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The Credit Crisis

Adapting to the new environment

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The Credit Crisis: Adapting to the New Environment Agenda



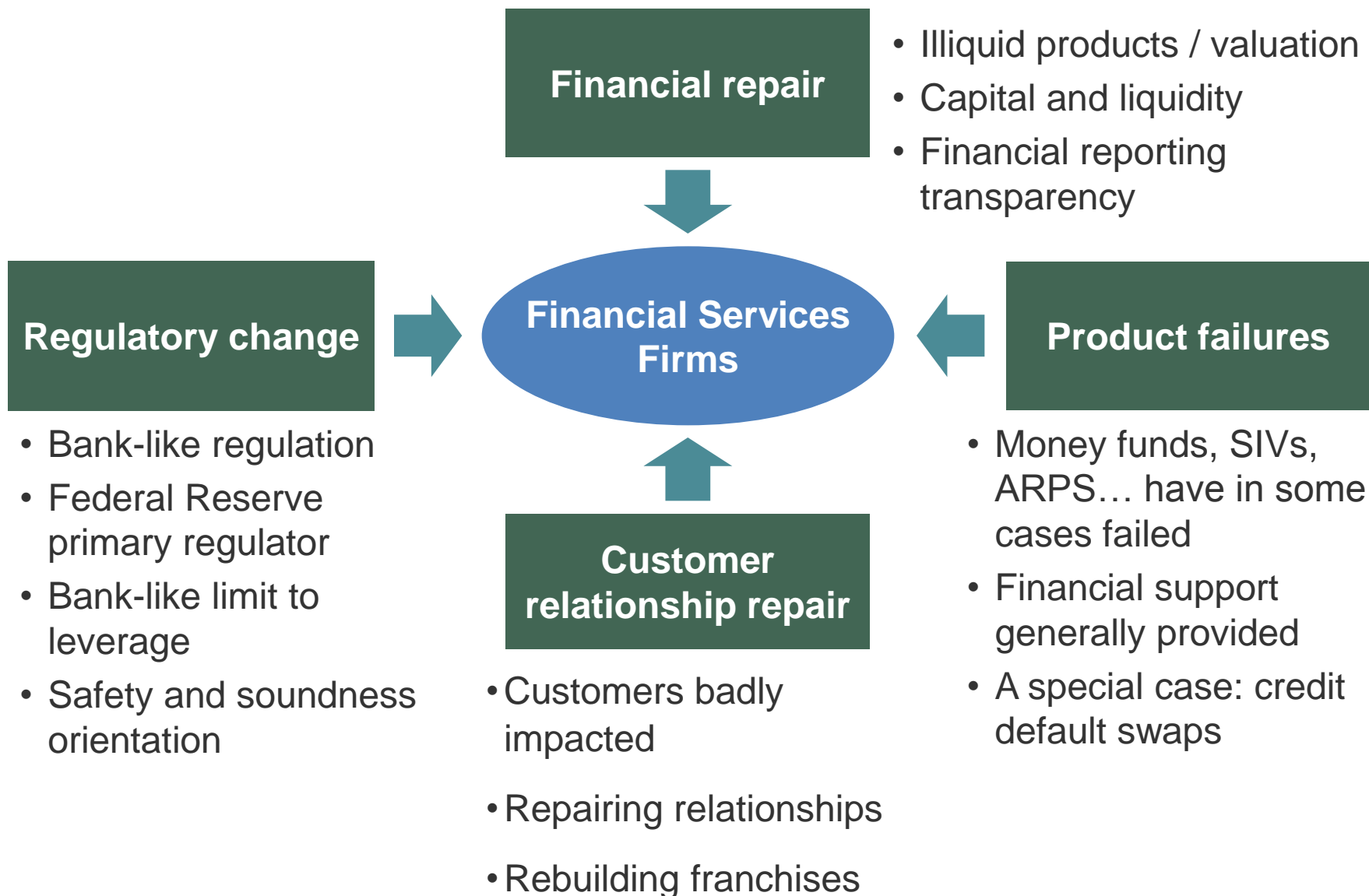
- Current state — Where are we today?
- The Reaction – TARP
- Closing Observations
- Q&A

- Housing prices continue to deteriorate; mortgage payments have followed
- Packaging of mortgages into CMO's have spread the problem far beyond those initially making loans
- Asset quality and credit issues are “top of mind”. Credit issues have spread from mortgages to other forms of credit – consumer, commercial, inter-bank
- “Fear of failure” has led to “runs on the bank”. Major institutions face write-offs, potential failure, or acquisition
- The impact has gone global as European and Asian institutions are affected
- New capital raised but has not been sufficient to match asset write downs
- Government intervention is the “new black” and is global phenomenon
- Issues in the industry have begun to impact economic growth

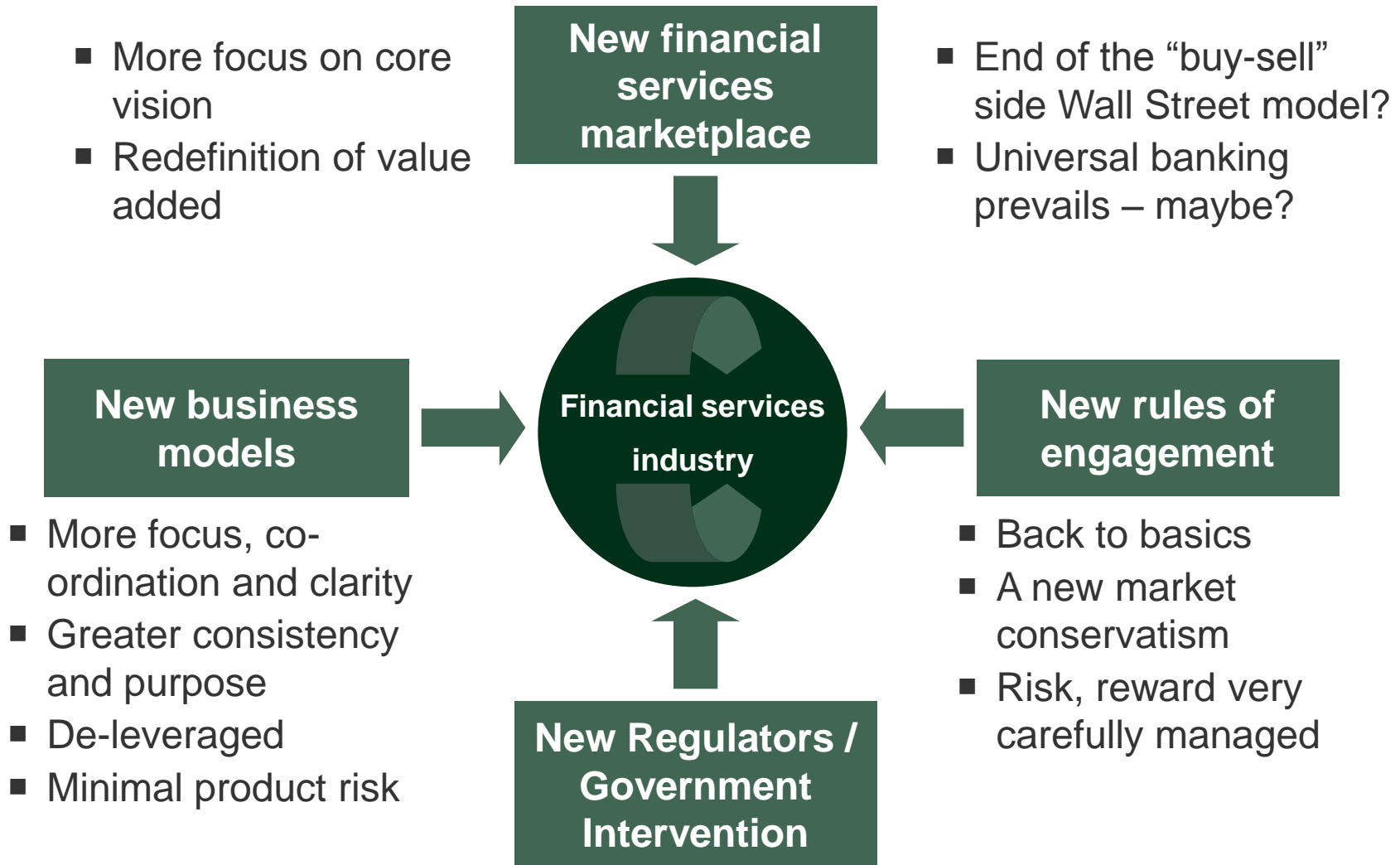
The Result: Financial Services firms must adapt to survive



Charles Darwin: “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one most adaptable to change.”



Our prediction: dramatic shift in the industry



Stated goals:

- Stabilize financial markets
- Preserve homeownership
- Protects taxpayers
- No windfalls for bank executives
- Oversight

Issues to be resolved:

- Guidelines for targeting and purchasing assets
- Mark to Market Accounting
- Other “hot button” issues – Treasury to report on other issues

- **Eligible:** banks, credit unions, thrifts and pension funds operating in the U.S.
- **Availability of funds**
 - \$250 billion available immediately
 - \$100 billion available upon written request
 - \$350 billion through a joint resolution of Congress
- **Tools**
 - Purchase of assets –direct purchase or reverse auction
 - Capital fusion
 - Insurance; some form of guarantee of principal and interest
 - Increased FDIC insurance from \$100k to \$250k until December 31, 2009
 - Transactions published
- **Oversight:**
 - The Congressional Oversight Board - The Government Accountability Office
 - Independent Inspector General

- **What specific assets will be purchased and at what price?**
- **What institutions will participate?**
- **Will the program be implemented quickly enough?**
- **What will happen to accounting regulations?**
- **How will the market react?**

Did We Anticipate “Force Majeure” Being Used to Supply Capital?

Candidate profile

- Significant troubled assets
- Weak capital ratios
- Limited fresh capital injections
- Liquidity and/or capital pressures preventing bank from holding assets to maturity
- Desire to liquidate assets at any price
- Aggressively written down assets to levels anticipated by the auction process
- Assets not significantly written down that need a guarantee

Potential Benefits

- Provides a process for disposing of troubled assets
- Add liquidity to the market through asset purchases
- Improve capital ratios and capital levels
- Possible acceleration of price discovery
- Insurance (=value retention) for troubled assets

Potential Challenges

- Time to implement
- Sufficiency of available credit
- Upcoming election and a new administration

Predictions are very difficult as changes are happening rapidly...

- Issues are being identified quickly which may help resolve them faster than prior industry crises
- Many trends predated the crisis and then accelerated, including focus on credit quality, financial services industry consolidation, mark to market accounting
- Government intervention will not stop until current trends reverse. While there have been and will be winners and losers, instability in the industry as a whole is likely unacceptable.
- The crisis has emphasized the reality of systemic risk and the need for new regulatory, risk management, and governance approaches

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