Unlocking Credit Markets and Evaluating Risk:
Solving Today’s Problems and Safeguarding the Future

Money Transmitter Regulators Association

September 3, 2009
National Economy
Housing and Mortgage Markets
Consumer Stress
Subprime Contagion
Prospects
Recessions were Common during the Mid-20th Century

Sources: Bureau of Economic Analysis, Haver Analytics

Recessions Shaded in Gray
And Recessions were often Defined by their Eras

**Billions of 2000 $**

- 1940-1960 War Era  
  - War to Peace
- 1960-1980 Keynesian Economics Era  
  - Response to Inflation
- 1980-2008 Supply Side Era  
  - Free Markets/Freer Credit
- 2008- ????
  - Reform

Sources: Bureau of Economic Analysis, Haver Analytics

Recessions Shaded in Gray
And we certainly are in a Recession

Sources: Bureau of Economic Analysis, Congressional Budget Office, Haver Analytics
The Implications?

How—and how well—we exit a recession depends on what kind of recession we are in.

This may be less a cyclical episode than a structural shift—a “kink in the curve” reflecting a fundamental re-evaluation of economic aspirations and expectations.

“Fast and Loose,” out; stability and responsibility, in.
Drop in Output during the 4th and 1st Quarters was Severe

Quarterly Growth, Seasonally Adjusted Annual Rates

Sources: Bureau of Economic Analysis, Haver Analytics
Two “Supply-Side” Recessions this Decade—each Sector-Identified and Credit Related

Quarterly Growth, SAAR

Sources: Bureau of Economic Analysis, Haver Analytics
Capacity Utilization has been Falling Rapidly with Little Expansion of Total Capacity

Source: Federal Reserve Board, Haver Analytics
Capital Spending is now much below Cash Flow

Sources: Bureau of Economic Analysis, Haver Analytics
Consumption as a Proportion of Income has Peaked

Consumption as a Percentage of Disposable Income

Source: Bureau of Economic Analysis, Census Bureau, Haver Analytics
Consumer Spending seen through a Different Prism

Percentage Growth from Year Ago

MONTH FOLLOWING 9/11 ATTACK
SALES → PROMOTION

TOTAL MOTOR VEHICLE SALES
(R)

9/11 ATTACK →

RETAIL SALES INCLUDING FOOD
EXCLUDING MOTOR VEHICLES, GASOLINE AND BUILDING MATERIALS
(L)

Millions of Units Annually

Source: Federal Reserve Board, Haver Analytics
As Sales Dwindled, General Motors became Federal* while Market Conditions Forced Chrysler Merger into Fiat

* New General Motors Corporation now Majority Owned by the U.S. Government

Source: Federal Reserve Board, Haver Analytics
Winners and Losers in “Cash for Clunkers” Program

The top 10 traded-in vehicles were American brands and eight of the top 10 purchased vehicles were foreign brands.

<table>
<thead>
<tr>
<th>Top 10 Vehicles Purchased</th>
<th>Top 10 Trade-in Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota Corolla</td>
<td>Ford Explorer 4WD</td>
</tr>
<tr>
<td>Honda Civic</td>
<td>Ford F150 Pickup 2WD</td>
</tr>
<tr>
<td>Toyota Camry</td>
<td>Jeep Grand Cherokee 4WD</td>
</tr>
<tr>
<td>Ford Focus</td>
<td>Ford Explorer 2WD</td>
</tr>
<tr>
<td>Hyundai Elantra</td>
<td>Dodge Caravan/Grand Caravan 2WD</td>
</tr>
<tr>
<td>Nissan Versa</td>
<td>Jeep Cherokee 4WD</td>
</tr>
<tr>
<td>Toyota Prius</td>
<td>Chevrolet Blazer 4WD</td>
</tr>
<tr>
<td>Honda Accord</td>
<td>Chevrolet C1500 Pickup 2WD</td>
</tr>
<tr>
<td>Honda Fit</td>
<td>Ford F150 Pickup 4WD</td>
</tr>
<tr>
<td>Ford Escape FWD</td>
<td>Ford Windstar FWD Van</td>
</tr>
</tbody>
</table>
Consumers are not Happy, not Far from Record Low

Source: University of Michigan Survey of Consumers, Haver Analytics
People are very Worried about Jobs

Payroll Employment

Percentage Unemployed

Source: Bureau of Labor Statistics, Haver Analytics
The Least Educated Suffer the Most

Percentage Unemployed, Workers 25 Years or Older

Source: Bureau of Labor Statistics, Haver Analytics
Small Businesses and their Employees have been badly Hurt

Family Businesses are Reeling in Recession
By Damien Cave

Businesses with one to 19 employees, nearly all of them family run, lost 757,000 jobs from the second quarter of 2007 through the third quarter of 2008, according to figures from the Bureau of Labor Statistics, broken down by company size. That amounts to 53 percent of all private-sector losses for a group of companies with about 20 percent of all employees.

The Impact from US Joblessness is far Reaching

US jobless rise hits migrants’ home countries

By Tom Braithwaite in Washington

US unemployment is having an effect well beyond the country’s own borders and will contribute to a larger-than-expected drop in the amount of money migrant workers send home this year, the World Bank said yesterday.

The international financial institution said that global remittance flows to developing countries would fall by 7 per cent to 10 per cent this year.

(I)t is the global economic slowdown and the 9.5 per cent unemployment rate in the US that—the world’s biggest economy—that is having the most significant impact, causing immigrants there to send less money to their families throughout Latin America and across the Caribbean.

Financial Times July 14, 2009
Nationally, only Education and Health Services and Government Employment have been Spared

Percentage Change from December 2007 Peak to July 2009

Sources: Bureau of Labor Statistics, Haver Analytics
The Federal Reserve and the Administration did not See this Coming

Changes from 4 Quarters Ago, Assumptions 4th Quarter to 4th Quarter

Sources: BEA, Federal Reserve Board, Mid-Session Review of the U.S. Budget FY 2009, Haver Analytics
Not at all...

Assumptions for 4th Quarter Averages of Unemployment Rate 2008 through 2010

Sources: BEA, Federal Reserve Board, Mid-Session Review of U.S. Budget FY 2009, Haver Analytics
Record Federal Deficits have Replaced Years of Surplus

12-Month Cumulative Deficits and Surpluses of the Federal Government

Sources: U.S. Treasury, Haver Analytics
The Long-Term Prognosis is not Cheery—A Fiscal Armageddon?

Source: The Long-Term Budget Outlook, CBO Projections, June 2009
Producing a Clear Message from the CBO

The Congressional Budget Office (CBO) projects that if current laws do not change, federal spending on Medicare and Medicaid combined will grow from roughly 5 percent of GDP today to almost 10 percent by 2035 and to more than 17 percent by 2080. That projection means that in 2080, without changes in policy, the federal government would be spending almost as much, as a share of the economy, on just its two major health care programs as it has spent on all of its programs and services in recent years.

CBO Long-Term Budget Outlook Summary June, 2009
Housing and Mortgage Markets
Housing Starts have Collapsed and Conventional Loan Limits are not Increasing

Sources: Bureau of the Census, FNMA, Haver Analytics

2009 Housing Starts Approximated from January-June Data with Strengthening Trend for Rest of Year
Home Sales are Down and Home Builders are Unhappy

NAHB INDEX OF CURRENT NEW HOME SALES

MBA INDEX OF HOME PURCHASES (L)

MBA INDEX OF HOME PURCHASES WITH OFHEO PRICE ADJUSTMENTS (L)

SOURCES: MORTGAGE BANKERS ASSOCIATION, NATIONAL ASSOCIATION OF HOME BUILDERS, OFHEO, HAVER ANALYTICS
Prices have Gone from Hot to Not, although more Positive Signs are Emerging

12-Month Percentage Changes

- Case/Shiller 10 City Price Index
- OFHEO Purchase-only Monthly Data
- All Conventional Single-family Home Mortgagings and Re-mortgagings, OFHEO
- Purchase-only Single-family Home Prices, OFHEO

Sources: OFHEO, Haver Analytics
The Past 12 Months have been Brutal, especially in Major Metro Areas in the South and Far West

12-Month Percentage Changes

Sources: S&P Case-Shiller Price Index, Haver Analytics
Price Declines have Removed earlier Appreciation of Home Values, Now Back to 2003

Gain from January 2003 to Peak, Loss from Peak, and Net Change to Present (June 2009)

Sources: S&P Case-Shiller Home Prices, Haver Analytics
High Prices are not a Protection from Lower Prices

Prices slide, even in the glitziest neighborhoods.

Once, if a neighborhood made Forbes' list of America's 500 Most Expensive ZIP Codes, it meant buyers were prepared to spend big bucks to call it home. But in 2009, even in these exclusive enclaves, home prices took major hits. Though Alpine, N.J. (07620) tops our list with a median asking price of $4.14 million, prices there fell 23% over the past year. Atherton, Calif. (94027) is the nation's second most expensive ZIP code with a median asking price of $3.85 million, but prices there also declined by 23%. And New York's once-bohemian West Village neighborhood (10014) is by now fully gentrified, as demonstrated by its third-place finish and a $3.5 million median asking price. Still, over the past 12 months, prices in the West Village have fallen by 24%.

Last year, California accounted for 96% of America's 50 most expensive ZIP codes. This year, that figure dropped to less than 50%.

By Francesca Levy, Forbes Magazine

August 28, 2009
About One-third of Homes have Negative Equity

- Bank, Thrift & Specialty Lender - Industry News
  Study: 15.2 million mortgages underwater in Q2
  August 13, 2009 5:34 PM ET
  By Zach Fox

- First American Corp. unit First American CoreLogic said Aug. 13 that more than 15.2 million mortgages, or 32.2% of all single-family mortgaged properties, across the nation were "underwater" at June 30....

- ...Nevada dominated the rankings with 66% of its single-family mortgages in a negative-equity position, followed by Arizona at 51% and Florida at 49%.

- In all, the five states with the most underwater mortgages combined for a negative-equity share of 47%, compared with 25% in the remaining states.

SNL August 13, 2009
The Outlook for Many is not Good

- **About Half Of U.S. Mortgages Seen Underwater By 2011**
- **By REUTERS  Filed at 3:48 p.m. ET**
- **NEW YORK (Reuters) -** The percentage of U.S. homeowners that owe more than their house is worth will nearly double to 48 percent in 2011 from 26 percent at the end of March as home prices continue to fall, Deutsche Bank said on Wednesday.

- **Home price declines will have their biggest impact on "conforming" loans** that meet underwriting guidelines of Fannie Mae and Freddie Mac, the bank said in a report. Conforming loans make up the bulk of mortgages, and are typically less risky because of stringent requirements.

- **Of conforming loans, 41 percent will be "underwater" by the first quarter of 2011, up from 16 percent at the end of the first quarter 2009**, it said.

- Homeowners with the riskiest mortgages handed out during the housing boom have seen the greatest erosion in equity. They include **subprime loans**, of which **69 percent will be underwater** in 2011 from half of them in March, Deutsche said,

- **Of option adjustable-rate mortgages** -- which could reduce payments by allowing principal balances to rise -- **89 percent will be underwater** in 2011, up from 77 percent, the report said. **The New York Times**  August 5, 2009
The Foreclosure Problem is BIG!!!!

Foreclosure filings in the U.S. climbed to a record for the third time in five months in July as falling home prices and the recession left more homeowners unable to keep up payments or refinance. A total of 360,149 properties received a default or auction notice or were seized last month, according to data seller RealtyTrac Inc. One in 355 households got a filing.

Bloomberg

Half the foreclosure activity was in four states - California, Nevada, Arizona and Florida —

Washington Post

August 13, 2009
The Fifth and biggest Problem was the Bubble itself

**Risky Mortgages**
Some 77% of option-ARM borrowers and 50% of subprime mortgage borrowers were estimated to be underwater as of the first quarter of 2009, according to the Deutsche Bank report. With option-ARMs, borrowers could make minimum monthly payments that didn't even cover the loan's interest. As the market declined, these balances grew over time. With subprime mortgages, borrowers often had poor credit scores and little documentation of their financial situation. In both cases, borrowers often ended up with a large mortgage relative to the house's price.

**Date of Purchase**
Individuals who bought their home between 2003 and 2008 are at risk of being underwater because they bought while prices were rising, Zandi says. The risk is greater for those who bought between 2005 and 2006, as the market approached its peak.

**Excessive Borrowing**
Many individuals borrowed against their home when it appreciated in value during the bubble by taking out a second mortgage or tapping into a home equity line of credit or home equity loan. This borrowing left their home with less equity to weather the drop in home values.

**Home's Location**
The areas that have been hit the hardest by plunging home values include the "sand states" of Arizona, California, Florida and Nevada because they brought the most speculation, easy credit and overbuilding during the bubble, Zandi says. Also hurt: the states where unemployment is especially high and manufacturing jobs have been eliminated like Michigan, Ohio and Indiana, Zandi says.
Homeowners are more Accurately “Home Owers”

Homeowners’ Equity as a Percentage of Value of Household Real Estate

Source: Federal Reserve Board, Haver Analytics
Fewer Homeowners Own Less of their Homes

Percent, Homeownership in the United States

Source: Census Bureau, Haver Analytics

2009 Data Cover the 1st Half of the Year
The Performance Recently has been very Disturbing

Percentage Change in Home Equity and Home Mortgages Outstanding from 4 Quarters Earlier

Source: Federal Reserve Board, Haver Analytics
Banks are not Keen on Making new Mortgage Loans

Source: Federal Reserve Board, Haver Analytics
This is particularly the Case for Subprime Loans as Lenders Restrict Lending and Exit the Business

![Graph showing Percent Tightening Credit and Percent Offering Subprime Mortgages](chart)

**Percent Tightening Credit**
- (Left)

**Percent Offering Subprime Mortgages**
- (Right)

2nd and 3rd Quarter 2009 Data Points are Approximations Owing to Lack of Participation by Respondents in this Market. The Federal Reserve does not Report Findings where there are 3 or fewer Respondents.

Source: Federal Reserve Board, Haver Analytics
The Performance of Subprime Mortgages Demonstrates Why Lenders no Longer Lend

Mortgages Delinquent, Entering Foreclosure or Foreclosed

Percentage of Mortgages Outstanding of Conventional Loans, United States

- Adjustable Rate Subprime
- Fixed Rate Subprime
- Prime Mortgages

Data Not Seasonally Adjusted, Averaged over Four Quarters

Source: Mortgage Bankers Association, Haver Analytics
We are not “Out of the Woods”

US prime borrowers fall behind on payments

By Nicole Bullock and Saskia Scholtes in New York, Financial Times
Published: August 4 2009 22:30 | Last updated: August 4 2009 22:30

The number of US prime borrowers behind on home loan payments has risen sharply, signalling further problems for banks and investors.

Standard & Poor’s said higher unemployment combined with a prolonged housing market slump had afflicted even the highest quality borrowers.

The dollar volume of prime mortgages in delinquency or default rose 13.8 per cent between March and June, according to a study of private-label prime, subprime and Alt-A home loans conducted by S&P.
But there is some “Good News” in the same Article

Alt-A and subprime home loans, which have been at the epicentre of the mortgage meltdown, showed signs of stability. Non-performing balances of Alt-A mortgages rose just 3.2 per cent in the second quarter, while the dollar volume of non-performing subprime mortgages fell 4.2 per cent.

S&P said the most troubled borrowers had by now defaulted so securitised subprime home loans could be past the peak for defaults.
It wasn’t always Like this: Subprime Mortgage Underwriting Weakened Greatly over Time

Share of subprime loan balance 90 days or more delinquent or in foreclosure, by vintage year

Source: LoanPerformance, private label mortgage securitization database.
**Designed to Fail? This Mortgage Provides a Low-Payment Option Producing Negative Amortization**

<table>
<thead>
<tr>
<th>Period</th>
<th>Interest rate</th>
<th>Loan balance</th>
<th>Minimum payment</th>
<th>Cumulative Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>$200,000.00</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>1</td>
<td>1.75%</td>
<td>$199,577.18</td>
<td>$714.49</td>
<td>$422.82</td>
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<tr>
<td>2</td>
<td>1.75%</td>
<td>$199,153.74</td>
<td>$714.49</td>
<td>$846.26</td>
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<tr>
<td>3</td>
<td>1.75%</td>
<td>$198,729.68</td>
<td>$714.49</td>
<td>$1,270.32</td>
</tr>
<tr>
<td>4</td>
<td>6.25%</td>
<td>$199,050.24</td>
<td>$714.49</td>
<td>$949.76</td>
</tr>
<tr>
<td>5</td>
<td>6.25%</td>
<td>$199,372.47</td>
<td>$714.49</td>
<td>$627.53</td>
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<tr>
<td>6</td>
<td>6.25%</td>
<td>$201,008.98</td>
<td>$714.49</td>
<td>($1,008.98)</td>
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<tr>
<td>7</td>
<td>6.25%</td>
<td>$201,341.41</td>
<td>$714.49</td>
<td>($1,341.41)</td>
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<tr>
<td>8</td>
<td>6.25%</td>
<td>$201,675.57</td>
<td>$714.49</td>
<td>($1,675.57)</td>
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<tr>
<td>9</td>
<td>6.75%</td>
<td>$202,041.92</td>
<td>$768.08</td>
<td>($2,041.92)</td>
</tr>
<tr>
<td>10</td>
<td>6.75%</td>
<td>$202,410.33</td>
<td>$768.08</td>
<td>($2,410.33)</td>
</tr>
<tr>
<td>11</td>
<td>8.25%</td>
<td>$223,515.91</td>
<td>$954.19</td>
<td>($23,515.91)</td>
</tr>
<tr>
<td>12</td>
<td>8.25%</td>
<td>$224,098.39</td>
<td>$954.19</td>
<td>($24,098.39)</td>
</tr>
<tr>
<td>13</td>
<td>8.75%</td>
<td>$223,888.31</td>
<td>$1,844.13</td>
<td>($23,888.31)</td>
</tr>
<tr>
<td>14</td>
<td>8.75%</td>
<td>$223,676.70</td>
<td>$1,844.13</td>
<td>($23,676.70)</td>
</tr>
<tr>
<td>144</td>
<td>11.75%</td>
<td>$204,298.57</td>
<td>$2,281.18</td>
<td>($4,298.57)</td>
</tr>
<tr>
<td>145</td>
<td>12.00%</td>
<td>$204,025.95</td>
<td>$2,315.61</td>
<td>($4,025.95)</td>
</tr>
<tr>
<td>146</td>
<td>12.00%</td>
<td>$203,750.60</td>
<td>$2,315.61</td>
<td>($3,750.60)</td>
</tr>
</tbody>
</table>

Note: Assumes a $200,000 beginning balance, 1.75% start rate for first three months, 6.25% for remainder of first year, subject to 7.5% annual payment cap for first five years, and a 12% lifetime rate cap on a 30-year amortization mortgage.

*Source: Greenpoint Mortgage*
• **About GreenPoint Mortgage**

• Please note that effective August 20, 2007, GreenPoint Mortgage has ceased accepting new residential loan applications.

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The Option-ARM Problem Looms…

As the housing market seeks a bottom, option ARMs, which accounted for $750 billion in mortgages made from 2004 to 2007, according to the industry newsletter Inside Mortgage Finance, remain a risk, especially because many are not eligible for refinancing. About a third are already in default, according to analysts.

Since February, default and foreclosure rates on option ARMs have passed those of subprime mortgages, according to the research firm First American CoreLogic, in part because so many subprime mortgages have already failed.

By: John Leland, New York Times        August 26, 2009
Many Option-Adjustable and Alt-A Mortgages are Scheduled to Reset in 2010 and 2011

Source: Credit Suisse.
Also, Mortgage Fraud has Increased Dramatically

SAR = Suspicious Activity Reports filed by Depository Institutions

Fraud can Enter through many Ways

• The state Division of Banks, which recently found hundreds of Massachusetts mortgage industry employees had criminal records or serious financial problems, said it has no plans to investigate whether loans handled by those workers involved fraud or took advantage of borrowers.

• Until recently, felons or people with poor credit were not explicitly prohibited from working as loan officers for lenders or mortgage brokers. But a state law that took effect last summer requires anyone who initiates a residential loan to be licensed. In the first year of the new system, the state rejected nearly one-fourth of the 7,747 applicants. Many had bad credit or criminal records, including felony convictions for bank, insurance, or securities fraud.
Check Writing Fraud and, especially, Wire Transfer Fraud have increased rapidly as well.

SAR = Suspicious Activity Reports filed by Depository Institutions

The Best News for Housing is a Supportive Yield Curve
This has Helped to Bring Mortgage Rates Down

Sources: Federal Home Loan Mortgage Corporation, Haver Analytics
Also, Months of Supply of Homes has Peaked

Months of Inventory at Current Selling Rates, United States

Sources: National Association of Realtors, Census Bureau, Haver Analytics

* 4-Quarter Averages of Sales and Inventories
* Quarterly Averages, Seasonally Adjusted
In Massachusetts, Fewer New Listings are helping to Clear Excess Inventory

12-Month Cumulative Sales, Listings and Average Inventories, Number of Units

Source: Massachusetts Association of Realtors
Still, Excess Inventory Remains High Nationally

Estimates of Excess Inventory, thousands of units

Source: Moody’s Economy.com
Affordability is Up, but People may not Buy

PERCENTAGE PLANNING TO BUY A HOUSE WITHIN SIX MONTHS, 12-MONTH AVERAGE

NATIONAL INDEX OF AFFORDABILITY

SOURCES: NATIONAL ASSOCIATION OF REALTORS, THE CONFERENCE BOARD, HAVER ANALYTICS
The Consumer is Under Stress
Household Debt to Disposable Income Doubled over One Generation

Source: Federal Reserve Board, Haver Analytics
Debt Service and Payments on Financial Obligations Rose

Percentages Relative to Personal Disposable Income

Debt Service Includes Required Payments on Debt
Financial Obligations Includes Additionally Automobile Lease Payments and Rent Paid on Tenant Occupied Property

Source: Federal Reserve Board, Haver Analytics
The Deterioration in Net Worth is Dramatic

Change in Net Worth of Households and Nonprofit Organizations to Disposable Personal Income

Source: Federal Reserve Board, Haver Analytics
Households are less Over-Taxed than Under-Saved

Percentages Relative to Disposable Income

Source: Bureau of Economic Analysis, Federal Reserve Board, Haver Analytics
Personal Savings as a Percentage of Disposable Income

ECONOMIC STIMULUS PAYMENTS TO SOCIAL SECURITY RECIPIENTS, 2009

ECONOMIC STIMULUS LEGISLATION, 2008

Source: Bureau of Economic Analysis, Haver Analytics
This is happening across all Income Groups

Contributions to Savings Rate by Income, in Percentage Points

Source: Moody’s Economy.com
Maybe, though, the Desire to Spend Less and Save More is not Surprising given the Collapse in Housing
Subprime Contagion
The U.S. Treasury has been unusually Busy

- GSE’s in Conservatorship
- AIG Bailout (w/NY FRB)
- Temporary Guaranty for Money Market Funds
- Troubled Asset Relief Program (TARP)
  - TARP Capital Purchase Program
  - Citigroup Bailout (w/FRB and FDIC)
  - TARP Targeted Investment Program
- TARP Systemically Significant Failing Institutions Program
- TARP Automotive Industry Financing Program
  - TARP Asset Guarantee Program
- Financial Stability Plan (w/FRB and FDIC)
  - Making Homes Affordable
  - Auto Supplier Support Program
The Fed has also been Busy

Discount Window Access Expanded
Term Auction Facility
Reciprocal Currency Agreements
Term Securities Lending Facility
Primary Dealer Credit Facility
Term Securities Lending Facility Options Program
Bear Stearns Facilitation (NY FRB)
Asset-Backed Commercial Paper Money Market Fund Liquidity Facility
Commercial Paper Funding Facility
Money Market Investor Funding Facility
Interest Payment on Member Bank Reserves
Purchase of GSE’s Direct Obligations
Term Asset-Backed Securities Loan Facility
Treasury Purchase Program
Legacy Securities Program
FDIC is also Very Busy

Temporary Liquidity Guarantee Program
TLGP Transaction Account Guarantee Program
TLGP Debt Guarantee Program
Citigroup Bailout (w/FRB and Treasury)
Bank of America Bailout (w/FRB and Treasury)
Public-Private Investment Program (w/FRB and Treasury)
Legacy Loans Program (w/Treasury)
The Federal Reserve’s Balance Sheet has Expanded

Sources: Federal Reserve Board, Haver Analytics
Treasuries, Agencies and Mortgage-Backed Securities Holdings have Increased in 2009

Sources: Federal Reserve Board, Haver Analytics
The Fed and other Central Banks Intervened Successfully in Particular Financial Markets

TED spread, difference between 3 mo. Euro $ and T-Bill

1st Gulf war
Orange County
Peso crisis
Thai baht
LTCM
Tech bust
Bear Stearns
Lehman Brothers
Subprime financial shock

Sources: Federal Reserve Board, Moody’s Economy.com
There also has been some Success where Central Banks have not been directly involved.

Source: Federal Reserve, Daily Spreads over the 10-Year U.S. Treasury Rate through August 28, 2009.
In Private Debt Markets, only High-Grade Corporate Securities are being Issued in Volume

Source: Moody’s Economy.com
The Weight of Recession is being Countered by Expansionary Fiscal Policy

Federal Stimulus, Billions of $

Source: Moody’s Economy.com
Other Factors besides Stimulus Support Consumers

Net Improvement, 2009 vs. 2008, $ bil

Source: Moody’s Economy.com
Many Countries have taken Unprecedented Action to Support their Economies

Total fiscal stimulus as a % of 2008 GDP

Source: Moody’s Economy.com
There are Signs that the “Free Fall” is over Globally

Source: Moody’s Economy.com Survey of Business Confidence
Some See Hope...

U.S. Payroll Employment, Millions

Source: Moody’s Economy.com
Bolstered by Evidence Globally

Global Business Expectations, Diffusion Index

Source: Moody’s Economy.com
Even so, this is not a Standard Business Cycle

Real GDP Growth, %

% Peak-to-Trough Decline in Recession

% Increase 2 Years After Trough

Source: Moody’s Economy.com
Confidence in the Economic and Financial Systems has been badly Damaged

Net Assets of Households and Nonprofit Organizations

- Miscellaneous Assets
- Life Insurance and Pension Reserves Less Deferred Payments for Life Insurance
- Equities and Mutual Funds less Liabilities to Brokers and Dealers
- Debt Instruments less other Loans and Advances
- Net Deposits and Currency less Consumer Credit
- Net Tangible Property other than Real Estate
- Net Real Estate

Sources: Federal Reserve Board, Haver Analytics
Prospects Abound…
Disclaimer

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