SECONDARY.08

MORTGAGE BANKERS ASSOCIATION®
Investing in communities

Hedging Risk in a Global Credit Crisis

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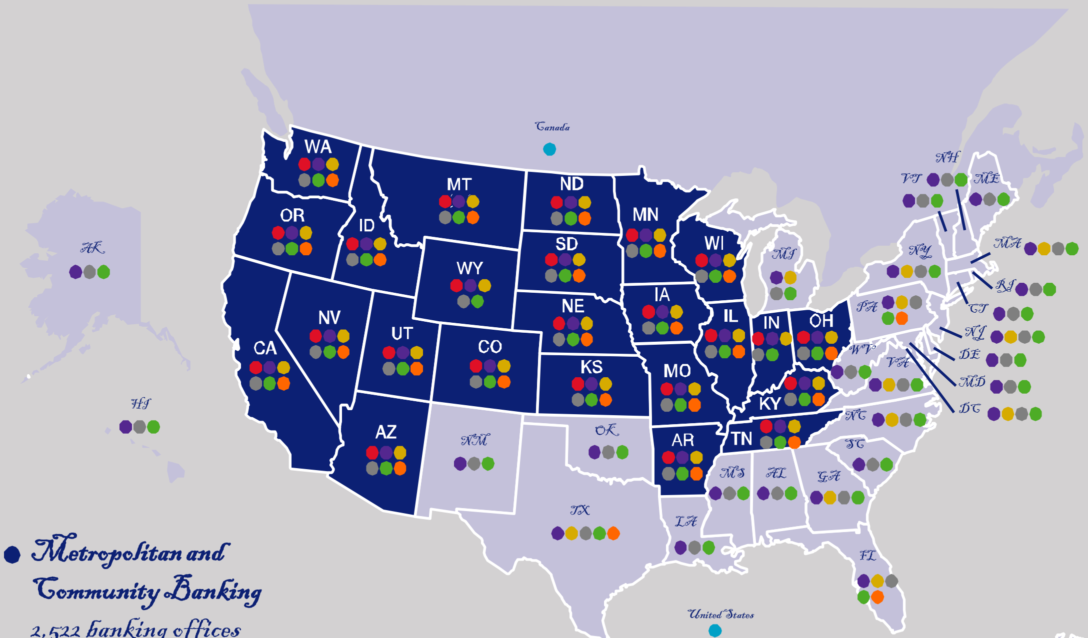
Agenda

- Trends in Mortgage Products
- FASB 157-159
- Originator Challenges
- Competing in the New Marketplace

About US Bank



Dimensions	Q1 2008
6th largest bank holding company	
Asset Size	$242 billion
NYSE Traded	USB
Market Capitalization	$60.7 billion
Founded	1863
14th largest originator*	35B 2008
13th largest servicer	117 billion

* Forecasted

- Metropolitan and Community Banking
  2,522 banking offices
  in 24 states

Specialized Services/Offices

- Commercial Banking
- Consumer Banking
- Corporate Banking
- Payments
- Wealth Management
- Technology and Operations Services
- Payment Processing Nationally and in Europe

Trends in Mortgage Products

- Changes to credit box multi-pronged
  - GSE changes – dramatic tightening
  - MI company changes – all different – leapfrogging down
- As GSEs tighten and focus on raising capital
  - More product going FHA

US Bank FHA Percentage of Product Mix

2005	6%
2006	6%
2007	14%
Currently	26%
by end of 2008	33%

FHA is King

- GSEs will wait until home prices bottom out
  - Then come back and compete in affordable space
- HUD risk-based pricing may be implemented eventually
- Temporary limits may lead to permanent limit increases
- Down payment should settle out at 3%

Other Product Trends

- Alt Doc going away rapidly
- 3rd party consumer directed – very rapidly
- High LTV lending – 97s only in non-declining markets

Challenges of FASB 157-159

- Moving away from FASB 133
  - No more correlation testing
  - SAB105 moving to SAB109 with adoption of Fair Value
  - Pickup to earnings in Q1
- Disclosures are challenging
  - Level 1, 2, 3 assets
- Recognizing servicing value at time of rate lock
  - Production volume variations introduce instant visibility to earnings

Originator Challenges

1) Dislocation of markets caused by rapidly tightening credit guidelines

- Increased fallout due to valuation/credit box issues
  - US Bank: 5-10% greater than six months ago
  - Good controls and management of correspondent and wholesale business necessary
  - Retail loan officers need to help mitigate re-negotiations
  - Effective fallout policies crucial
    - Helps manage the optionality of pipeline
    - Reduces need for optional coverage

2) Volatility and illiquidity

- Difficult for both pipeline managers and servicing hedgers
- Servicing hedgers shed or grab duration as markets move
- “Thundering Herd” phenomena

Source : Bloomberg

3) Profitability

- Business models based on i.e. alt-a, sub-prime, option arms now face difficulties
  - Used subsidy in other products to get economies of scale
  - Must retool and reconfigure infrastructure to compete in A paper space
    - Can be a painful process
- Preserve competitive advantage
  - Access to quality sources of capital
  - Importance of being a low cost producer

Staying Off of the Implode-O-Meter

Change Management is Key

1) Be nimble

- React quickly to rapidly changing guidelines
- Align all areas of company – systems, products/pricing, production, credit, risk management, capital markets, operations, accounting
- Stress the importance of operational execution
- Limit product availability dislocations and exposure to fee increases
  - Pipeline throughput must be efficient
  - Limit lock periods on specialty products in anticipation of further credit guideline tightening
  - Reduce approval times

2) Preserve, leverage, and enhance strategic partnerships

- Freddie Mac, Fannie Mae, Ginnie Mae
- MI companies

3) Value proposition not short term

- Everyone running for cover
- Credit losses, tightening credit guidelines, MI rates

4) Wait…pendulum will swing back