

# Bianco Research L.L.C.

An Arbor Research & Trading Affiliated Company

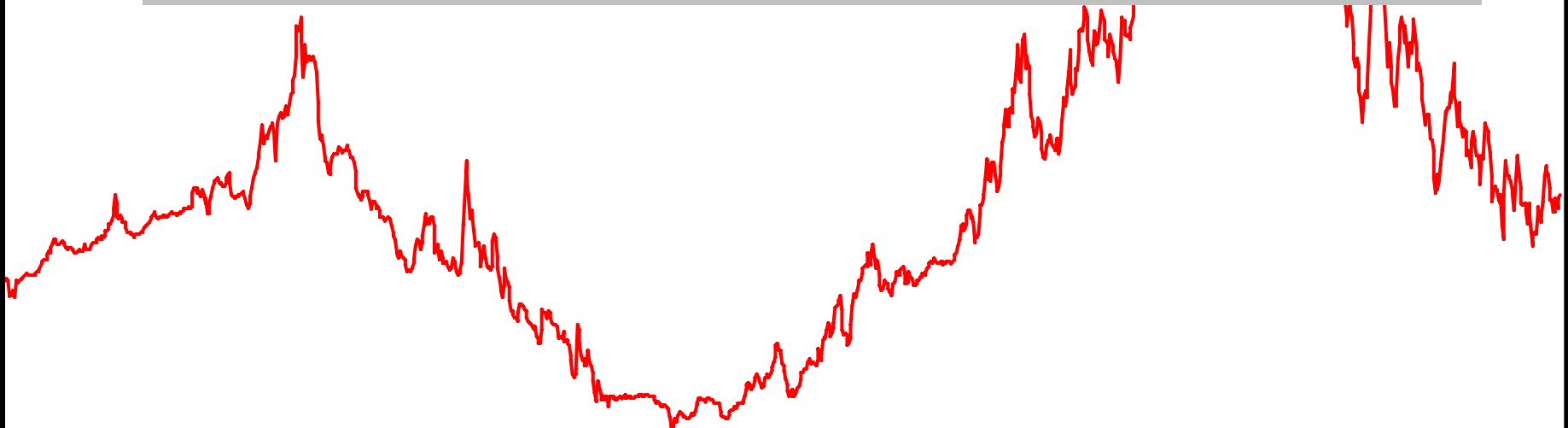
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## **The Latest On Credit And Deleveraging**

Conference Call Presentation Package

November 20, 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** - 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 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, that is not a given. If you are still standing when this capitulation process is over, that will be the time to make money.

# The Credit Crisis: The Largest Outlay In American History

From Our [Newsclips/Daily Commentary](#)

FINANCIAL CRISIS BALANCE SHEET	
Government Entity	Sum in Billions of Dollars
<b>Federal Reserve</b>	
(TAF) Term Auction Facility	900
Discount Window Lending	
Commercial Banks	99.2
Investment Banks	56.7
Loans to buy ABCP	76.5
AIG	112.5
Bear Stearns	29.5
(TSLF) Term Securities Lending Facility	225
Swap Lines	613
(MMIFF) Money Market Investor Funding Facility	540
Commercial Paper Funding Facility	257
(TARP) Treasury Asset Relief Program	700
Other:	
Automakers	25
(FHA) Federal Housing Administration	300
<b>Fannie Mae/Freddie Mac</b>	<b>350</b>
<b>Total</b>	<b>4284.5</b>

*Note: Figures as of Nov. 13, 2008*

The current bailout cost is greater than all these “big budget events” combined (detailed in the link above)!

- 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: \$32 billion (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: \$416.7 billion, Inflation Adjusted Cost: **\$851.2 billion**

**Collectively**, all the “big budget items” above totaled **\$3.92 trillion**. To look at it another way, this sum is **\$359 billion less** than the cost of the credit crisis thus far. Only one big budget item in American history comes close to matching the cost of the credit crisis:

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

Of course the difference between these items above and the credit crisis is those events were expenses whereas the bailout for the credit crisis is considered to be a loan. Presumably the government will get most of its money back when these loans are paid back. Nevertheless, the initial outlays, all done in 2008, vastly exceed anything seen in American history.

# Almost \$1 Trillion In Losses

**Known TARP Money Awarded**  
as of November 19, 2008

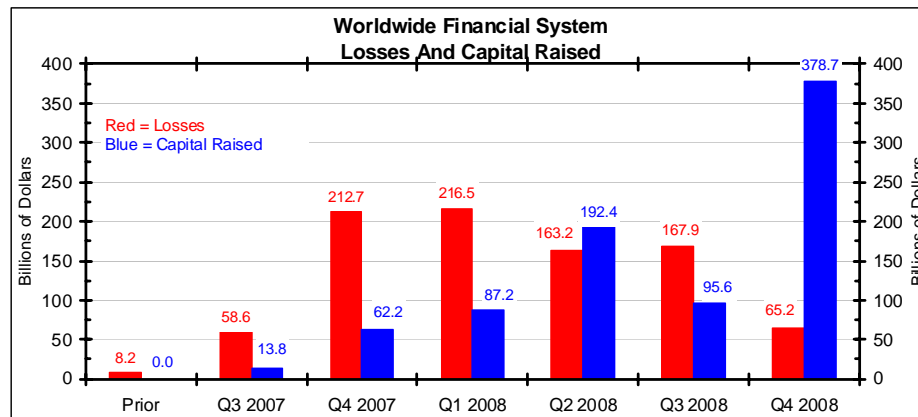
Bank Name	Date Announced	Amount (in Millions)
American International Group	11/12/2008	\$40,000
Citigroup	10/12/2008	\$25,000
Wells Fargo	10/12/2008	\$25,000
J.P. Morgan Chase	10/12/2008	\$25,000
Bank of America	10/12/2008	\$15,000
Merrill Lynch	10/12/2008	\$10,000
Goldman Sachs Group	10/12/2008	\$10,000
Morgan Stanley	10/12/2008	\$10,000
PNC Financial Services Group	10/12/2008	\$7,700
US Bancorp	11/12/2008	\$6,600
Capital One Financial	10/12/2008	\$3,550
Regions Financial	10/12/2008	\$3,500
SunTrust Banks	10/12/2008	\$3,500
Fifth Third Bancorp	10/12/2008	\$3,400
BB&T	10/12/2008	\$3,100
Bank of New York Mellon	10/12/2008	\$3,000
KeyCorp	10/12/2008	\$2,500
Comerica	10/12/2008	\$2,250
State Street	10/12/2008	\$2,000
Marshall & Ilsley	10/12/2008	\$1,700
Northern Trust	10/12/2008	\$1,500
Huntington Bancshares	10/12/2008	\$1,400
Zions Bancorp	10/12/2008	\$1,400
Fannie Mae	9/12/2008	\$1,000
Freddie Mac	9/12/2008	\$1,000
Synovus	11/14/2008	\$973
Popular, Inc	11/18/2008	\$950
First Horizon National	10/12/2008	\$866
E-Trade	11/8/2008	\$800
Associated Banc-Corp.	11/8/2008	\$530
Webster Financial	11/12/2008	\$400
City National	10/12/2008	\$395
Fulton Financial	11/8/2008	\$375
TCF Financial	11/12/2008	\$361
South Financial Group	11/14/2008	\$347
Wilmington Trust	11/14/2008	\$330
Valley National Bancorp	10/12/2008	\$330
Citizens Republic Bancorp	11/14/2008	\$300
UCBH Holdings	10/12/2008	\$298
Whitney Holding	10/12/2008	\$282
Cathay General Bancorp	11/18/2008	\$258
First Merit	11/13/2008	\$248
Trustmark	11/8/2008	\$215
Umpqua Holdings	10/12/2008	\$214
Washington Federal	10/12/2008	\$200
International Bancshares	10/8/2008	\$200
First Midwest Bancorp	11/12/2008	\$193
Pacific Capital Bancorp	11/12/2008	\$188
First Niagara Financial	10/12/2008	\$186
United Community Banks	11/18/2008	\$180
Old National Bancorp	10/12/2008	\$162
Provident Bankshares	10/12/2008	\$157
Boston Private Financial Holdings	11/19/2008	\$150
Western Alliance Bancorp	11/13/2008	\$140
Banner Corp	11/12/2008	\$124
Signature	10/8/2008	\$120
Iberiabank Corp	11/18/2008	\$115
Taylor Capital	11/8/2008	\$105
Midwest Banc Holdings	11/12/2008	\$85.5
First Financial	10/8/2008	\$80.0
Columbia Banking System	11/12/2008	\$76.9
Superior Bancorp	11/18/2008	\$69.0
Nara Bancorp	11/14/2008	\$67.0
CoBiz Financial	11/8/2008	\$64.4
Great Southern Bancorp	11/17/2008	\$60.0
American West Bank	11/8/2008	\$57.0

**Worldwide Financial System Losses and Capital Raised**

As of November 19, 2008  
In Billions of Dollars

	Total		Q4 2008		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	Losses	Capital
Banks/Brokers	709.3	717.3	65.2	328.5	167.9	94.0	120.9	157.8	149.9	84.0	159.2	44.1	42.1	8.9	4.1	0.0
Insurance Cos	143.2	90.0	0.0	50.2	36.4	1.6	13.3	27.5	42.0	3.2	42.2	4.6	9.3	2.9	0.0	0.0
GSEs	114.5	22.6	0.0	0.0	38.3	0.0	29.0	7.1	24.6	0.0	11.3	13.5	7.2	2.0	4.1	0.0
Worldwide	967.0	829.9	65.2	378.7	242.6	95.6	163.2	192.4	216.5	87.2	212.7	62.2	58.6	13.8	8.2	0.0

Source: Bloomberg



**Known TARP Money Awarded - Continued**  
as of November 19, 2008

Bank Name	Date Announced	Amount (in Millions)
NewBridge	11/8/2008	\$52.0
Capital Bank	11/17/2008	\$43.0
Southern Community Group	11/18/2008	\$42.8
First Community Bancshares	10/30/2008	\$42.5
Bank of Florida	10/12/2008	\$40.7
Heritage Commerce	11/8/2008	\$40.0
Simmons First National	10/8/2008	\$40.0
Peoples Bancorp	11/13/2008	\$39.0
Porter Bancorp	11/13/2008	\$39.0
Cascade Financial	11/12/2008	\$39.0
HF Financial Corp	11/14/2008	\$35.0
Intermountain Community Bancorp	11/7/2008	\$27.0
Home Federal Financial	10/12/2008	\$25.0
Heritage Financial	11/8/2008	\$24.0
Severn Bancorp	11/18/2008	\$23.5
First PacTrust Bank	11/13/2008	\$19.3
Redding Bank	10/27/2008	\$17.0
Bank of Commerce	10/12/2008	\$17.0
First Financial Services	11/14/2008	\$16.0
The Bank Holdings	11/8/2008	\$15.0
Bridge Bancorp	11/8/2008	\$14.3
Pamrapo	11/8/2008	\$11.4
Mackinac Financial	10/8/2008	\$11.1
Broadway Financial Corp	11/14/2008	\$9.0
Capital Pacific Bancorp	11/8/2008	\$4.0
Saigon National Bank	10/12/2008	\$1.2
<b>Total</b>		<b>\$221,040</b>

# Three Months To Remember

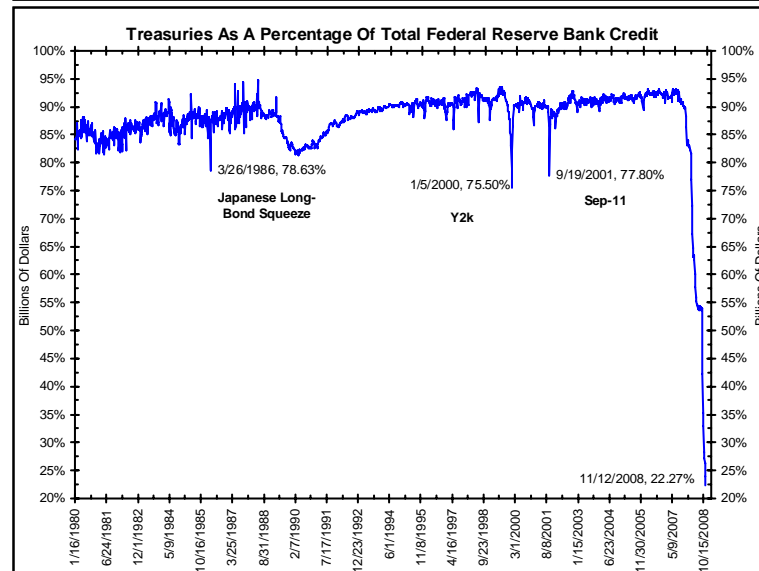
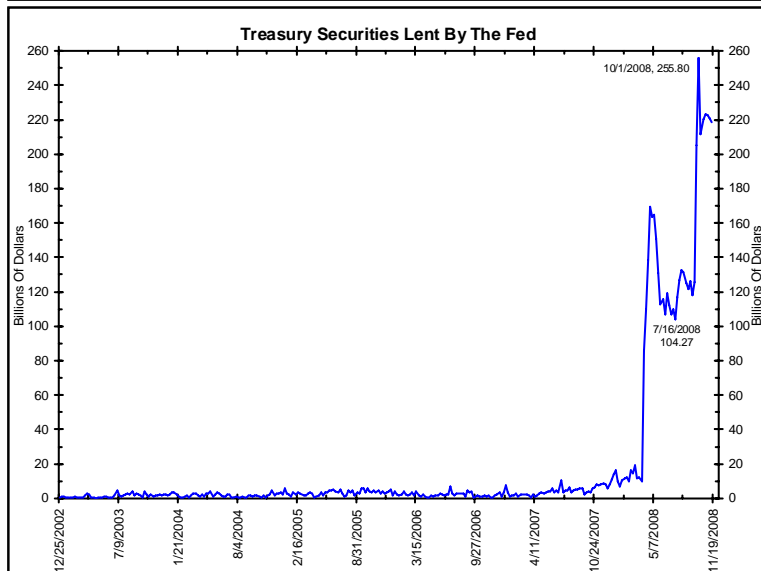
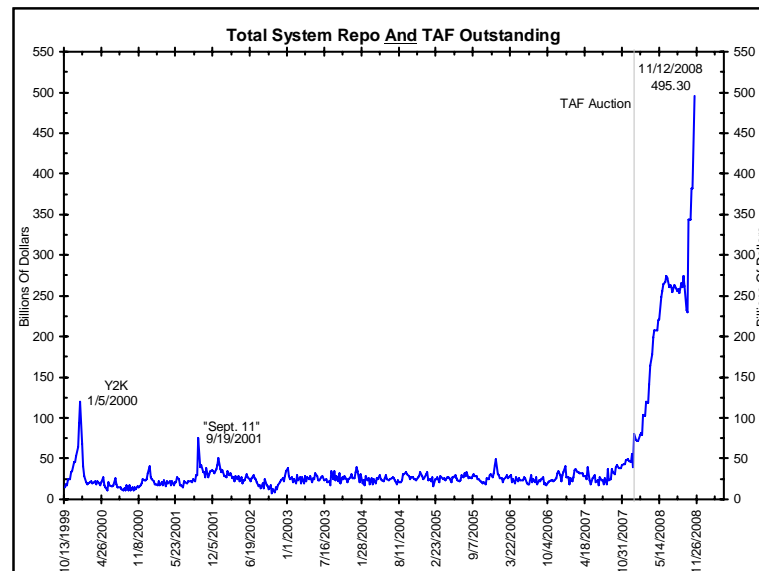
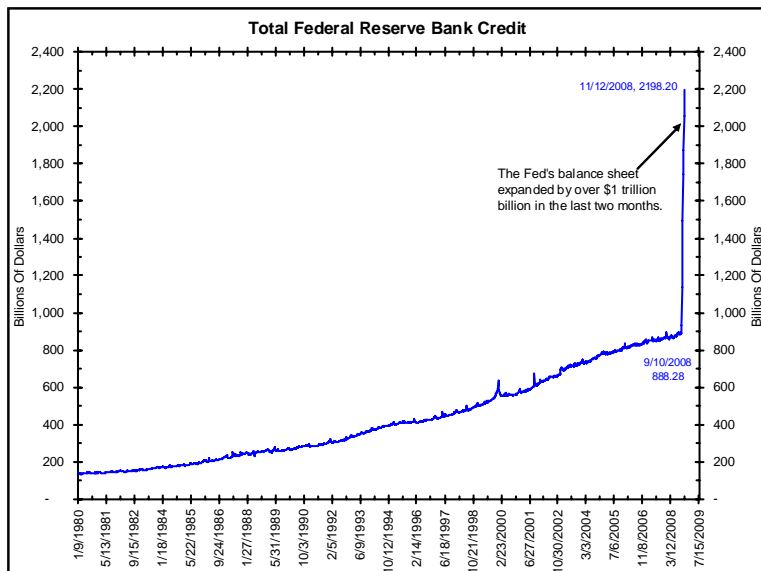
## Major Financial/Economic Events Since Labor Day

<b>7-Sep</b>	*Fannie Mae, Freddie Mac put into conservatorship
<b>14-Sep</b>	*Bank of America buys Merrill *Lehman files for bankruptcy
<b>17-Sep</b>	*AIG Bailout *Lloyds buys HBOS in UK government-engineered deal
<b>18-Sep</b>	*FSA announces short selling restrictions *Liquidity added through record system repos of \$110 billion
<b>19-Sep</b>	*Treasury guarantees money market assets *SEC announces new short selling rules *TARP plan unveiled *FTSE has biggest one-day gain ever
<b>22-Sep</b>	*Goldman Sachs and Morgan Stanley convert to banks *Fed loosened rules that limited buyout firms and private investors to take big stakes in banks from 25% to 33%
<b>23-Sep</b>	*Berkshire Hathaway invests in Goldman Sachs
<b>25-Sep</b>	*Washington Mutual (WaMu) taken over by JP Morgan
<b>27-Sep</b>	*Bradford & Bingley nationalised *Fortis bailed out by Dutch, Belgian, Luxemburg governments
<b>28-Sep</b>	*Hypo Real Estate bailed out by German government-sponsored lenders *Glitnir bailed out by Icelandic government
<b>29-Sep</b>	*Citigroup takes over banking business of Wachovia with FDIC guarantees *Ireland guarantees all deposits *House rejects TARP plan *DJIA falls a record 777 points
<b>30-Sep</b>	*Belgian government bails out Dexia *South Korea, Taiwan, Indonesia Ban Short sales on all stocks temporarily *Fed pumps a record \$630B of liquidity into swap lines with foreign central banks *Senate passes revised TARP plan
<b>1-Oct</b>	*Berkshire Hathaway invests in GE *UK lifts depositor guarantee to £50,000 from £35,000, *Well Fargo takes over Wachovia despite Citigroup deal 4 days earlier *Fortis bailout amended, Dutch government buys Dutch businesses
<b>3-Oct</b>	*TED spread hits record of 340 bps, House passes revised TARP plan
<b>5-Oct</b>	*BNP buys rest of Fortis *Germany guarantees all individual savers *Hypo Real Estate bailout re-negotiated *Denmark and Sweden guarantee deposits *Unicredit bailed out in Italy
<b>6-Oct</b>	*FTSE has worst day in over 20yrs, Dow trades down over 800pts at one stage, *Federal Reserve boosts TAF auctions to \$900bn (last Dec started with \$50bn as a "temporary measure") *Iceland takes control of banking system, *UK government meet with bank CEOs to discuss capital injection *RBA cuts rates by 100bps
<b>7-Oct</b>	*RBS trades down 40% on talk of UK government injection into banks *Federal Reserve to buy commercial paper direct from companies
<b>8-Oct</b>	*UK bank bailout plan *Coordinated rate cuts with Fed, ECB, BoE, BoC, Riksbank, SNB and PBOC * SEC lifts restrictions of short selling *Dow completes worst 6 days in history *European stocks endured worst 3 days since 1987
<b>9-Oct</b>	*The DJIA falls 7.33% for its 13th worst day ever *UK announces plan to recapitalize banking system

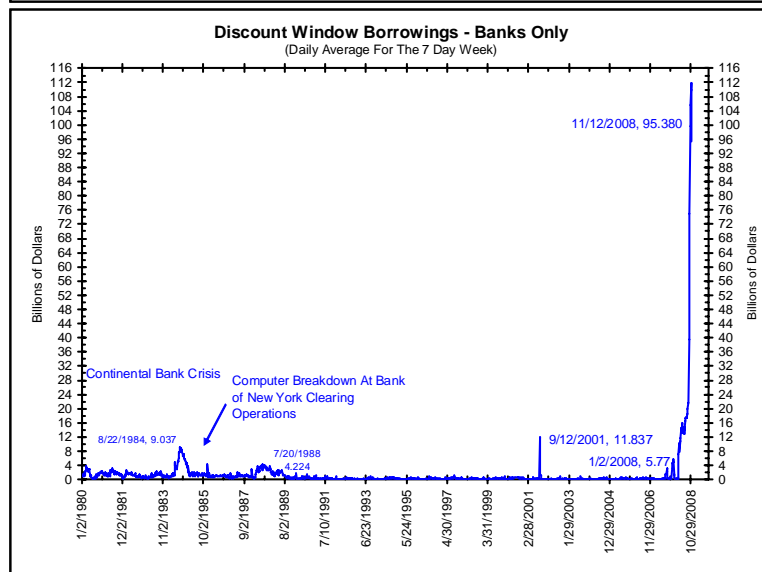
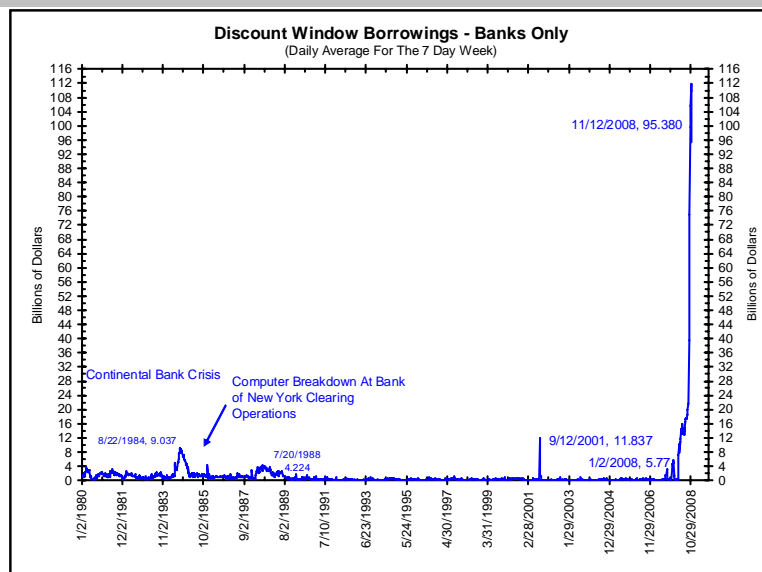
## Major Financial/Economic Events Since Labor Day - cont.

<b>10-Oct</b>	*Stock markets complete their worst week since 1933 *The G-7 holds emergency meeting in Washington *Corporate spreads reach widest levels since the Great Depression
<b>12-Oct</b>	*EU countries agree to capital injections into banks *Guarantee deposits and inter-bank loans *UK offers details on capital injection plan takes major stakes in HBOS, Lloyds and RBS
<b>13-Oct</b>	*MUFG agrees to \$9 billion capital injection into Morgan Stanley *S&P 500 up 11.08%, its best day since 1933 *TED spread hit record wide of 436 basis points *World central banks offer "unlimited" liquidity to banking system
<b>14-Oct</b>	*U.S. Treasury agrees to inject \$125 billion of capital into nine banks *Increases guarantee on bank deposits and bank debt *Iceland stock market re-opens and falls 76%
<b>15-Oct</b>	*The DJIA falls 7.87% for its 11th worst day ever (and worst since October 1987) *ECB expands collateral framework, accepts lower-rated credit instruments and also instruments denominated in \$, £ and yen
<b>16-Oct</b>	*Swiss government injects \$5 billion in UBS and could own 9% It will also acquire \$60 billion of illiquid assets *Credit Suisse raises SF 10bn *French President Sarkozy calls for a "revamp of capitalism" *Bank of England eases rules for borrowing at the discount window
<b>20-Oct</b>	*The Netherlands Government injects \$13.4 billion into ING Groep NV *EU loosens mark-to-market rules on European Banks *South Korean Government Guarantees Up To \$100 Billion in Bank Loans
<b>21-Oct</b>	*France Injects \$14 billion into top 6 banks *Pakistan discusses with IMF a \$10bn-\$15bn support package to stabilise its economy
<b>23-Oct</b>	* Fed Announces \$540 billion facility to but CP from Money Market Funds
<b>24-Oct</b>	* Australian Banks Freeze Redemptions * Stock Futures Limit Down Before NYSE Open
<b>27-Oct</b>	* IMF Money To Ukraine * IMF Money To Hungary
<b>28-Oct</b>	* DJIA Up 890 Points * Volkswagen Short squeeze - Stock up 500%
<b>29-Oct</b>	* Bank of China Cuts Rates * Norway Cuts Rates 50 Basis Points * Fed Cuts the funds rate 50 basis points to 1.00% * Fed Announces \$120 billion swap lines with Brazil, South Korea, Singapore and Mexico
<b>30-Oct</b>	* Fed Increases AIG Loan \$21 Billion * Japan cuts Interest Rates to .03 % cut in 7yrs
<b>3-Nov</b>	*Auto Sales dropped 30 % in October, Worst Since 1945
<b>4-Nov</b>	* Obama is elected President
<b>5-Nov</b>	* Fed Raises rates it pays on reserves (equal To target rate)
<b>10-Nov</b>	* AIG deal renegotiated
<b>11-Nov</b>	* China announces \$586 Billion stimulus package * Fannie Mae announces \$29 Billion loss
<b>12-Nov</b>	* Fed changes role of Tarp to Capital Injection Fund
<b>13-Nov</b>	* CIT converts to commercial bank
<b>14-Nov</b>	* Bloomberg Sues The Fed For Disclosure on Collateralized Loans * Deadline for publicly held banks to apply for TARP money
<b>15-Nov</b>	* G-20 Meeting
<b>17-Nov</b>	* Goldman Senior Executives Will Not Take A Bonus For 2008
<b>18-Nov</b>	* UBS Senior Executives Will Not Take A Bonus For 2008

# The Federal Reserve's Exploding Balance Sheet



# The Federal Reserve's Exploding Discount Window



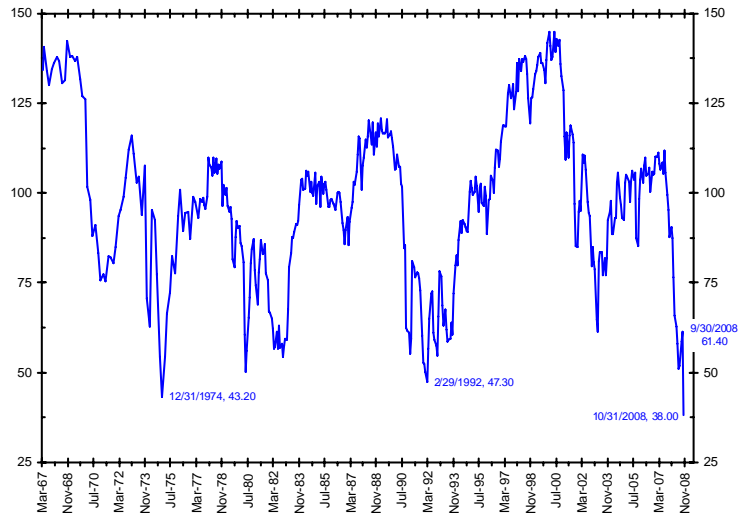
## Breaking Down Discount Window Borrowings

Weekly Average For November 12, 2008

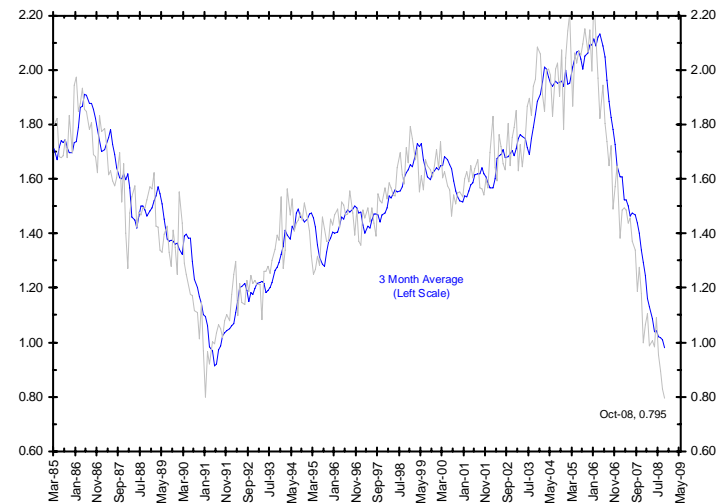
Type of Loan	Total (Billions)	Chg. From 10-Sep
Primary Loans (Traditional Bank Borrowings)	\$95.38	\$75.58
Primary Dealer Credit Facility (PDCF)	\$64.93	\$64.93
ABCP MMMF Liquidity Facility (New This Week)	\$80.24	\$80.24
Other Credit Extensions (Primarily The AIG Loan)	\$82.28	\$82.28
Seasonal Credit (Traditional Bank Borrowings)	\$0.10	\$0.01
<b>Total</b>	<b>\$322.93</b>	<b>\$303.04</b>

# The Economy Stopped In October

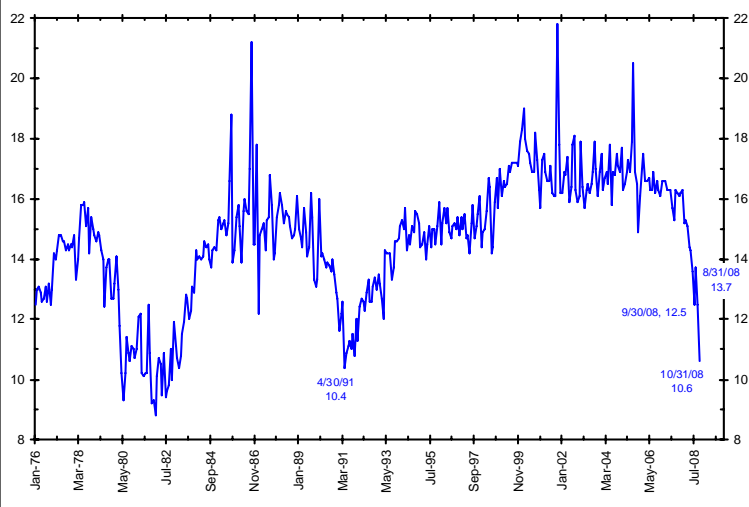
**Conference Board Consumer Confidence Survey**



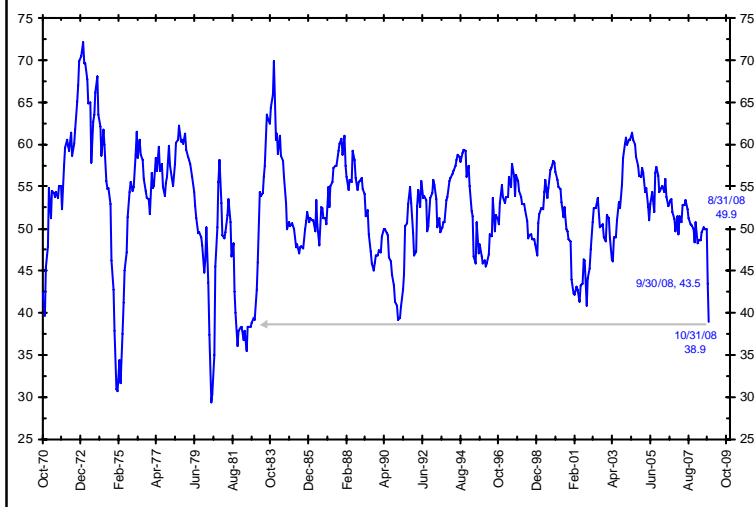
**Housing Starts**  
Millions of Units



**Monthly Auto Sales**  
(Millions of Units, SAAR)

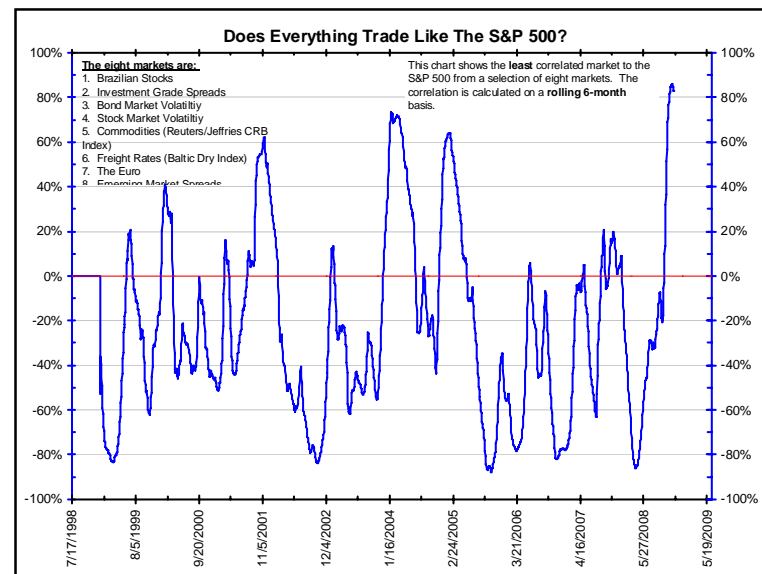
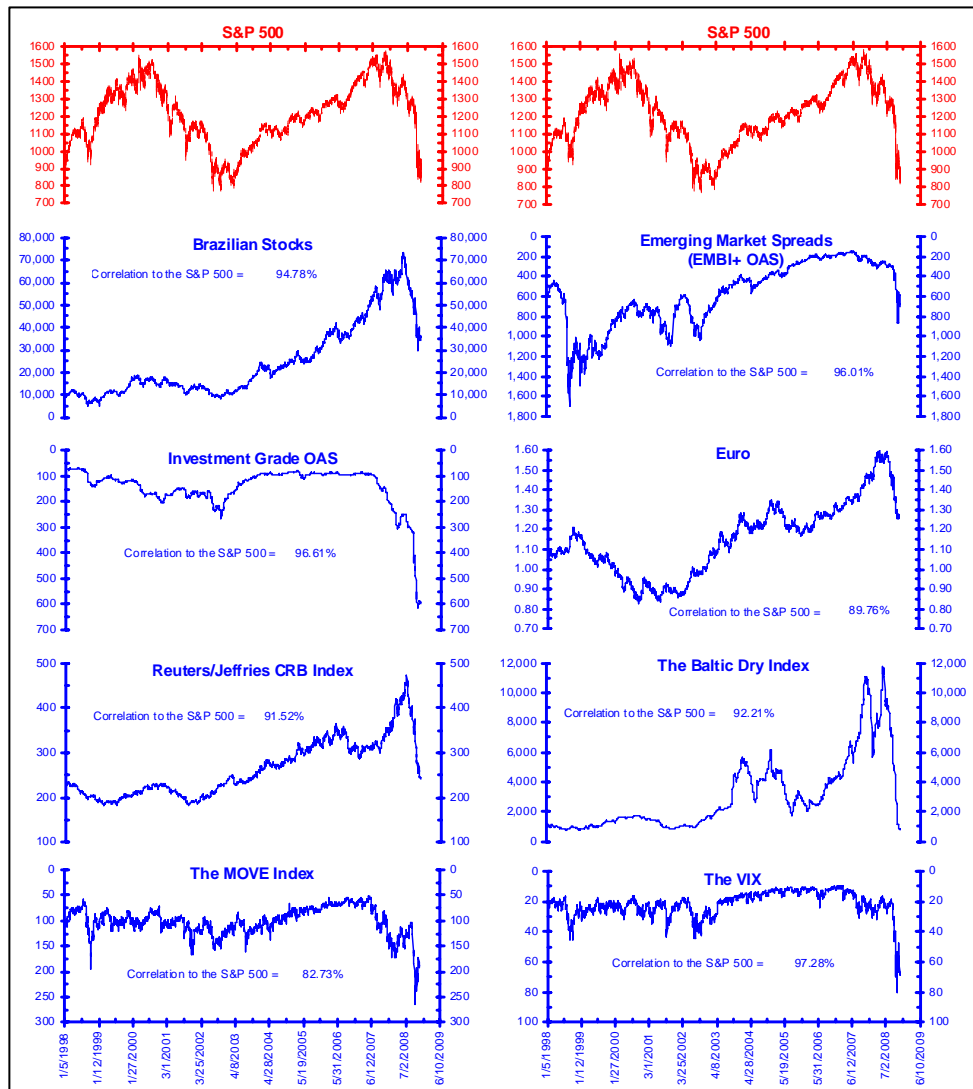


**National ISM Index**

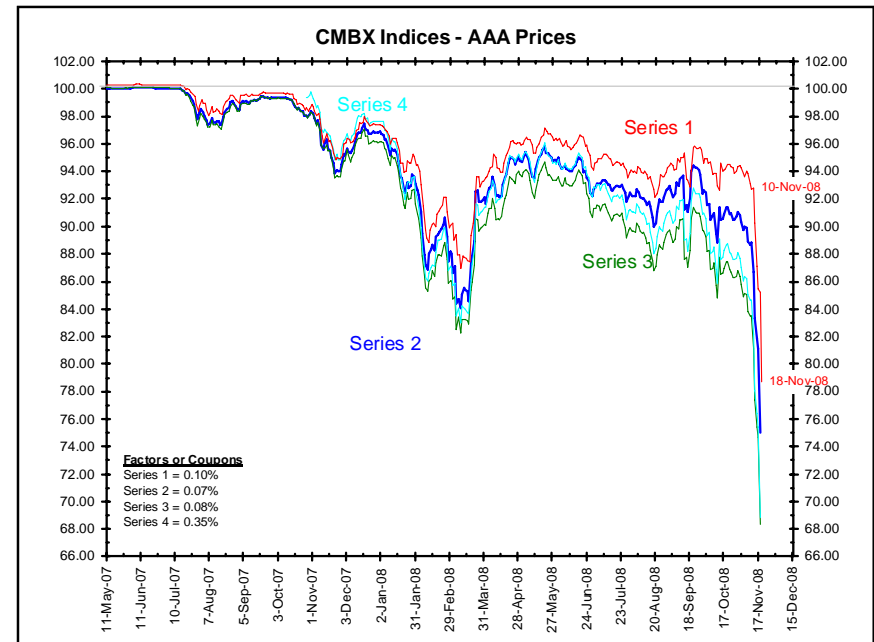
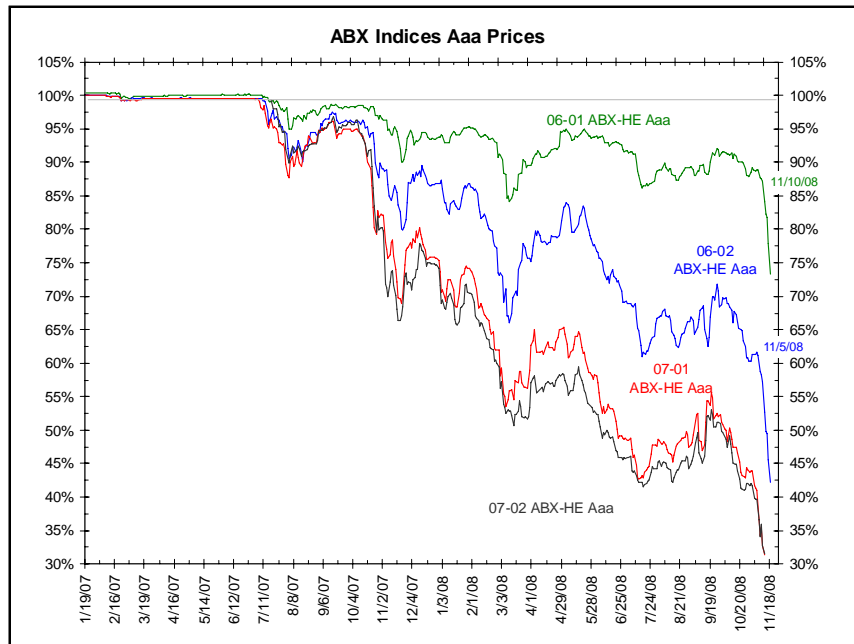




# It Is All The Same Trade



# ABX/CMBX Get "TARPed"



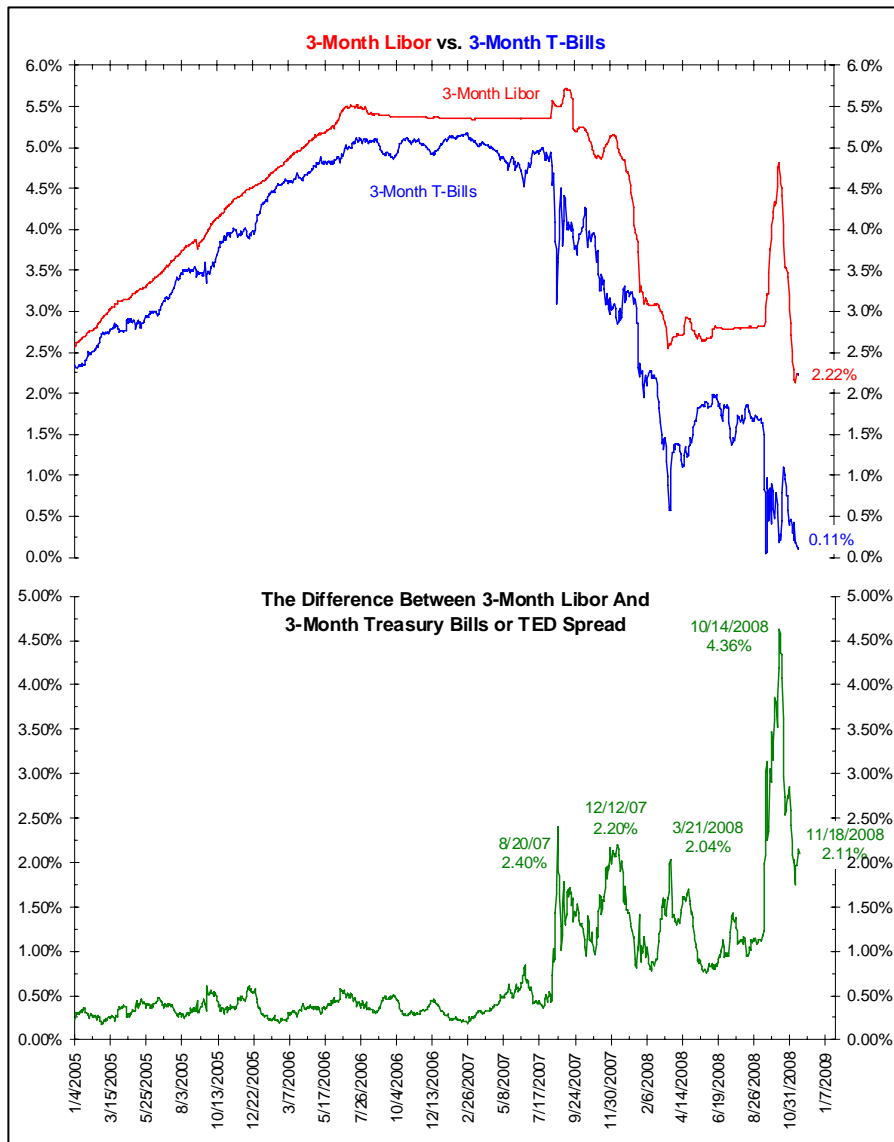
# Medicated Market - LIBOR And The TED Spread

From Our [Newsclips/Daily Commentary](#)

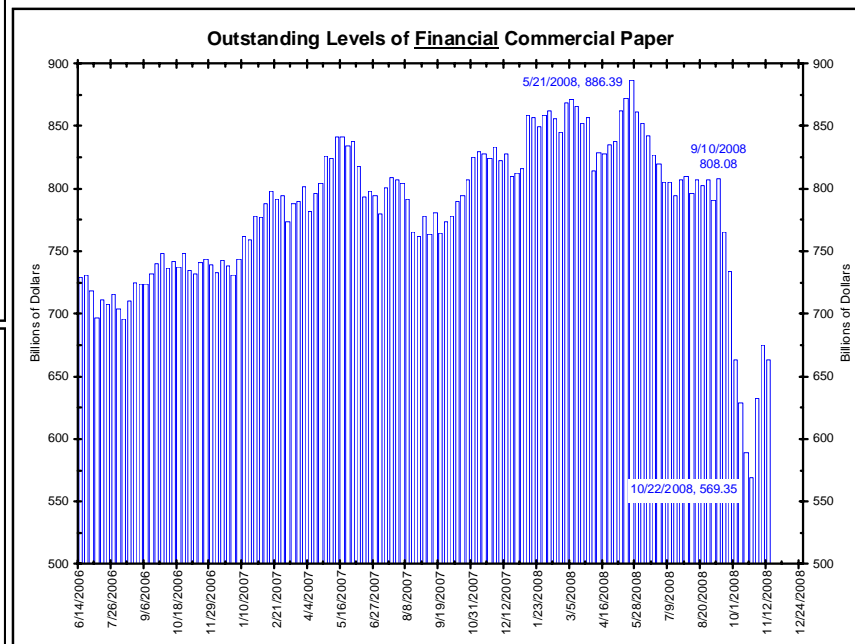
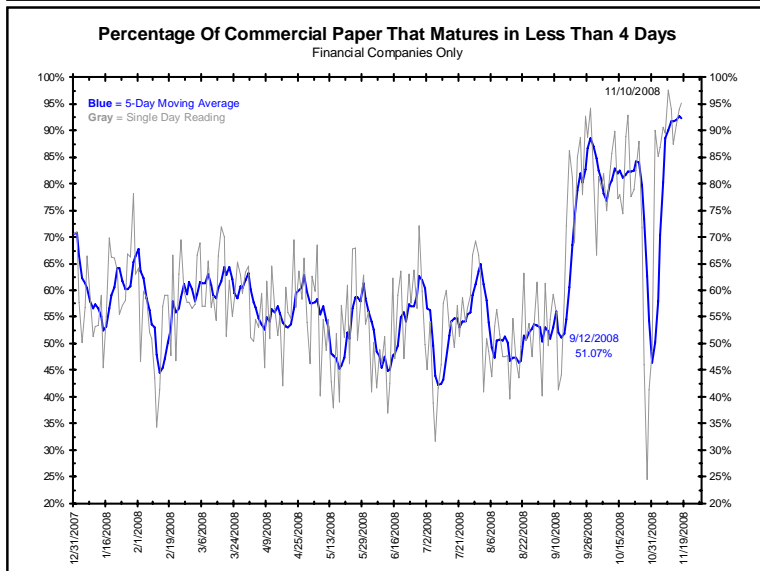
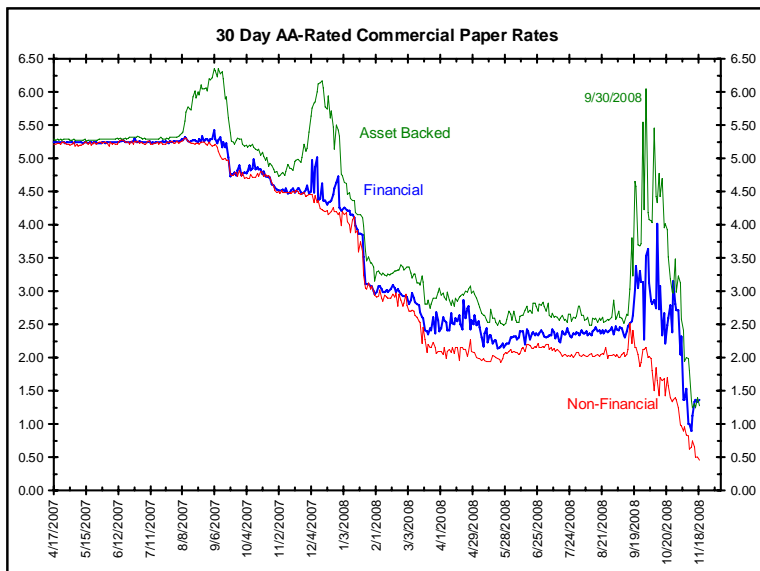
**Comment** – With LIBOR stabilizing nearly 200 basis points above the 3-month T-bill rate, it is still at what would have been considered a panic level any time before Labor Day. Just because current rates “look good” relative to the levels of early October does not mean this market is well.

Further, as we have been highlighting, LIBOR and commercial paper are what we called “**medicated** markets.” Government involvement (medication) is so large in these markets that it is almost questionable whether they can still be considered markets. Who is buying term commercial paper other than the Federal Reserve? If investors are not buying, is it still a market? Over half the banks that report LIBOR are receiving government assistance (marked in red in the table above), and they are being told publicly to “[do something](#)” about the high level of LIBOR. Furthermore, with over \$1 trillion in Term Auction Facilities (TAF) and swap agreements designed to manipulate LIBOR, can we honestly consider this a freely traded market?

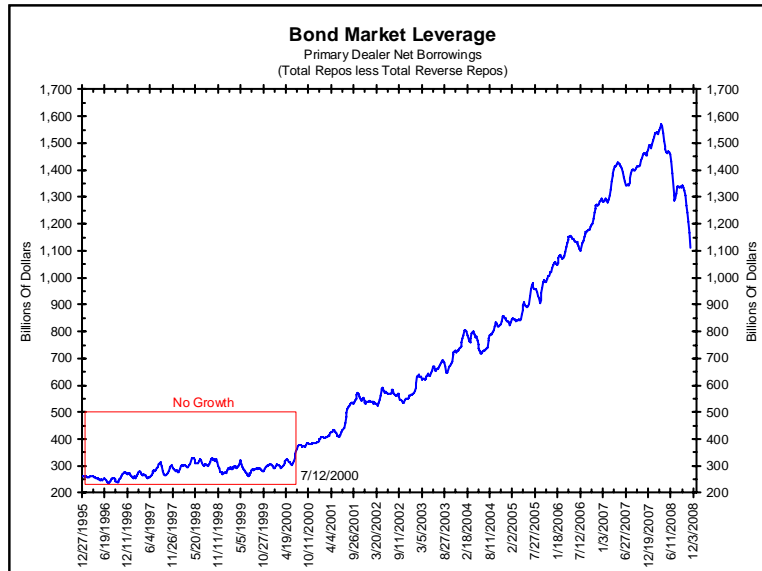
Given the high level of manipulation from the Federal Reserve/Treasury, we believe it is impossible to say if these “markets” are getting better. Only when government involvement subsides and these rates can stand on their own can we say things are getting better. Currently, these markets are a long way from this happening.



# Medicated Market - Commercial Paper



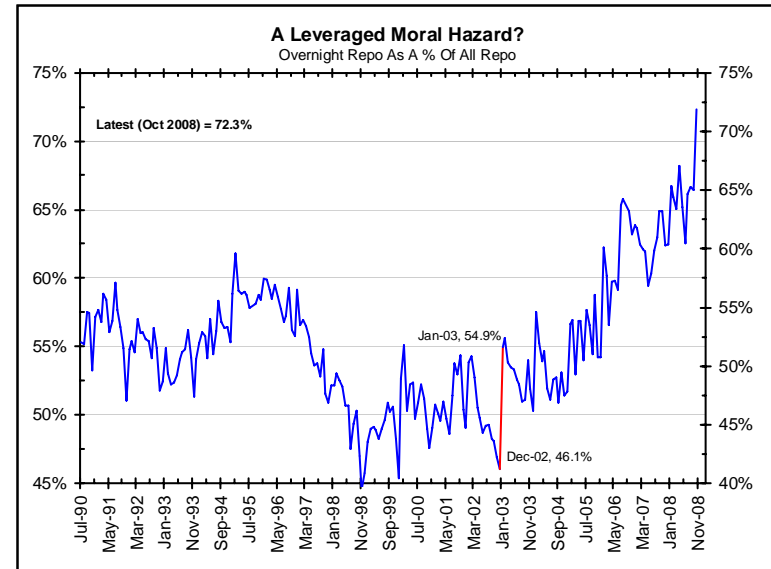
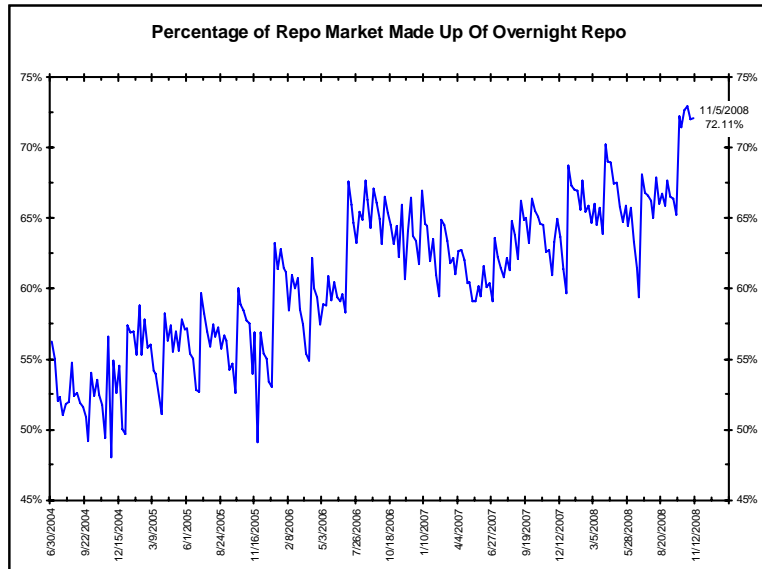
# Repo Still Not Healthy



The trend toward increased overnight financing is also evident in the repo market. The top-left chart shows the size of the repo market, currently at \$3.60 trillion. The bottom-left chart shows the percentage of this market that is overnight repo. At 72%, it is a record, as the longer-term chart below shows.

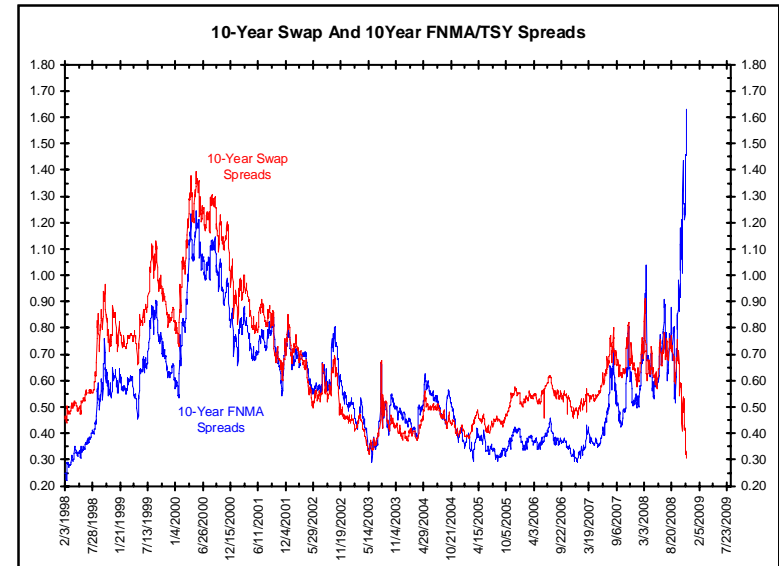
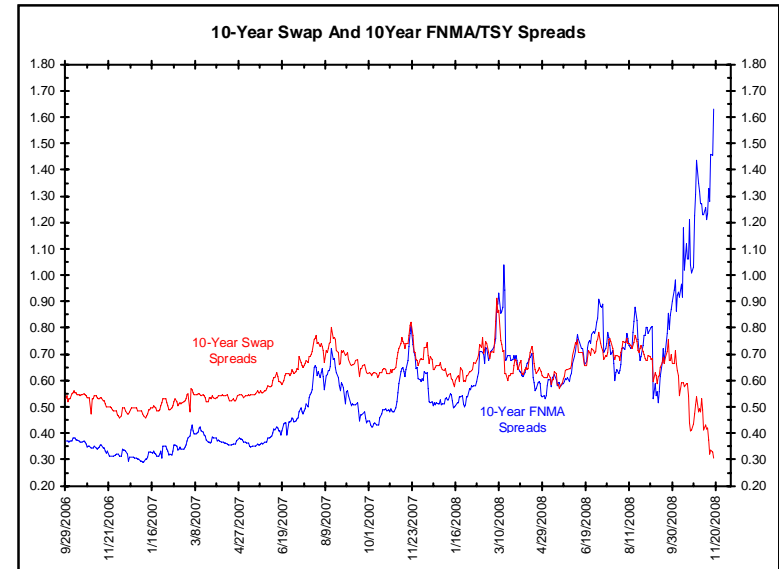
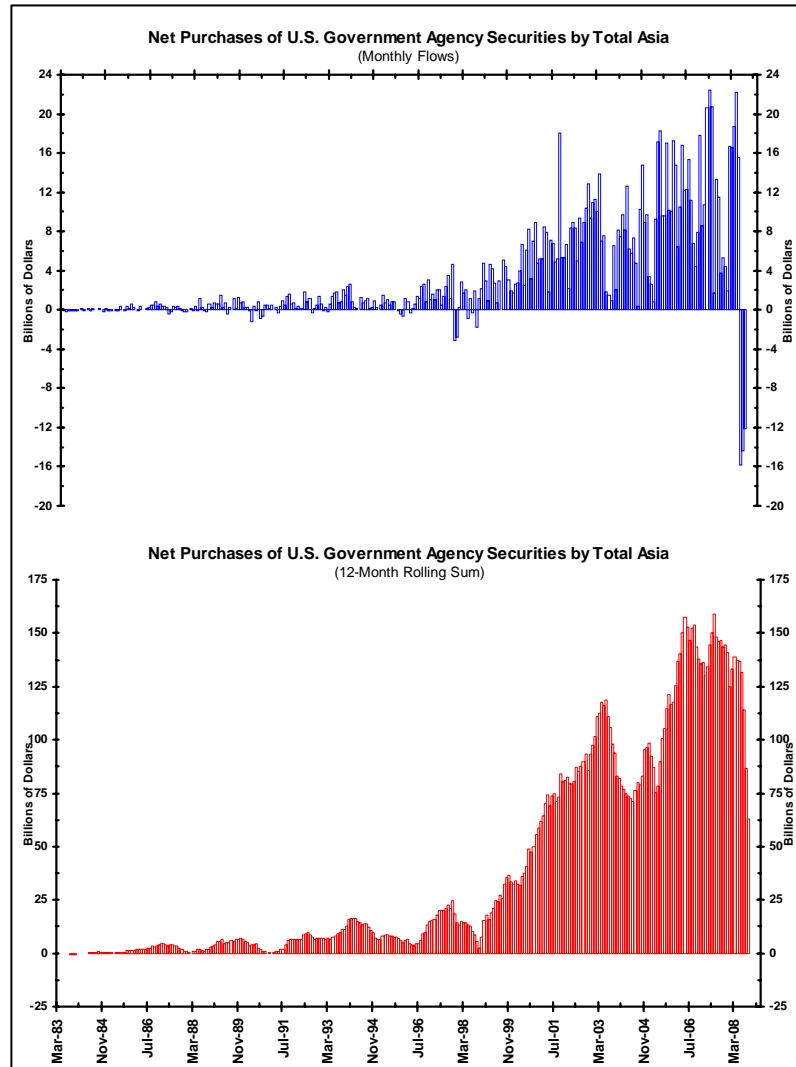
Market jitters make it hard to get financing beyond 24 hours. In a normal market with willing investors this is not a problem. In this market, however, it is a big risk as noted above.

The sign the credit crisis is abating will be a return to term as opposed to the current preponderance of overnight financing.

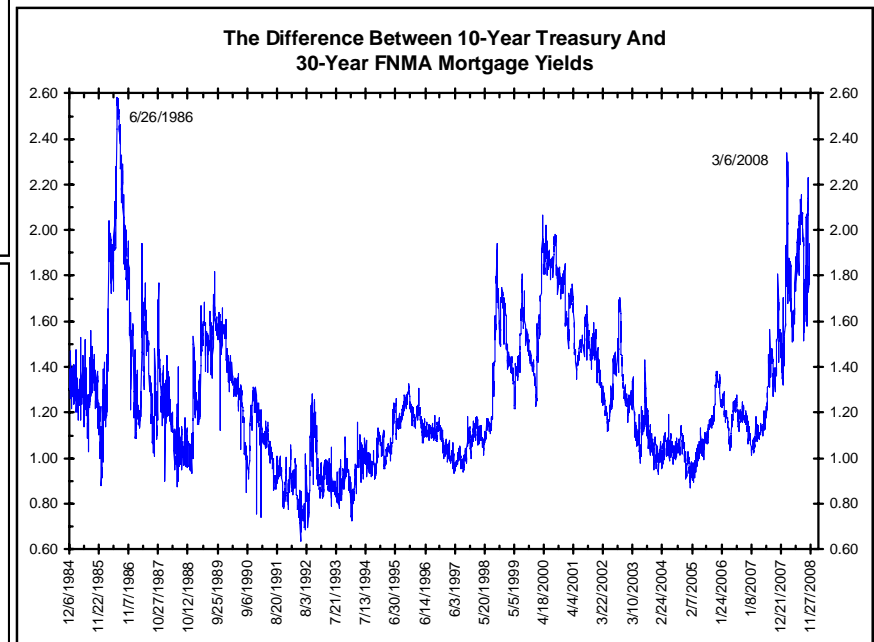
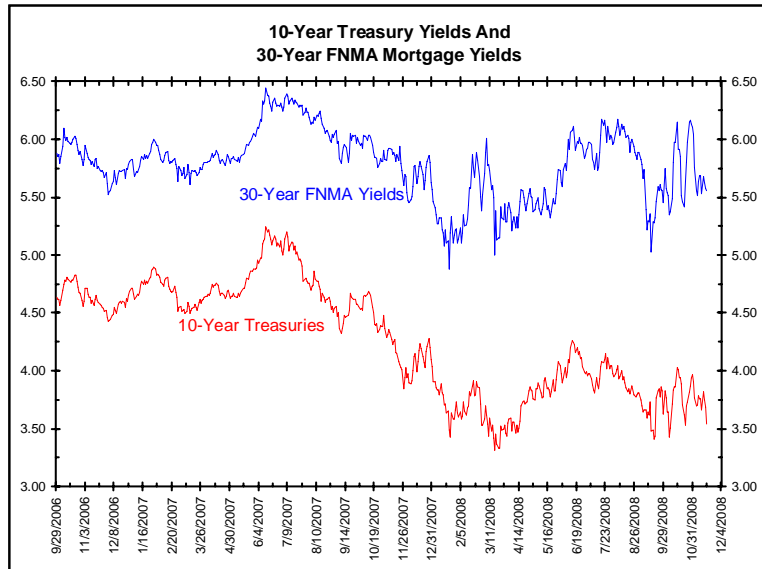
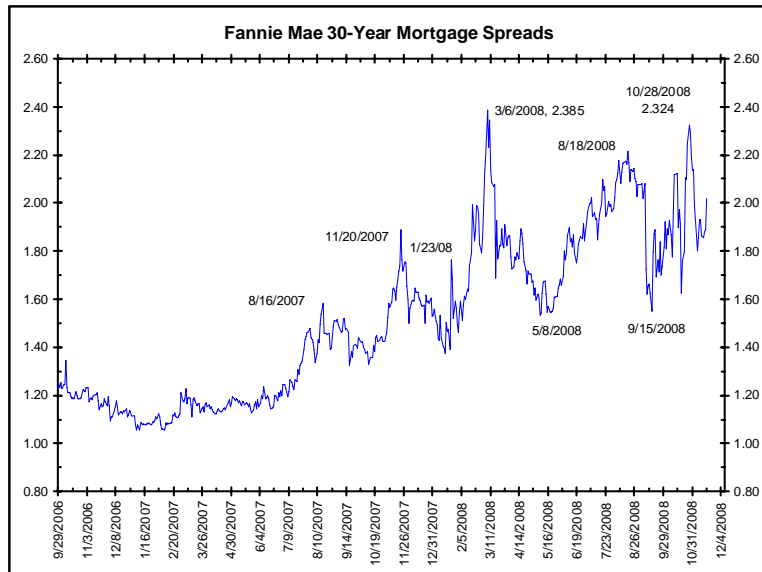


# Agency Spreads – All About The Chinese

From Our Recent [TIC Update](#)

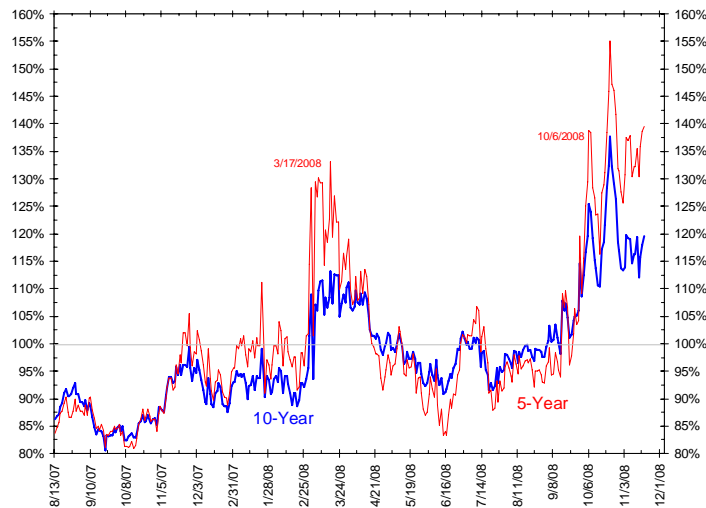


# Mortgage Spreads – Not Getting Worse

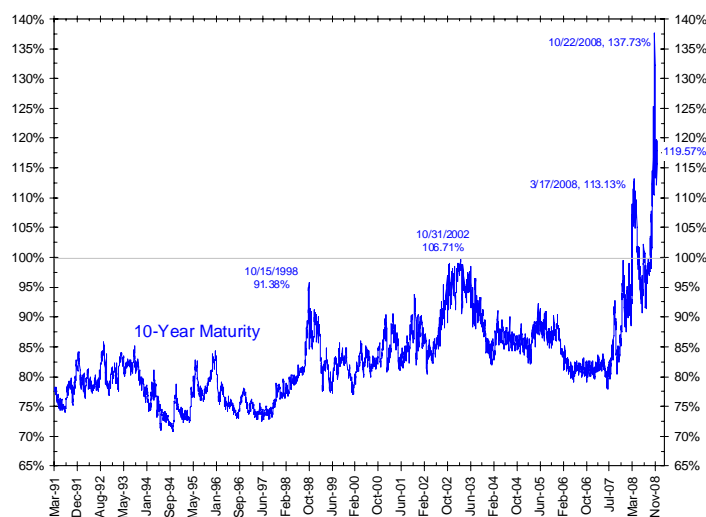


# Muni Spreads – Still At Panic Levels

General Obligation Municipal Yields As Percentage of Treasury Yields



General Obligation Municipal Yields As Percentage of Treasury Yields



## 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.

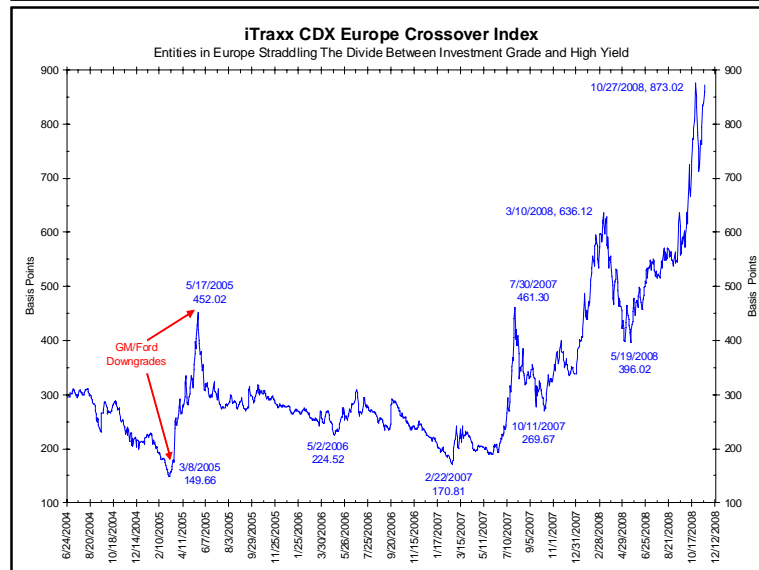
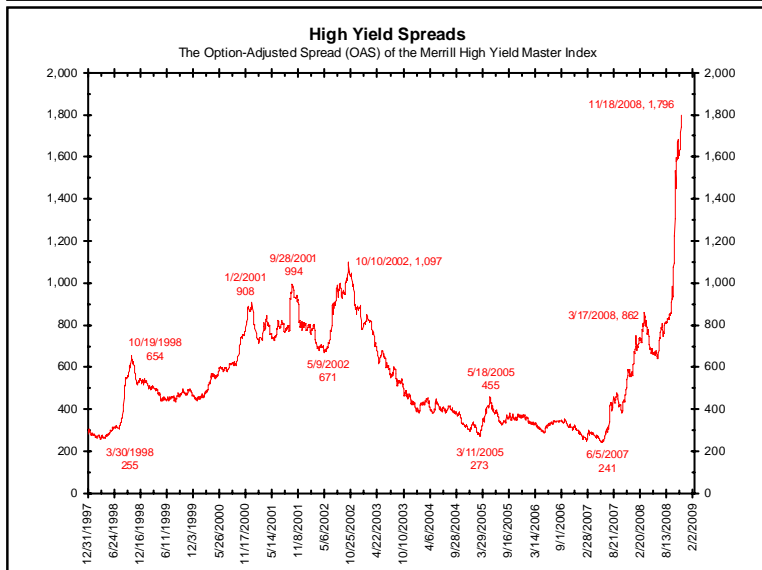
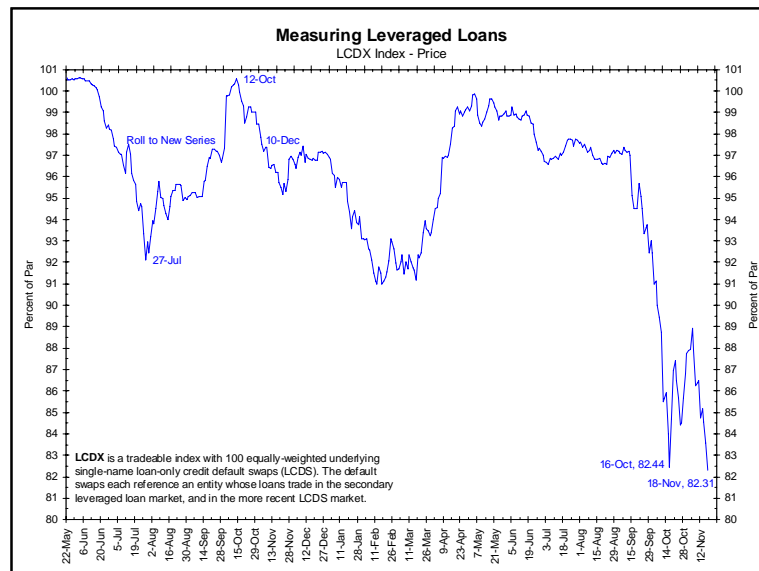
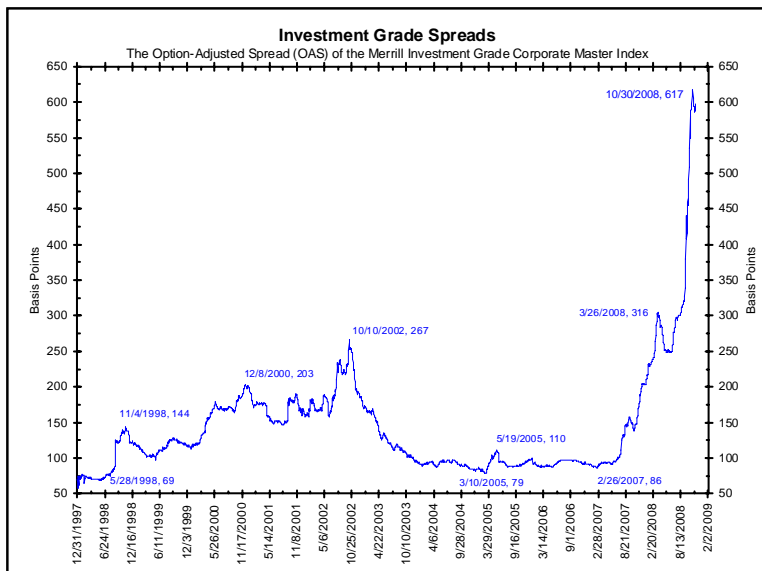
Add munis to the ever-growing list of crisis markets.

## 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.**



# Credit Spreads Are At Their Worst Levels



# The Stock Market Decline Now Rivals 2000 to 2002



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