Bianco Research L.L.C.

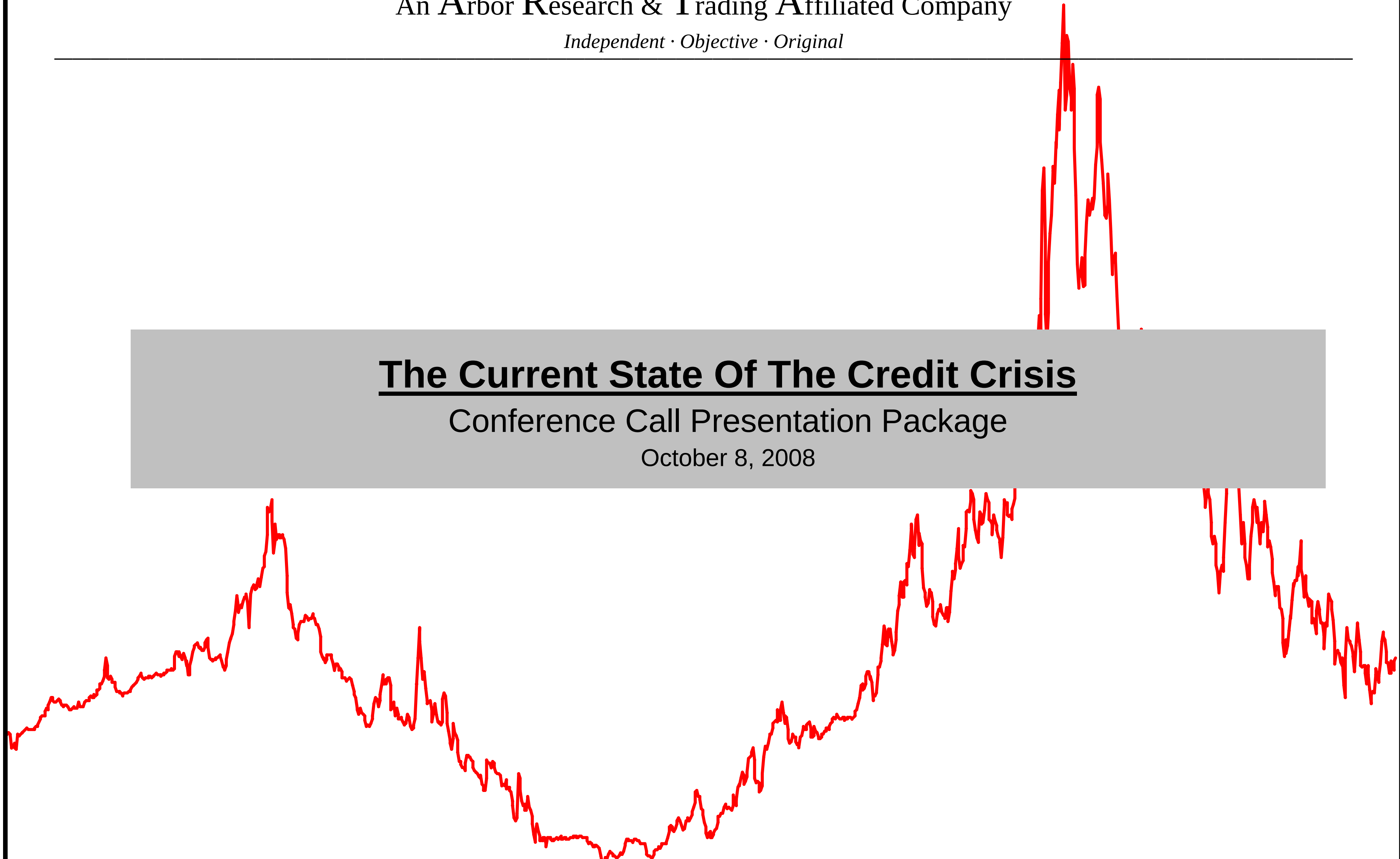
An Arbor Research & Trading Affiliated Company

Independent · Objective · Original

The Current State Of The Credit Crisis

Conference Call Presentation Package

October 8, 2008



Long-Term Interest Rates - 1900 to 2007

Summary/Conclusion – The Beginning Of The End

Modified From A Newsclips, Originally Written Thursday Morning, September 18, 2008

Comment - Everyone loves analogies ... An asteroid hit in early July and all the dinosaurs are dying ... Fannie/Freddie, Lehman, Merrill, AIG, and now Morgan Stanley and WaMu.

After the asteroid hit, the only food left are those financial institutions that are light on mortgage holdings and get their funding from a retail deposit base. Either get with a food source or die.

We believe this is the final capitulation process. It is "the beginning of the end." Within the next three months the low price and high spread should be in place. However, between now and then it will not be pleasant. Both the High Yield and Investment Grade option-adjusted spreads (OAS) have widened by a similar amount, over 100 basis points in the last week!

The objective is to stay in business over the next 90 days, and as the list of those that have not survived over the last two weeks attests, it's not as easy as it sounds. If you are still standing when this capitulation process is over, that will be the time to make money.

Then comes the ice age. This will constitute a period of low returns, higher inflation and where risk-taking is regulated from the marketplace.

The Problem Is Loss of Capital, Not Liquidity

Total Banking System Losses & Capital Raised
As of October 6, 2008
Billions of U.S. Dollars

Firm	Loss	Capital Raised	Difference
Citigroup	85.1	71.1	(14.00)
Merrill Lynch	52.2	29.9	(22.30)
Washington Mutual	45.6	12.1	(33.50)
UBS	44.2	28.1	(16.10)
HSBC	27.4	5.1	(22.30)
Wachovia	22.7	11.0	(11.70)
Bank of America	21.2	20.7	(0.50)
JPMorgan Chase	18.8	19.7	0.90
Morgan Stanley	15.7	14.6	(1.10)
IKB Deutsche	14.8	12.2	(2.60)
Royal Bank of Scotland	14.2	23.2	9.00
Lehman Brothers	13.8	13.9	0.10
Credit Suisse	10.4	3.0	(7.40)
Deutsche Bank	10.4	6.1	(4.30)
Wells Fargo	10.0	5.8	(4.20)
Credit Agricole	9.0	8.5	(0.50)
European Banks Not listed	9.1	2.9	(6.20)
Barclays	7.7	17.9	10.20
Canadian Imperial (CIBC)	7.3	2.8	(4.50)
Fortis	7.1	23.2	16.10
Bayerische Landesbank	6.9	0.0	(6.90)
HBOS PLC	6.8	7.2	0.40
ING Groep	6.7	4.6	(2.10)
Societe Generale	6.6	9.4	2.80
Mizuho Financial Group	6.1	0.0	(6.10)
Other Asian banks (excluding Mizuho, Nomura)	5.5	8.9	3.40
National City	5.4	8.9	3.50
Natixis	5.4	11.9	6.50
IndyMac	4.9	0.0	(4.90)
Goldman	4.9	10.6	5.70
LB Baden Wuerttemberg	4.7	0.0	(4.70)
West LB	4.6	7.3	2.70
Lloyds TSB	4.7	4.8	0.10
Dresdner	3.9	0.0	(3.90)
BNP Paribas	3.9	0.0	(3.90)
Etrade	3.6	2.4	(1.20)
HSH Nordbank	3.5	1.8	(1.70)
Rabobank	3.5	0.0	(3.50)
Nomura Holdings	3.4	1.2	(2.20)
Bear Stearns	3.2	0.0	(3.20)
Bank of China	3.1	0.0	(3.10)
Other US Frims	2.9	4.8	1.90
DZ Bank	2.6	0.0	(2.60)
Landesbank Sachsen	2.5	0.0	(2.50)
Unicredit	2.5	0.0	(2.50)
Commerzbank	2.3	0.0	(2.30)
ABN Amro	2.3	0.0	(2.30)
Royal Bank of Canada	2.2	0.0	(2.20)
Fifth Third Bankcorp	1.9	2.6	0.70
Dexia	1.6	0.0	(1.60)
Mitsubishi UFJ	1.6	1.6	0.00
Bank Hapoalim	1.5	2.5	1.00
Marshall & Ilsley	1.4	0.0	(1.40)
Alliance & Leicester	1.3	0.0	(1.30)
US bancorp	1.3	0.0	(1.30)
Caisse d'Epargne	1.2	0.0	(1.20)
Bank of Montreal	1.2	0.0	(1.20)
KeyCorp	1.2	1.7	0.50
Hypo Real Estate	1.1	0.0	(1.10)
Gulf International	1.0	1.0	0.00
Sovereign Bancorp	1.0	1.9	0.90
Sumitomo	1.0	4.9	3.90
Sumitomo Trust	0.8	1.0	0.20
National Bank of Canada	0.7	1.0	0.30
Other Canadian banks (excluding CIBC)	0.4	0.0	(0.40)
DBS Group	0.2	1.1	0.90
Total*	**585.7**	**434.9**	(150.80)

Source: Bloomberg L.P.

From A Recent Commentary

Worldwide Financial System Losses and Capital Raised
As of October 6, 2008
In Billions of Dollars

	Total		Q3 2008		Q2 2008		Q1 2008		Q4 2007		Q3 2007		Prior	
	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital
America	334.1	235.1	89.1	73.5	70.5	70.9	69.2	59.8	75.9	30.1	28.2	0.8	1.2	0.0
Europe	227.4	175.2	1.1	47.7	41.0	81.0	89.0	22.3	79.1	15.0	14.3	9.2	2.9	0.0
Asia	24.5	22.5	0.0	5.3	3.7	13.7	9.6	3.5	10.9	0.0	0.3	0.0	0.0	0.0
Worldwide	586.0	432.8	90.2	126.5	115.2	165.6	167.8	85.6	165.9	45.1	42.8	10.0	4.1	0.0

Source: Bloomberg

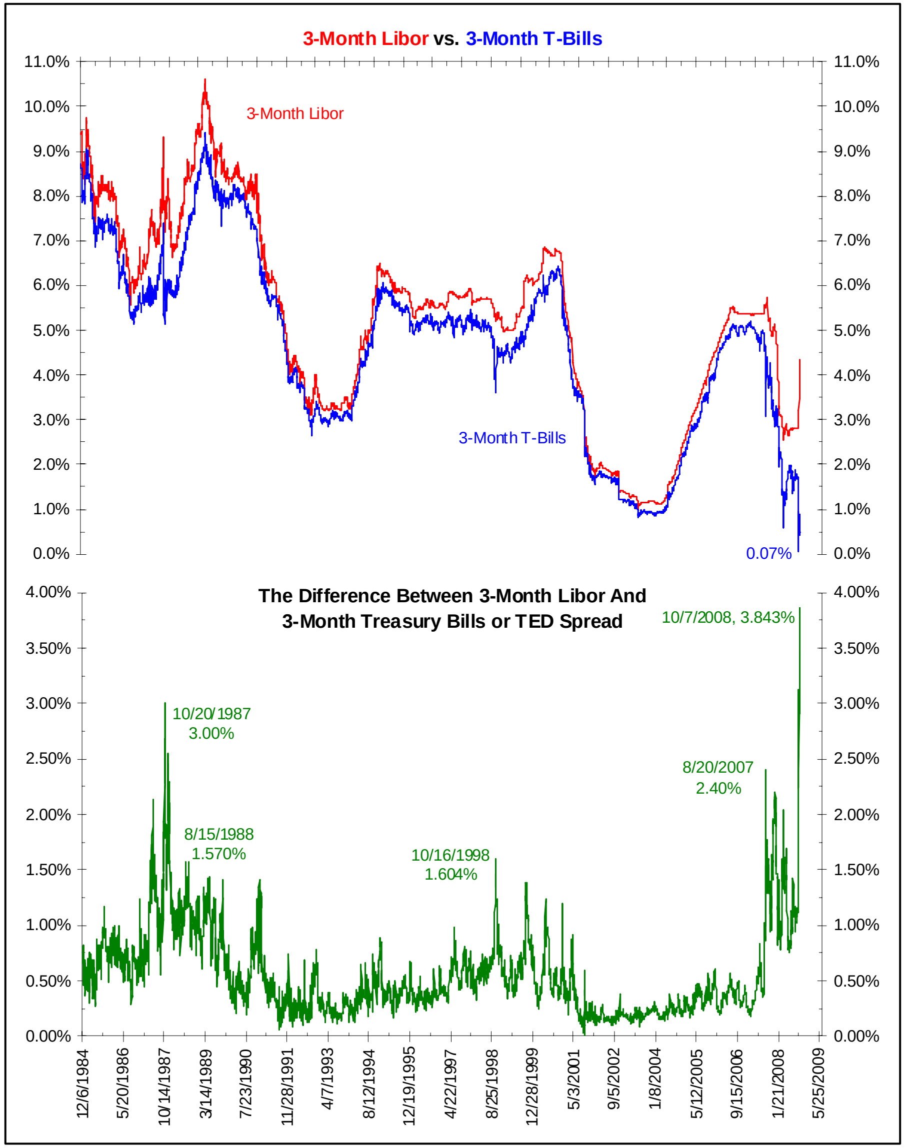
Who Is Not On the List?
Keep in mind these losses are for financial intermediaries (banks and brokers) only. Not included on this list are "*Other financial firms*" such as:
•Fannie Mae and Freddie Mac,
•Monoline and other insurance companies (AIG),
•Finance companies (GE Capital and CIT),
•Hedge funds
•Private equity firms and,
•Other financial institutions such as pension managers and endowments.

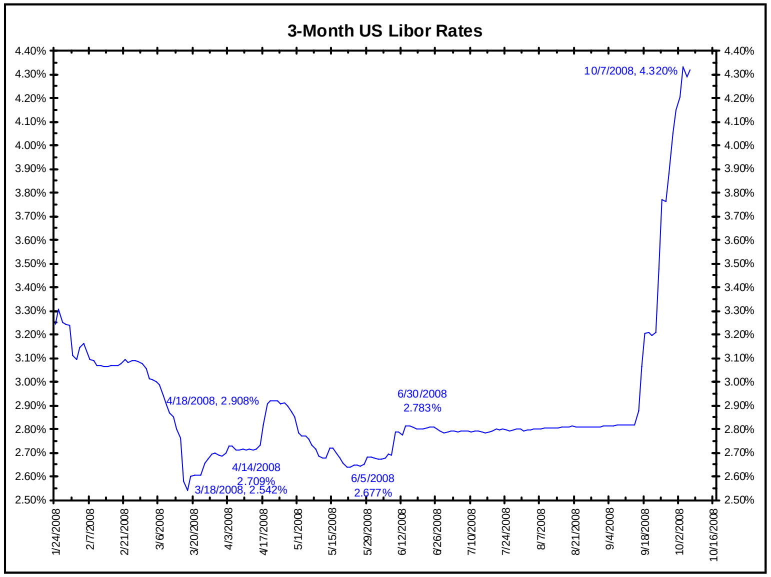
The list populating the table above has been restricted to financial intermediaries for purposes of consistency over time. Those firms not accounted for do not change the directional conclusion:
Combine the financial sector losses of $600 billion with another $200 billion for the *other financial firms* and **we estimate that $800 billion of losses have been booked already.**

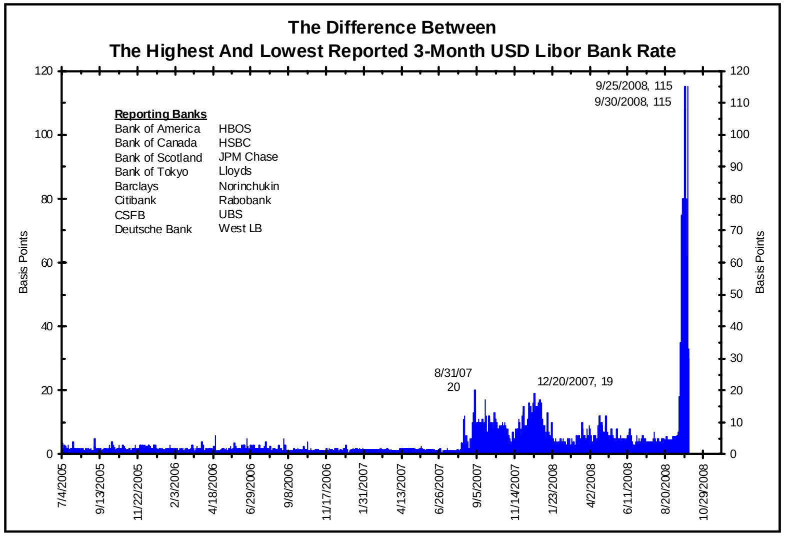
Non Bank/Broker Losses
As of 9/18/2008

Insitution	Billions
AIG	$36.3
Fannie Mae	$8.3
Freddie Mac	$7.9
MBIA	$7.9
Ambac	$7.5
XL Capital	$2.9
E*Trade	$2.2
FGIC	$2.0
Thornburg	$1.5
Hypo Real Estate	$1.2
Swiss Re	$1.2
GMAC	$0.5
Total	**$79.4**

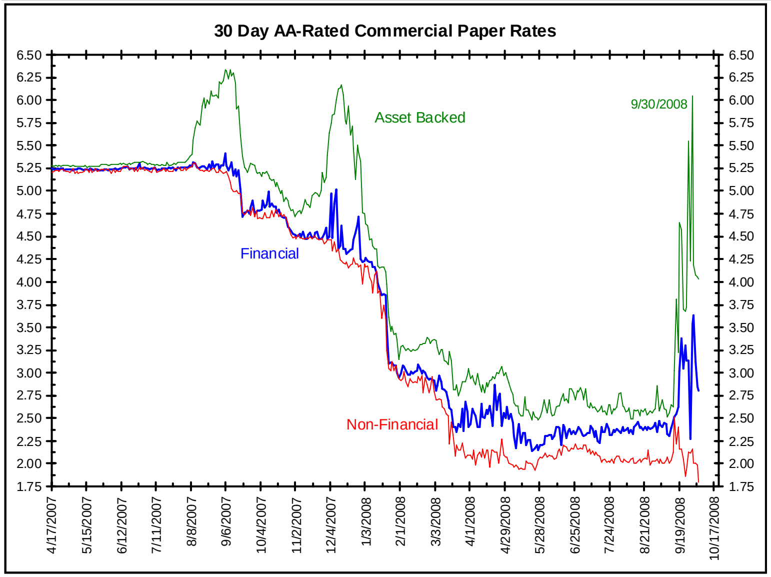
LIBOR And The TED Spread

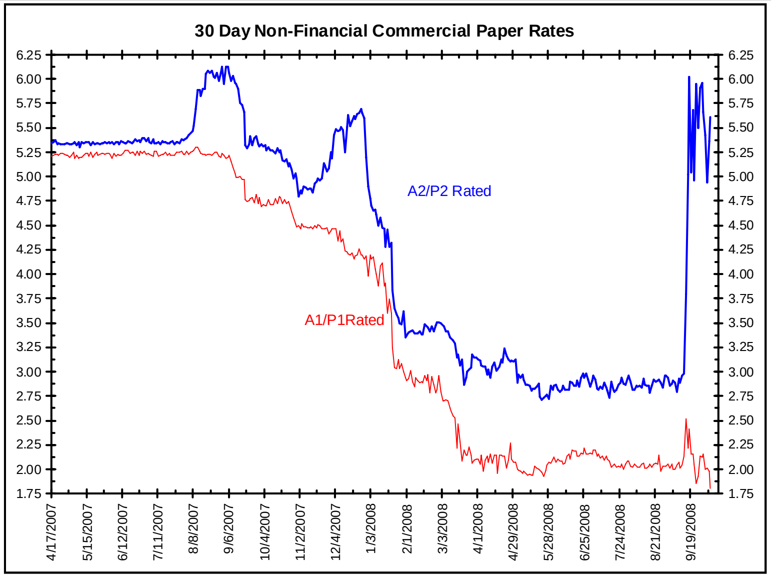


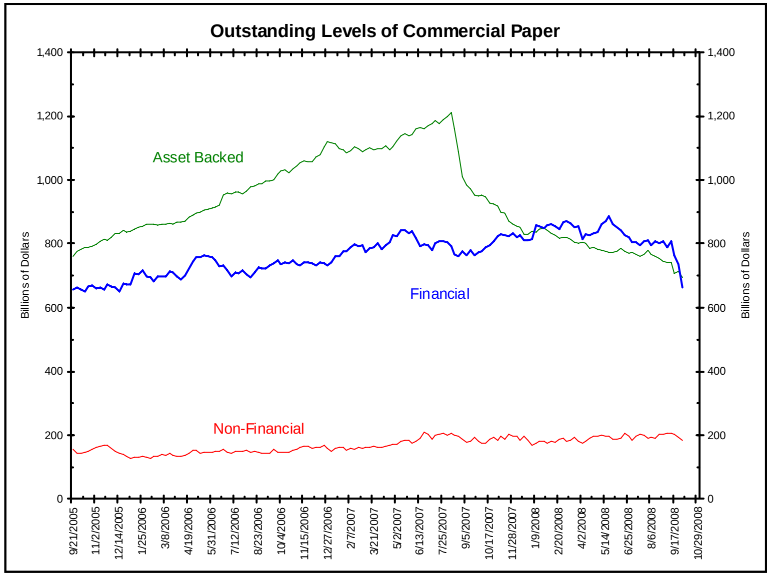




Commercial Paper







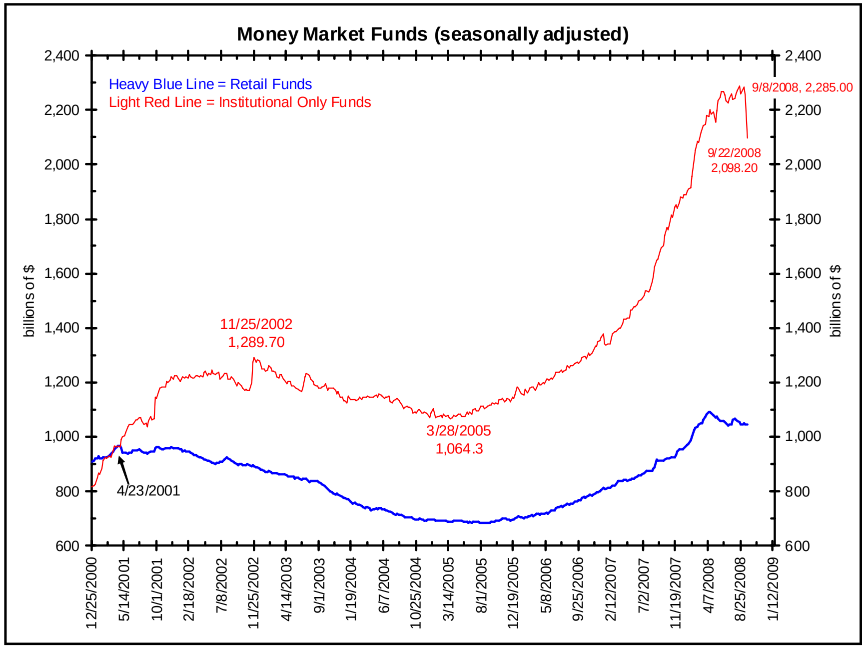
The Federal Reserve - ***Press Release, October 7, 2008***

The Federal Reserve Board on Tuesday announced the creation of the Commercial Paper Funding Facility (CPFF), a facility that will complement the Federal Reserve's existing credit facilities to help provide liquidity to term funding markets. The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month unsecured and **asset-backed commercial paper** directly from eligible issuers. The Federal Reserve will provide financing to the SPV under the CPFF and will be secured by all of the assets of the SPV and, in the case of commercial paper that is not asset-backed commercial paper, by the retention of up-front fees paid by the issuers or by other forms of security acceptable to the Federal Reserve in consultation with market participants. The Treasury believes this facility is necessary to prevent substantial disruptions to the financial markets and the economy and will make a special deposit at the Federal Reserve Bank of New York in support of this facility.

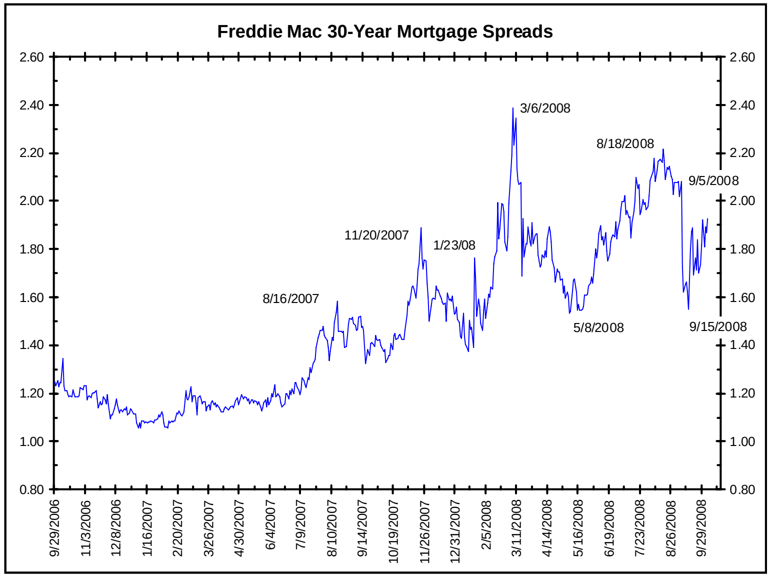
Money Market Funds

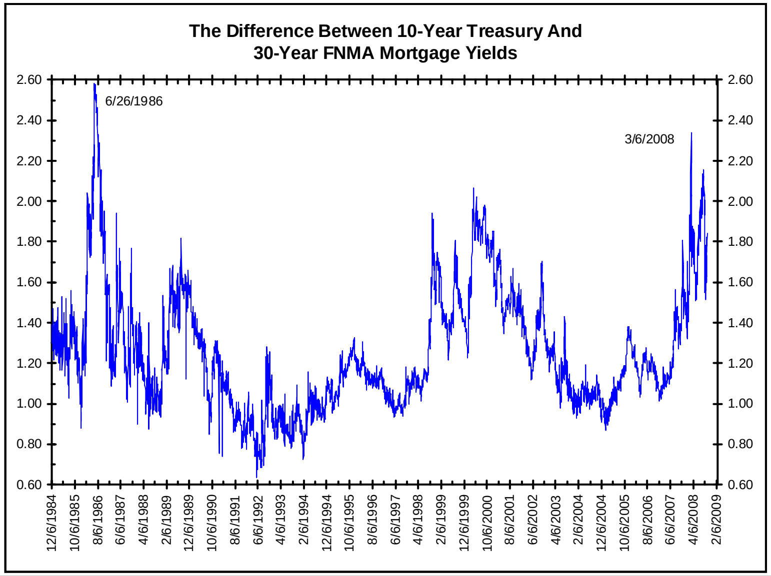
•***The Wall Street Journal – (Sept. 18)*** [Breaking Buck]
Friday, the Reserve Primary Fund had $62.6 billion in assets, making it one of the largest money-market funds. Then investors noticed this supposedly safe repository of their cash also held a scary batch of debt securities from Lehman Brothers, the teetering titan du jour. Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection on Monday. At least a dozen large investors pulled out almost $40 billion of their money Monday and Tuesday, two-thirds of Primary Fund's formidable asset base. This modern-day run on the bank has left a husk of a once-proud money fund. The withdrawals meant the Primary Fund had to "break the buck." That is, its net asset value sunk below the time-honored standard of $1 a share...The cruel irony is that the founder of the money-market fund concept more than three decades ago, Bruce Bent, is Reserve Management's chief -- and Mr. Bent, 71 years old, has long trumpeted the funds as avatars of sober-minded investing.

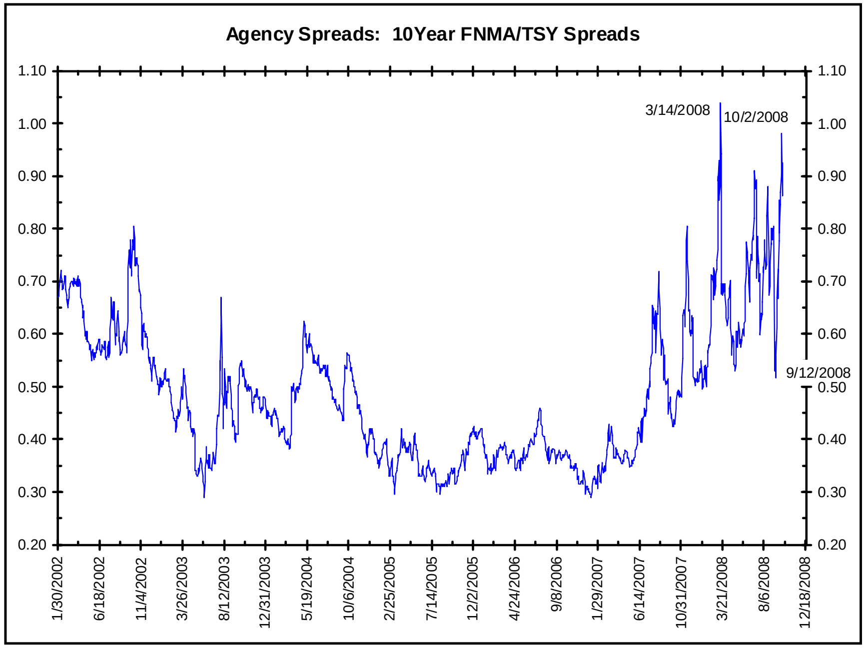
•***The Wall Street Journal – (Sept. 18)*** [Money-Fund Assets Fall by $89.38 Billion]
Investors to money-market funds withdrew $89.38 billion in the week ended Tuesday, bringing total net assets to $3.446 trillion, according to the Money Fund Report, published by iMoneyNet Inc. Institutional investors withdrew $93.57 billion, while individual, or "retail," investors added $4.19 billion. Assets in taxable money funds decreased by $80.71 billion to $2.931 trillion.



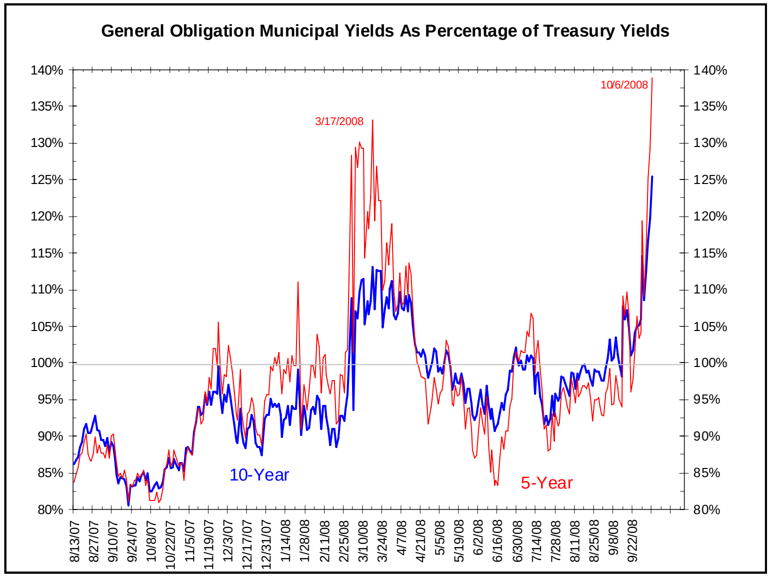
Mortgage/Agency Spreads

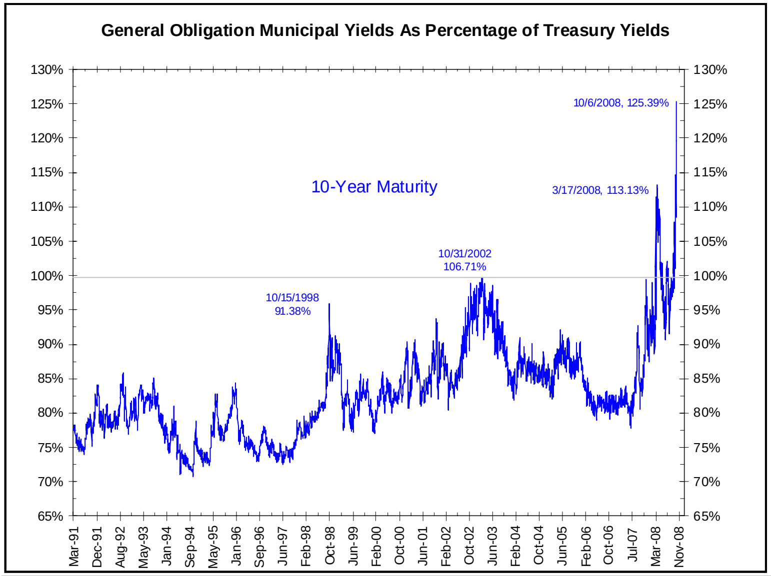






Muni Spreads – Back At Panic Levels





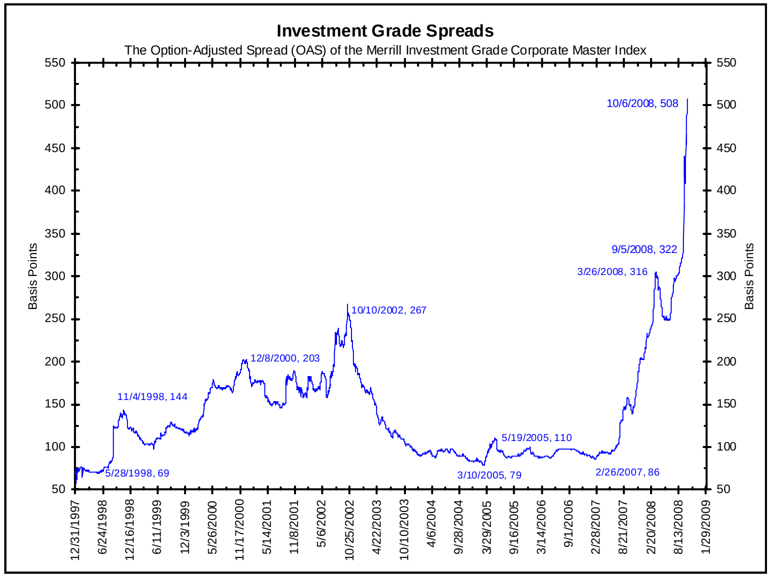
***Reuters -* Massachusetts explores funding options**

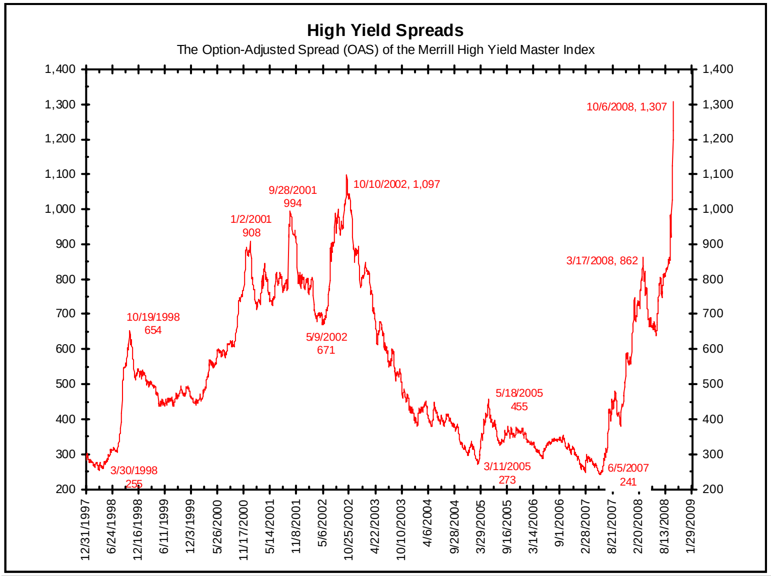
Massachusetts' state treasurer has asked the federal government about borrowing money under similar conditions that banks have received if the state runs into financial trouble during the current financial crisis. "I hope that the money won't be needed," Rep. Barney Frank, a Massachusetts Democrat and 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.

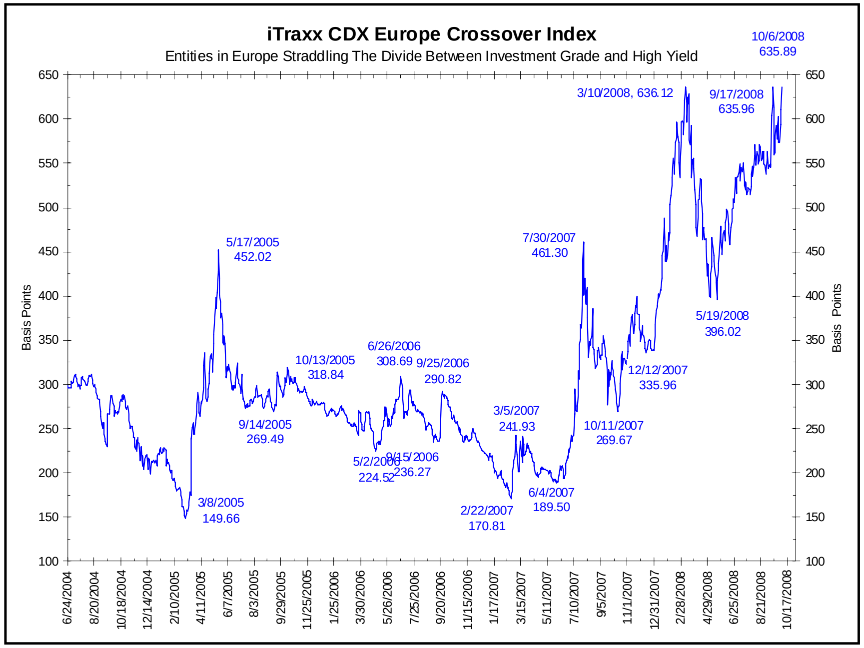
Comment - It is tempting to joke about two "blue states" asking for a bailout. However, as the two charts below show (same series, different time periods), the muni market is in chaos again. General obligation bonds as a percentage of Treasury yields are at their highest level ever. The previous record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

Credit Spreads

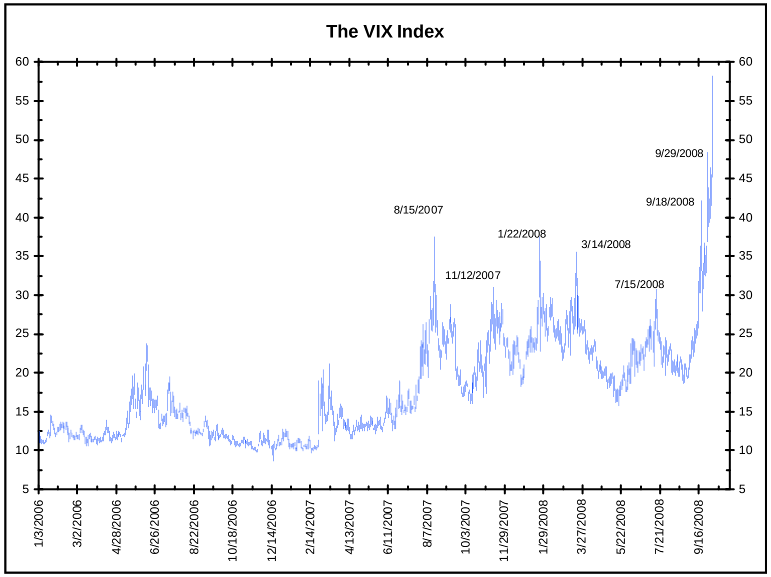


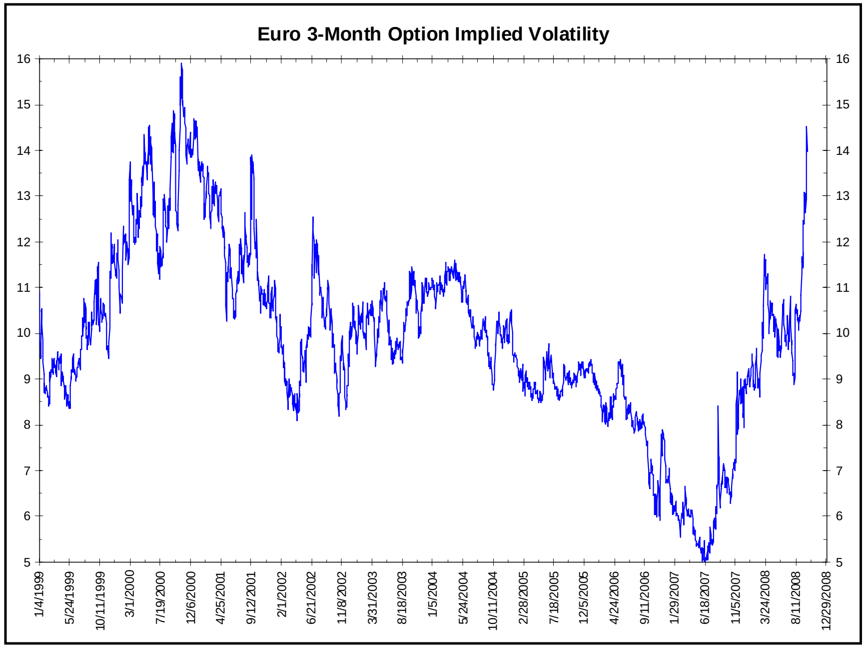


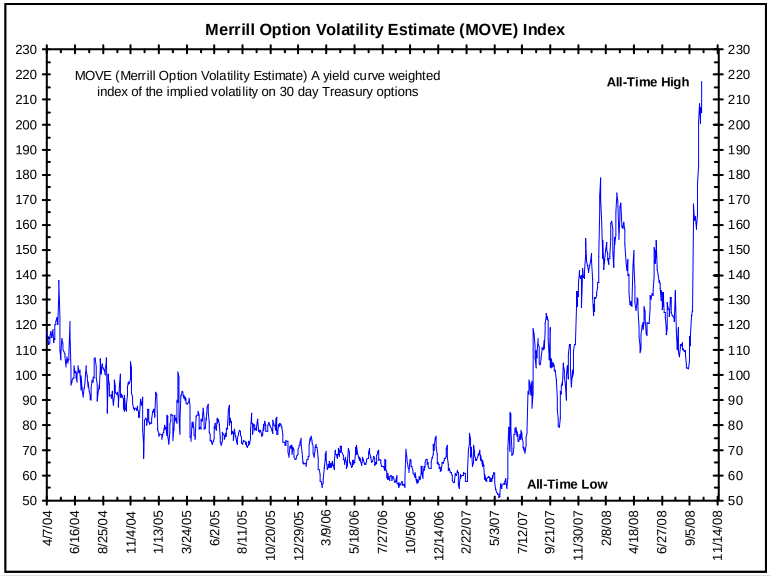


Stock Market Decline

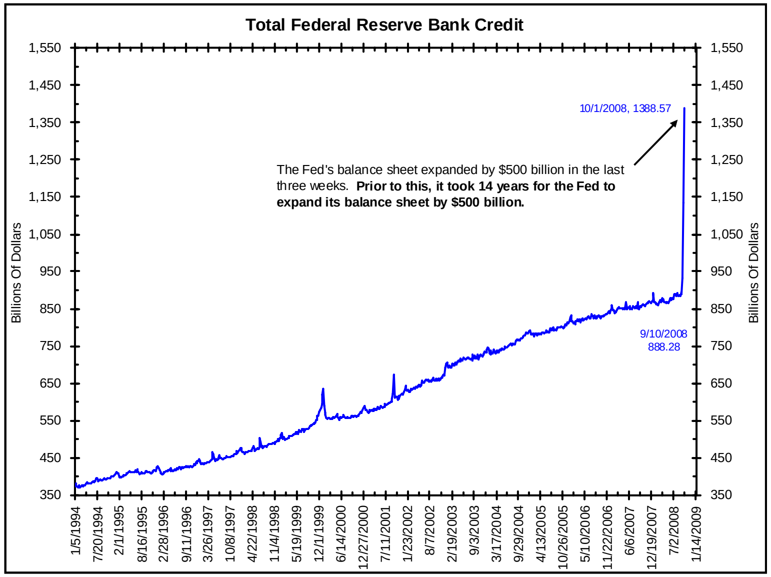
Volatilities

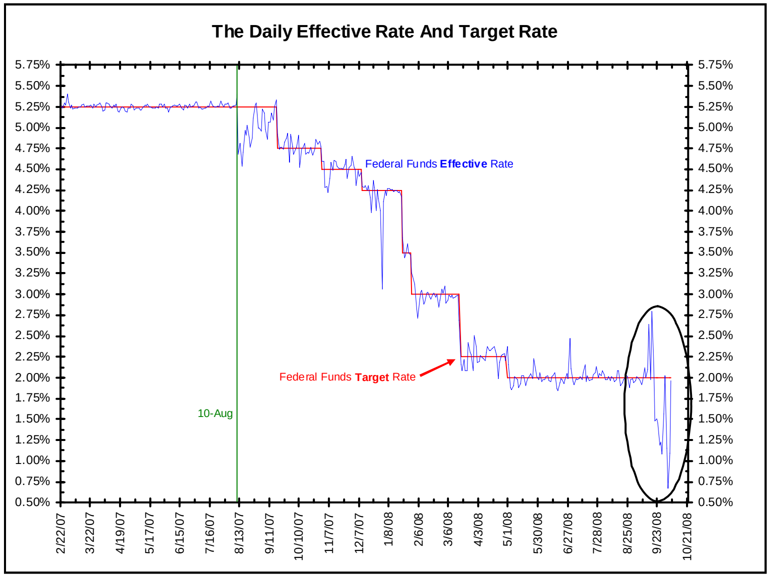


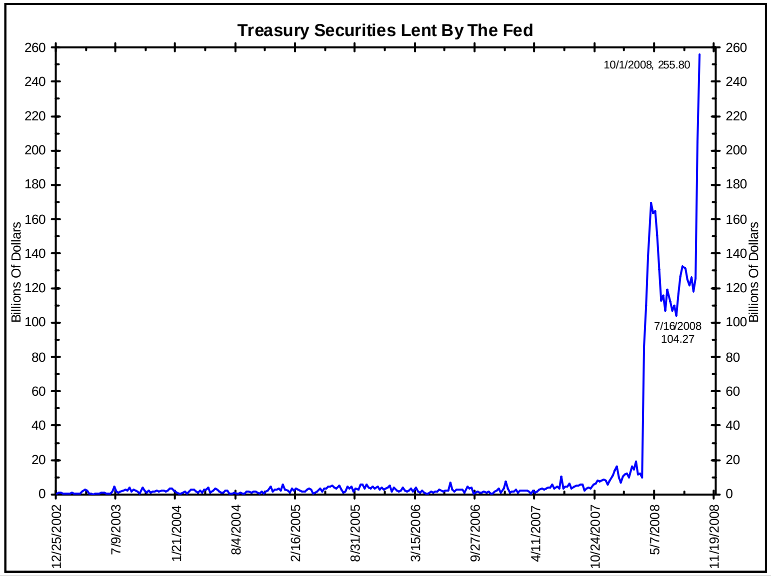


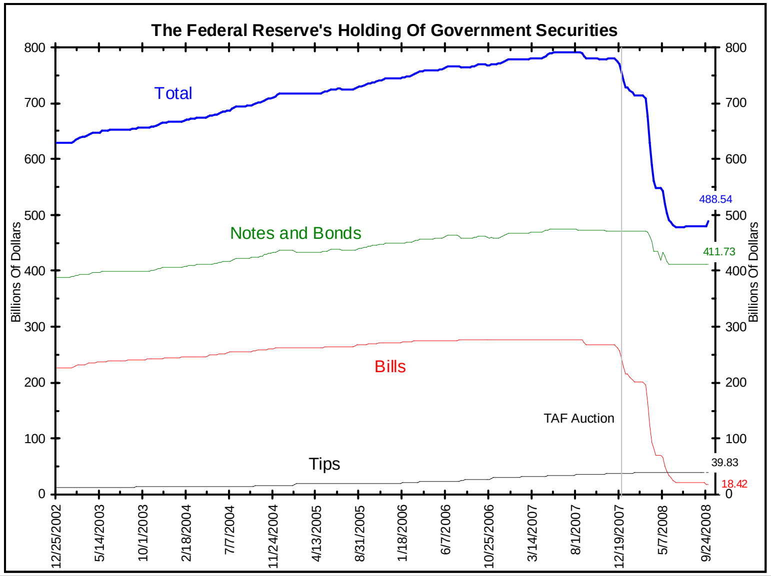


The Federal Reserve's Exploding Balance Sheet

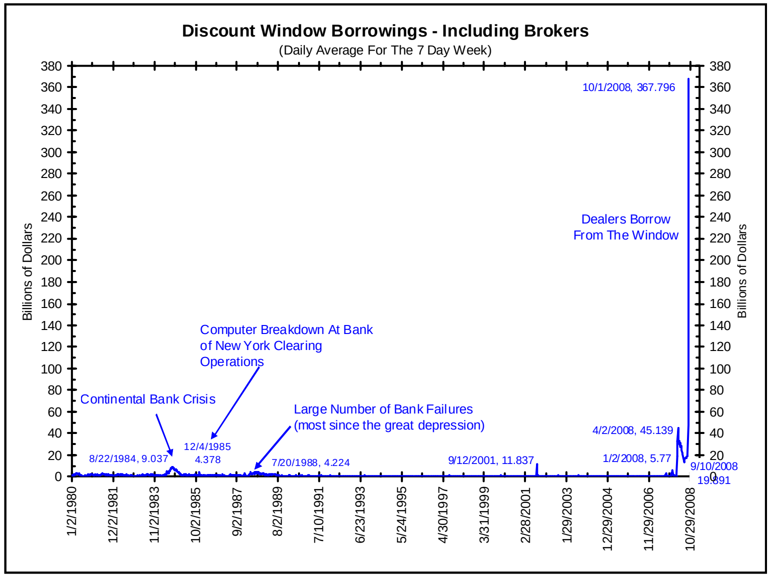


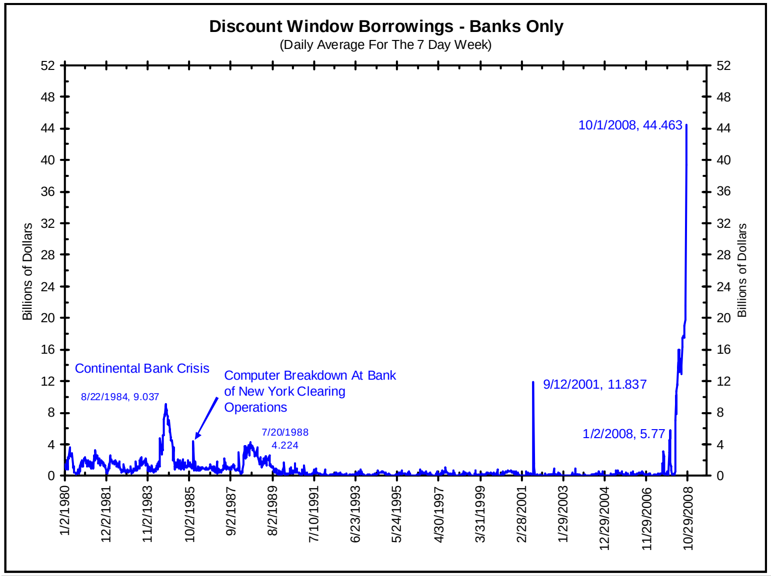






The Federal Reserve's Exploding Discount Window



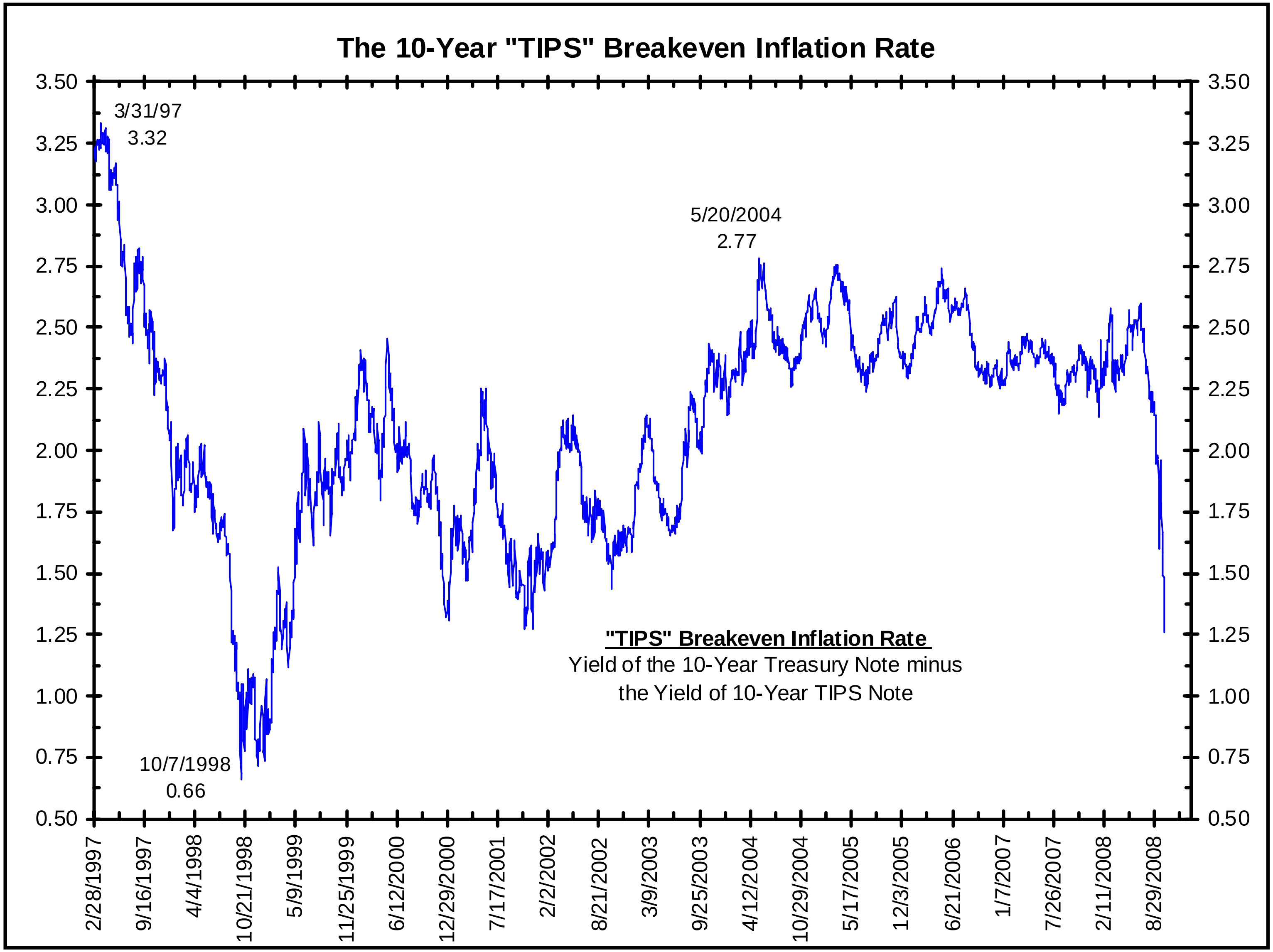


Breaking Down Discount Window Borrowings

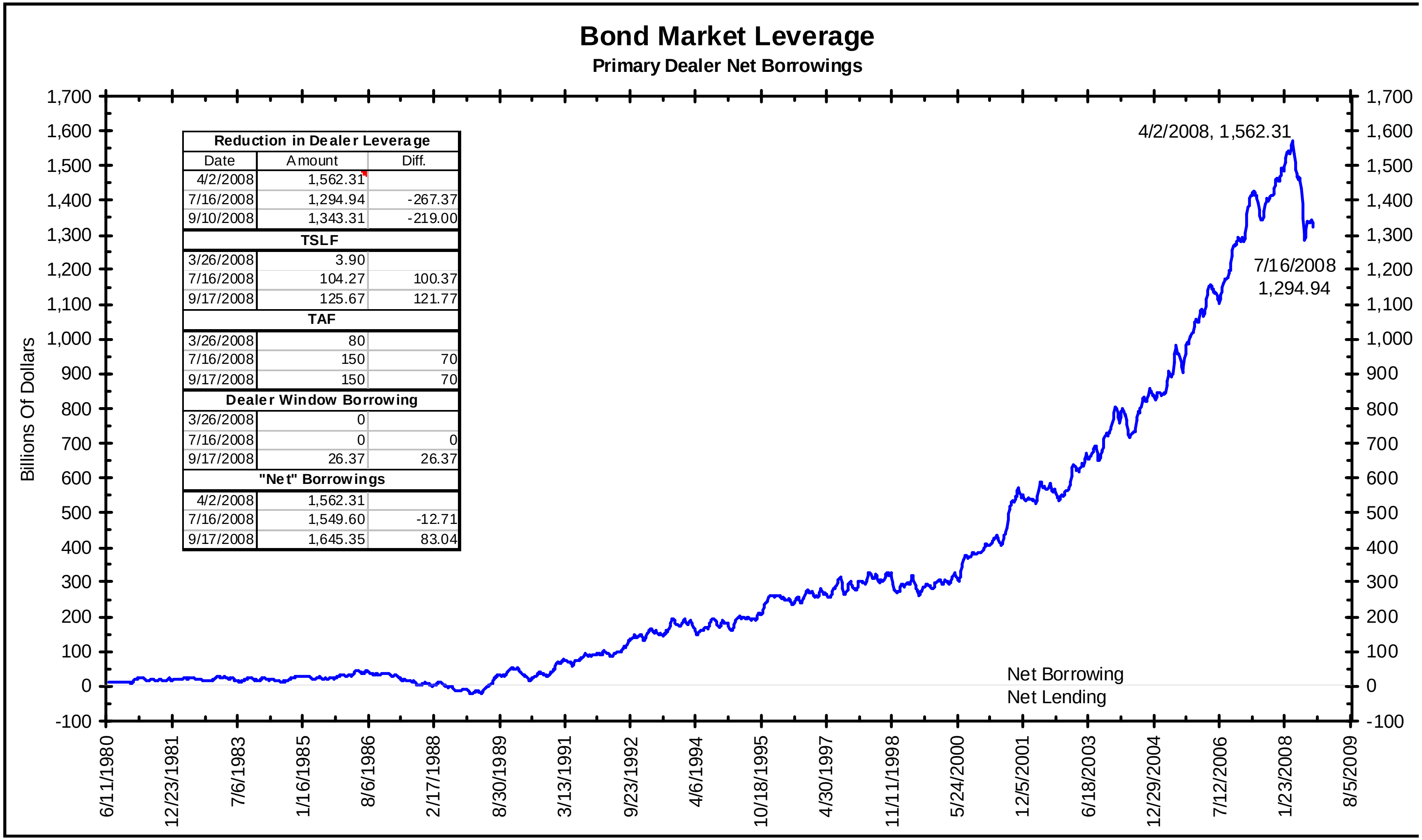
Weekly Average For October 1, 2008

Type of Loan	Total (Billions)	Chg. From 10-Sep
Primary Loans (Traditional Bank Borrowings)	$44.46	$24.67
Primary Dealer Credit Facility (PDCF)	$147.69	$147.69
ABCP MMMF Liquidity Facility (New This Week)	$122.10	$122.10
Other Credit Extensions (Primarily The AIG Loan)	$53.18	$53.18
Seasonal Credit (Traditional Bank Borrowings)	$0.35	$0.26
Total	**$367.79**	**$347.89**

TIPS Breakeven – Deflation Coming?



Bond Market – What Deleveraging?



Reduction in Dealer Leverage		
Date	Amount	Diff.
4/2/2008	1,562.31	
7/16/2008	1,294.94	-267.37
9/10/2008	1,343.31	-219.00
TSLF		
3/26/2008	3.90	
7/16/2008	104.27	100.37
9/17/2008	125.67	121.77
TAF		
3/26/2008	80	
7/16/2008	150	70
9/17/2008	150	70
Dealer Window Borrowing		
3/26/2008	0	
7/16/2008	0	0
9/17/2008	26.37	26.37
"Net" Borrowings		
4/2/2008	1,562.31	
7/16/2008	1,549.60	-12.71
9/17/2008	1,645.35	83.04

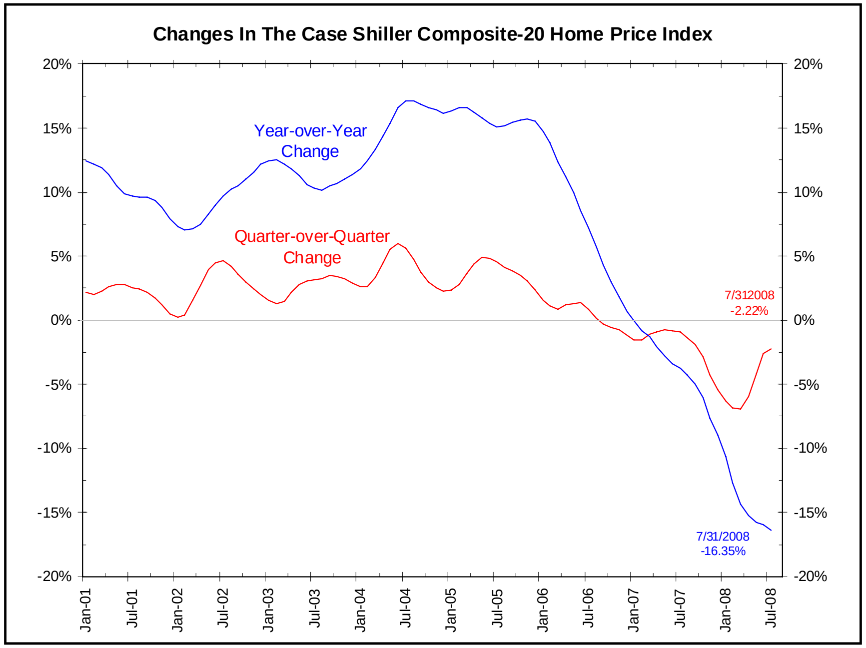
Case Shiller Home Price Index Update

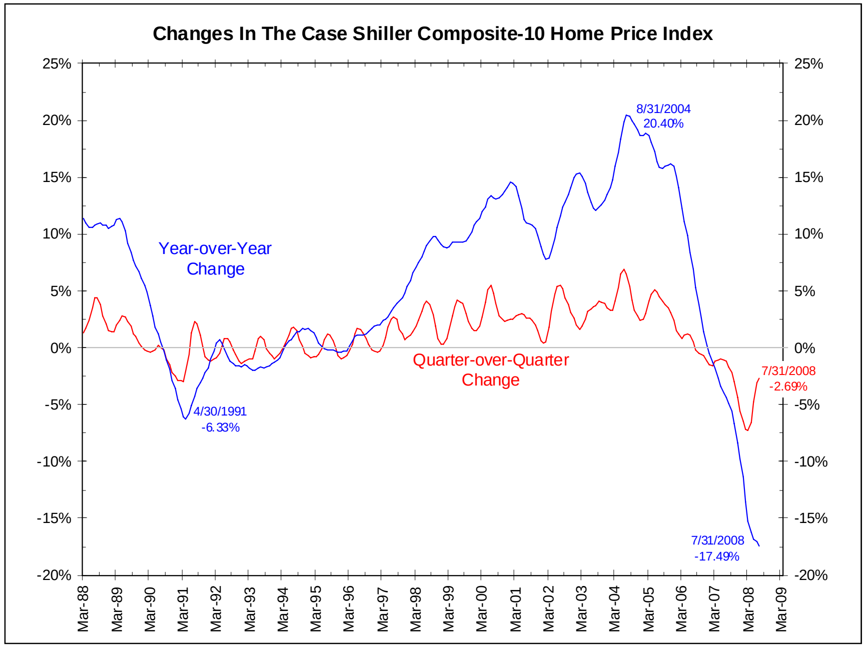
From Our Newsclips/Daily Commentary

***The New York Times* - Home Prices Plunge, but Pace of the Decline Slows**

A closely watched index released on Tuesday showed that home prices tumbled by the sharpest annual rate ever in July, but that the rate of the monthly decline slowed. The Standard & Poor's/Case-Shiller 20-city housing index fell 16.3 percent in July from the same month a year ago, the largest drop since its inception in 2000. The 10-city index plunged 17.5 percent, the biggest decline in its 21-year history. Prices in the 20-city index have plummeted nearly 20 percent since peaking in July 2006. The 10-city index has fallen more than 21 percent since its peak in June 2006. Annual prices did not gain in any city in the Case-Shiller 20-city index in July, the fourth consecutive month that has happened.

Comment - You know a market must be bad when stories optimistically point out that the rate of decline is slowing.





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