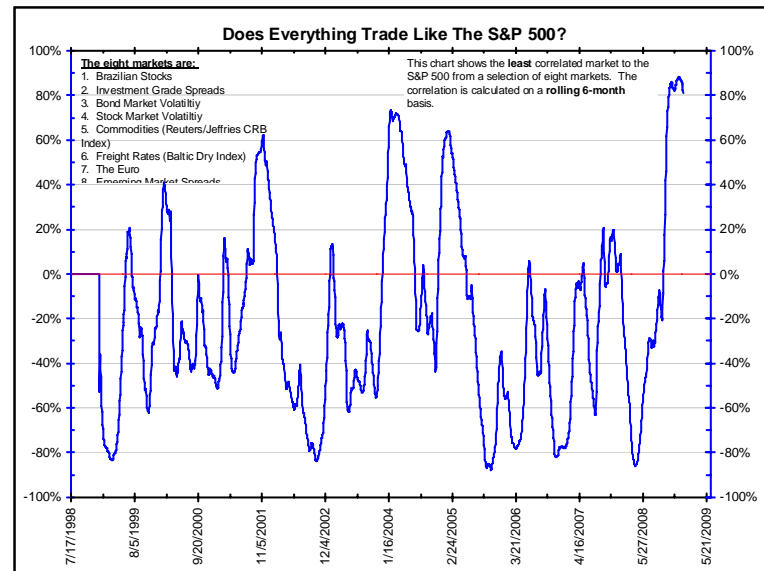
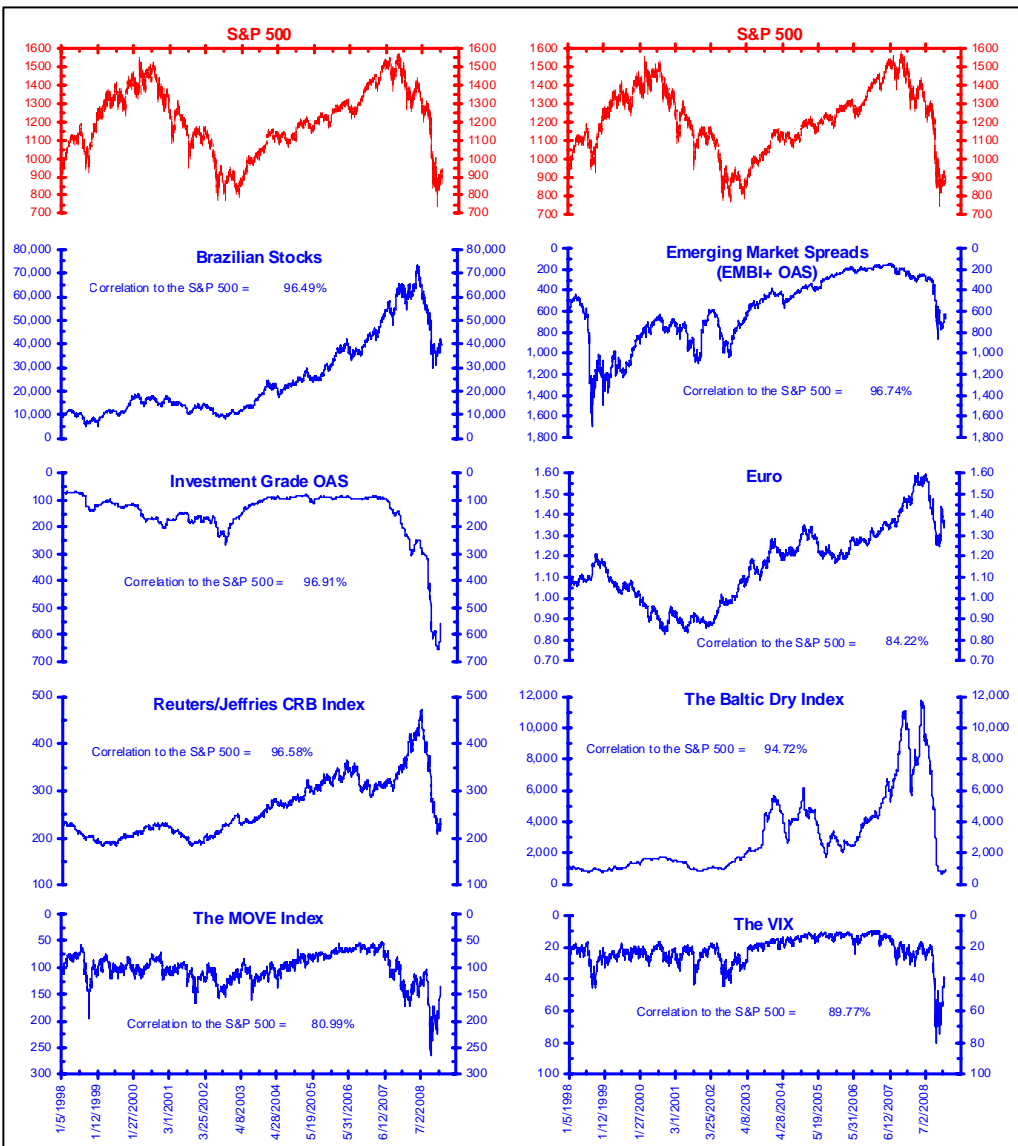
- World War II:** Original Cost: \$288 billion, Inflation Adjusted Cost: **\$3.6 trillion**



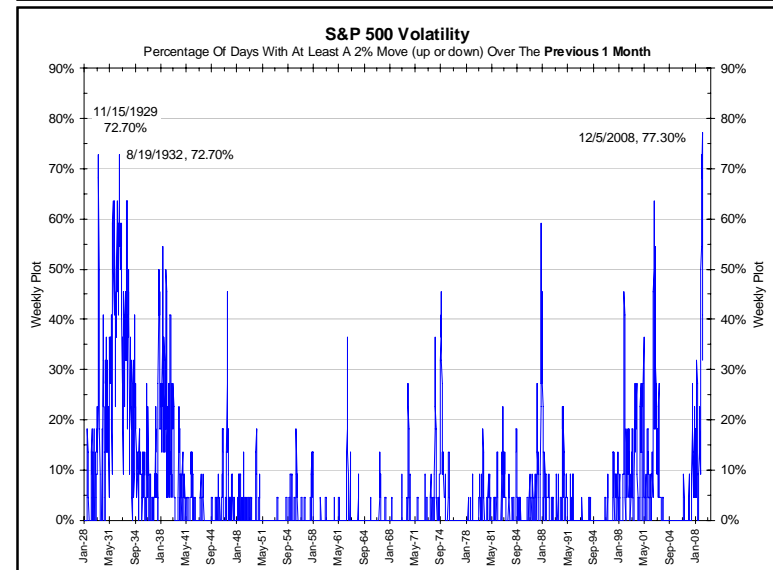
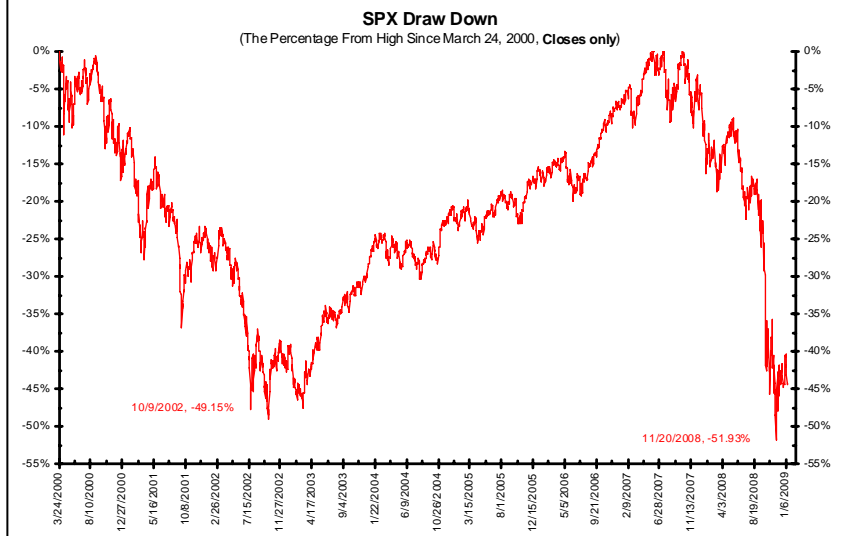
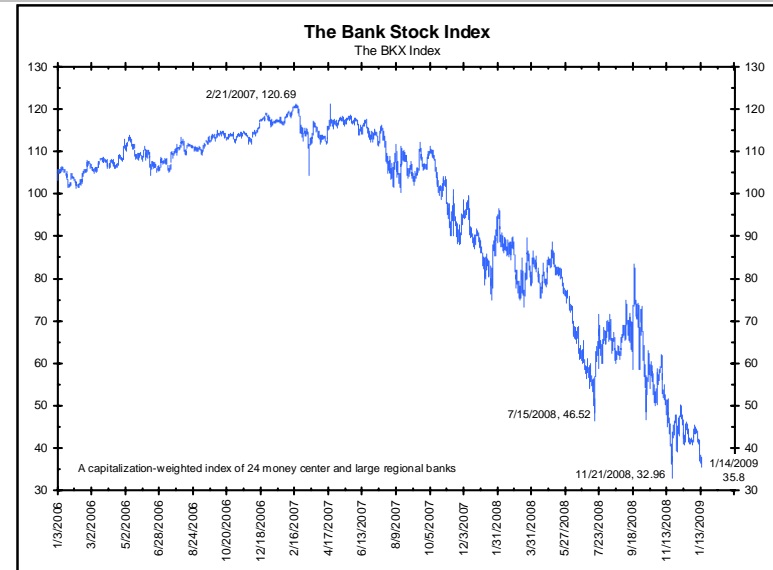
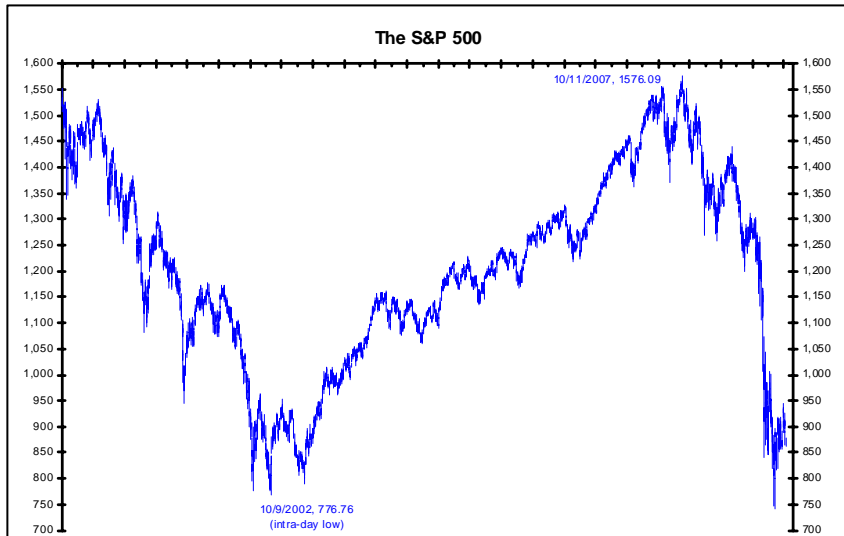
The Federal Reserve



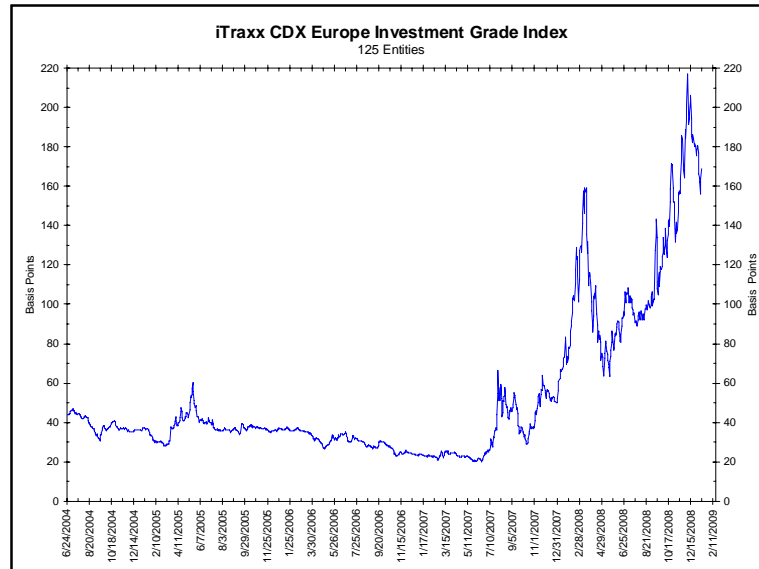
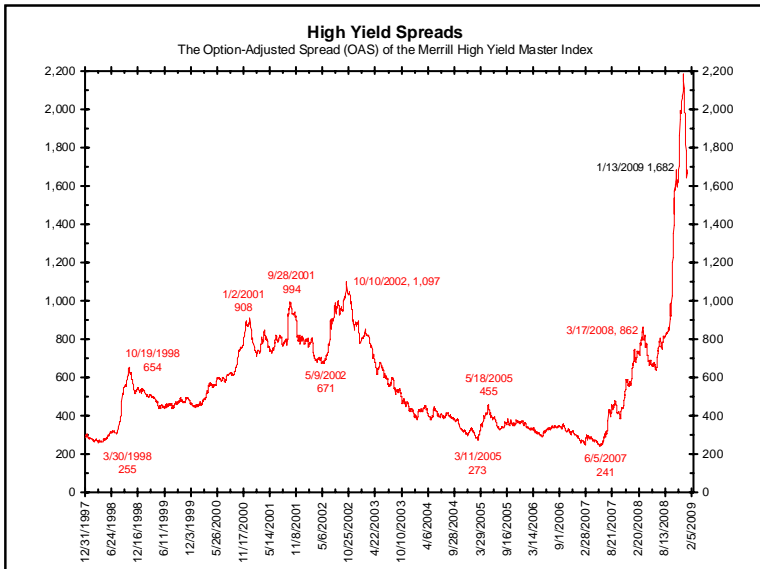
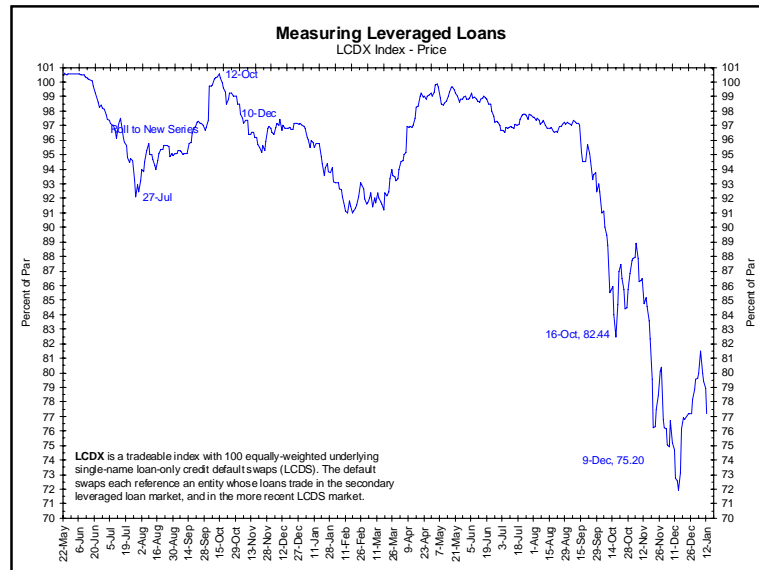
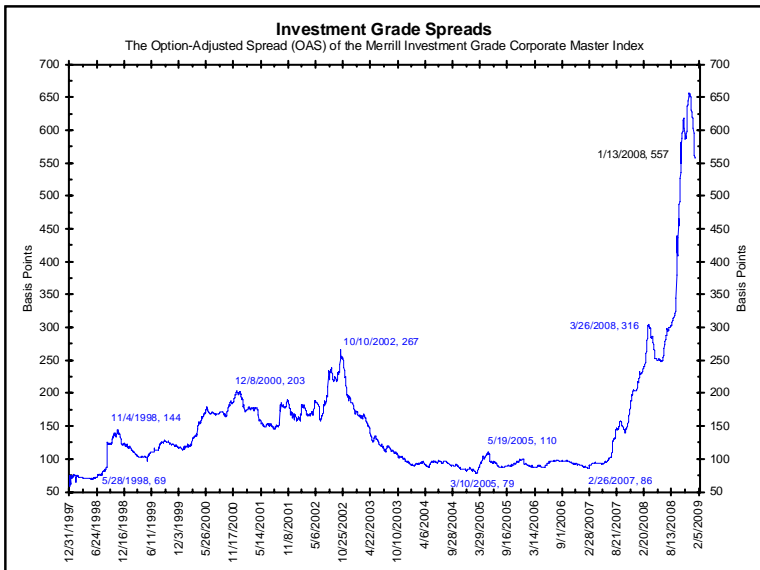
It Is All The Same Trade



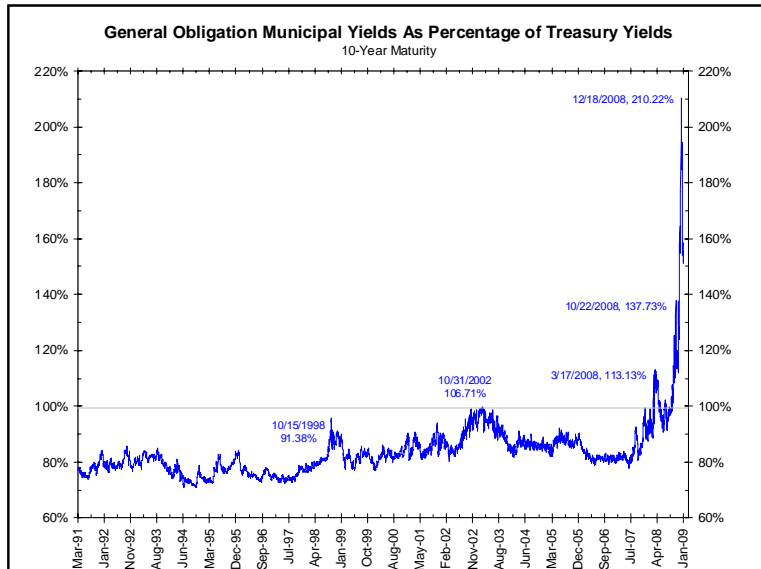
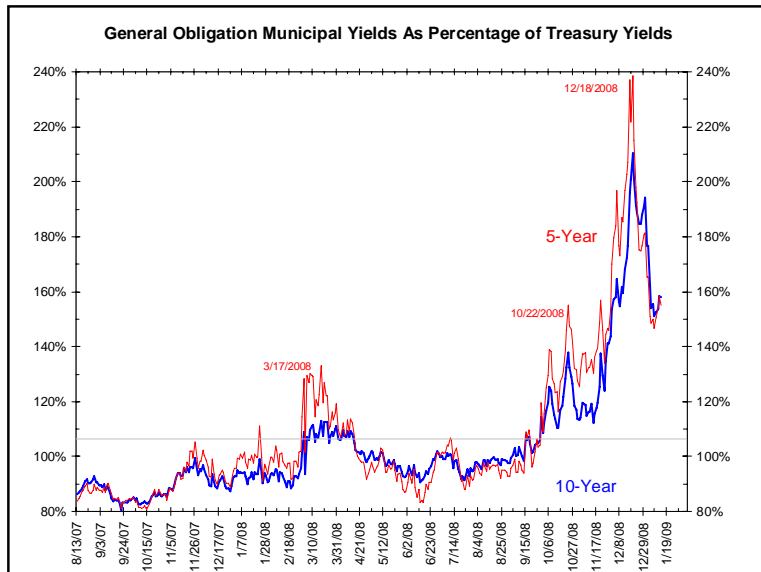
The Stock Market Decline Now Rivals The 1930s



Credit Spreads Are At Their Worst Levels



Muni Spreads – Still At Panic Levels



Reuters - [Massachusetts explores funding options](#)

Massachusetts' state treasurer has asked the federal government about borrowing money under similar conditions that banks have received if the state runs into financial trouble during the current financial crisis. "I hope that the money won't be needed," Rep. Barney Frank, a Massachusetts Democrat and the powerful head of the House Financial Services Committee, told Reuters on Monday. "But if it is, there is no better borrower than the state," he said. Treasurer Tim Cahill last week explored the possibility of going to the Federal Reserve to borrow money if needed.

Comment - It is tempting to joke about two "blue states" asking for a bailout. However, as the two charts below show (same series, different time periods), the muni market is in chaos again. General obligation bonds as a percentage of Treasury yields are at their highest level ever. The previous record was during the Bear Stearns failure, which led directly to the Auction-Rate Securities (ARS) implosion.

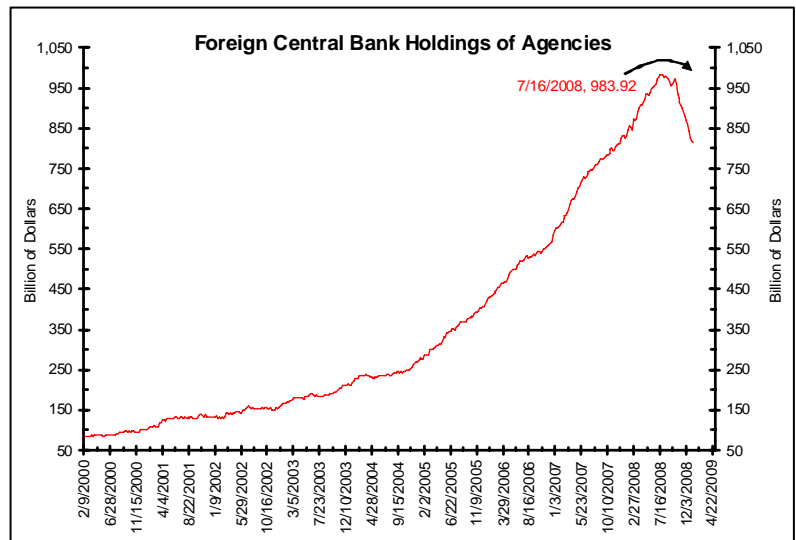
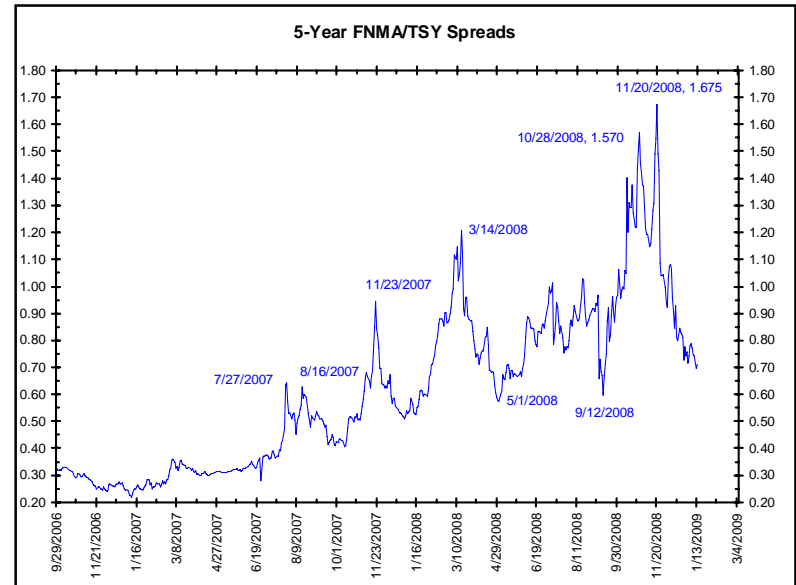
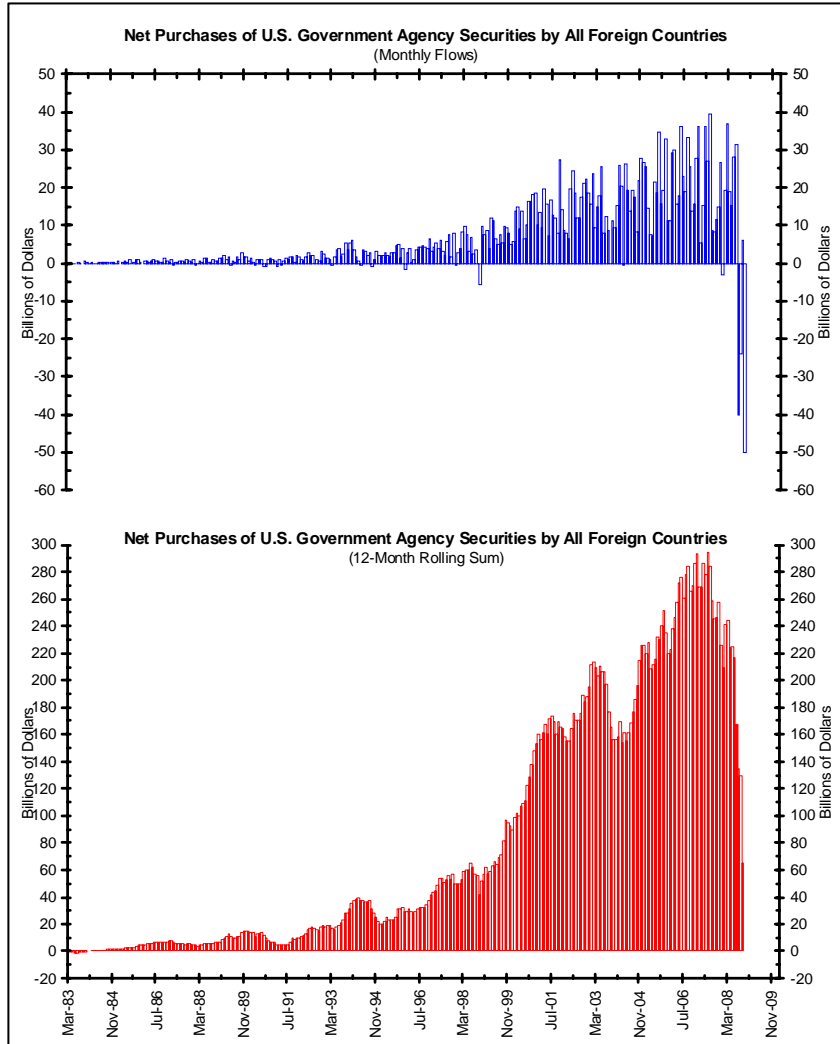
Add munis to the ever-growing list of crisis markets.

Bloomberg.com – [Joe Mysak: Begging for Bailout Cash, U.S. Cities Told to Go Fish](#)

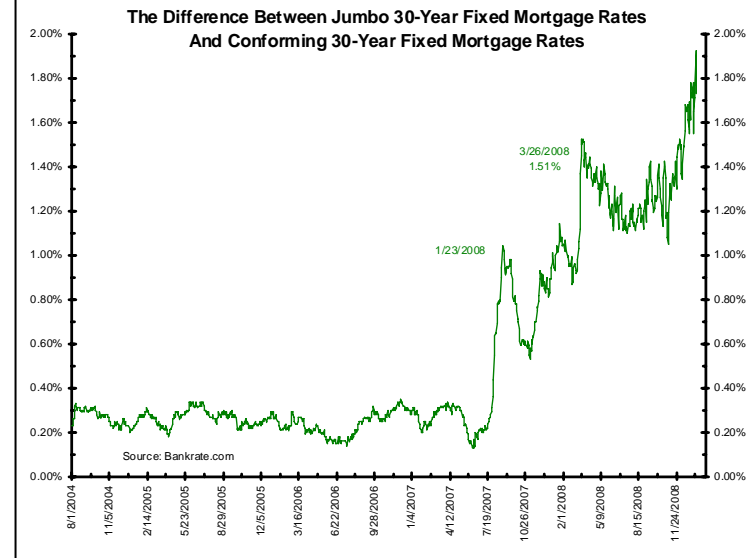
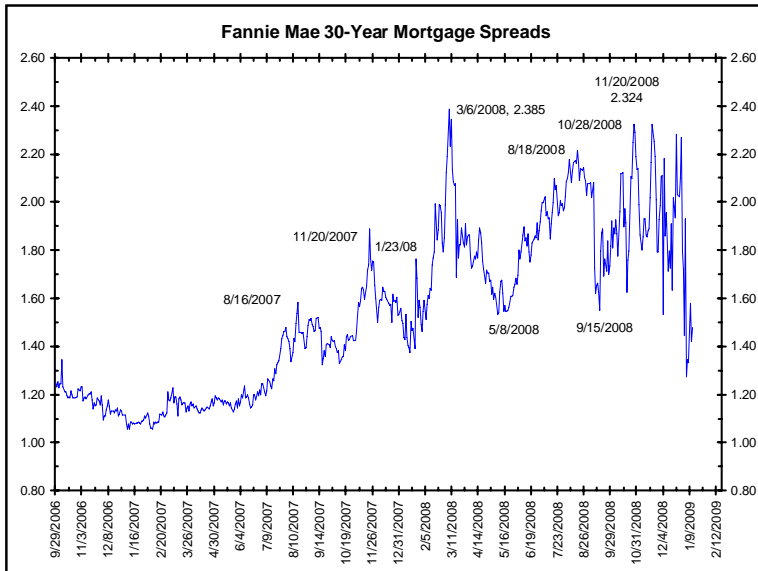
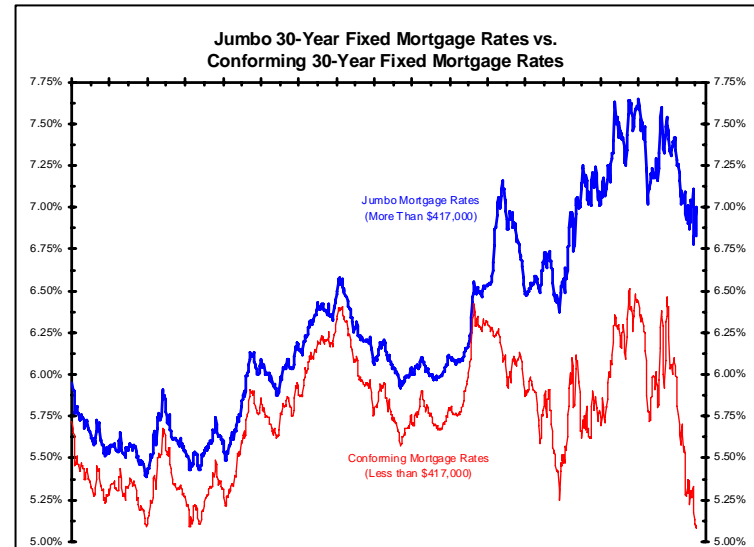
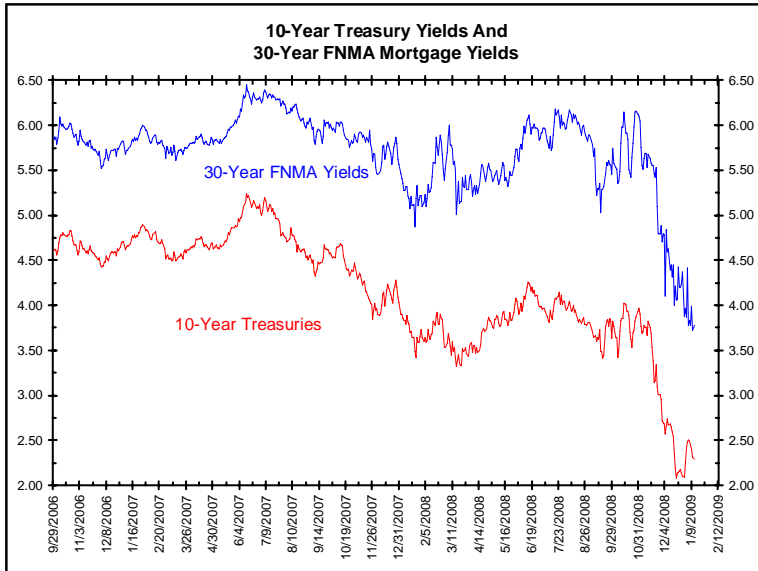
Atlanta, Detroit, Philadelphia and Phoenix have all asked in recent days for some of the Troubled Asset Relief Program billions. You can expect more to ask. Some want the government to spend the money on infrastructure-construction projects and to buy short-term note issues to help tide them over. Others want the money to help pay for employees and mass transit, among other things. Whether you're a municipal bond investor or simply a taxpayer, this should make you feel a little queasy. **This isn't good news.**

Agency Spreads And Foreign Buying

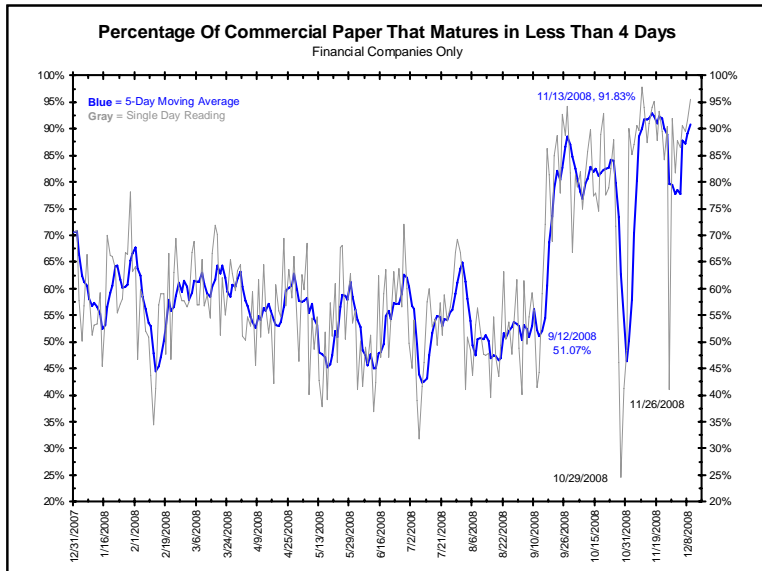
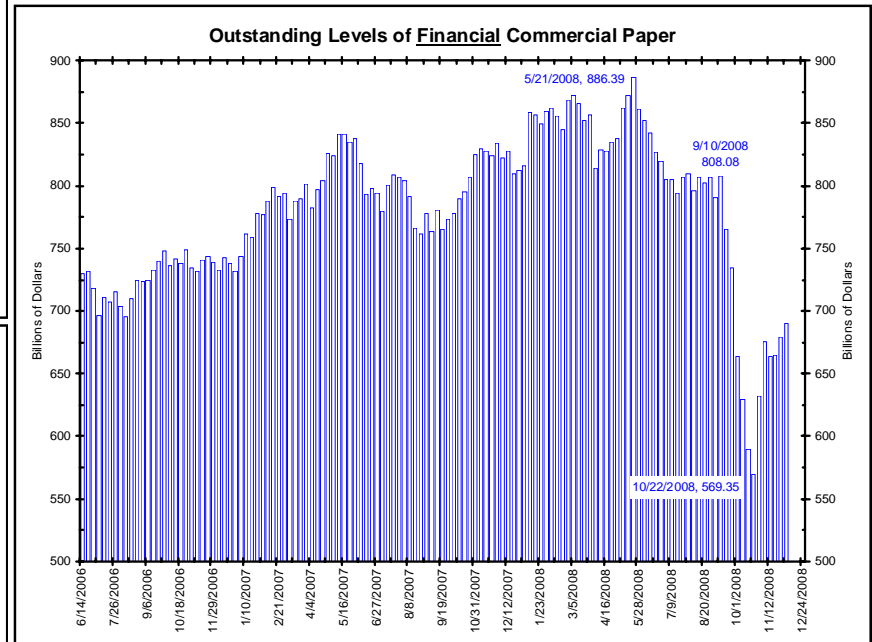
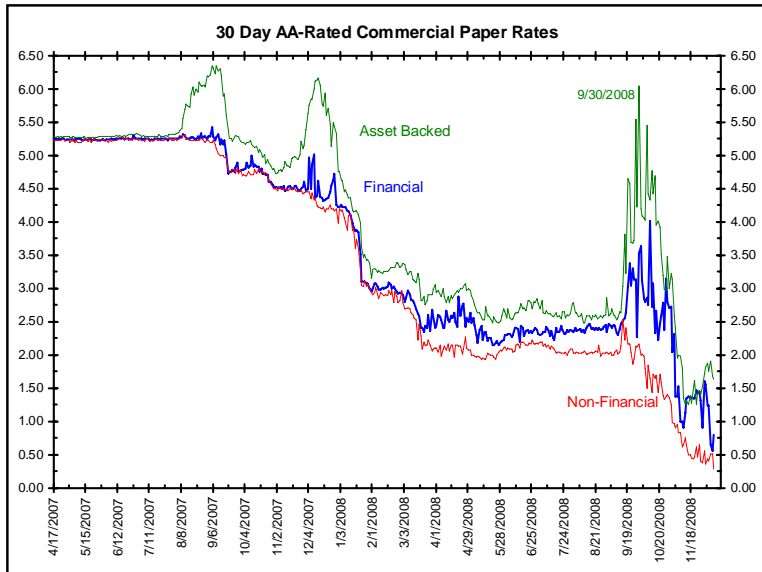
From Our Recent [TIC Update](#)



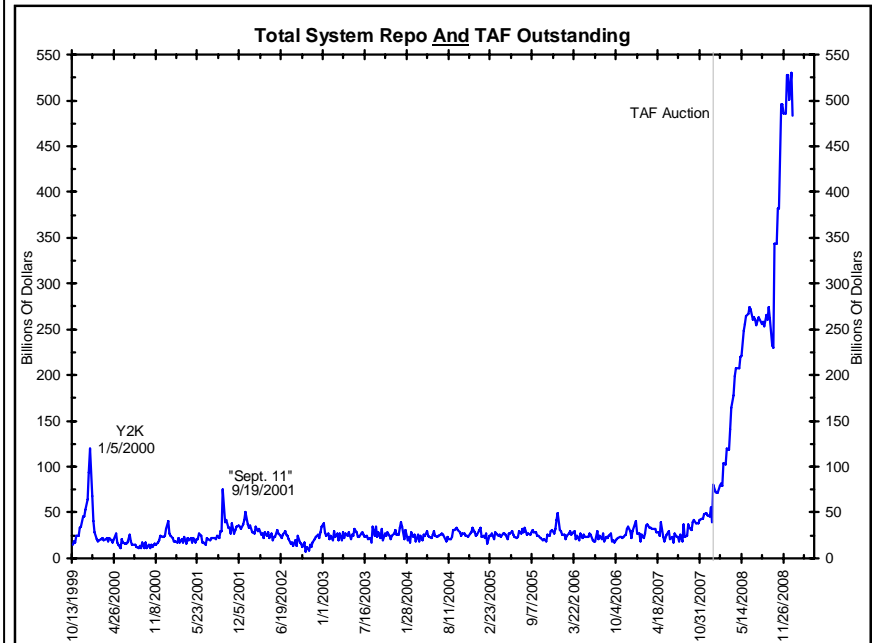
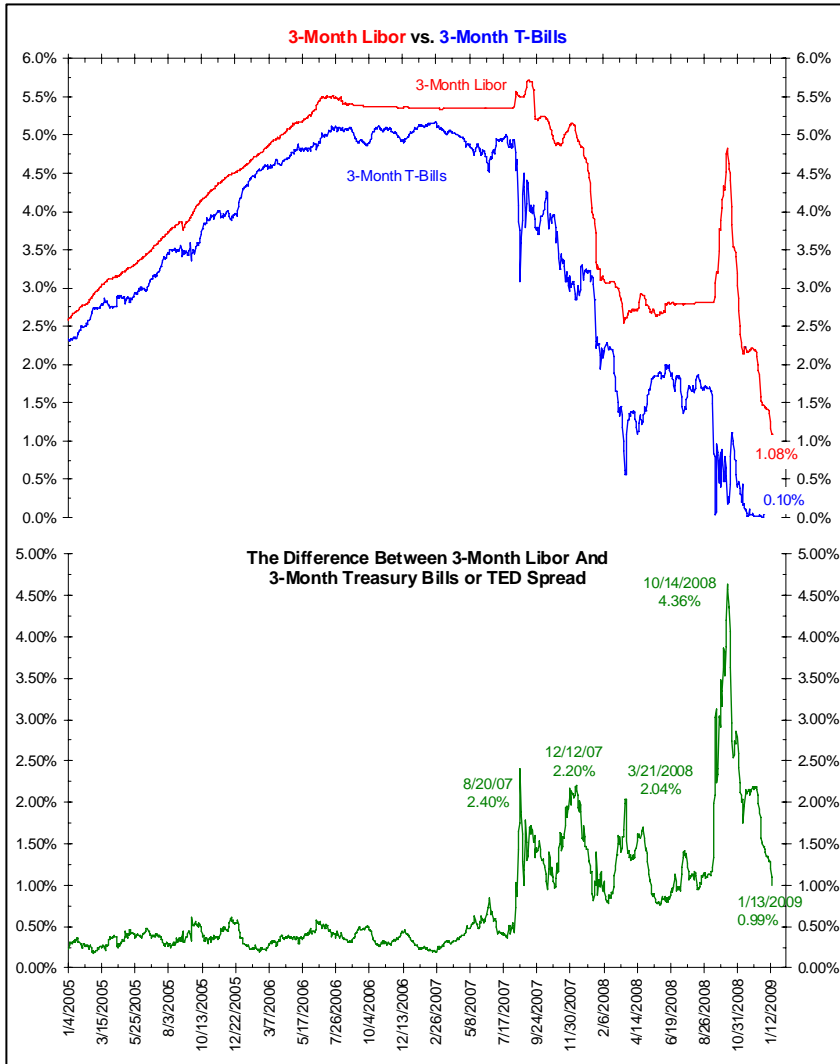
Mortgage Rates And Spreads



Medicated Market - Commercial Paper



Medicated Market - LIBOR And The TED Spread



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