



USAID
FROM THE AMERICAN PEOPLE

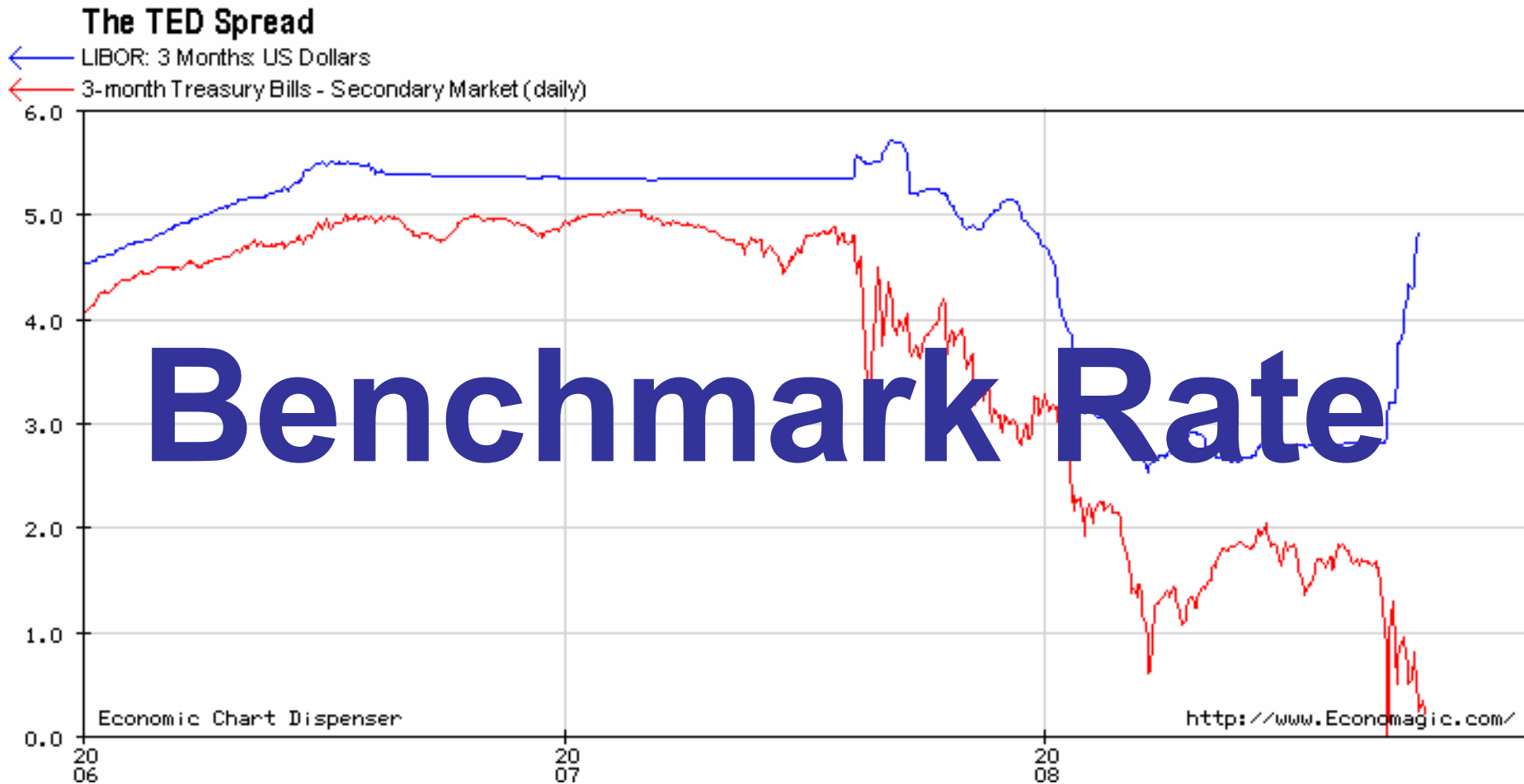
ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.



***WHY THE SUBPRIME CRISIS
WENT GLOBAL***

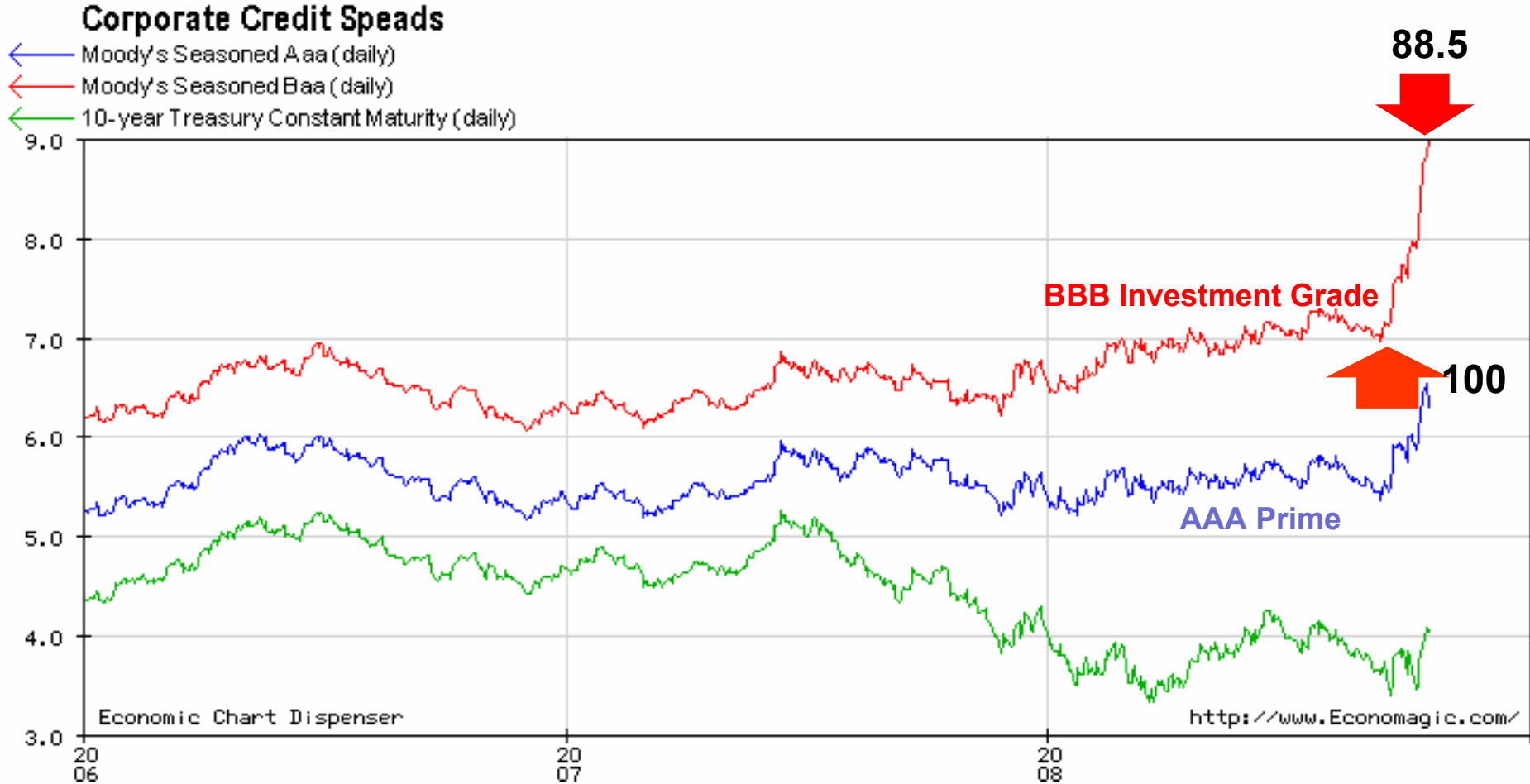
ATCI

IS THERE REALLY A CRISIS?



The TED Spread is a credit spread. LIBOR is a commercial bank deposit rate; the T-Bill is the 'risk-free rate of return.' The spread measures the degree of confidence banks have in lending to one another.

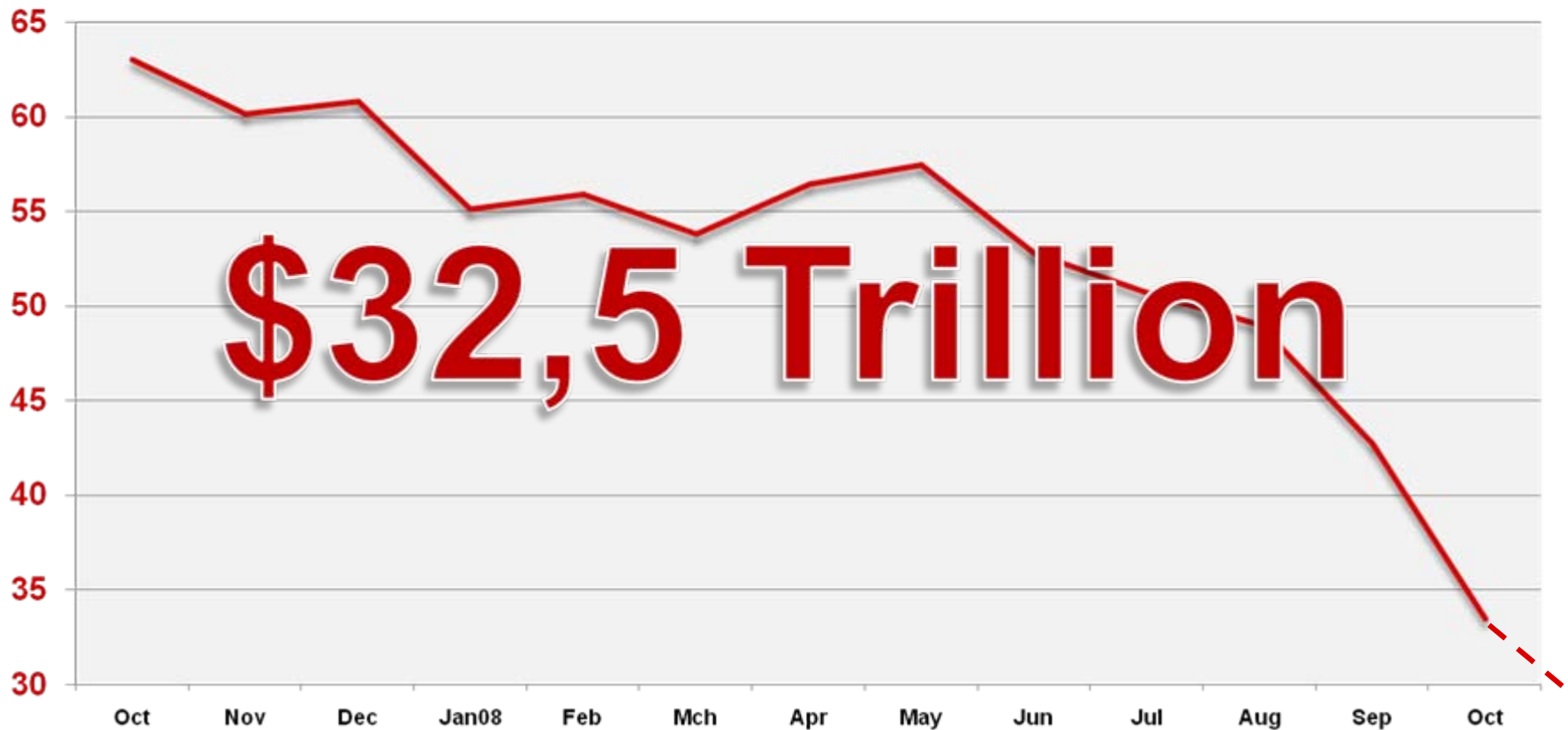
IS THERE REALLY A CRISIS?



Corporate Bond Prices Collapsing

IS THE CRISIS REALLY GLOBAL?

World Stock Market Capitalization
(Oct 07 – Oct 08, in USD Trillions)

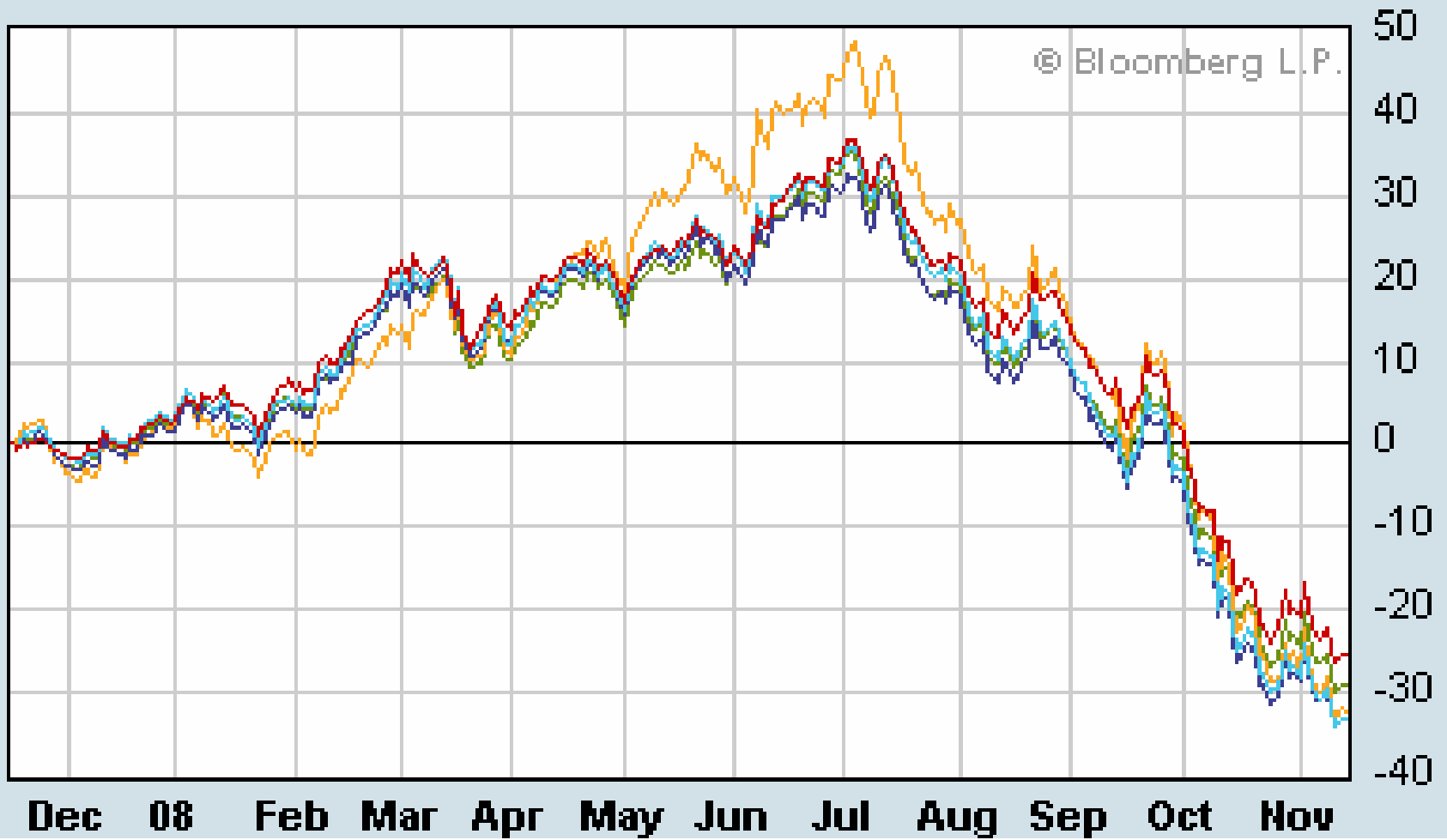


Source: World Federation of Exchanges

Date of Peak	Peak	Change	Number of Days
Russia	05/19/08	-76.32%	183
China	10/16/07	-68.70%	399
Hong Kong	10/30/07	-59.18%	385
India	01/08/08	-57.18%	315
Netherlands	07/16/07	-56.34%	491
Italy	05/18/07	-55.27%	550
Japan	07/09/07	-54.39%	498
Brazil	05/20/08	-52.03%	182
World	10/31/07	-50.39%	384
France	06/01/07	-48.81%	536
Australia	11/01/07	-48.41%	383
Spain	11/08/07	-47.48%	376
United States	10/09/07	-45.64%	406
Germany	07/16/07	-44.24%	491
Canada	06/18/08	-41.65%	153
Switzerland	06/01/07	-41.11%	536
United Kingdom	06/15/07	-39.08%	522

Source: Michael Panzner

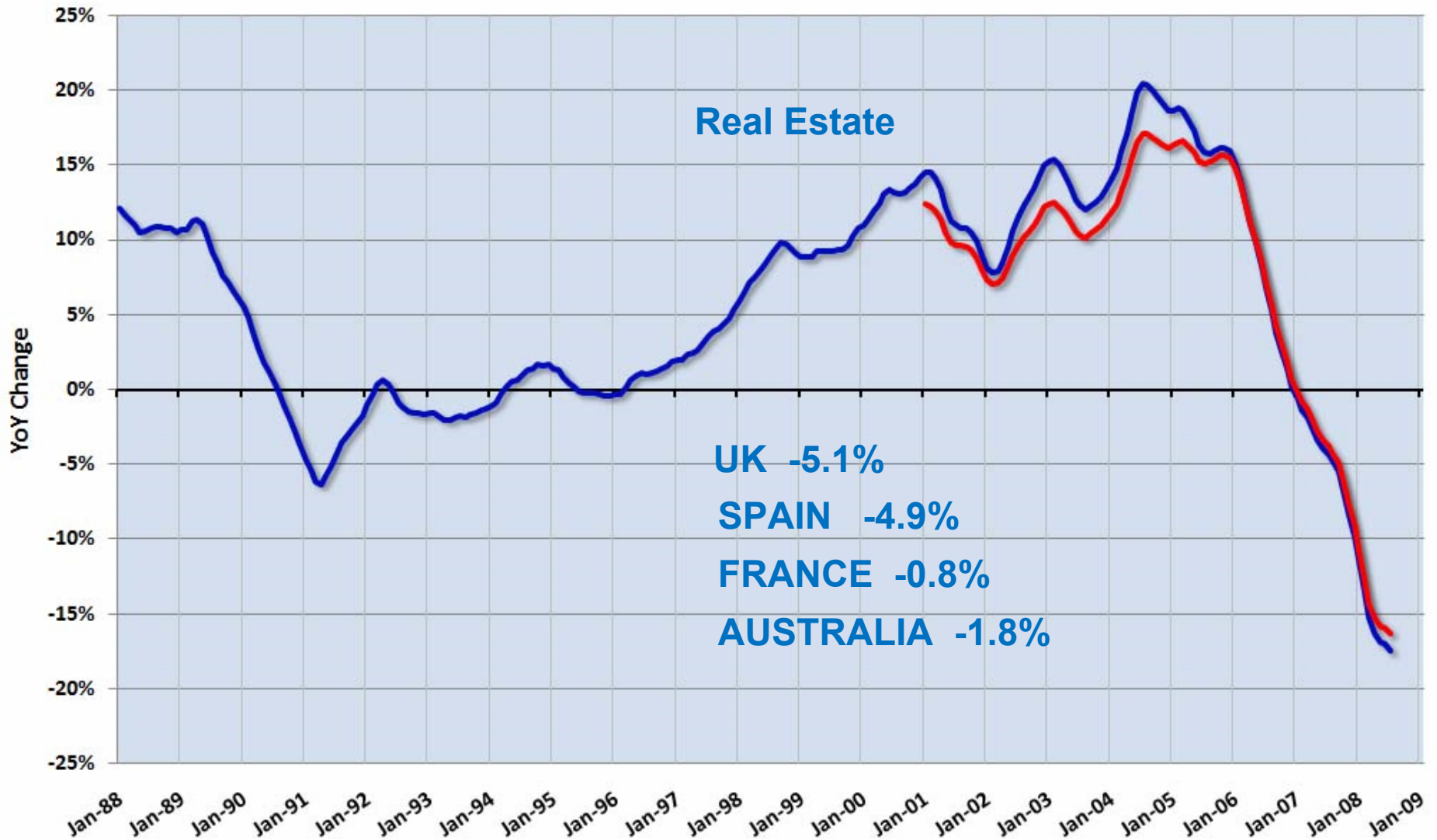
IS THE CRISIS REALLY GLOBAL?



S&P GLOBAL COMMODITY INDEX

Case-Shiller Composite Indices, Year-over-year Change

— Composite 10 — Composite 20



PRICES IN ALL ASSET CLASSES FALLING

- ✓ STOCKS
- ✓ BONDS
- ✓ COMMODITIES
- ✓ REAL ESTATE
- ✓ ART

DEFLATIONARY SPIRAL

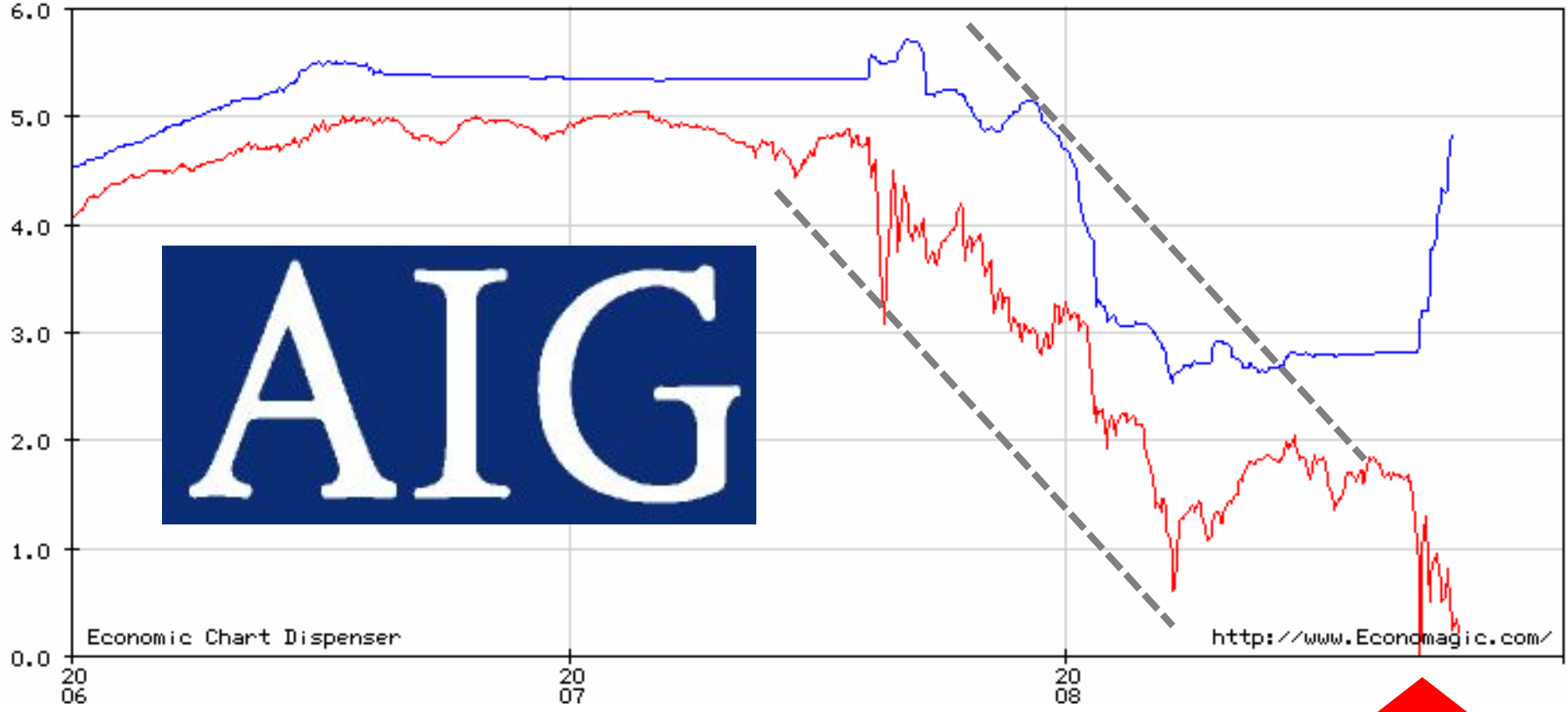
Observation

**Deflation occurs when asset bubbles burst.
Asset bubbles burst when the availability of
greed and *stupidity* exceeds the availability of
capital.**

Subprime Crisis vs. Global Financial Crisis

The TED Spread

- ← LIBOR: 3 Months: US Dollars
- ← 3-month Treasury Bills - Secondary Market (daily)



Economic Chart Dispenser

<http://www.EconomicMagic.com/>

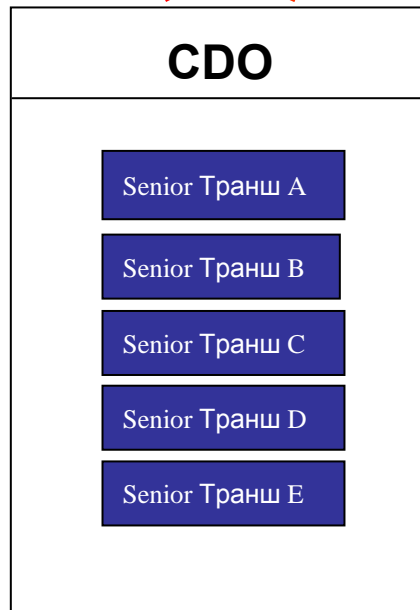


17 Sep 08

\$440 Billion

'Super Senior' CDOs

~~AAA~~

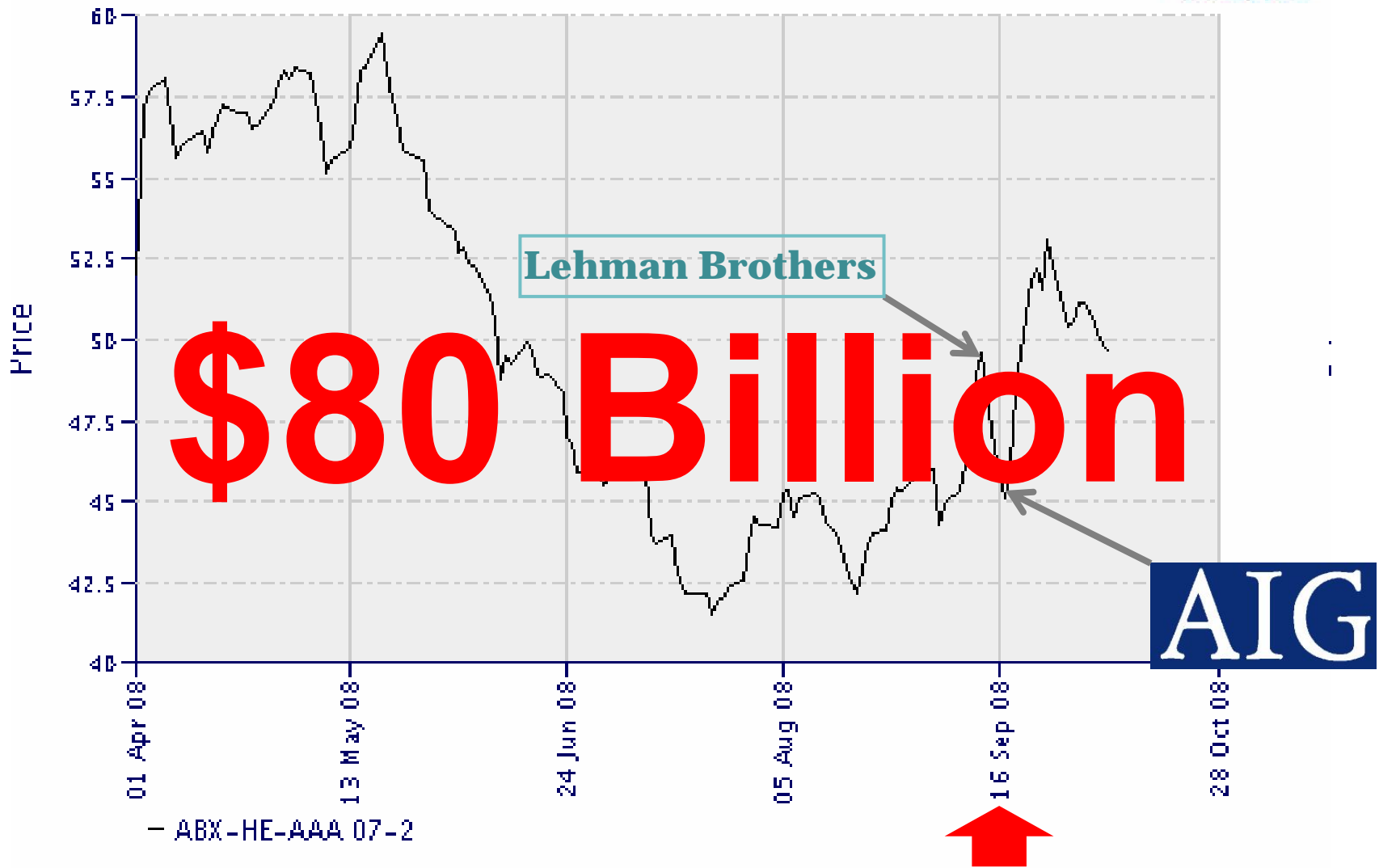


Collateralized Debt Obligation
Subprime and Alt-A Securitizations

Level 3 Asset

Market Value of 'Super Senior' CDOs mark to market

markit

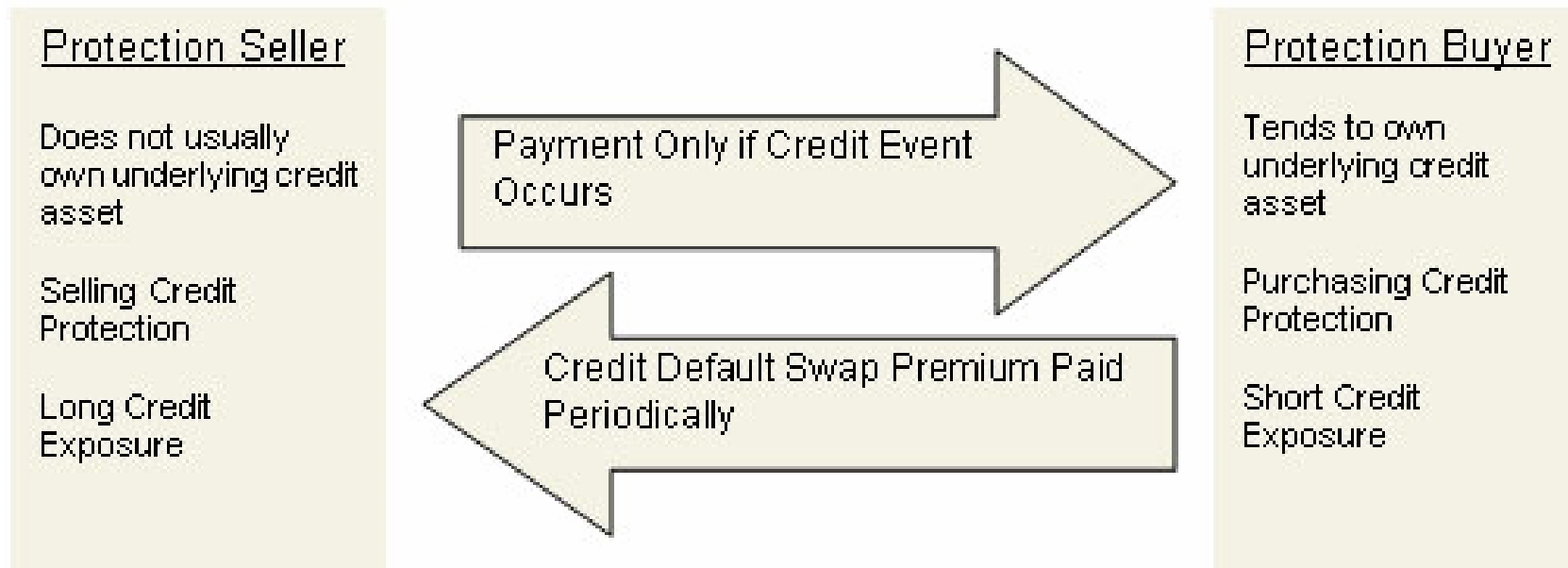


- ABX-HE-AAA 07-2



Credit Default Swaps

A Common Credit Default Swap Transaction



Source: *Credit Derivatives and Synthetic Structures*, John Wiley & Sons, 2001; and www.pimco.com, 2006.

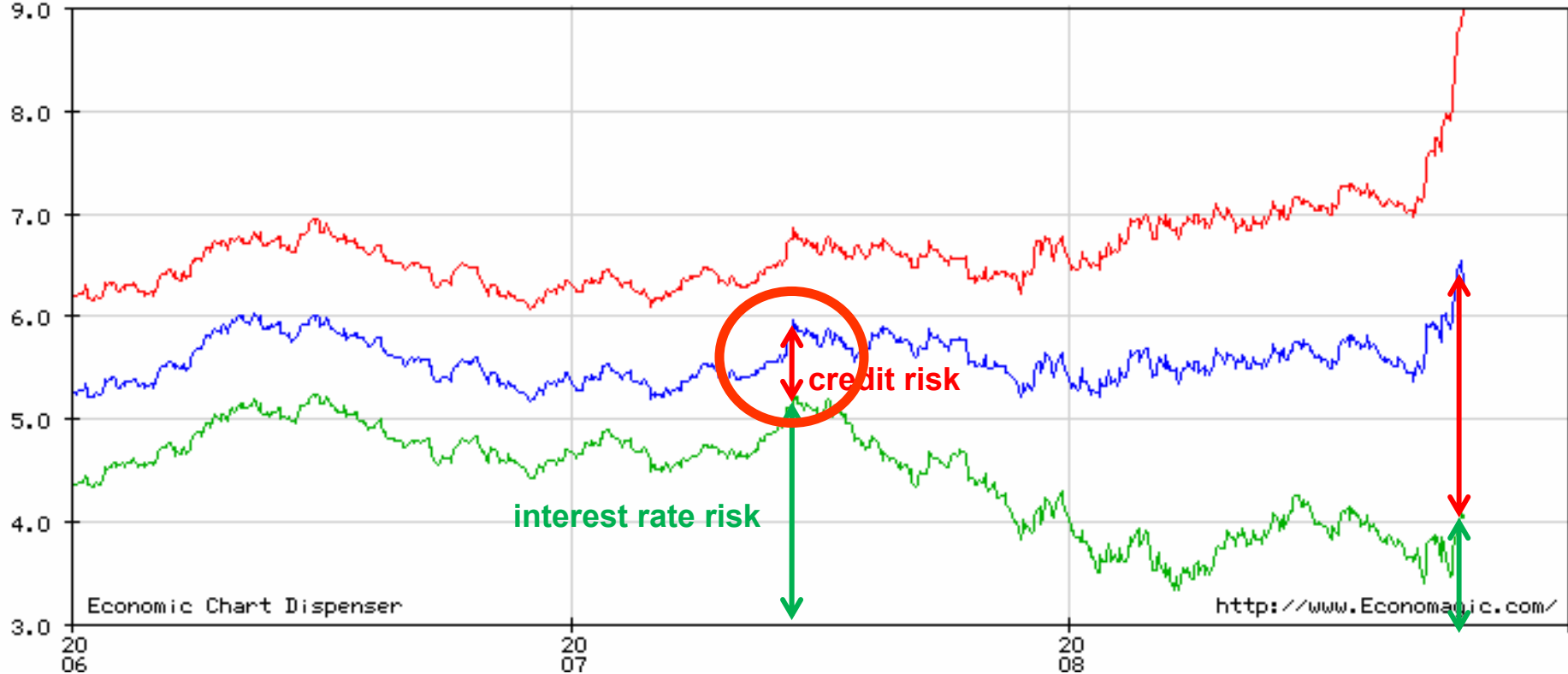
Amount	Company	Coupon	Tenor	Rating
\$10 mln	XYZ	5.5%	5 years	AAA

Premium: 75 bps/year

Credit Default Swaps

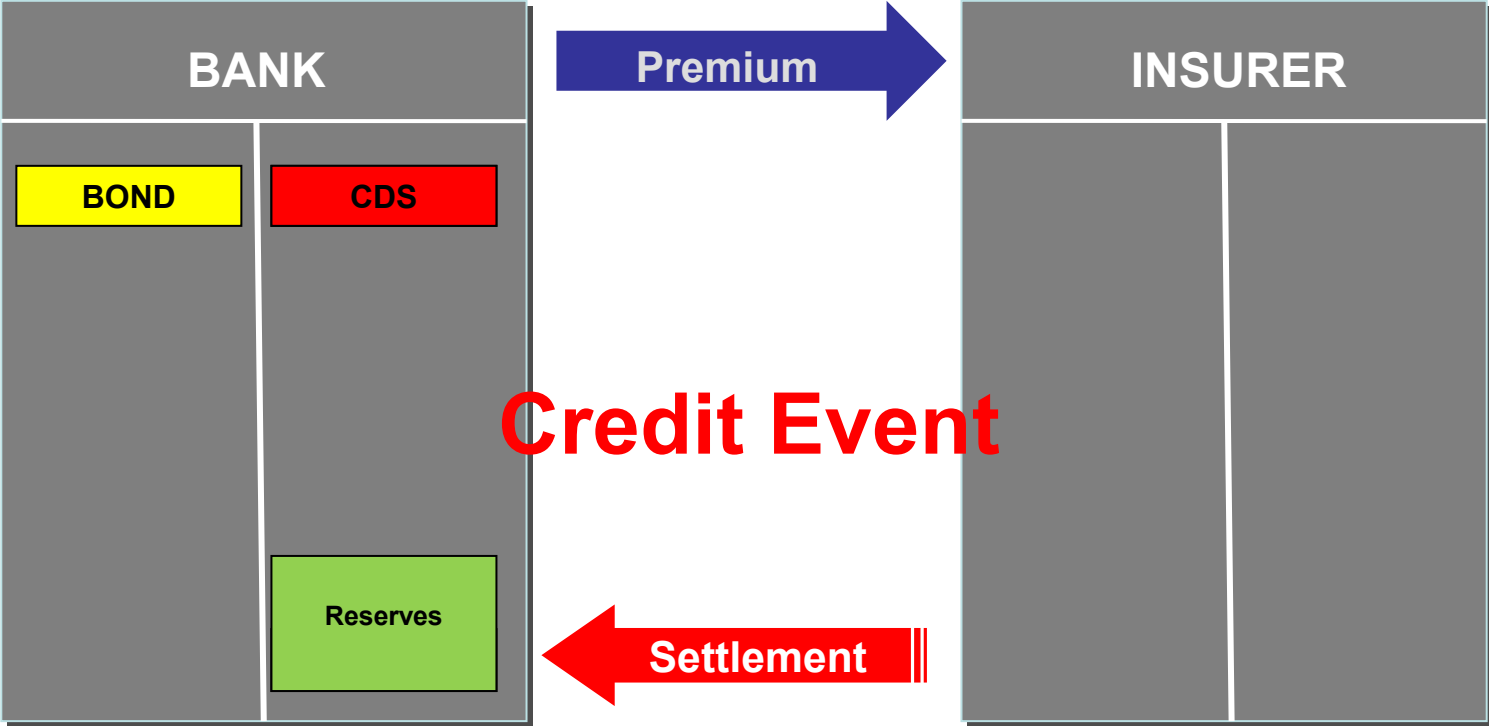
Corporate Credit Spreads

- ← Moody's Seasoned Aaa (daily)
- ← Moody's Seasoned Baa (daily)
- ← 10-year Treasury Constant Maturity (daily)



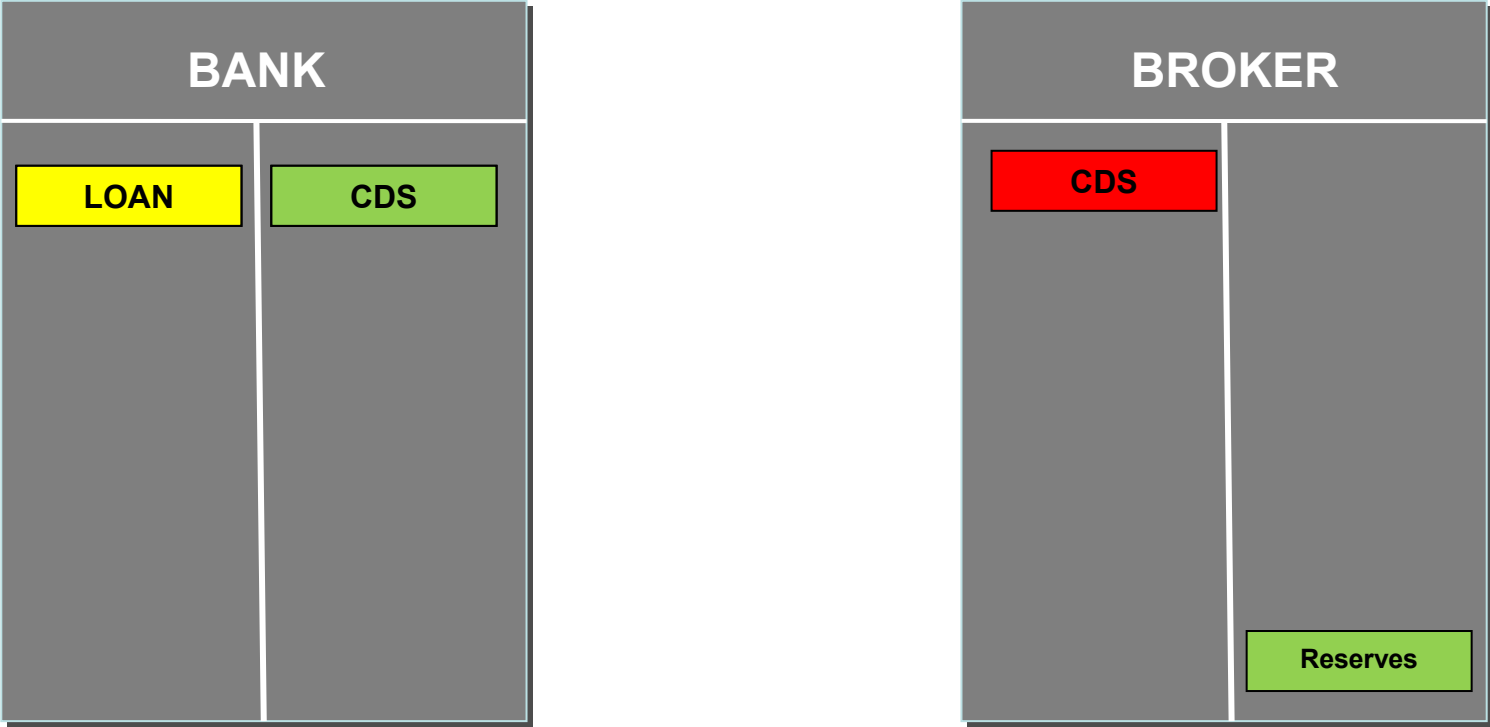
Two components of bond risk: interest rate risk and credit risk.

Credit Default Swaps



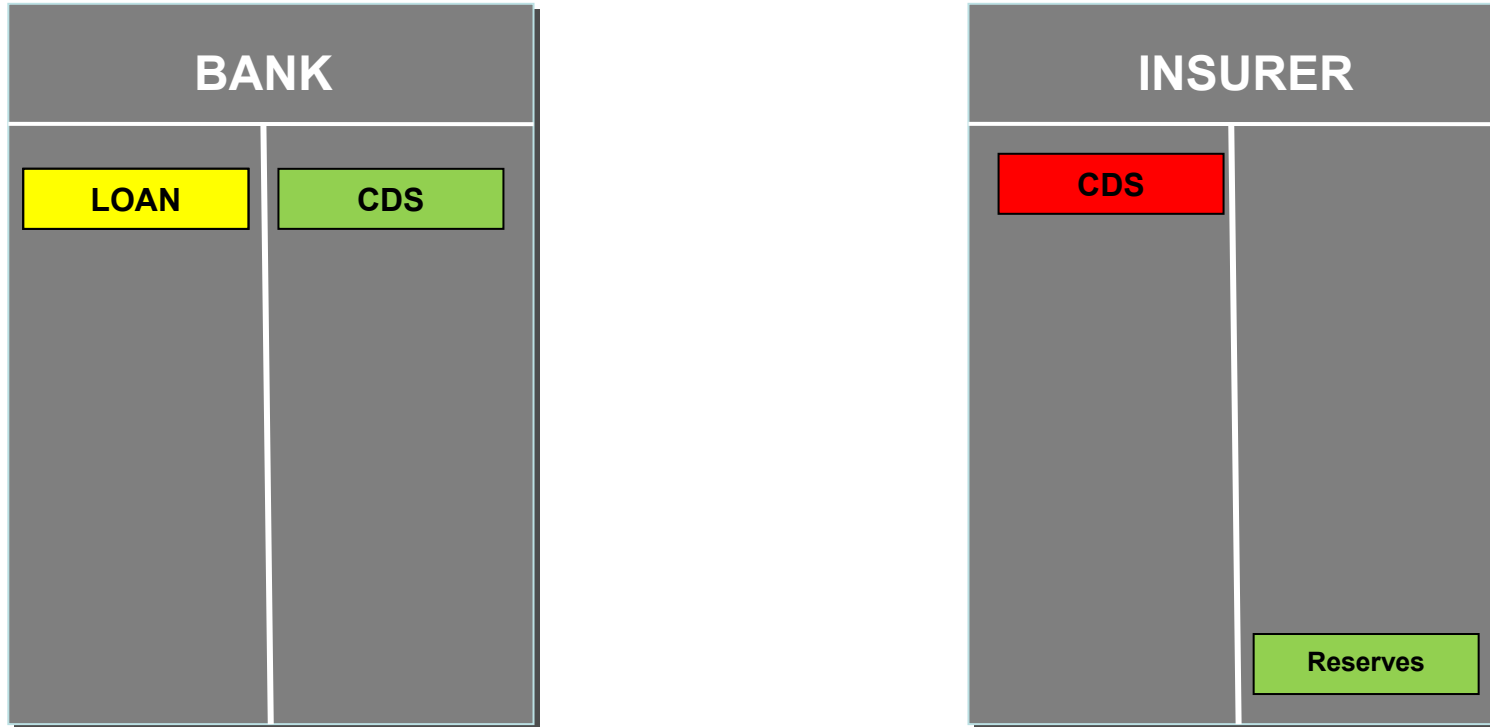
CDS Premium vs. Reserves: Arbitrage Opportunity?

Credit Default Swaps



Credit Default Swaps are not a monoline insurance product.

Credit Default Swaps



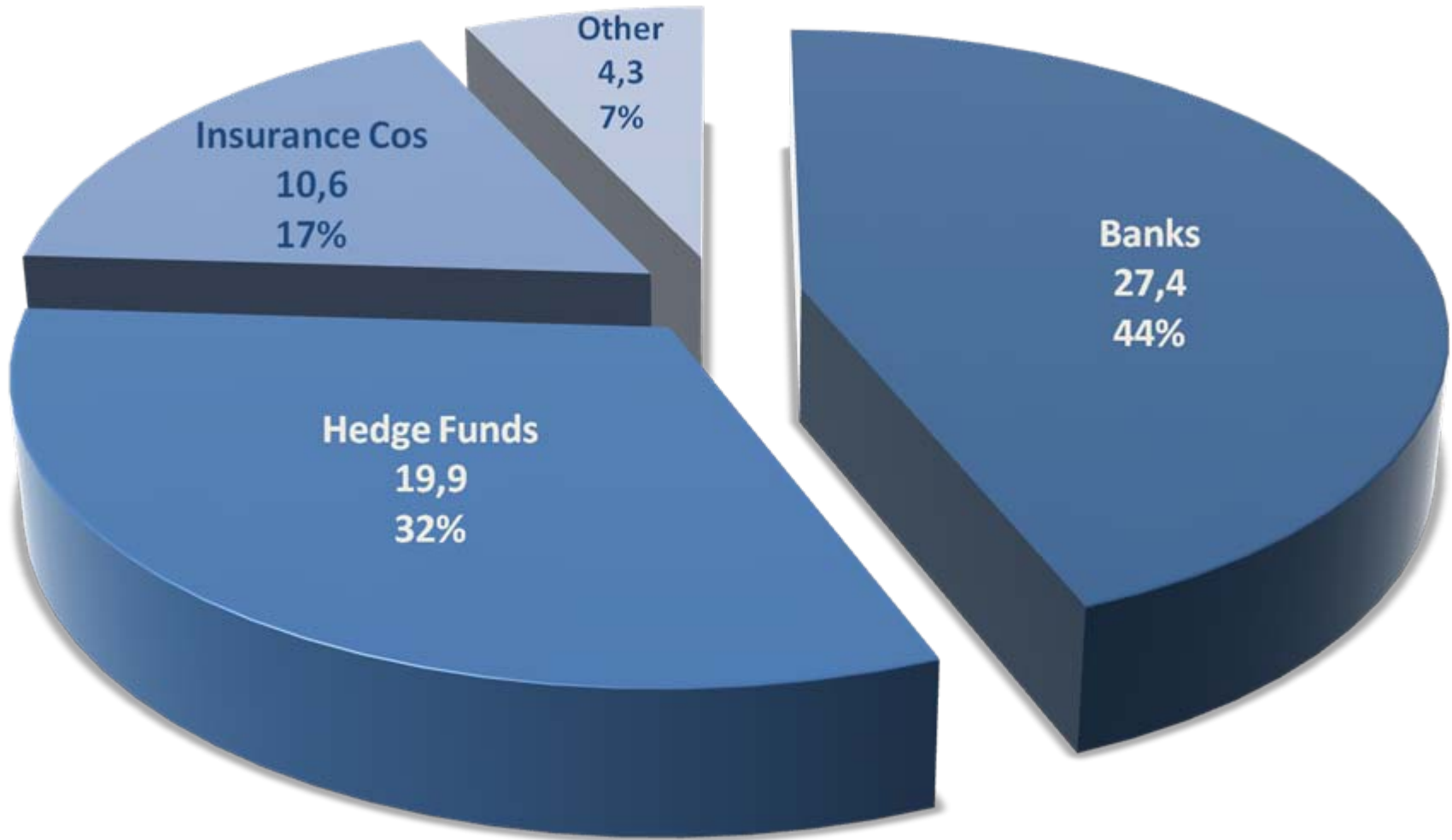
Credit Default Swaps do not increase the amount of debt outstanding. They increase market risk by expanding the universe of 'insured' credit products and the universe of potential insurers. The *net market risk* of credit default swaps is zero.

Observation

Credit Default Swaps diversify credit risk away from *monoline* insurers, but the risk remains concentrated in the *Financial Sector*. . .
and you don't know who owns it!

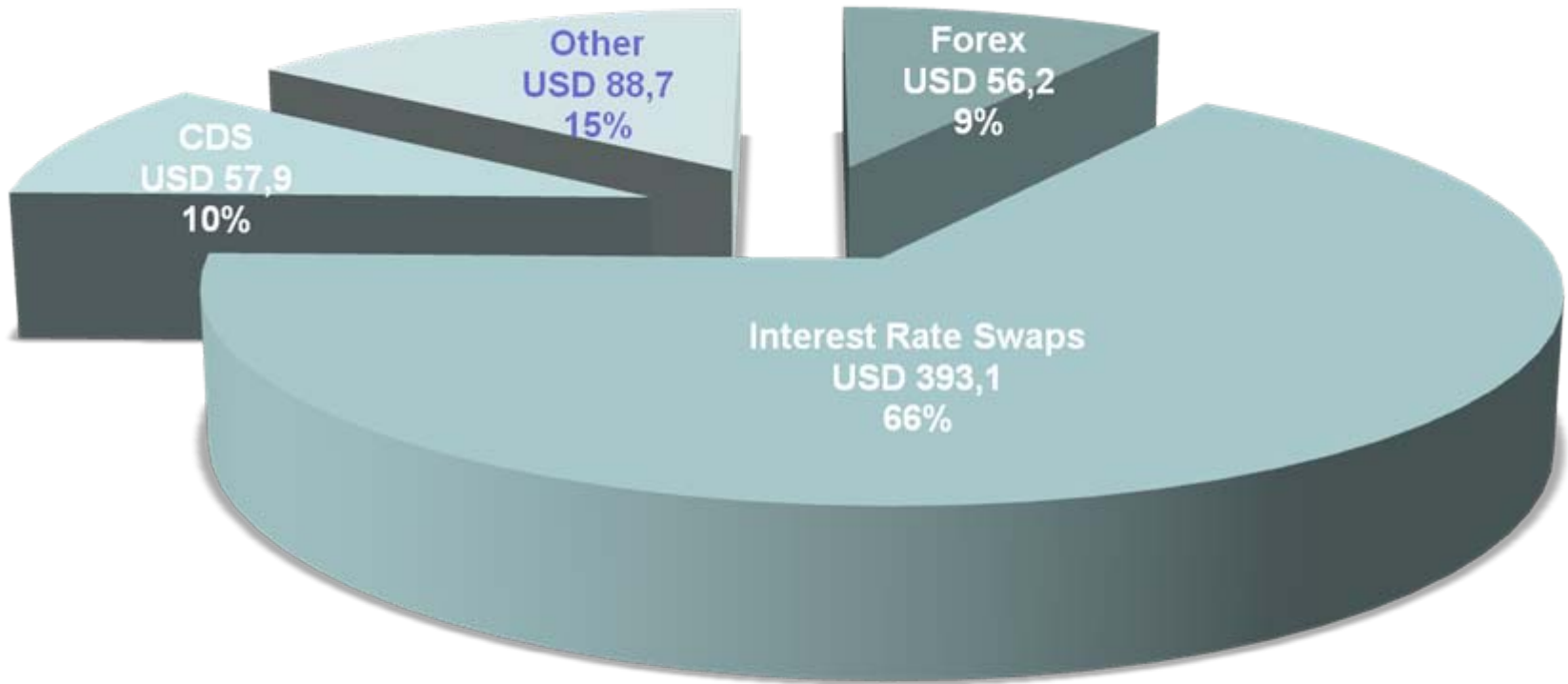
Counterparty Risk

Sellers of CDS Protection (End 2007, in USD Trillions and Percent)

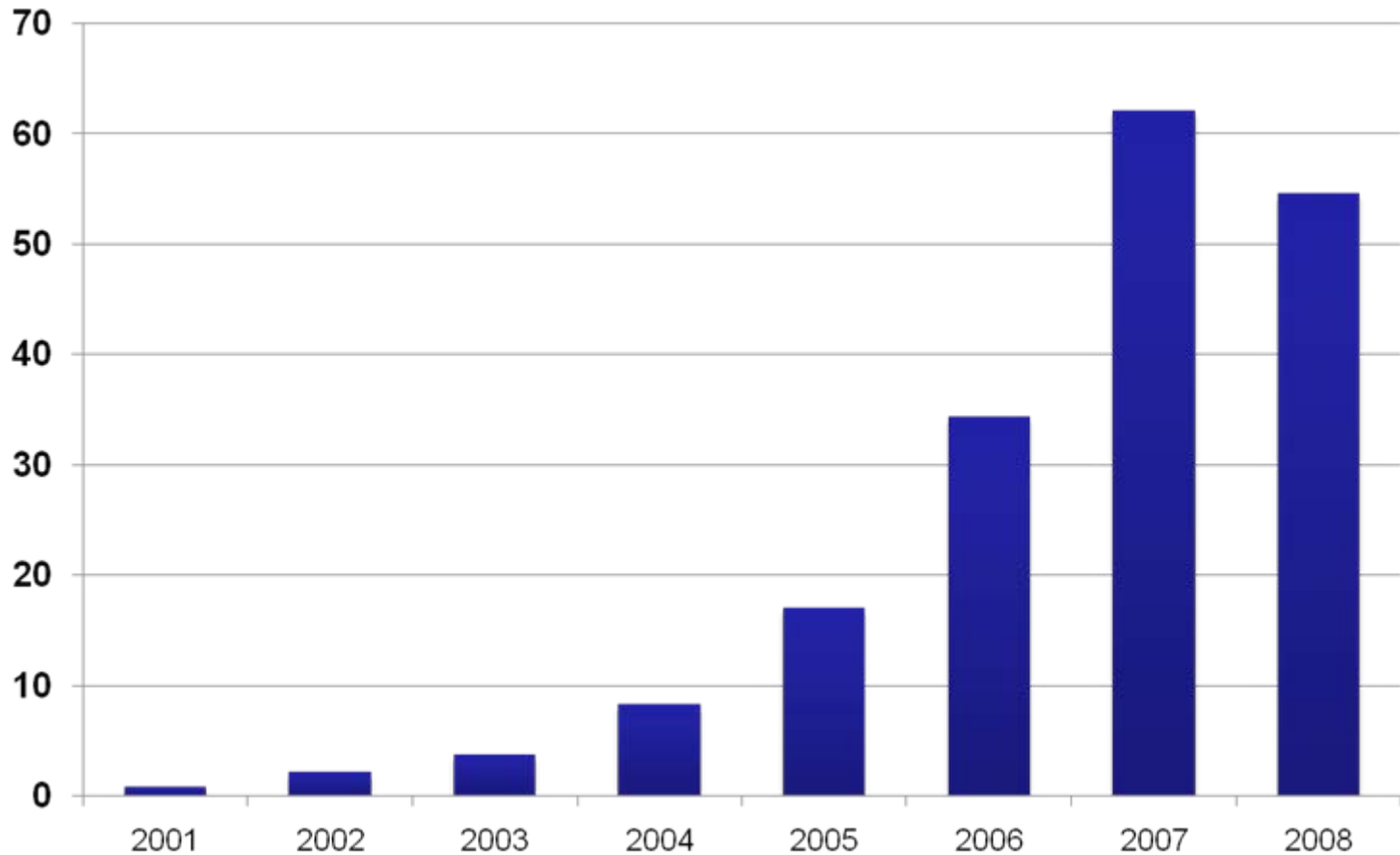


Source: CreditSights, *The Economist*

Total Derivatives Outstanding by Type (End December 2007, in USD Trillions)



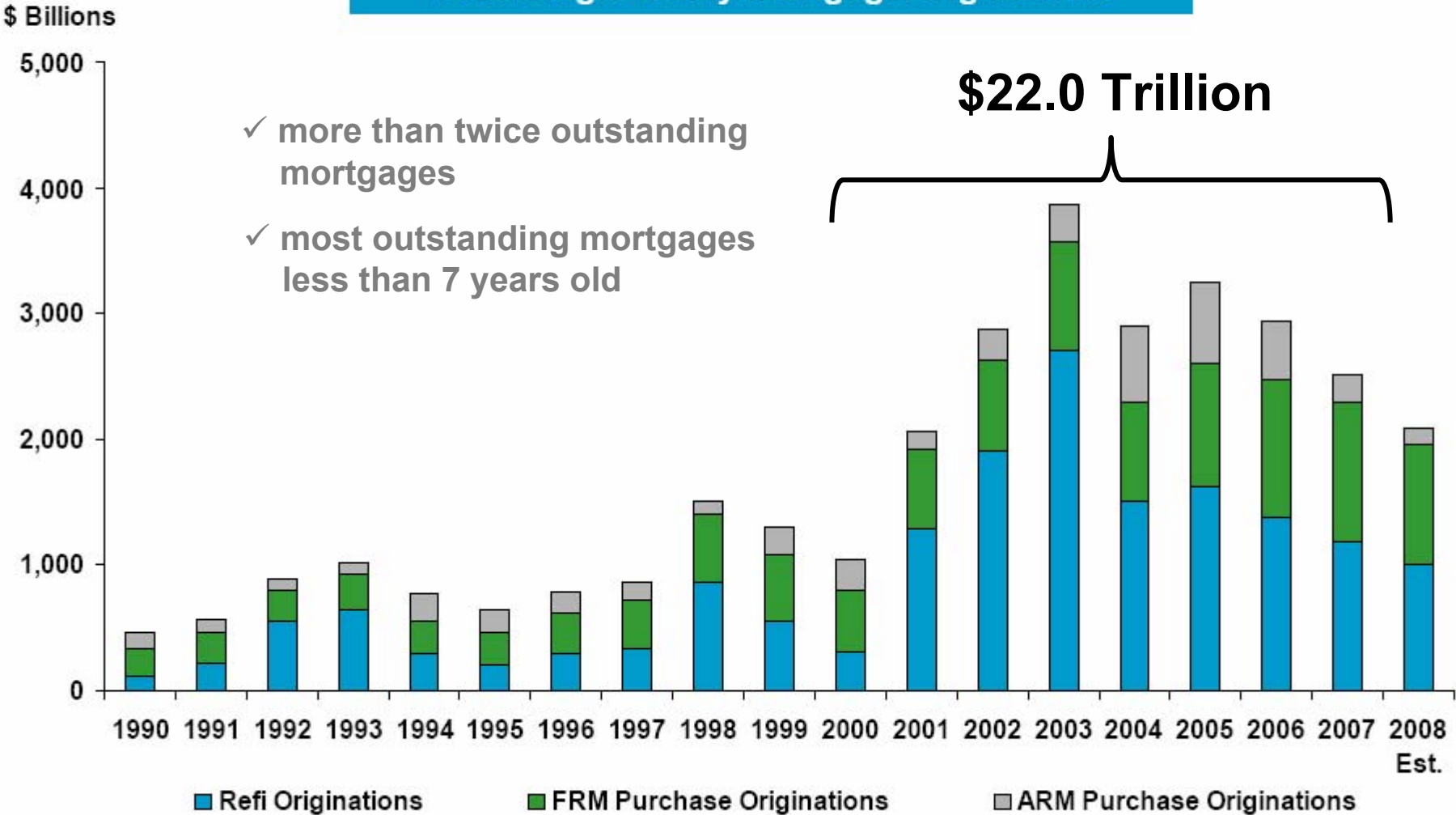
Notional Value of Outstanding Credit Default Swaps (2001-2008 Q2, EOP, in USD Trillions)



Source: International Swap Dealers Association

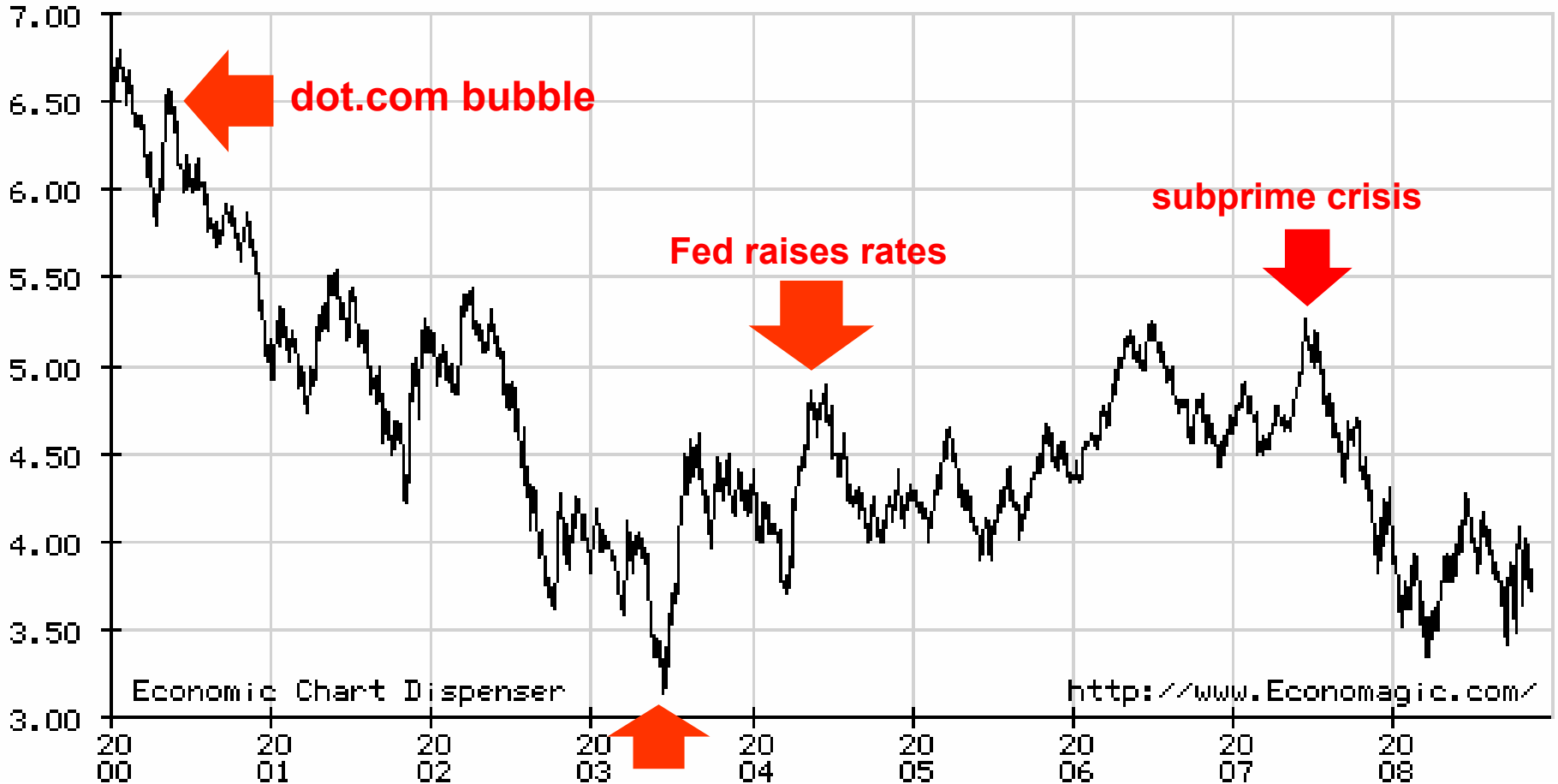
Fewer refinances imply a 17 percent drop in mortgage originations in 2008

Total single-family mortgage originations



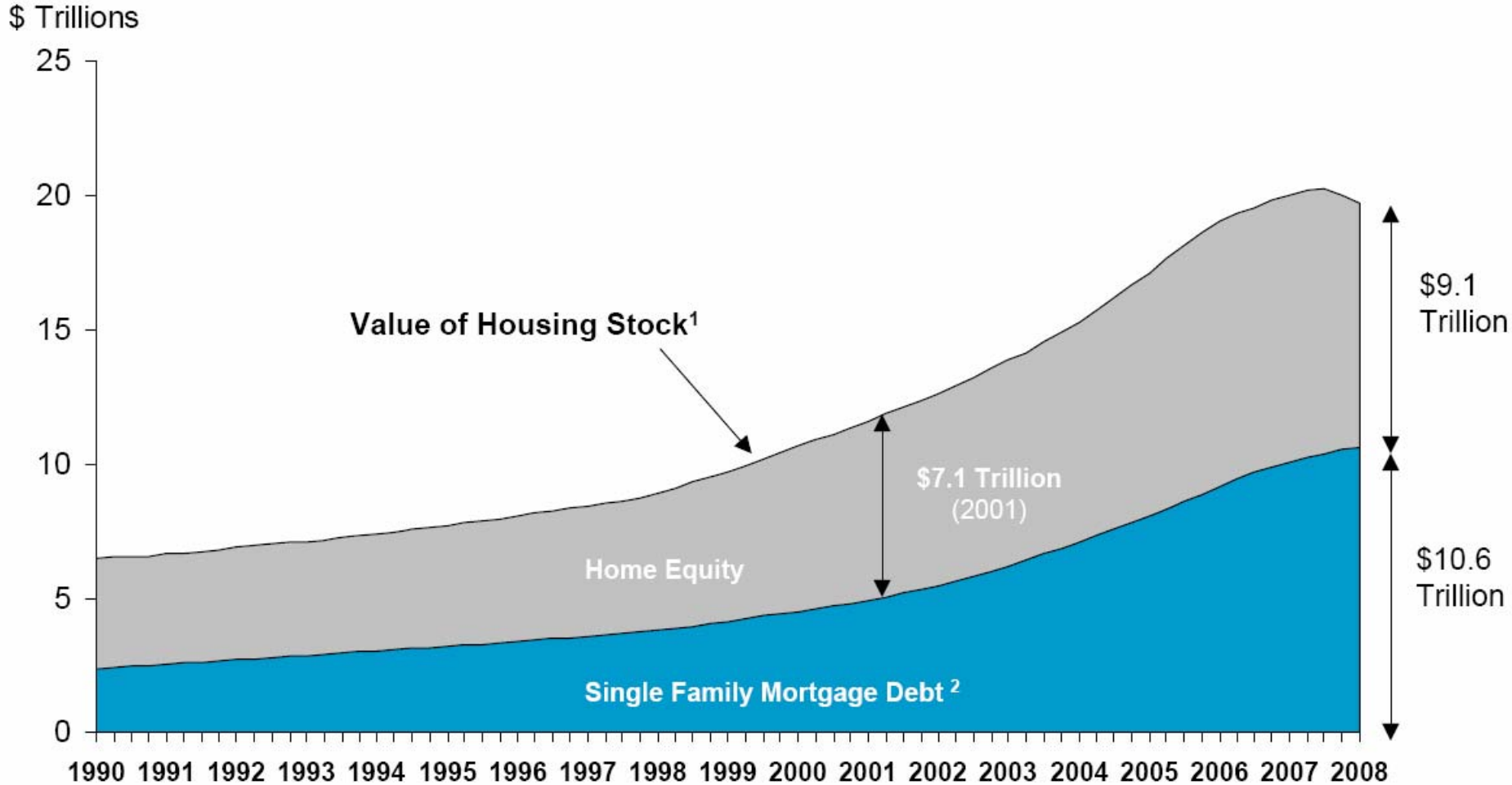
US Interest Rates

10-year Treasury Constant Maturity (daily)



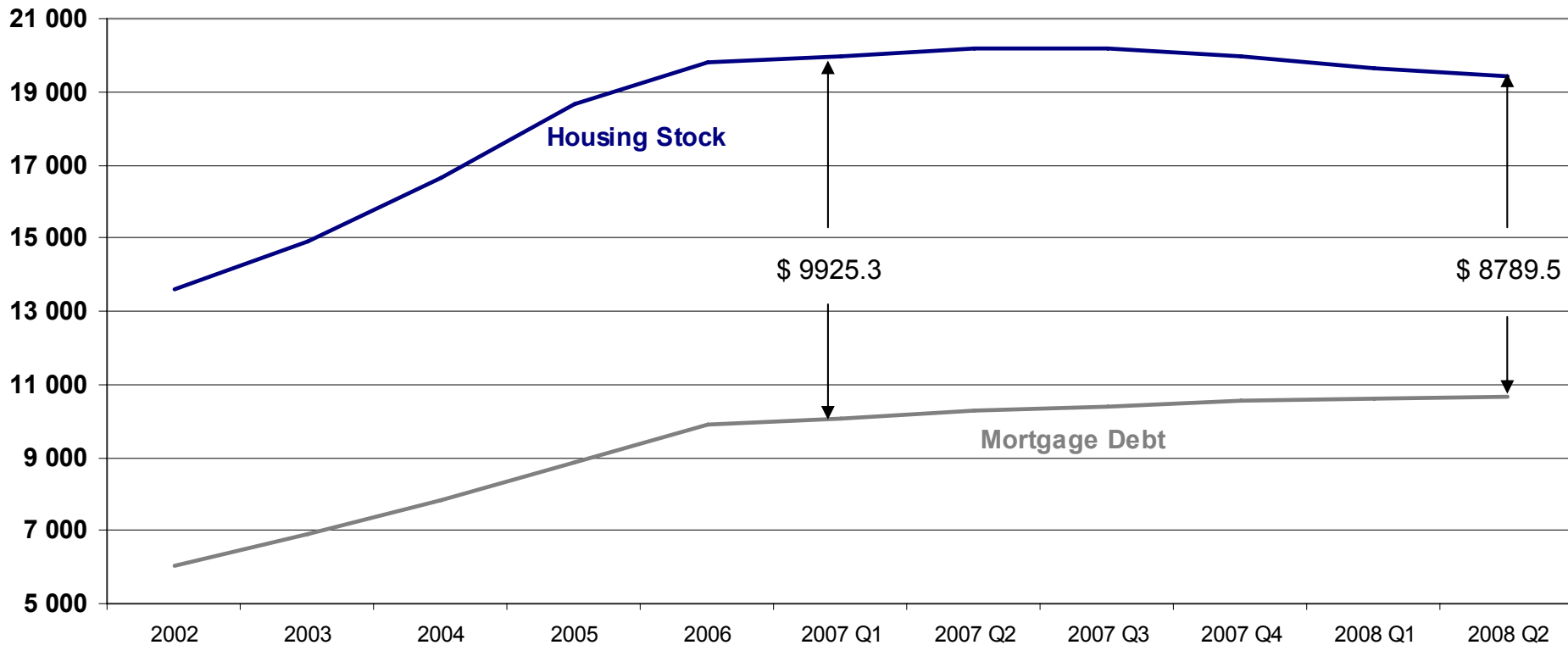
'deflation low' 3.17

Single-family mortgage debt is protected in relation to total value of housing stock



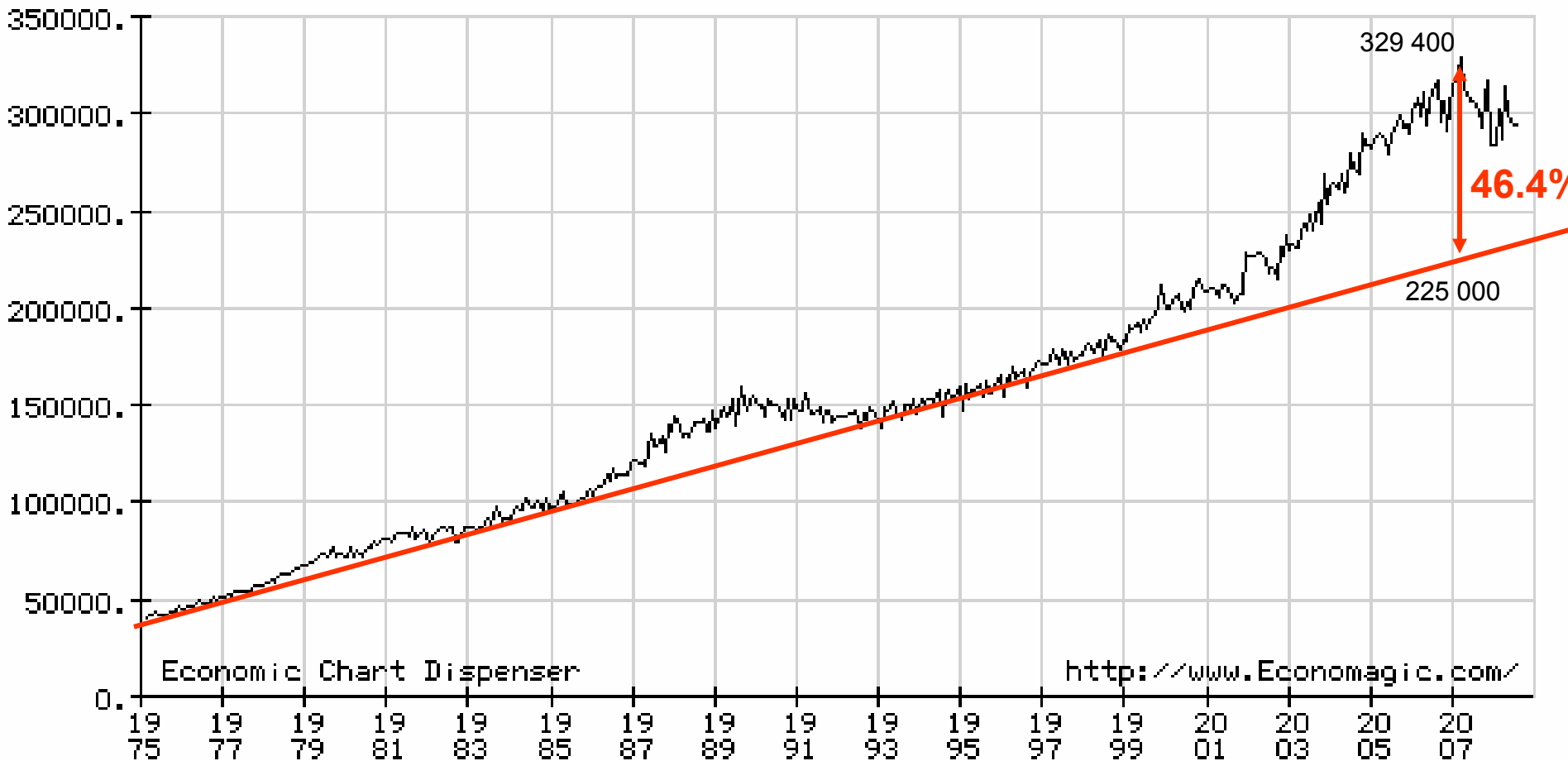
¹ Value of Housing Stock: Federal Reserve Board's Flow of Funds Accounts, June 5, 2008, Table B.100 (line #4). Note this figure includes homes with and without underlying mortgages. Home equity is the difference between the value of the housing stock and the amount of single-family debt.

Housing Stock, Mortgage Debt and Equity (2002-2008 Q2, EOP, Billions of USD)



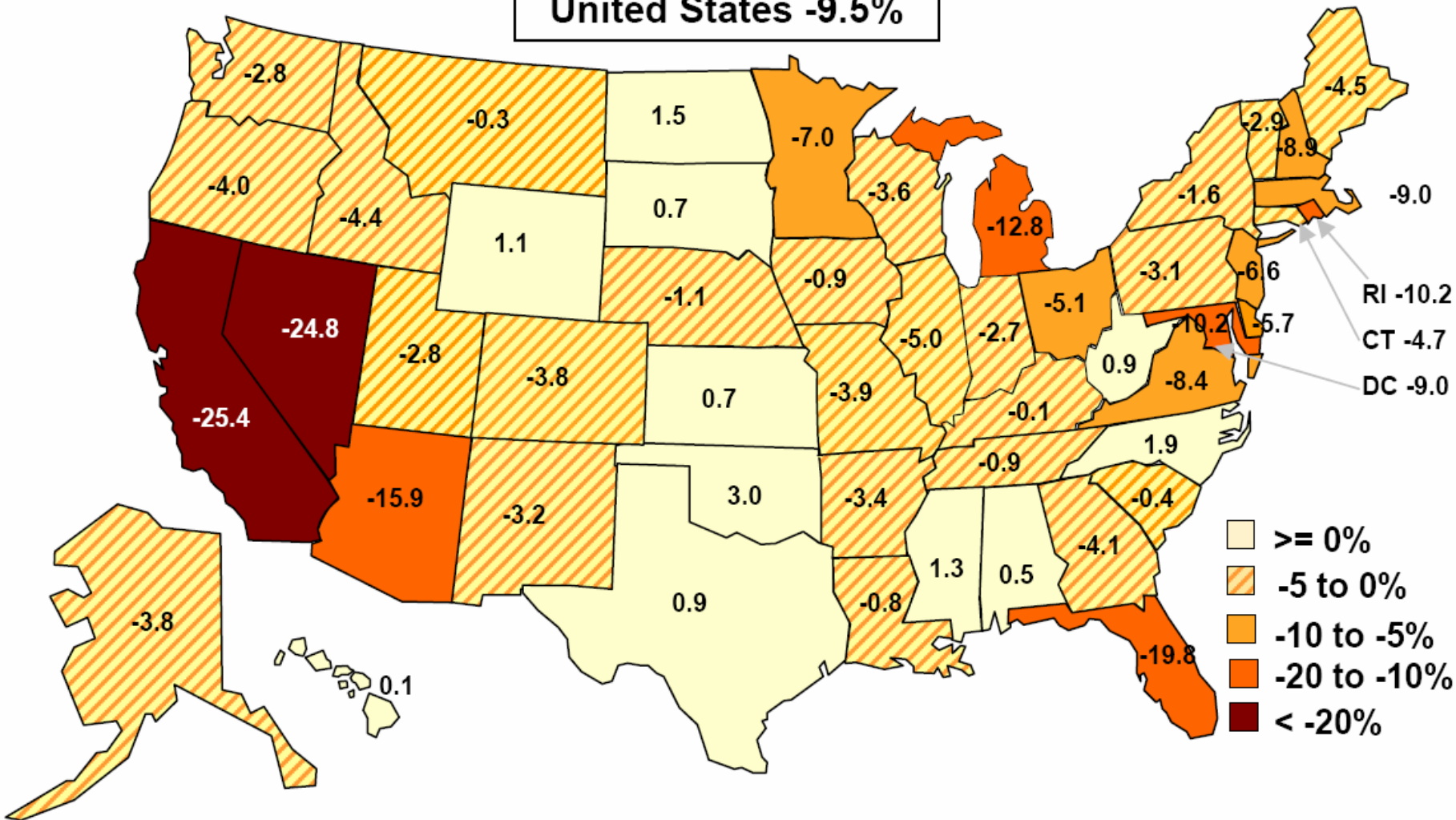
Source: FRS, Flow of Funds Report, 18.09.2008

US: Average Price of Houses Sold



Source: US Census Bureau, Q3 08

United States -9.5%



¹ National home prices use the internal Freddie Mac index, which is value-weighted based on Freddie Mac's single-family portfolio.

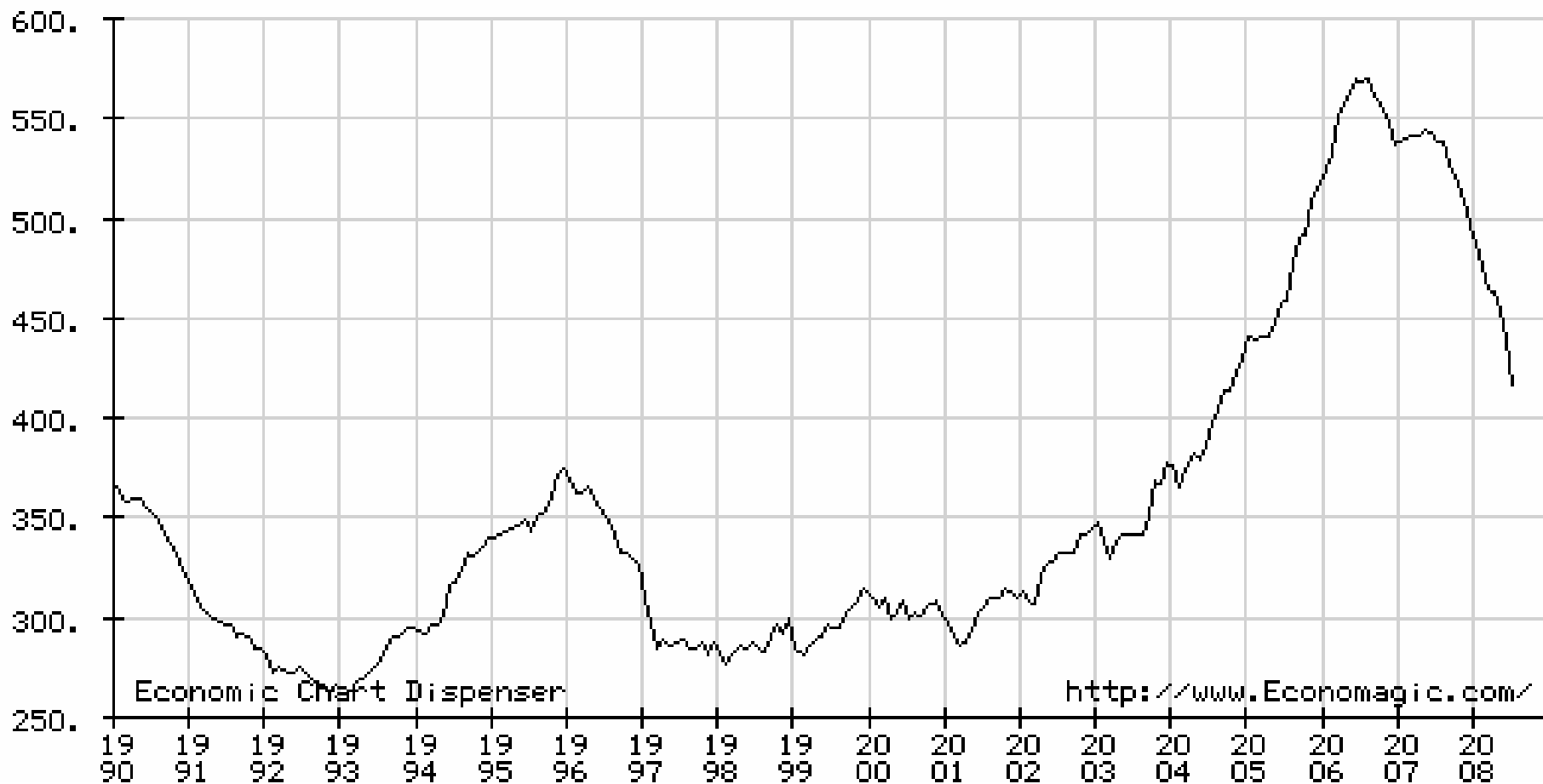
Source: Freddie Mac.

Case-Shiller Composite Indices, Year-over-year Change

— Composite 10 — Composite 20

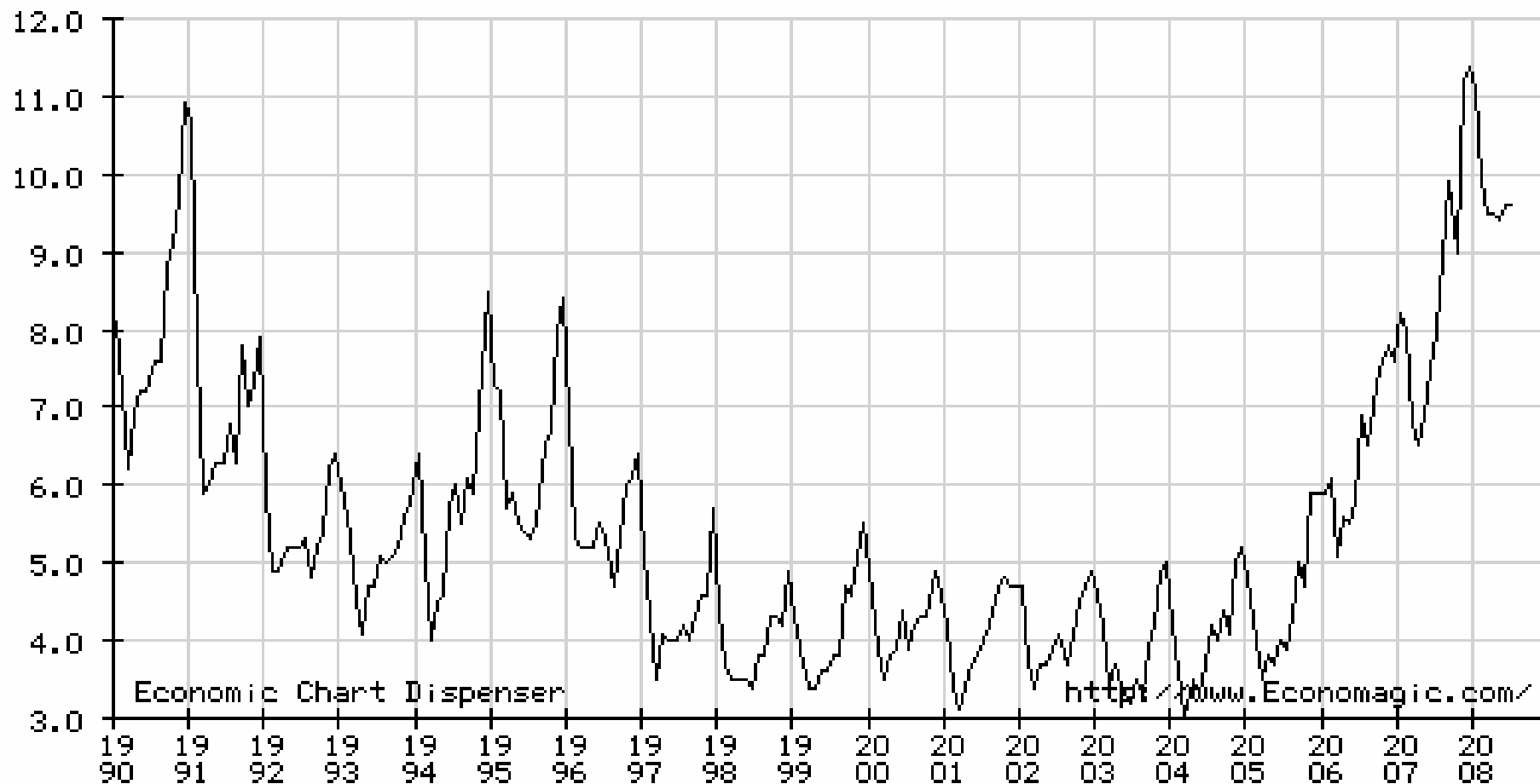


US Houses For Sale: Thousands: NSA



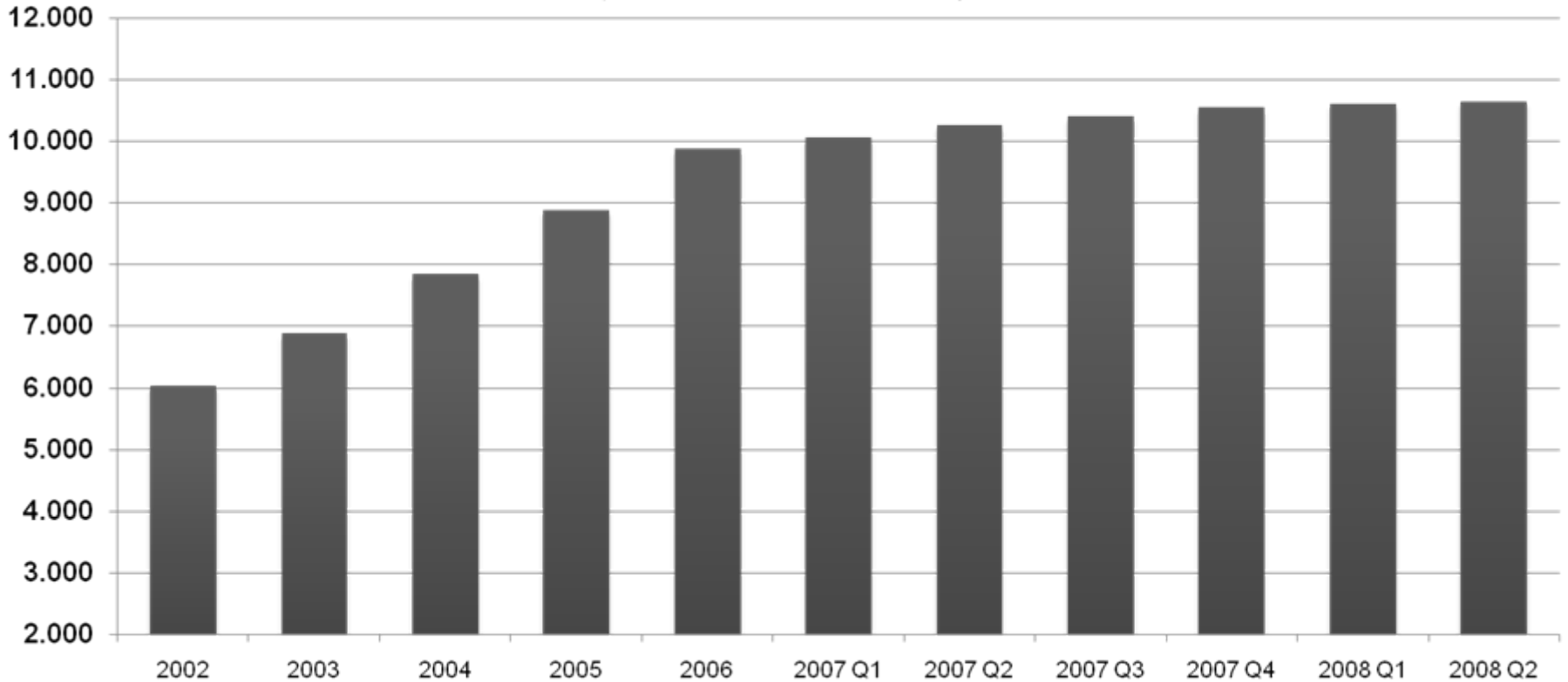
Source: US Census Bureau, June 2008

US Months Supply of Houses For Sale at Current Sales Rate; NSA



Source: US Census Bureau, June 2008

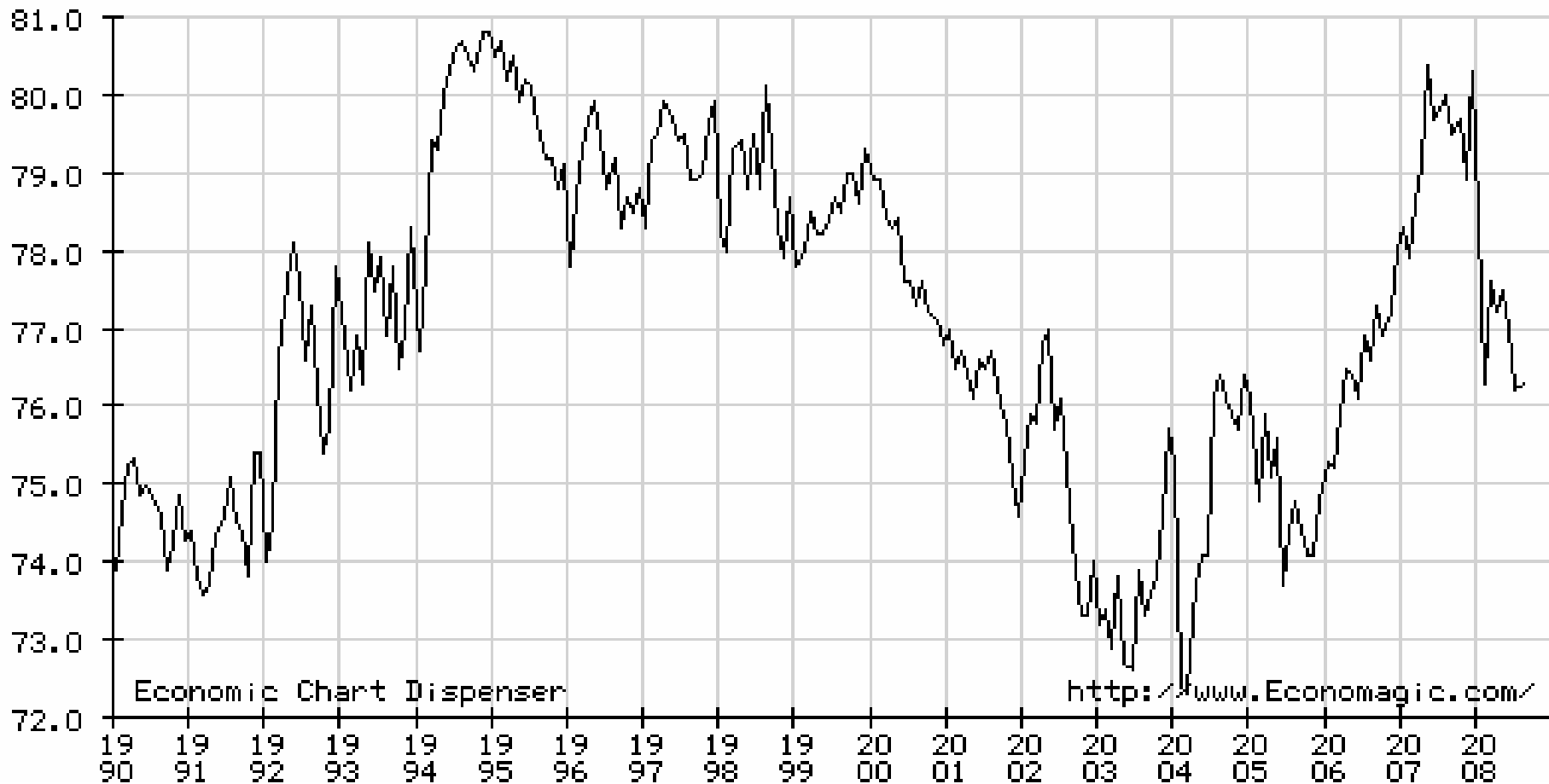
Single-Family Mortgage Debt Outstanding
(2002-2008 Q2, EOP, Billions of USD)



Source: FRS, Flow of Funds Report, 18.09.2008

130.4 million housing units; 111.4 million households; home ownership rate: 67.9%; 51.8 million mortgages outstanding

Loan-to-Value Ratio (%): Single-Family Mortgages, All Homes: Federal

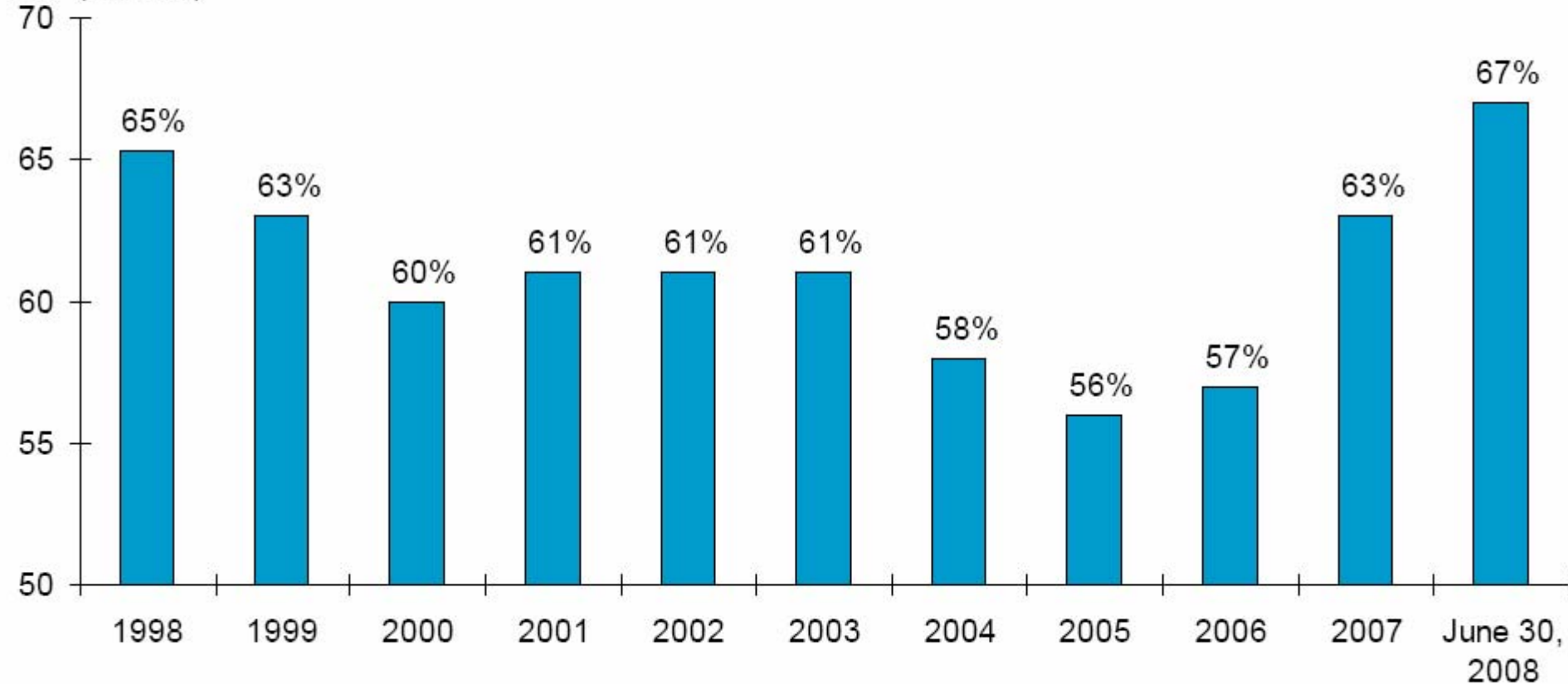


Source: Federal Home Loan Board

Significant homeowner equity supports the credit quality of our single-family portfolio

Average estimated loan-to-value¹ ratio of our single-family portfolio adjusted to reflect current market prices

Average Estimated Current LTV (Percent)

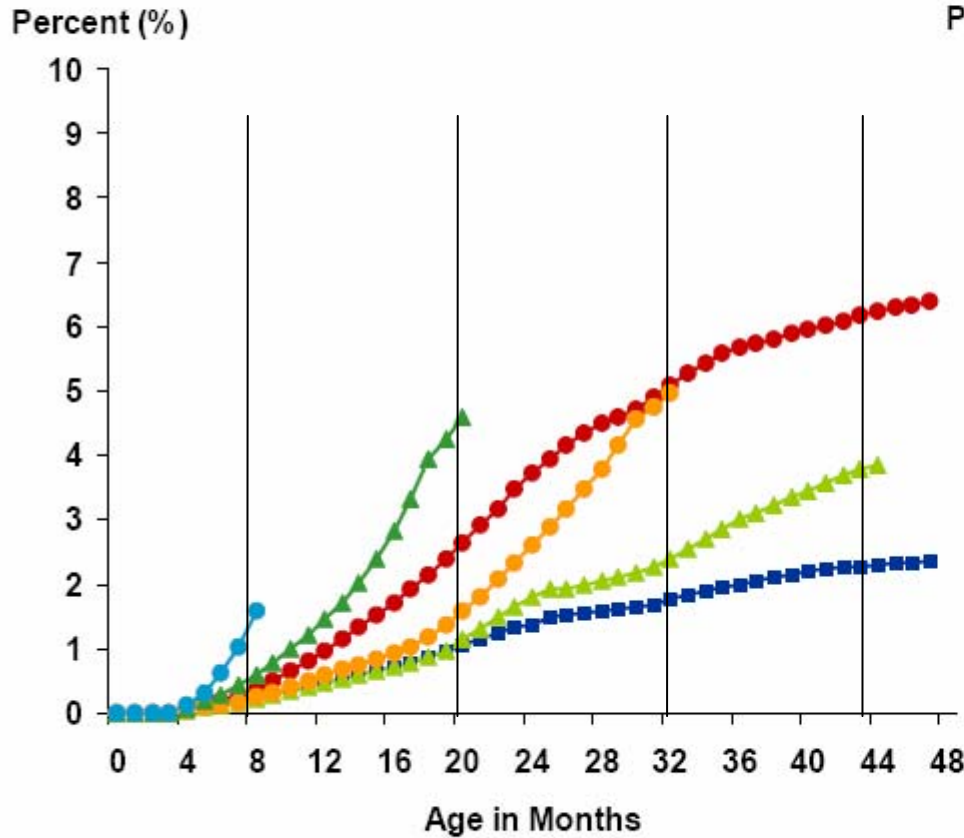


¹ Based on the unpaid principal balance of the single-family mortgage portfolio, excluding certain Structured Transactions that are backed by non-Freddie Mac mortgage-related securities.

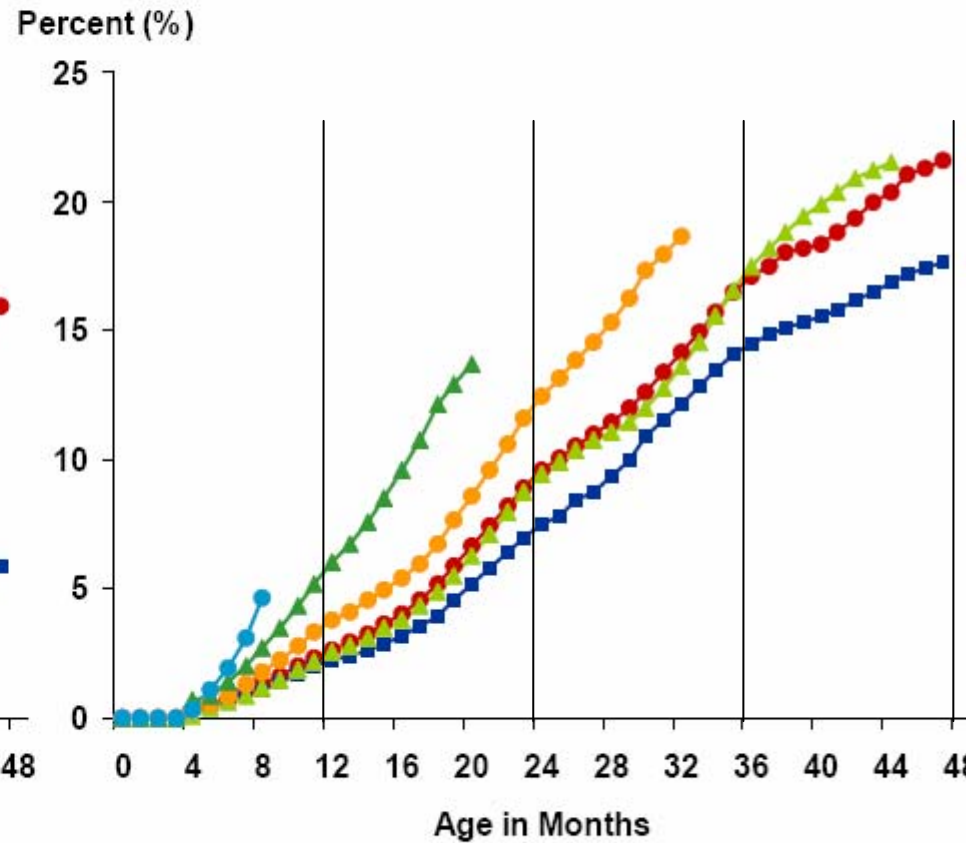
Recent Alt-A and subprime originations are performing far worse than earlier originations

Cumulative 60-days or more delinquency rate as a share of the number of loans originated

Alt-A



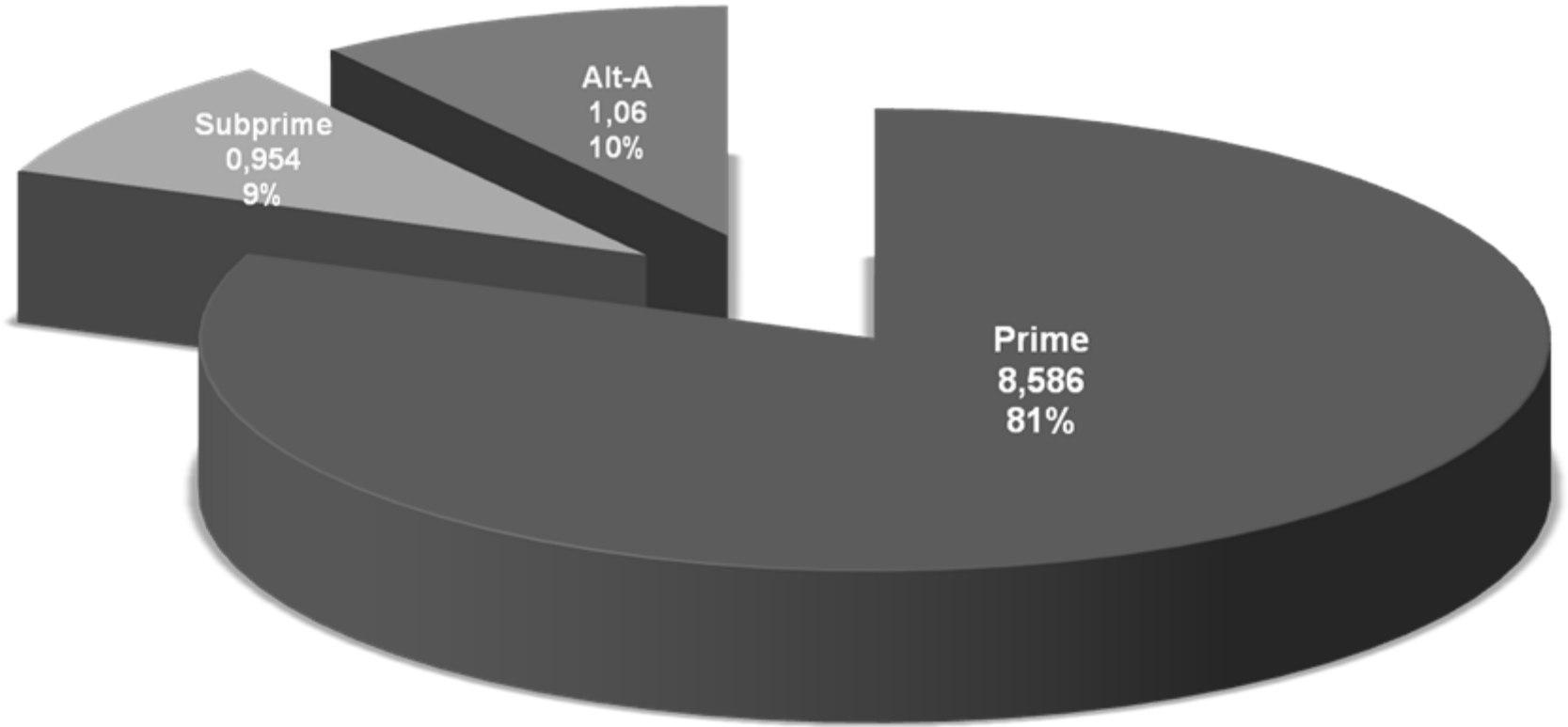
Subprime



● 2002 ■ 2003 ▲ 2004 ● 2005 ▲ 2006 ● 2007

Outstanding Mortgages by Type

(End June 2008, in Trillions of USD)

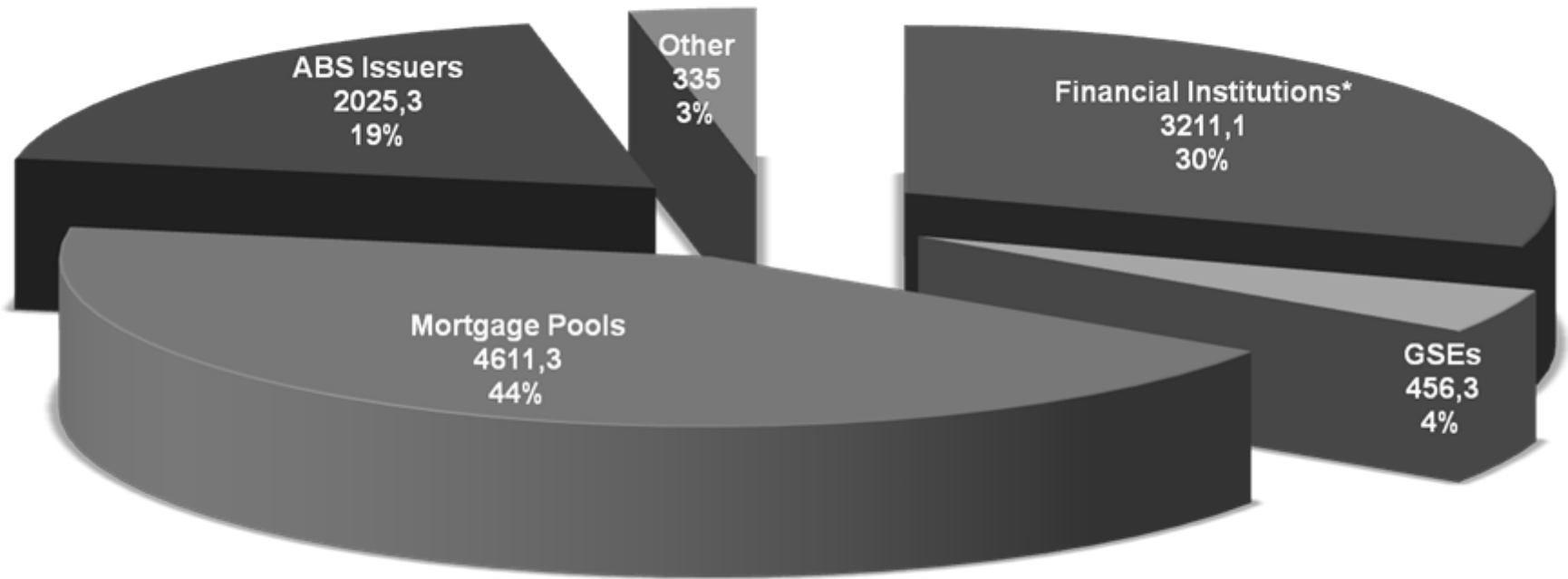


Total Residential Mortgage Portfolio – USD 10.6 Trln

Ownership of Outstanding Mortgage Debt*

(On 30 June 2008, in Billions of USD)

*Adjusted from USD 11,325.0 Bln



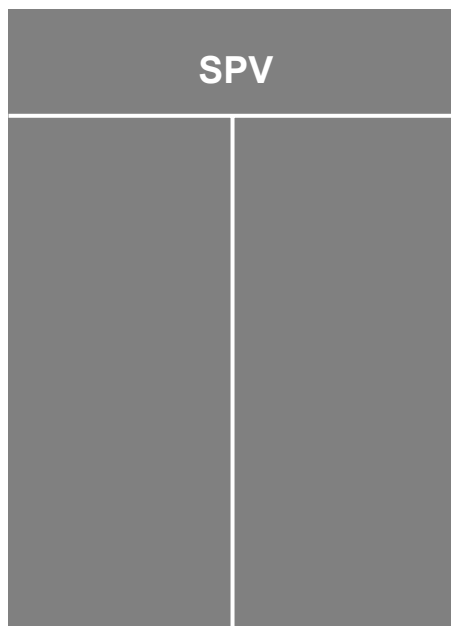
ABS Issuers
Mortgage Pools
Total

USD 2,025.3 Bln
USD 4,611.3 Bln
USD 6,636.6

securitization

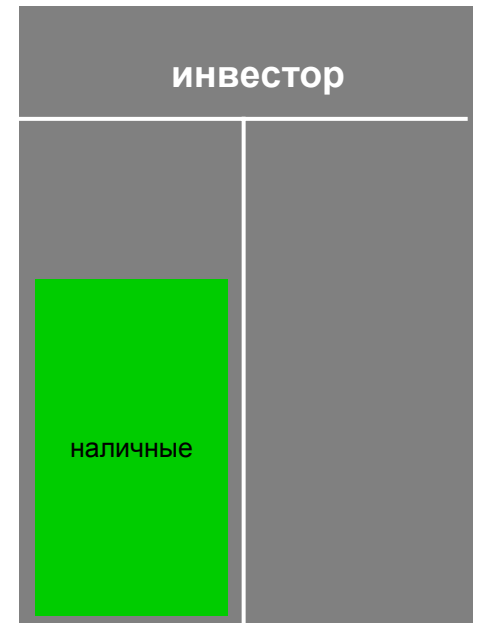
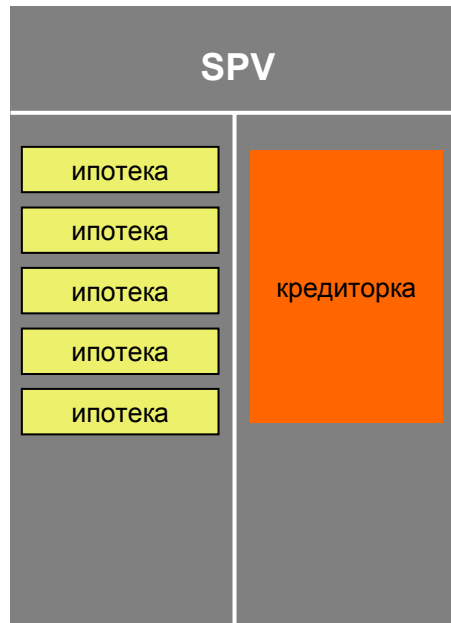
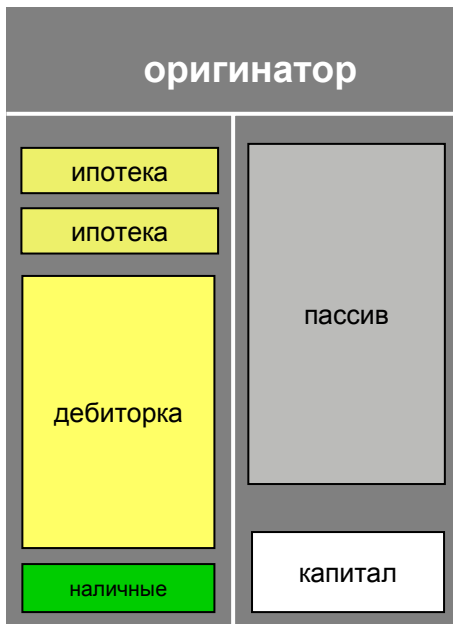
Fannie Mae or Private Label Pass-Through

АКТ КУПЛИ-ПРОДАЖИ



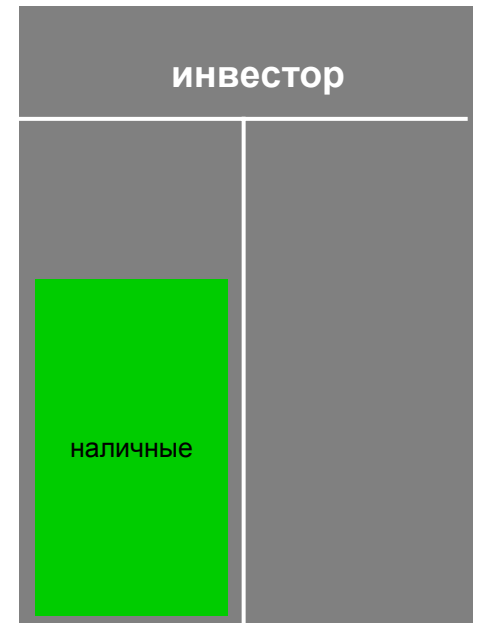
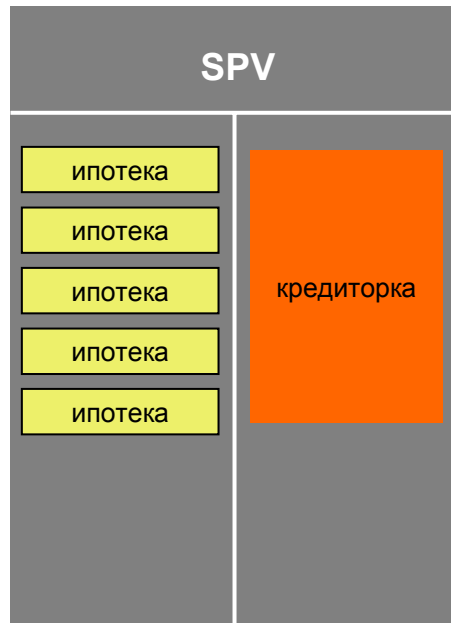
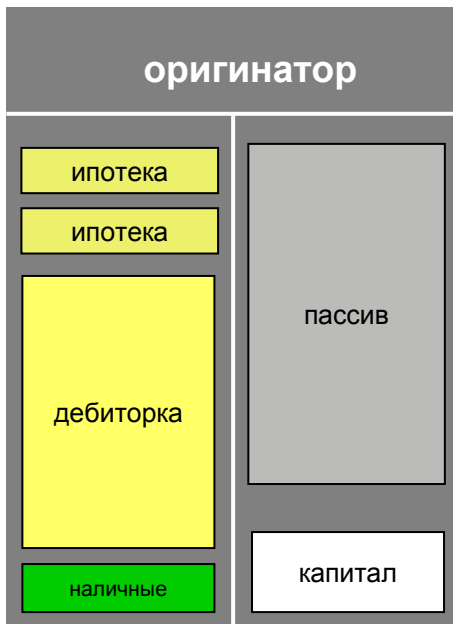
securitization

Fannie Mae or Private Label Pass-Through



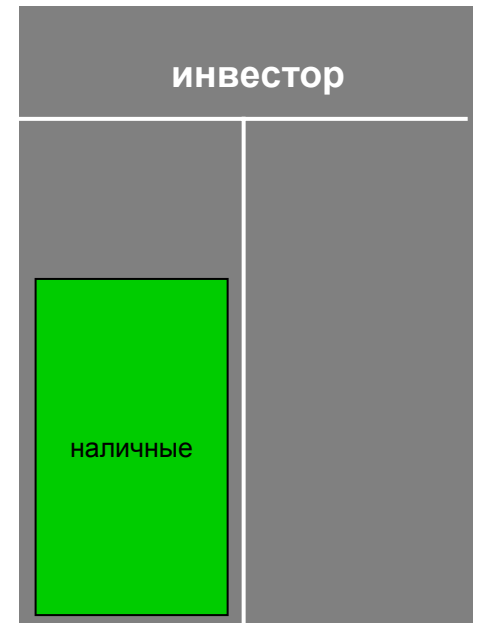
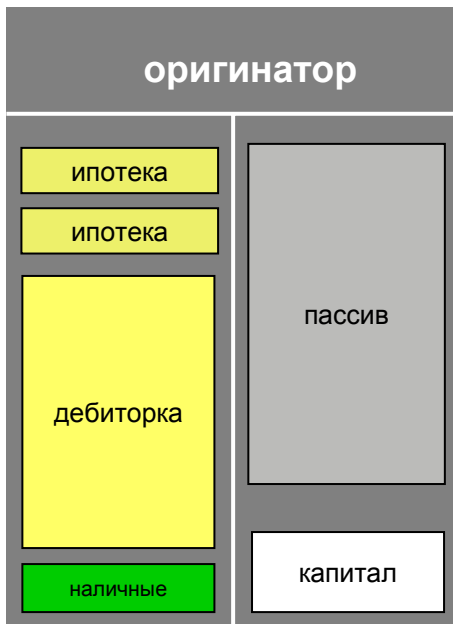
securitization

Fannie Mae or Private Label Pass-Through

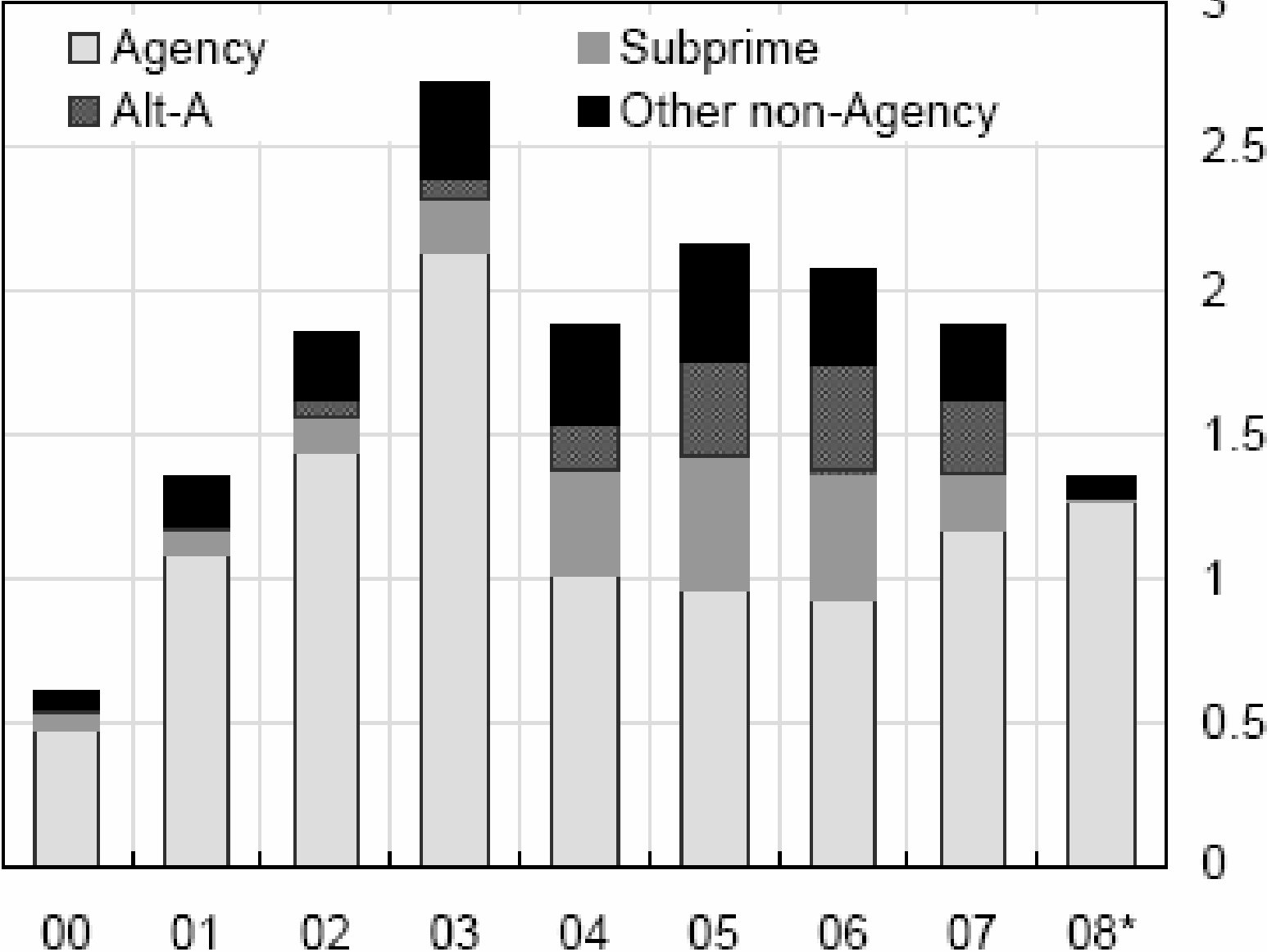


securitization

Fannie Mae or Private Label Pass-Through

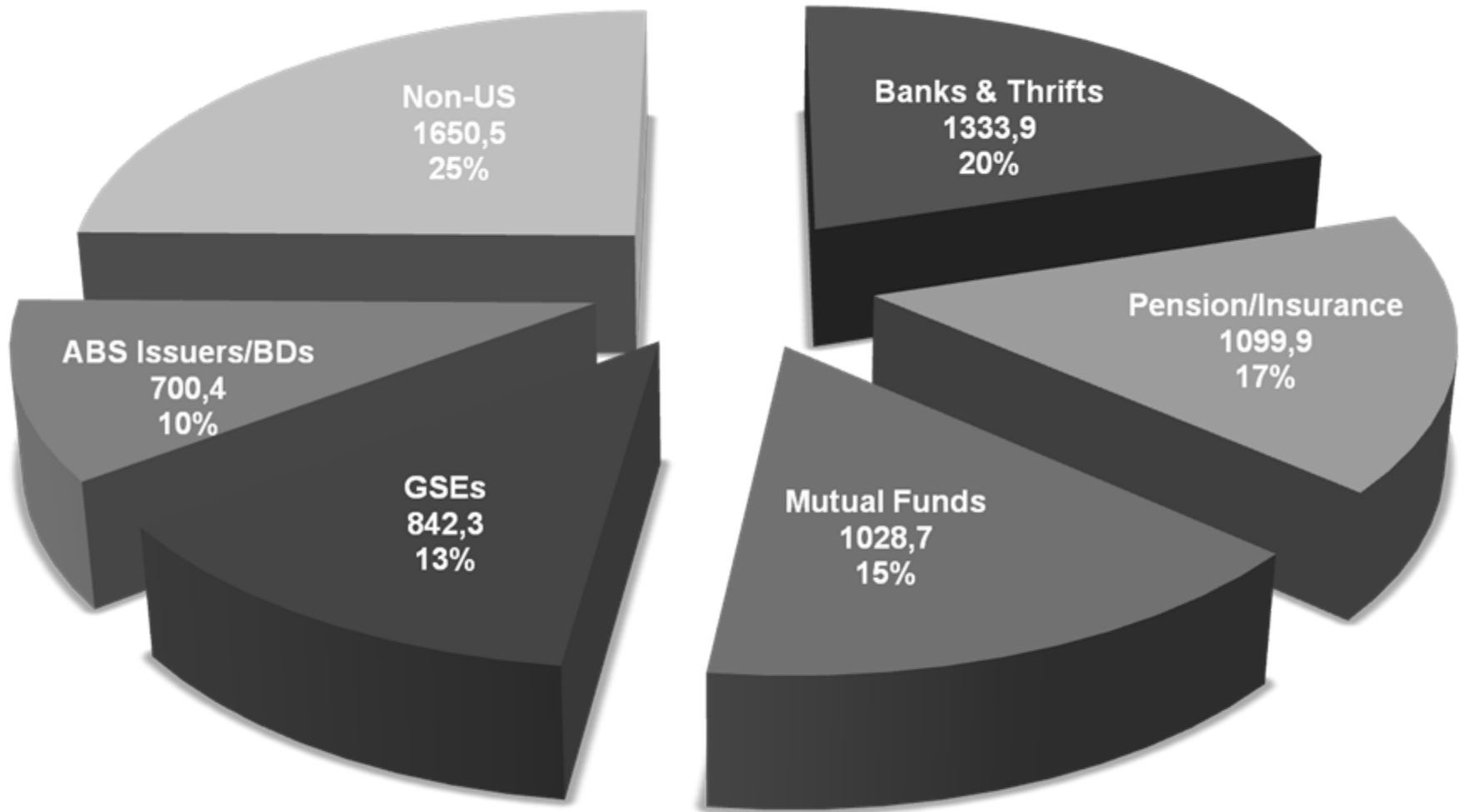


US MBS issuance



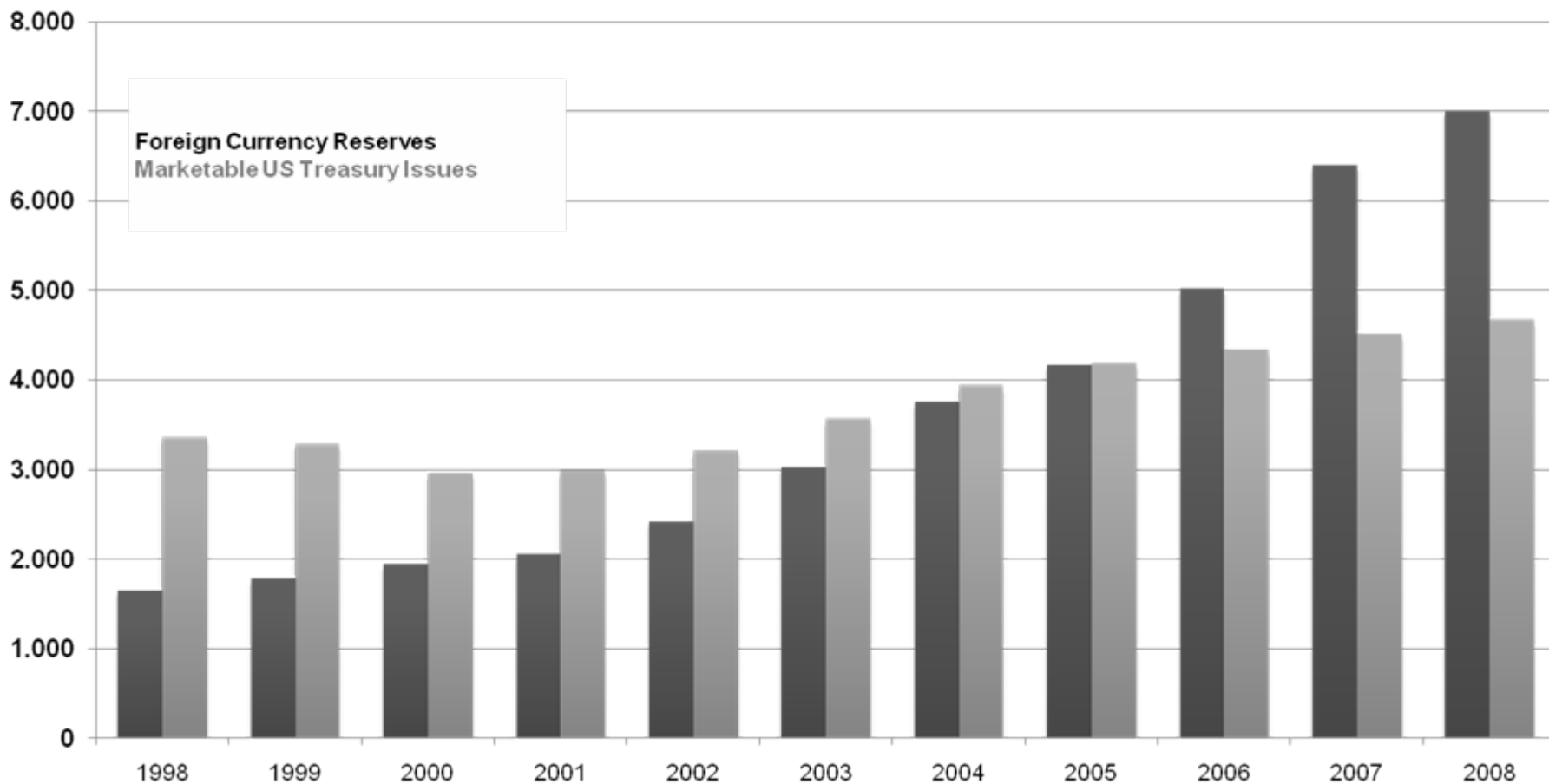
Ownership of Outstanding Mortgage Securities

(On 30 June 2008, in Billions of USD)



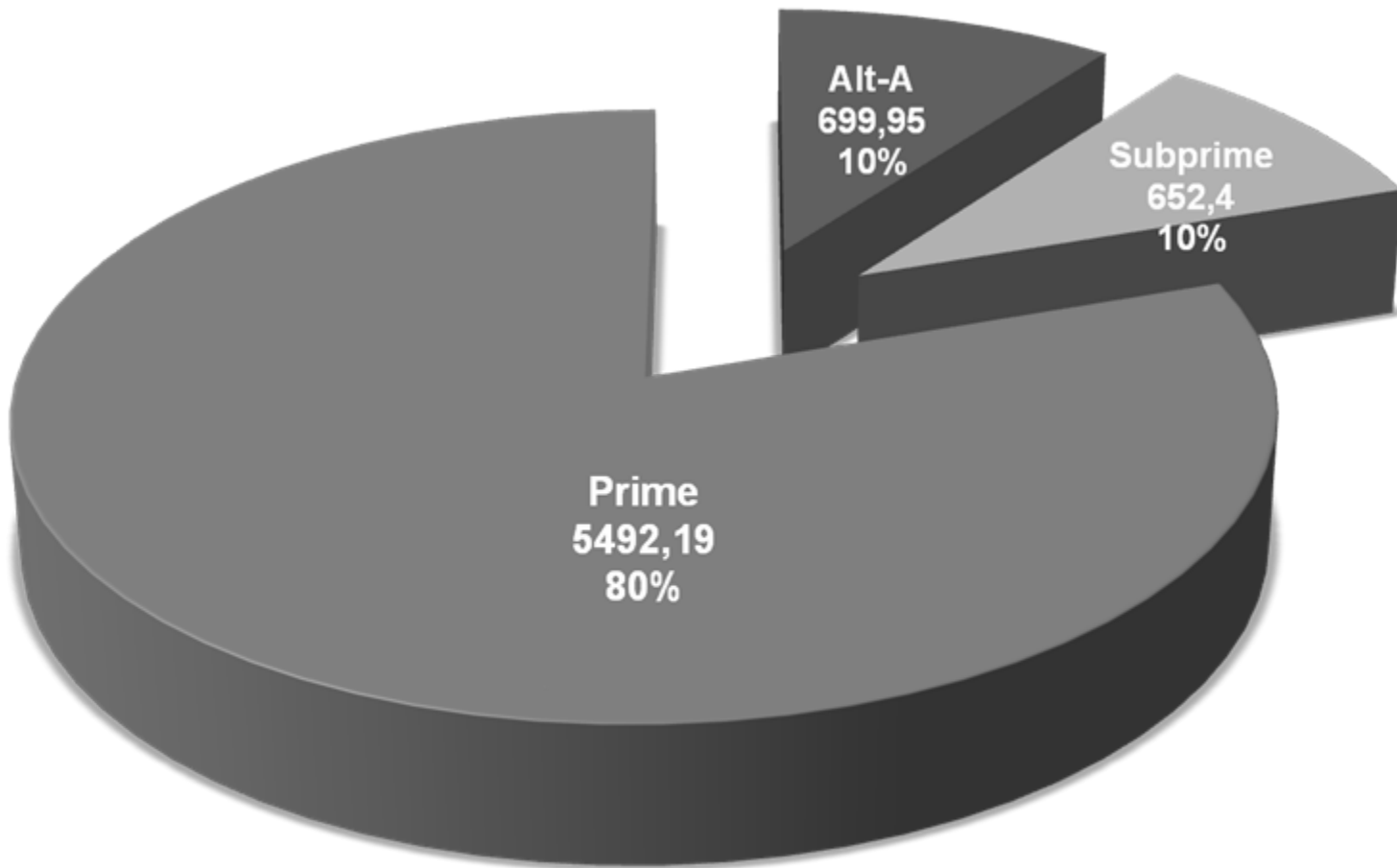
Total – USD 6.655 Trillion

World Foreign Currency Reserves vs Marketable US Treasury Debt
(1998-2008 Q2, EOP, in USD billions)



Source: US Treasury, IMF COFER Database

Securitizedizations by Type of Mortgage



Source: Merrill Lynch

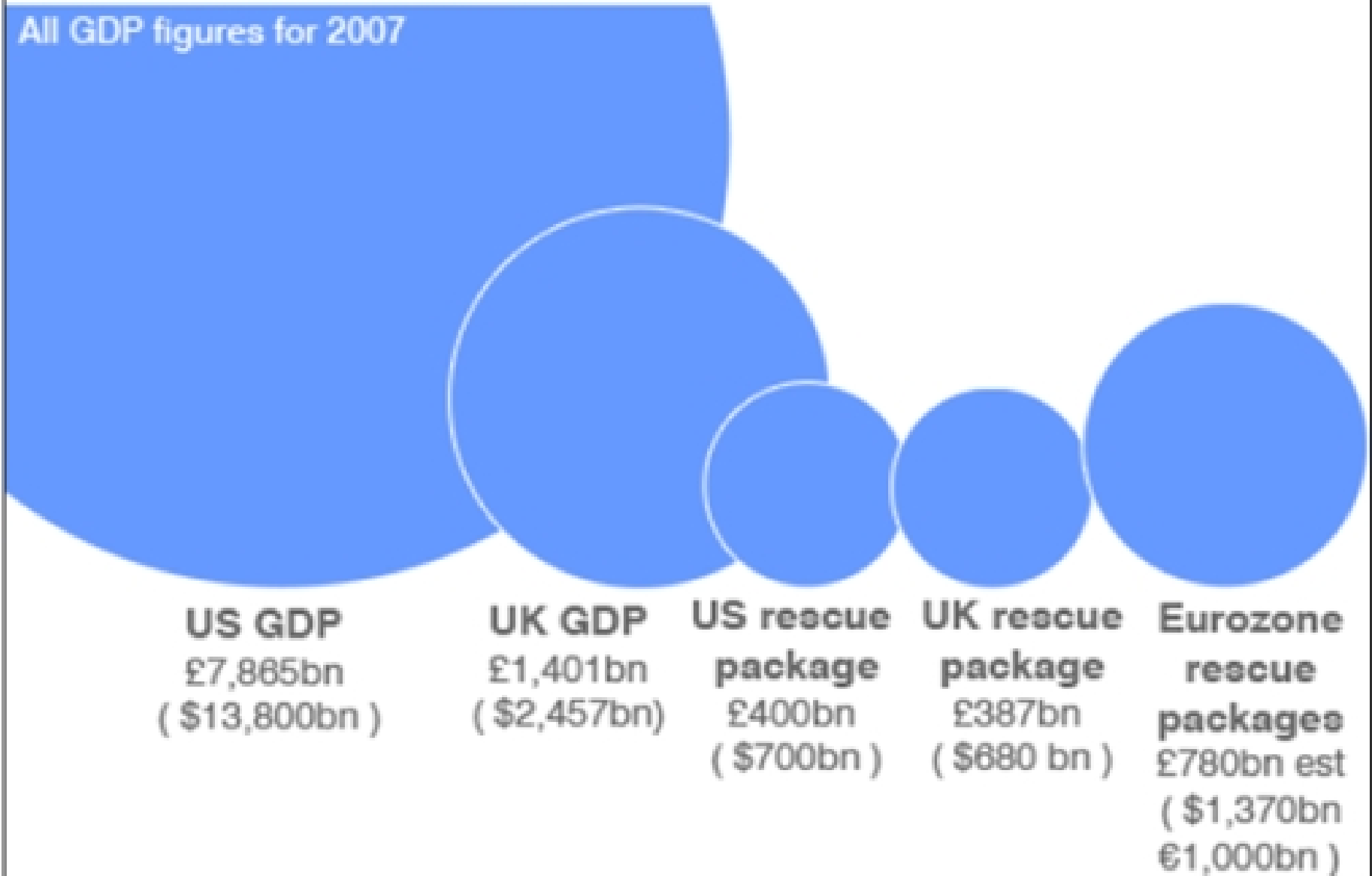
Cumulative Write-Downs

Citigroup	(<u>C</u>)	61	71
Wachovia	(<u>WB</u>)	52.7	11
Merrill Lynch	(<u>MER</u>)	52.2	29.9
Washington Mutual	(<u>WM</u>)	45.6	12.1
UBS	(<u>UBS</u>)	44.2	27.3
HSBC	(<u>HBC</u>)	27.4	5.1
Bank of America	(<u>BAC</u>)	27.4	30.7
JPMorgan Chase	(<u>JPM</u>)	18.8	19.7
Morgan Stanley	(<u>MS</u>)	15.7	14.6
IKB Deutsche Industriebank	(<u>IKBDF</u>)	4.1	11.6
Lehman Brothers	(<u>LEHMQ.</u> <u>PK</u>)	13.8	13.9
Royal Bank of Scotland	(<u>RBS</u>)	13.6	22.2
Credit Suisse	(<u>CS</u>)	10.1	3
Wells Fargo	(<u>WFC</u>)	10	5.8
Deutsche Bank	(<u>DB</u>)	9.9	6
TOTAL		592.9	443



INTERNATIONAL RESCUE PACKAGES

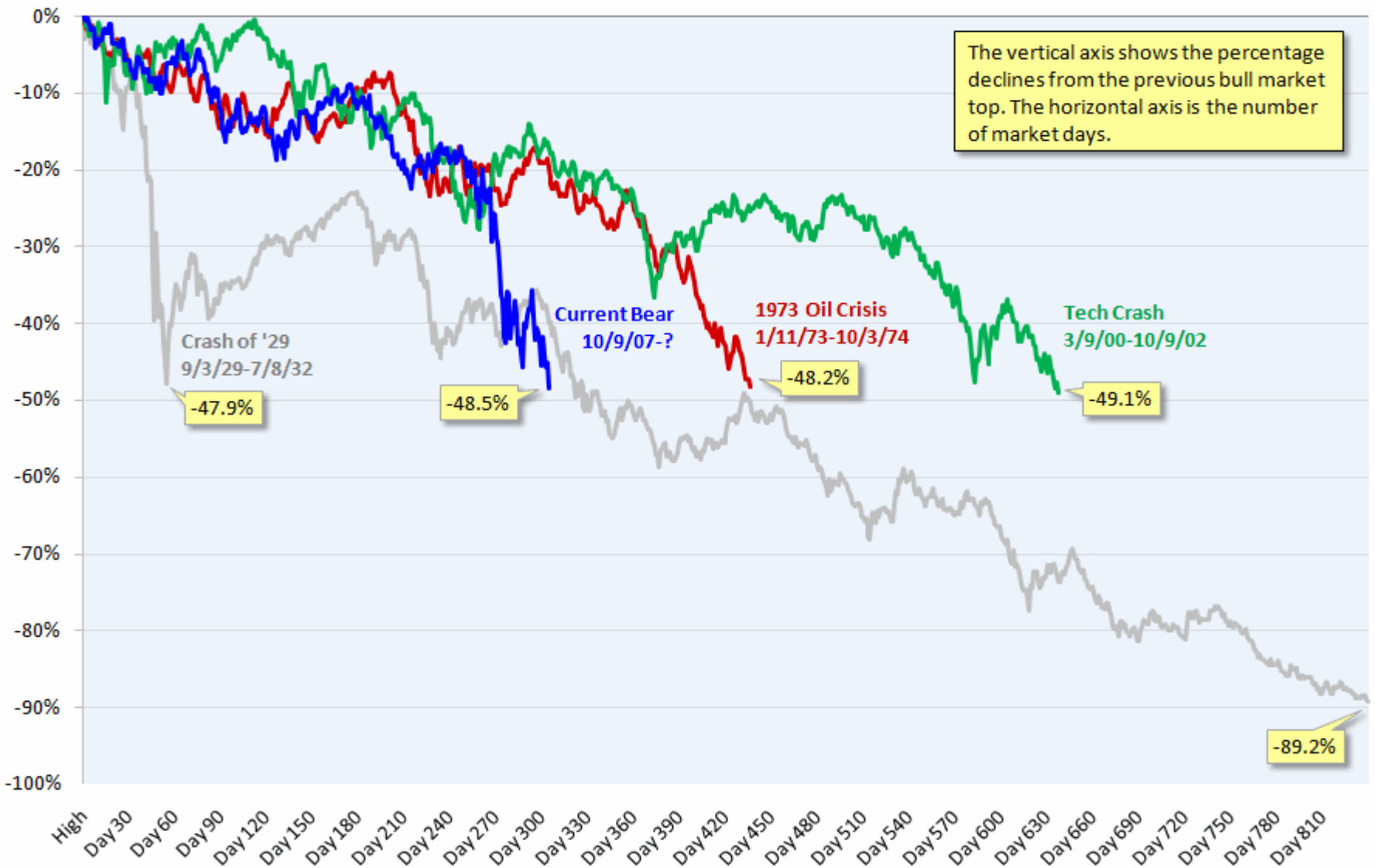
All GDP figures for 2007



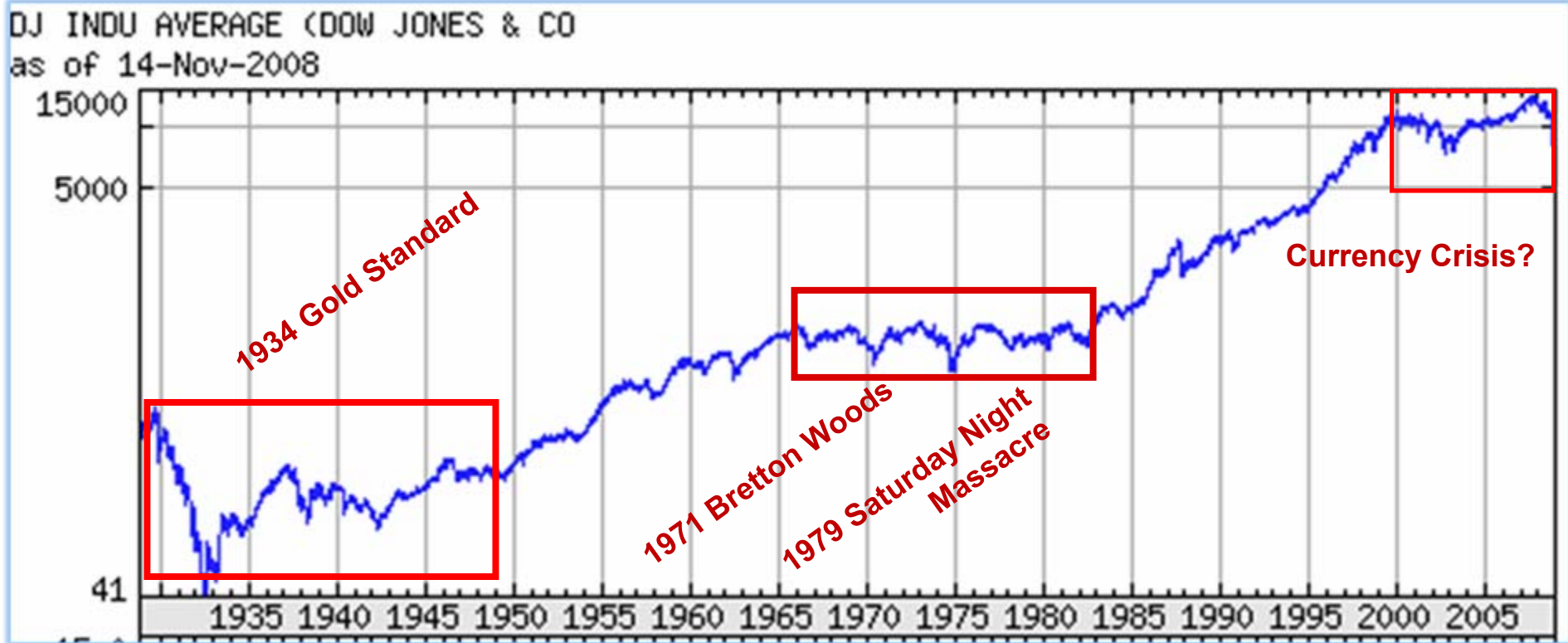
Four Bad Bear Markets

1929-1932, 1973-1974, 2000-2002 and 2007-2008

Updated
11/19/2008



The Secular Bear

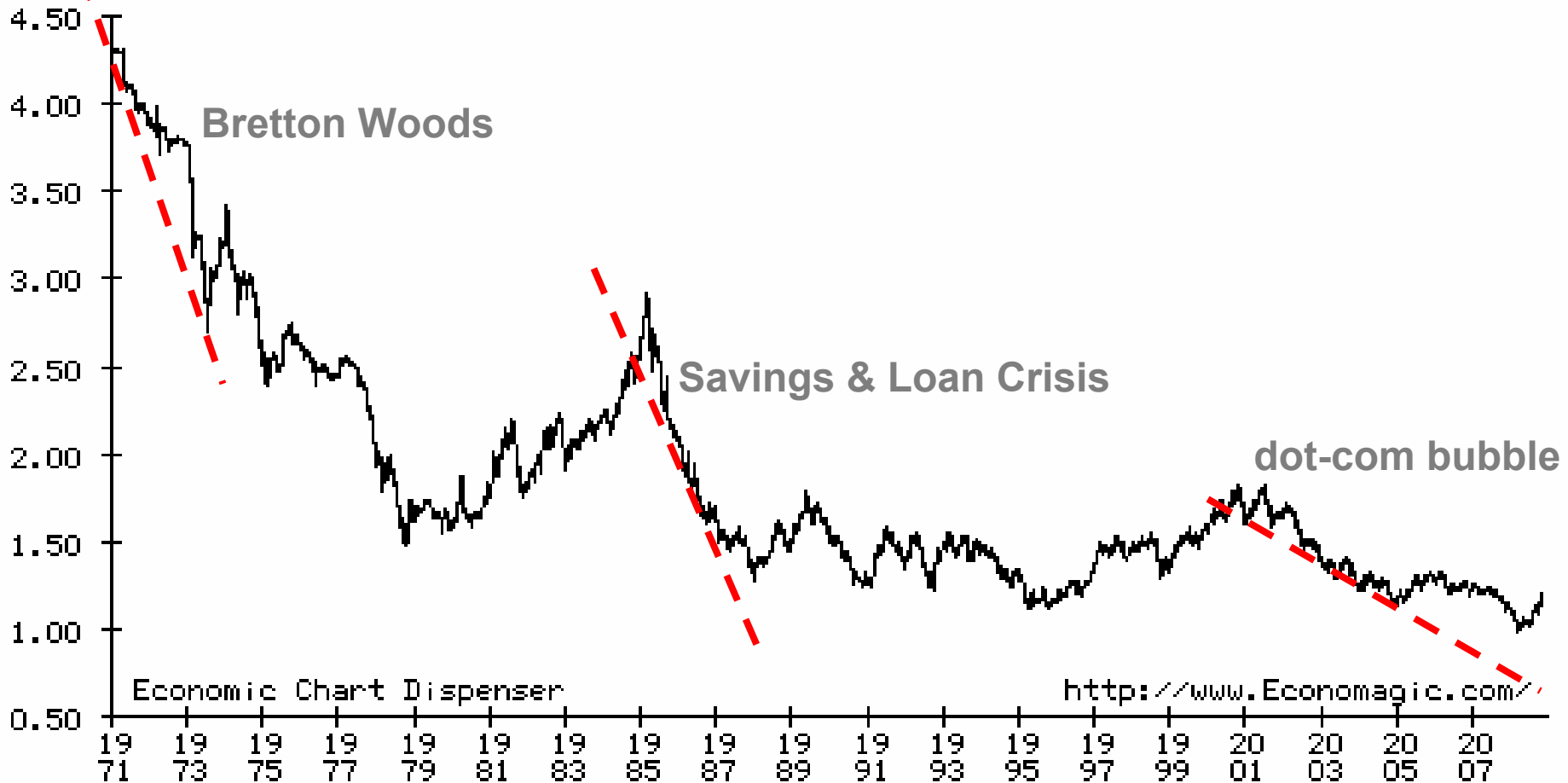


Currency Crisis

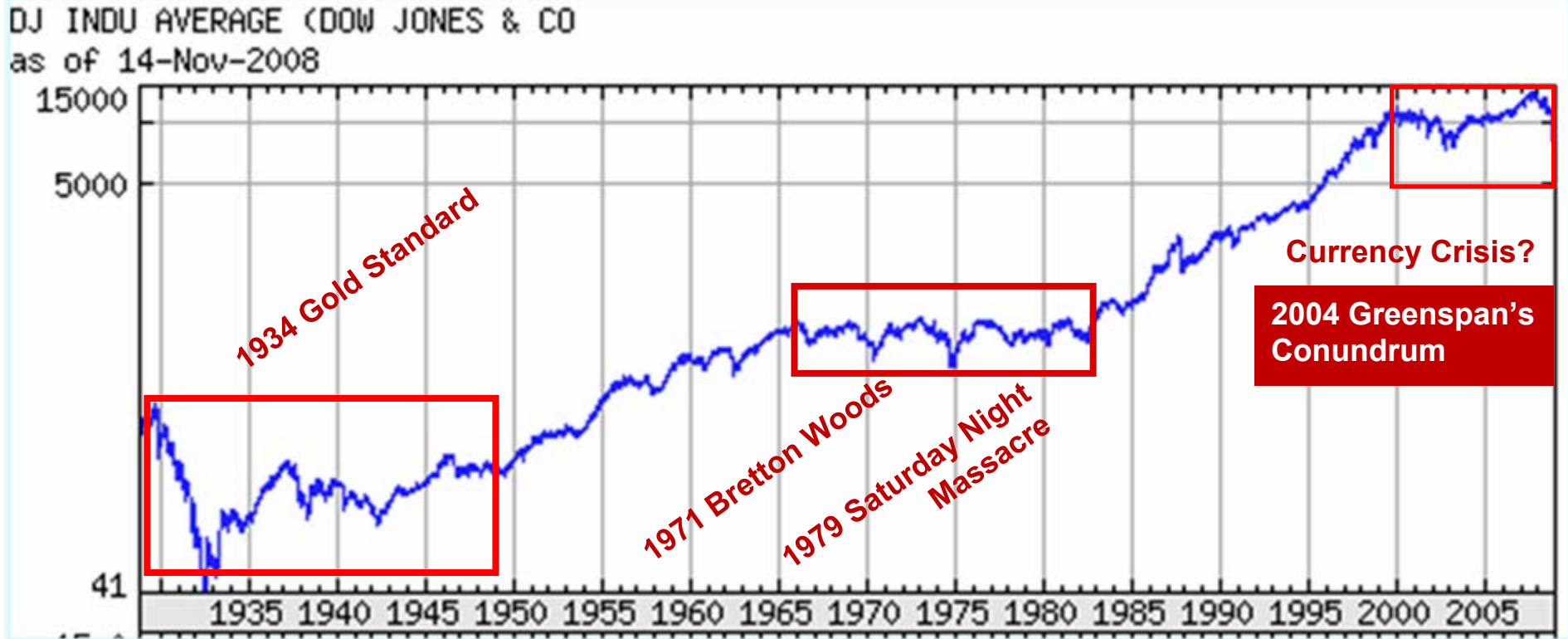
Crisis of Monetary Policy

Currency Crisis?

Swiss Francs to one U.S. Dollar



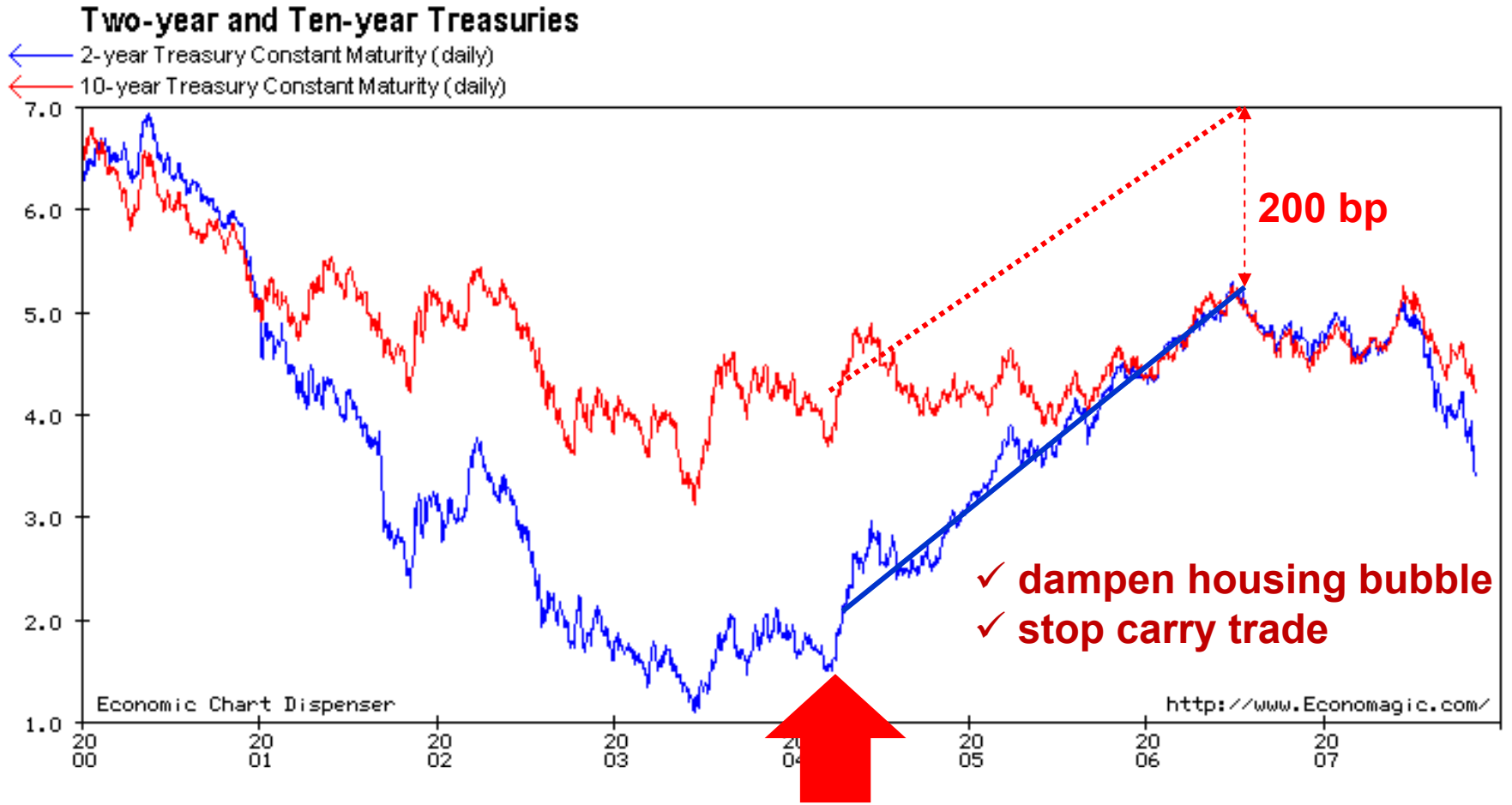
The Secular Bear



Currency Crisis

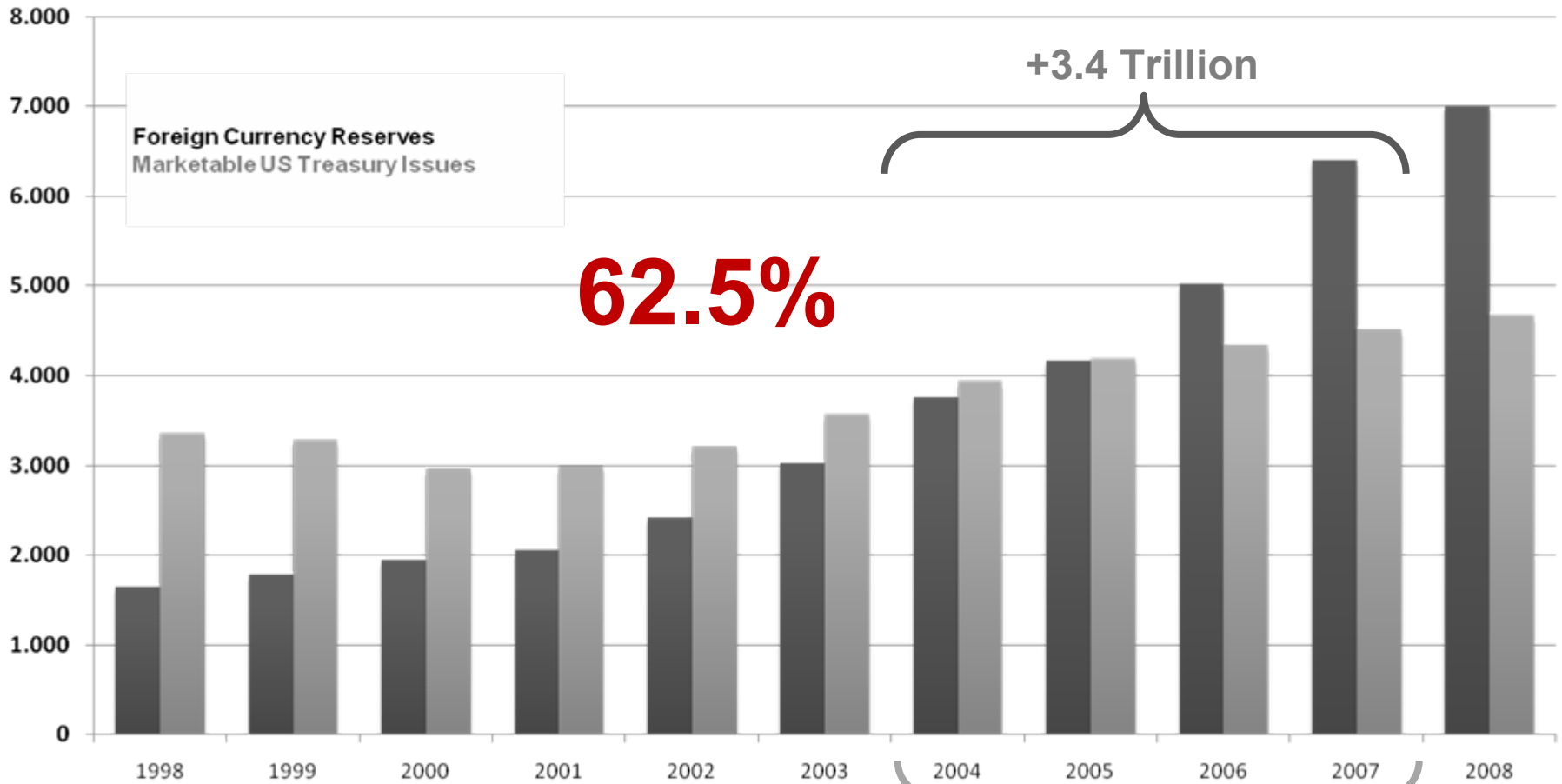
Crisis of Monetary Policy

US Federal Reserve Monetary Policy



Greenspan's conundrum

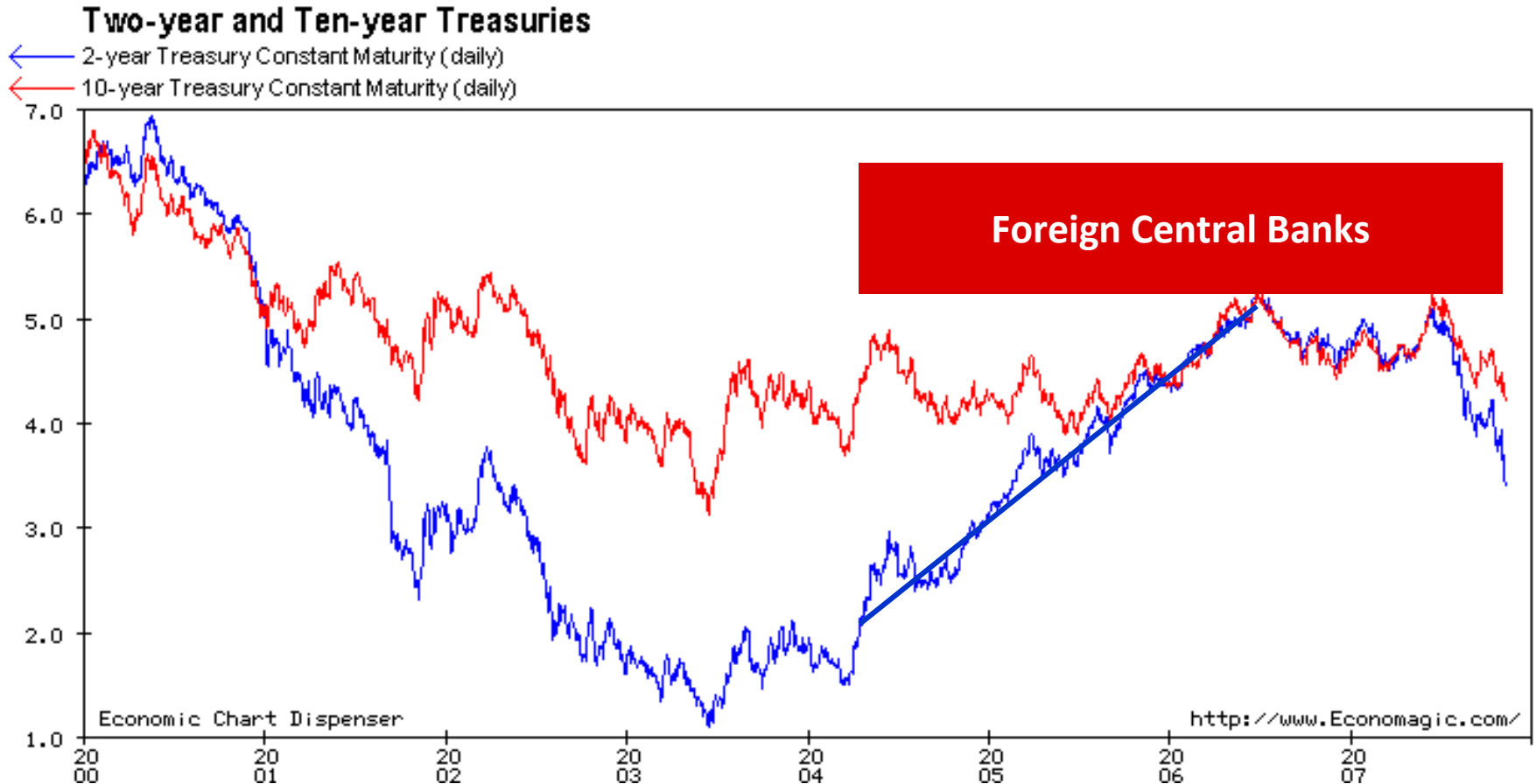
World Foreign Currency Reserves vs Marketable US Treasury Debt
(1998-2008 Q2, EOP, in USD billions)



Source: US Treasury, IMF COFER Database

+0.9 Trillion

US Federal Reserve Monetary Policy



Greenspan's conundrum:
foreign central banks **DISABLED** US monetary policy



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ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Thank you.

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