

The Credit Crisis on Wall Street

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Market Factor Implications

Lack of the Private Securitization Market

- The agencies' share of the mortgage market rose to a record 75.6 percent in the final quarter of 2007. Add in the 1.3 percent share for Department of Veterans Affairs loans and the 4.5 percent share for the Federal Housing Administration, and the share of truly private mortgage loans fell to a record low of 18.6 percent.
- In the first quarter, the private share recovered to 24.2 percent.
- While there is a little more private lending activity, the private mortgage securitization market continues to shrink. Investors have not yet been reassured that new securitizations will be safer than the disastrous ones from 2006 and early 2007.
- Much of that private lending appears to be in jumbo mortgages. Although, even this sector has dried up as Congress raised the maximum loan amount the agencies are restricted to purchase temporarily through the end of 2008.
- Without a government like agency or entity to induce demand for private securitizations, the private securitization market has been practically obsolete.

Source: New York Times

Market Factor Implications

New Capital Needs

- As of July 2008, there have been a total of \$491.9 billion in asset writedowns and credit losses and \$356.4 billion in capital raises since the beginning of 2007 at more than 70 of the world's largest banks and securities firms.
- It has been estimated that the total asset writedowns and credit losses will continue to grow to over \$1 trillion worldwide.

Firm	Credit Losses (\$bb)	Capital Raised (\$bb)
Citigroup	\$ 54.6	\$ 49.1
Merrill Lynch	\$ 51.8	\$ 29.9
UBS	\$ 38.2	\$ 29.2
HSBC	\$ 27.4	\$ 3.9
Wachovia	\$ 22.0	\$ 11.0
Bank of America	\$ 21.2	\$ 20.7
IKB Deutsche	\$ 15.8	\$ 13.1
Royal Bank of Scotland	\$ 15.2	\$ 25.0
Washington Mutual	\$ 14.8	\$ 12.1
Morgan Stanley	\$ 14.4	\$ 5.6
JPMorgan Chase	\$ 12.8	\$ 7.9
Deutsche Bank	\$ 11.1	\$ 3.2
Credit Suisse	\$ 10.8	\$ 2.7
Wells Fargo	\$ 10.0	\$ 4.1
Credit Agricole	\$ 8.2	\$ 9.9
Lehman Brothers	\$ 8.2	\$ 13.9
Fortis	\$ 7.6	\$ 7.5
Societe Generale	\$ 7.1	\$ 10.1
HBOS Plc	\$ 7.0	\$ 7.8
Bayerische Landesbank	\$ 6.6	\$ -
Canadian Imperial (CIBC)	\$ 6.4	\$ 2.8
Barclays	\$ 6.4	\$ 19.1
ING Groep N.V.	\$ 6.0	\$ 4.9
Mizuho Financial Group	\$ 6.0	\$ -
National City Corp.	\$ 5.4	\$ 8.9
Lloyds TSB Group Plc	\$ 5.1	\$ 3.6
WestLB AG	\$ 4.9	\$ 7.7
IndyMac Bancorp	\$ 4.9	\$ -
LB Baden-Wuerttemberg	\$ 4.0	\$ -
Goldman Sachs	\$ 3.8	\$ 0.6
Other Banks Not Listed Above	\$ 74.2	\$ 42.1
Total	\$ 491.9	\$ 356.4

Source: Bloomberg



Market Factor Implications

Stock Price Declines

Firm	Symbol	03-Jan-07	01-Aug-08	Δ%
Citigroup	C	\$ 55.25	\$ 18.87	-65.8%
Merrill Lynch	MER	\$ 92.58	\$ 26.85	-71.0%
UBS	UBS	\$ 61.39	\$ 18.70	-69.5%
HSBC	HBC	\$ 91.97	\$ 83.00	-9.8%
Wachovia	WB	\$ 56.81	\$ 18.98	-66.6%
Bank of America	BAC	\$ 53.33	\$ 33.33	-37.5%
Washington Mutual	WM	\$ 45.47	\$ 5.32	-88.3%
Morgan Stanley	MS	\$ 81.62	\$ 41.11	-49.6%
JPMorgan Chase	JPM	\$ 48.07	\$ 40.76	-15.2%
Deutsche Bank	DB	\$ 135.34	\$ 91.53	-32.4%
Credit Suisse	CS	\$ 70.11	\$ 50.04	-28.6%
Wells Fargo	WFC	\$ 35.74	\$ 30.50	-14.7%
Lehman Brothers	LEH	\$ 78.63	\$ 18.65	-76.3%
Canadian Imperial (CIBC)	CM	\$ 84.54	\$ 60.50	-28.4%
Barclays	BCS	\$ 59.43	\$ 27.28	-54.1%
ING Groep N.V.	ING	\$ 44.65	\$ 32.86	-26.4%
Mizuho Financial Group	MFG	\$ 14.40	\$ 9.66	-32.9%
National City Corp.	NCC	\$ 36.95	\$ 5.05	-86.3%
Lloyds TSB Group Plc	LYG	\$ 45.71	\$ 23.97	-47.6%
IndyMac Bancorp	No Longer Trading	\$ 33.78	\$ -	-100.0%
Goldman Sachs	GS	\$ 200.72	\$ 182.00	-9.3%
AVERAGE				-48.1%

Market Factor Implications

Case Study: Bear Stearns Companies, Inc.

- Who is Bear Stearns?
 - The Bear Stearns Companies, Inc. (NYSE: BSC) is the parent company of Bear, Stearns & Co. Inc., one of the largest global investment banks and securities trading and brokerage firms in the world.
- What happened?
 - Bear Stearns stunned Wall Street Friday, March 14, 2008, by announcing it had turned to rival JPMorgan Chase and the federal government for an emergency bailout. The surprise, last-ditch rescue effort, announced just before the stock market opened, was the latest troubling sign of how a cascading credit crisis is threatening the liquidity of even Wall Street's most established firms. On March 16, 2008, under the supervision of the Federal Reserve, the company signed a merger agreement with JPMorgan Chase under which JPMorgan Chase would assume the counterparty risk and exercise management control over Bear Stearns pending shareholder approval. The Federal Reserve issued a non-recourse loan of \$30 billion which would cover any losses in Bear Stearns' investments in mortgage-backed securities and exotic investment paper with collateral to be managed by Black Rock. One week later, JPMorgan Chase increased the value of its purchase stock swap from \$2.00 per share to \$10.00 per share and reduced the loan from the Fed by \$1 billion. Earlier this year, Bear Stearns' stock was trading above \$90.00 per share.
 - According to data released by the SEC, Bear Stearns had cash and cash equivalents of \$18.1 billion on March 10th which fell to \$11.5 billion on March 11th. This figure rose to \$12.4 billion on March 12th before falling to \$2 billion on March 13th, the day the Fed provided emergency funding. Bear Stearns' net capital remained well in excess of the federal supervisory requirements, including on March 16th when it agreed to be taken over by JPMorgan Chase.

Questions?

- Thank you for your time!