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Financial Markets Outlook

Federal Reserve of Chicago, Economic Outlook Symposium

December 5, 2008



Long-Term Interest Rates - 1900 to 2007

How We Got Into The Problem - Bush

REMARKS BY THE PRESIDENT ON HOMEOWNERSHIP
at the Department of Housing and Urban Development
Washington, D.C.
June 18, 2002, 10:30 A.M. EDT
<http://www.hud.gov/news/speeches/presremarks.cfm>

[snip]

The goal is, everybody who wants to own a home has got a shot at doing so. **The problem is we have what we call a homeownership gap in America. Three-quarters of Anglos own their homes, and yet less than 50 percent of African Americans and Hispanics own homes. That ownership gap signals that something might be wrong in the land of plenty. And we need to do something about it.**

We are here in Washington, D.C. to address problems. So I've set this goal for the country. We want 5.5 million more homeowners by 2010 -- million more minority homeowners by 2010. (Applause.) Five-and-a-half million families by 2010 will own a home. That is our goal. It is a realistic goal. But it's going to mean we're going to have to work hard to achieve the goal, all of us. And by all of us, I mean not only the federal government, but the private sector, as well.

And so I want to, one, encourage you to do everything you can to work in a realistic, smart way to get this done. I repeat, we're here for a reason. And part of the reason is to make this dream extend everywhere.

I'm going to do my part by setting the goal, by reminding people of the goal, by heralding the goal, and by calling people into action, both the federal level, state level, local level, and in the private sector.

And so what are the barriers that we can deal with here in Washington? **Well, probably the single barrier to first-time homeownership is high down payments. People take a look at the down payment, they say that's too high, I'm not buying. They may have the desire to buy, but they don't have the wherewithal to handle the down payment. We can deal with that. And so I've asked Congress to fully fund an American Dream down payment fund which will help a low-income family to qualify to buy, to buy. (Applause.)**

How We Got Into The Problem - Mozilo

From an [article](#) about a speech Angelo Mozilo delivered in early 2003. It is from *Inside Mortgage News*, February 17, 2003. An excerpt:

Angelo Mozilo would eliminate downpayments to reach deeper into emerging housing markets. To eliminate what he calls "the enormous and very dangerous gap" between the housing have and have-nots, the chairman of Countrywide Financial Calabasas Calif. also would lower the bar on credit scores.

"The only way we can have a better society," he said at the America's Community Bankers National Real Estate Lending Conference here last week "is to make sure those who don't have a house the opportunity to get one.

Elaborating on points he made the previous week in Washington, Mr. Mozilo **labeled downpayments as "nonsense"** and said credit score requirements are "still much too high." He also said it was **"wrong" to focus on delinquencies.**

Rather than address the 19% of those subprime borrowers who are late, he said, the focus should be on the 81% who pay on time. And rather than worry about the 4% who lose their homes, concentrate on the 96% who won't let their homes go into foreclosure.

In what he said would be his last policy address before retiring in 2006, the outspoken leader called on his colleagues to "take a chance in making mistakes rather than foreclose on the opportunity" to put minorities and other underserved families into homes of their own.

"For selfish reasons, we've got to share," Mr. Mozilo said. "If we don't, people will take it. We'll never solve any of our societal problems until we take care of" people's housing needs.

The Countrywide chairman said it is meaningless to require target borrowers to come to the closing table with 10% of the purchase price in cash, especially when money comes from a relative or some other third party.

"It's often not their money anyway, yet we out them through this torture, Mr. Mozilo said.

How We Got Into The Problem - Congress

House Financial Services Committee hearing, [Sept. 10, 2003](#):

Rep. Barney Frank (D., Mass.): I do think I do not want the same kind of focus on safety and soundness that we have in OCC [Office of the Comptroller of the Currency] and OTS [Office of Thrift Supervision]. **I want to roll the dice a little bit more in this situation towards subsidized housing.** . . . I worry, frankly, that there's a tension here. The more people, in my judgment, exaggerate a threat of safety and soundness, the more people conjure up the possibility of serious financial losses to the Treasury, which I do not see. I think we see entities that are fundamentally sound financially and withstand some of the disaster scenarios

House Financial Services Committee hearing, Sept. 25, 2003:

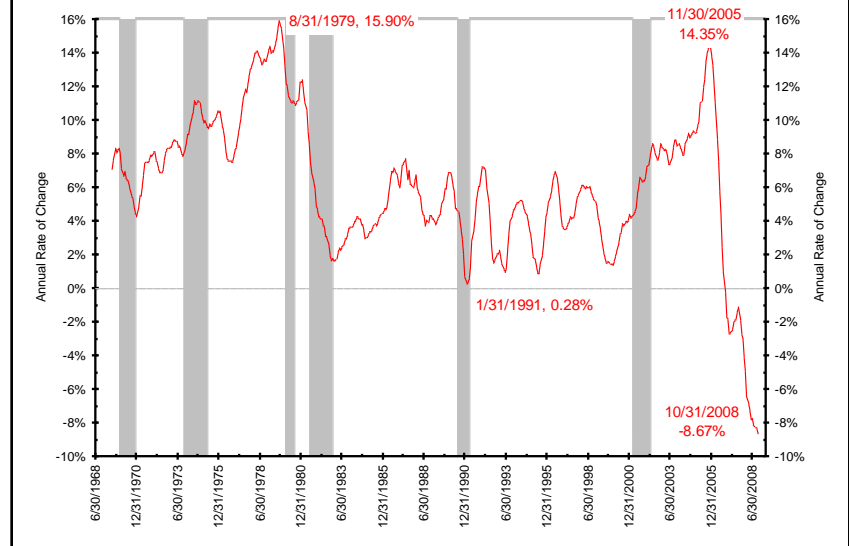
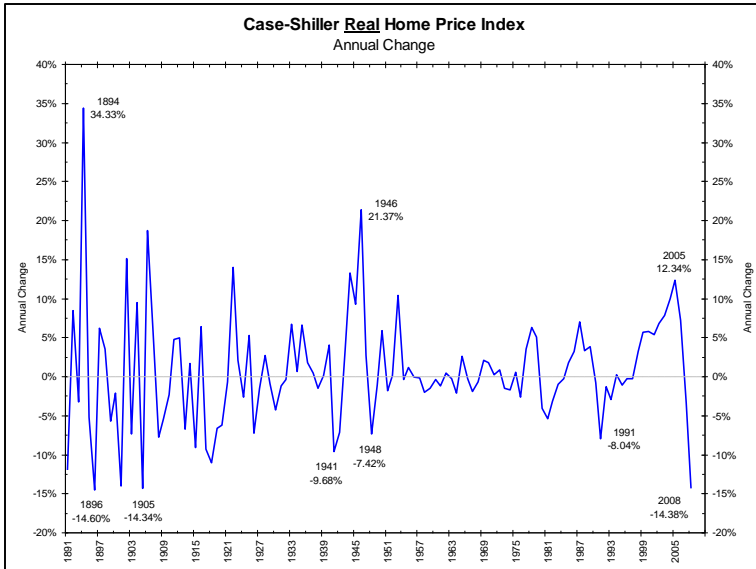
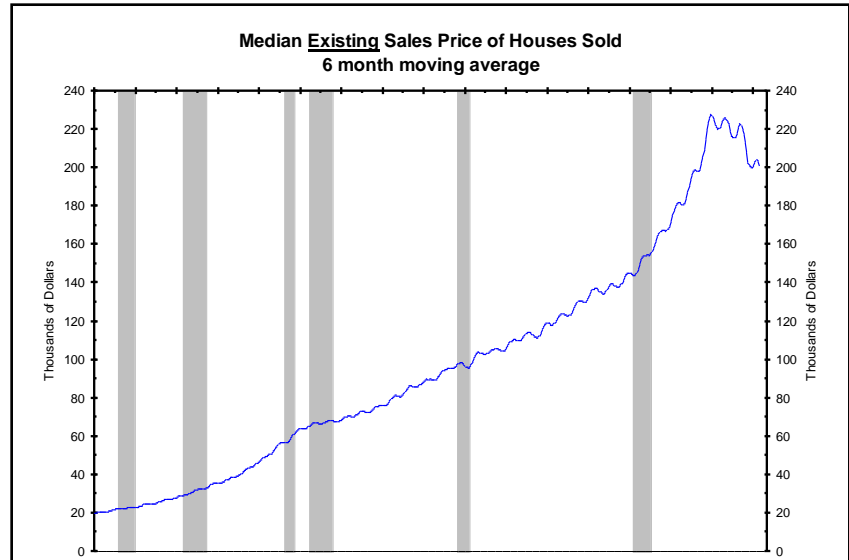
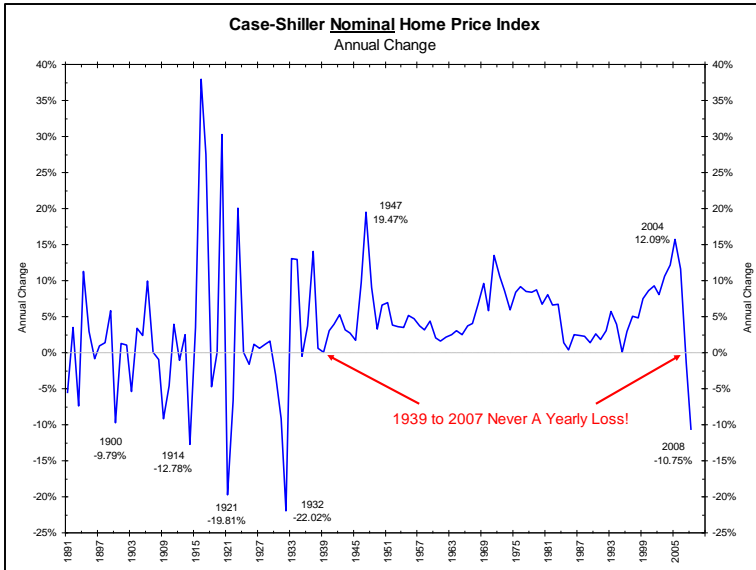
Rep. Gregory Meeks, (D., N.Y.): . . . I am just pissed off at Ofheo [Office of Federal Housing Enterprise Oversight] because if it wasn't for you I don't think that we would be here in the first place. And Freddie Mac, who on its own, you know, came out front and indicated it is wrong, and now the problem that we have and that we are faced with is maybe some individuals who wanted to do away with GSEs in the first place, you have given them an excuse to try to have this forum so that we can talk about it and maybe change the direction and the mission of what the GSEs had, which they have done a tremendous job.

Rep. Maxine Waters (D., Calif.): However, I have sat through nearly a dozen hearings where, **frankly, we were trying to fix something that wasn't broke.** Housing is the economic engine of our economy, and in no community does this engine need to work more than in mine. With last week's hurricane and the drain on the economy from the war in Iraq, we should do no harm to these GSEs. We should be enhancing regulation, not making fundamental change. Mr. Chairman, we do not have a crisis at Freddie Mac, and in particular at Fannie Mae, under the outstanding leadership of Mr. Frank Raines. Everything in the 1992 act has worked just fine. In fact, the GSEs have exceeded their housing goals.

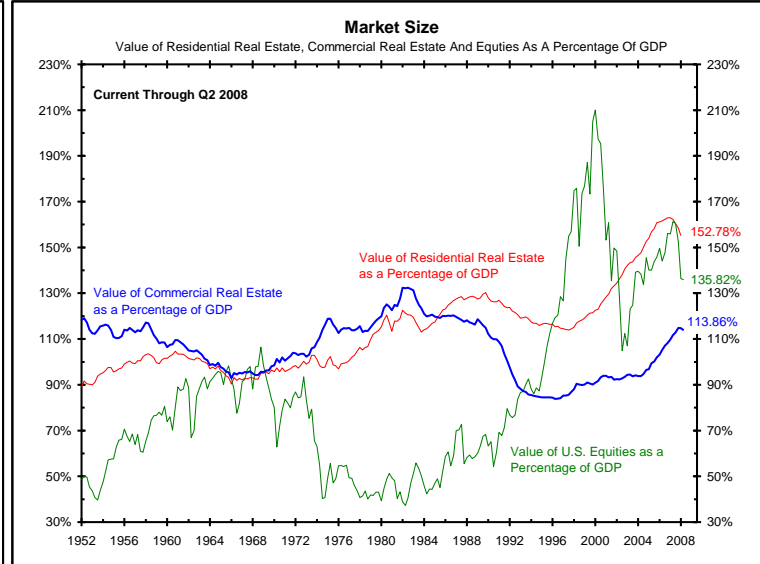
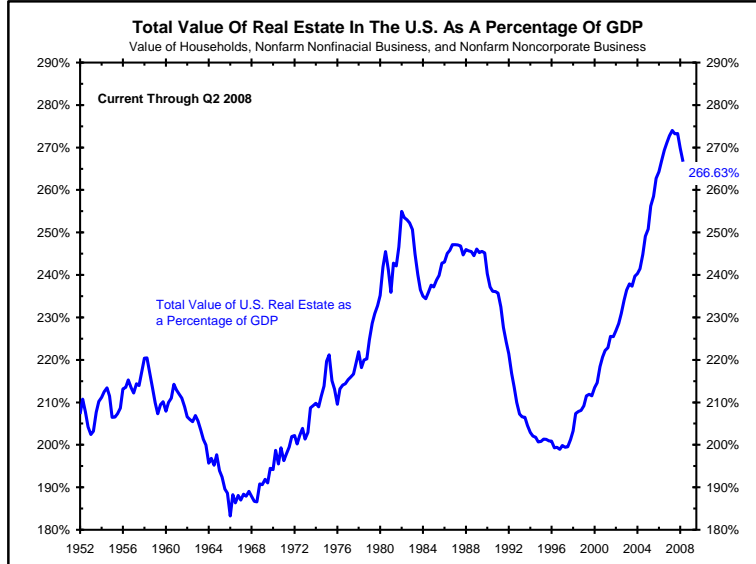
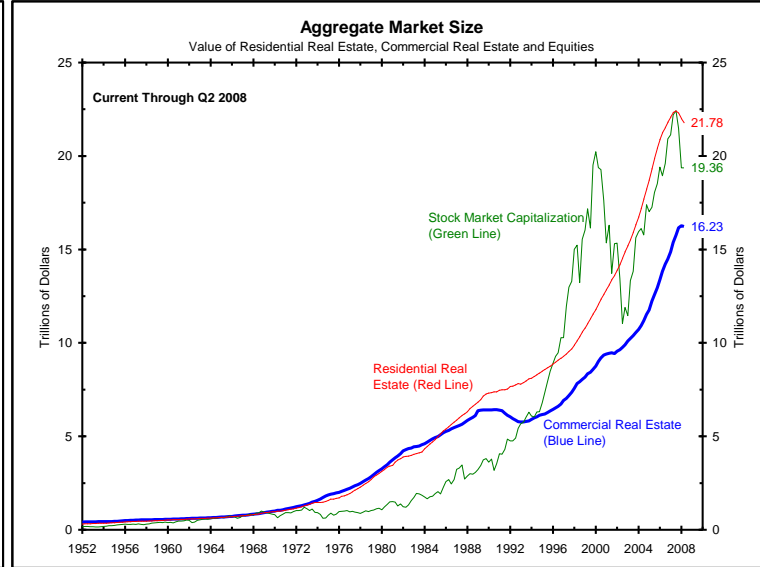
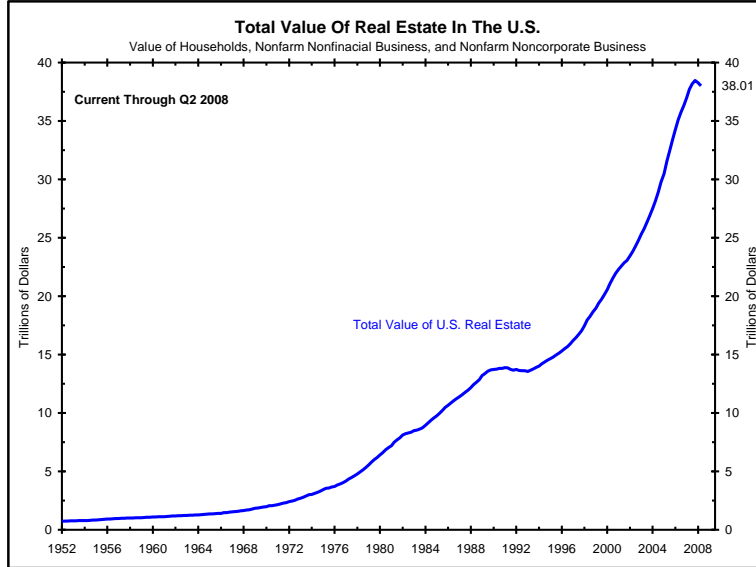
Senate Banking Committee, Feb. 24-25, 2004:

Sen. Christopher Dodd (D., Conn.): I, just briefly will say, Mr. Chairman, obviously, like most of us here, **this is one of the great success stories of all time.** And we don't want to lose sight of that and [what] has been pointed out by all of our witnesses here, obviously, the 70% of Americans who own their own homes today, in no small measure, due because of the work that's been done here. And that shouldn't be lost in this debate and discussion.

Home Prices Historic Run Ends



How Big Is Real Estate?



Almost \$1 Trillion In Losses

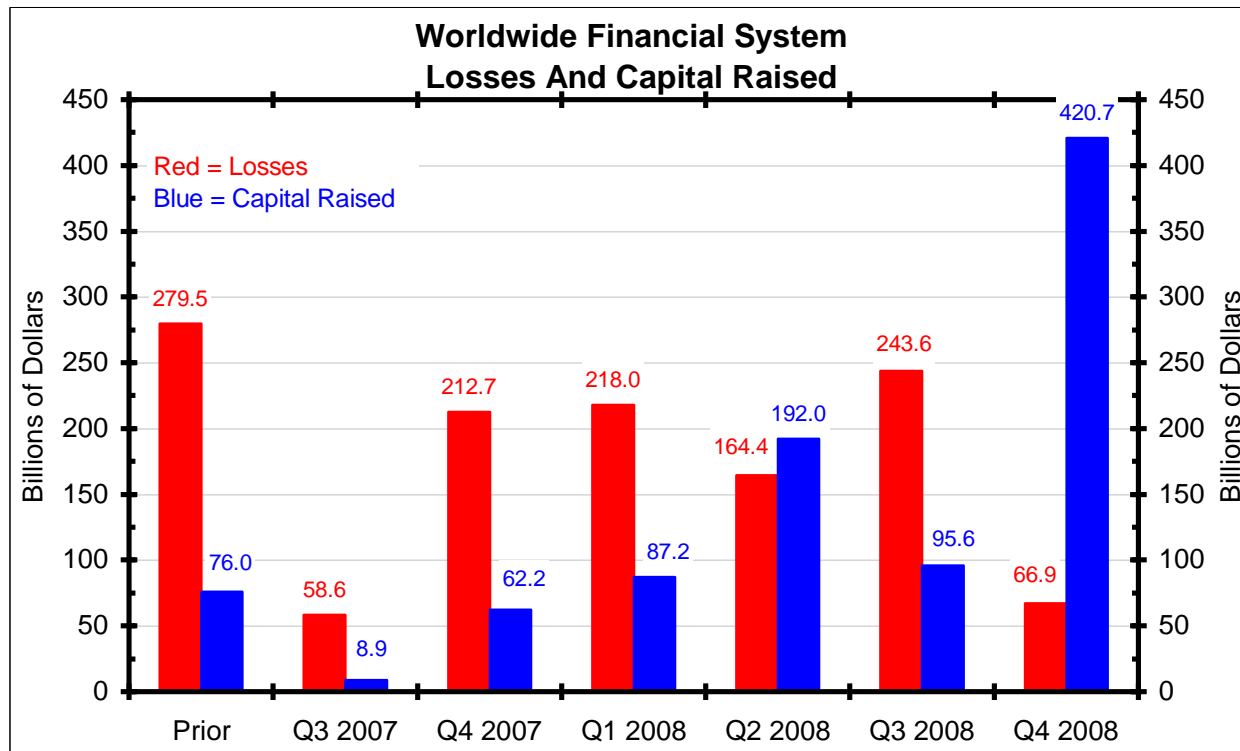
Worldwide Financial System Losses and Capital Raised

As of December 3, 2008

In Billions of Dollars

	Total		Q4 2008		Q3 2008		Q2 2008		Q1 2008		Prior	
	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital
Banks/Brokers	714.7	757.2	66.9	368.8	168.9	94.0	122.1	157.4	151.4	84.0	205.4	53.0
Insurance Cos	143.2	91.7	0.0	51.9	36.4	1.6	13.3	27.5	42.0	3.2	51.5	7.5
GSEs	114.5	22.6	0.0	0.0	38.3	0.0	29.0	7.1	24.6	0.0	22.6	15.5
Worldwide	972.4	871.5	66.9	420.7	243.6	95.6	164.4	192.0	218.0	87.2	279.5	76.0

Source: Bloomberg



Moves Before Labor Day

August 2007

- *Cut the discount rate premium to the funds rate
- * Allow the effective rate to diverge from the funds rate
- * Remove the stigma of borrowing from the window
 - * Extend the term to 30 days

September 2007

- *Fed cuts 50 basis points
- * FHA Secure to help homeowners

October 2007

- *Treasury proposes bailing out SIVs
- * Fed cuts the funds rate 25 bps

November 2007

“Teaser Freezer” Plan

December 2007

- *Fed cuts 25 basis points
- * Fed Announces the TAF auction

January 2008

- *Fed cuts 75 bps before open
- * Fed cuts 50 bps 8 days later
- * NY State insurance commissioner orchestrates “monoline talks”

February 2008

- *Fed increases the size of the TAF auctions
- * Treasury arranges a 30-day freeze on foreclosures
 - * Conforming loan limits increased

March 2008

- *Fed changes the discount window rules, allows the dealers access and increases the term to 90 days for the banks
 - * Fed increases the size of the TAF auctions
 - * Fed orchestrates a bailout of Bear Stearns

July 2008

- * Treasury given a “Bazooka” to backstop Fannie/Freddie

Moves Since Labor Day

Major Financial/Economic Events <u>Since</u> Labor Day	
7-Sep	*Fannie Mae, Freddie Mac put into conservatorship
14-Sep	*Bank of America buys Merrill *Lehman files for bankruptcy
17-Sep	*AIG Bailout *Lloyds buys HBOS in UK government-engineered deal
18-Sep	*FSA announces short selling restrictions *Liquidity added through record system repos of \$110 billion
19-Sep	*Treasury guarantees money market assets *SEC announces new short selling rules *TARP plan unveiled *FTSE has biggest one-day gain ever
22-Sep	*Goldman Sachs and Morgan Stanley convert to banks *Fed loosened rules that limited buyout firms and private investors to take big stakes in banks from 25% to 33%
23-Sep	*Berkshire Hathaway invests in Goldman Sachs
25-Sep	*Washington Mutual (WaMu) taken over by JP Morgan
27-Sep	*Bradford & Bingley nationalised *Fortis bailed out by Dutch, Belgian, Luxemburg governments
28-Sep	*Hypo Real Estate bailed out by German government-sponsored lenders *Glitnir bailed out by Icelandic government
29-Sep	*Citigroup takes over banking business of Wachovia with FDIC guarantees *Ireland guarantees all deposits *House rejects TARP plan *DJIA falls a record 777 points
30-Sep	*Belgian government bails out Dexia *South Korea, Taiwan, Indonesia Ban Short sales on all stocks temporarily *Fed pumps a record \$630B of liquidity into swap lines with foreign central banks *Senate passes revised TARP plan
1-Oct	*Berkshire Hathaway invests in GE *UK lifts depositor guarantee to £50,000 from £35,000, *Well Fargo takes over Wachovia despite Citigroup deal 4 days earlier *Fortis bailout amended, Dutch government buys Dutch businesses
3-Oct	*TED spread hits record of 340 bps, House passes revised TARP plan *BNP buys rest of Fortis
5-Oct	*Germany guarantees all individual savers *Hypo Real Estate bailout re-negotiated *Denmark and Sweden guarantee deposits *Unicredit bailed out in Italy
6-Oct	*FTSE has worst day in over 20yrs, Dow trades down over 800pts at one stage, *Federal Reserve boosts TAF auctions to \$900bn (last Dec started with \$50bn as a "temporary measure") *Iceland takes control of banking system, *UK government meet with bank CEOs to discuss capital injection *RBA cuts rates by 100bps
7-Oct	*RBS trades down 40% on talk of UK government injection into banks *Federal Reserve to buy commercial paper direct from companies
8-Oct	*UK bank bailout plan *Coordinated rate cuts with Fed, ECB, BoE, BoC, Riksbank, SNB and PBOC * SEC lifts restrictions of short selling *Dow completes worst 6 days in history *European stocks endured worst 3 days since 1987
9-Oct	*The DJIA falls 7.33% for its 13th worst day ever *UK announces plan to recapitalize banking system

Major Financial/Economic Events <u>Since</u> Labor Day - cont.	
10-Oct	*Stock markets complete their worst week since 1933 *The G-7 holds emergency meeting in Washington *Corporate spreads reach widest levels since the Great Depression
12-Oct	*EU countries agree to capital injections into banks *Guarantee deposits and inter-bank loans *UK offers details on capital injection plan, takes major stakes in HBOS, Lloyds and RBS
13-Oct	*MUFG agrees to \$9 billion capital injection into Morgan Stanley *S&P 500 up 11.08%, its best day since 1933 *TED spread hit record wide of 436 basis points *World central banks offer "unlimited" liquidity to banking system
14-Oct	*U.S. Treasury agrees to inject \$125 billion of capital into nine banks *Increases guarantee on bank deposits and bank debt *Iceland stock market re-opens and falls 76%
15-Oct	*The DJIA falls 7.87% for its 11th worst day ever (and worst since October 1987) *ECB expands collateral framework, accepts lower-rated credit instruments and also instruments denominated in \$, £ and yen
16-Oct	*Swiss government injects \$5 billion in UBS and could own 9% It will also acquire \$60 billion of illiquid assets *Credit Suisse raises SF 10bn *French President Sarkozy calls for a "revamp of capitalism" *Bank of England eases rules for borrowing at the discount window
20-Oct	*The Netherlands Government injects \$13.4 billion into ING Groep NV *EU loosens mark-to-market rules on European Banks *South Korean Government Guarantees Up To \$100 Billion in Bank Loans
21-Oct	*France Injects \$14 billion into top 6 banks *Pakistan discusses with IMF a \$10bn-\$15bn support package to stabilise its economy
23-Oct	* Fed Announces \$540 billion facility to but CP from Money Market Funds
24-Oct	* Australian Banks Freeze Redemptions * Stock Futures Limit Down Before NYSE Open
27-Oct	* IMF Money To Ukraine * IMF Money To Hungary
28-Oct	* DJIA Up 890 Points * Volkswagen Short squeeze - Stock up 500%
29-Oct	* Bank of China Cuts Rates * Norway Cuts Rates 50 Basis Points * Fed Cuts the funds rate 50 basis points to 1.00% * Fed Announces \$120 billion swap lines with Brazil, South Korea, Singapore and Mexico
30-Oct	* Fed Increases AIG Loan \$21 Billion *Japan cuts Interest Rates to .03 % cut in 7yrs
3-Nov	*Auto Sales dropped 30 % in October, Worst Since 1945
4-Nov	* Obama is elected President
5-Nov	* Fed Raises rates it pays on reserves (equal To target rate)
10-Nov	* AIG deal renegotiated, Gets \$40 billion of TARP Money
11-Nov	* China announces \$586 Billion stimulus package * Fannie Mae announces \$29 Billion loss
12-Nov	* Fed changes role of Tarp to Capital Injection Fund
13-Nov	* CIT converts to commercial bank
14-Nov	* Bloomberg Sues The Fed For Disclosure on Collateralized Loans * Deadline for publicly held banks to apply for TARP money
15-Nov	* G-20 Meeting
17-Nov	* Goldman Senior Executives Will Not Take A Bonus For 2008
18-Nov	* UBS Senior Executives Will Not Take A Bonus For 2008
20-Nov	* S&P 500 slumps 52% from all-time high, worst bear market in 60 years
21-Nov	* Fannie/Freddie suspend foreclosures through January 9

The Credit Crisis: The Largest Outlay In American History

From Our [Newsclips/Daily Commentary](#)

Measuring The Size Of The Bailouts

As of November 27, 2008

The Federal Reserve		
Program (Description)	Maximum Amount	Current Amount
Net Portfolio Commercial Paper Funding (Purchases ST Debt directly from corporate issuers)	\$1,800.0	\$270.9
Term Auction Facility (TAF) (Banks get loans for as many as 28 days by posting collateral)	\$900.0	\$415.3
Other Assets	\$601.9	\$601.9
MMIFF (Money Market Investor Funding Facility)	\$540.0	\$0.0
MBS/FHLB/Agency In Reverse Auctions	\$600.0	\$0.0
Term Securities Lending Facility (TSLF) (Allows primary dealers to borrow Tsys by posting collateral)	\$250.0	\$190.2
Other Credit Extensions (The AIG Loan)	\$122.8	\$122.8
Primary Credit Discount (Original Fed lending program for commercial banks)	\$92.6	\$92.6
Asset-Backed Commercial Paper (ABCP) Liquidity (Loans to banks to buy ABCP from mutual funds)	\$61.9	\$61.9
Primary Dealers and others (A discount window for all primary dealers and securities firms)	\$46.6	\$46.6
Net Portfolio Maiden Lane (Bear Stearns Assets)	\$38.8	\$26.9
Securities Lending Overnight (one-day loans to banks on collateral)	\$10.3	\$10.3
Secondary Credit	\$0.1	\$0.1
Federal Reserve Total	\$5,065.0	\$1,839.5
The FDIC		
FDIC liquidity guarantees (Guarantees bank-to-bank loans)	\$1,400.0	\$0.0
Loan Guarantee To Lending Arm of GE	\$139.0	\$139.0
FDIC Total	\$1,539.0	\$139.0
Treasury Department		
TARP	\$700.0	\$350.0
Fannie Mae/ Freddie Mac (bailout)	\$350.0	\$0.0
Stimulus Package (Spring 2008)	\$168.0	\$168.0
Treasury Exchange Stabilization Fund (Buys and sells Foreign currencies to moderate their fluctuation)	\$50.0	\$50.0
Tax Break For Banks	\$29.0	\$29.0
Citibank Asset Backstop	\$306.0	\$0.0
TALF	\$200.0	\$0.0
Treasury Total	\$1,803.0	\$597.0
FHA		
Hope for Homeowners (provides loan guarantees for struggling mortgage borrowers)	\$300.0	\$300.0
Other		
Auto Loans (via Dept. of Energy)	\$25.0	\$0.0
Grand Total	\$8,707.0	\$2,875.5

Sources: CNBC, Bloomberg, WSJ

The current bailout cost is greater than all these “big budget events” combined (detailed in the link above)!

- **Marshall Plan**: Cost: \$12.7 billion, Inflation Adjusted Cost: **\$115.3 billion**
- **Louisiana Purchase**: Cost: \$15 million, Inflation Adjusted Cost: **\$217 billion**
- **Race to the Moon**: Cost: \$36.4 billion, Inflation Adjusted Cost: **\$237 billion**
- **S&L Crisis**: Cost: \$153 billion, Inflation Adjusted Cost: **\$256 billion**
- **Korean War**: Cost: \$54 billion, Inflation Adjusted Cost: **\$454 billion**
- **The New Deal**: Cost: \$32 billion (Est), Inflation Adjusted Cost: **\$500 billion (Est)**
- **Gulf War II / War on Terror**: Cost: \$551b, Inflation Adjusted Cost: **\$597 billion**
- **Vietnam War**: Cost: \$111 billion, Inflation Adjusted Cost: **\$698 billion**
- **NASA (Cumulative)**: Cost: \$416.7 billion, Inflation Adjusted Cost: **\$851.2 billion**

Collectively, all the “big budget items” above totaled **\$3.92 trillion**.

Only one big budget item in American history comes close to matching the cost of the credit crisis:

- **World War II**: Original Cost: \$288 billion, Inflation Adjusted Cost: **\$3.6 trillion**

Of course the difference between these items above and the credit crisis is those events were expenses whereas the bailout for the credit crisis is considered to be a loan. Presumably the government will get most of its money back when these loans are paid back. Nevertheless, the initial outlays, all done in 2008, vastly exceed anything seen in American history.

Who Gets TARP Money?

Known TARP Money Awarded

as of December 2, 2008

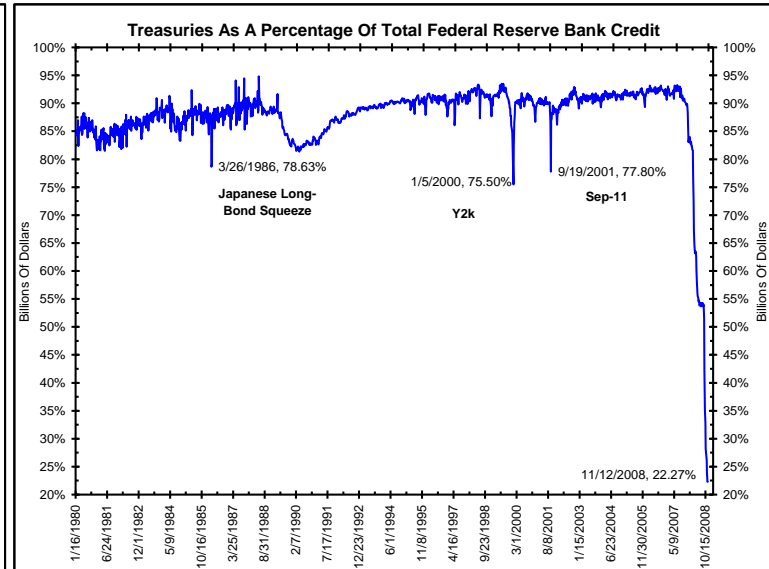
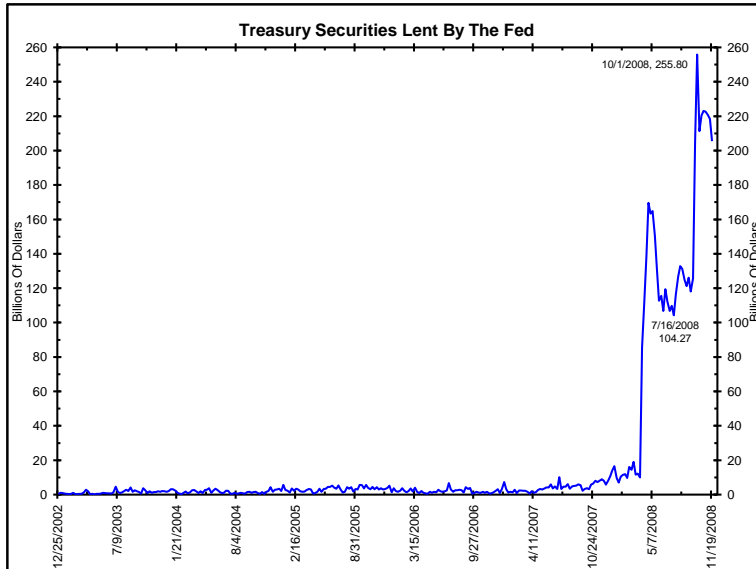
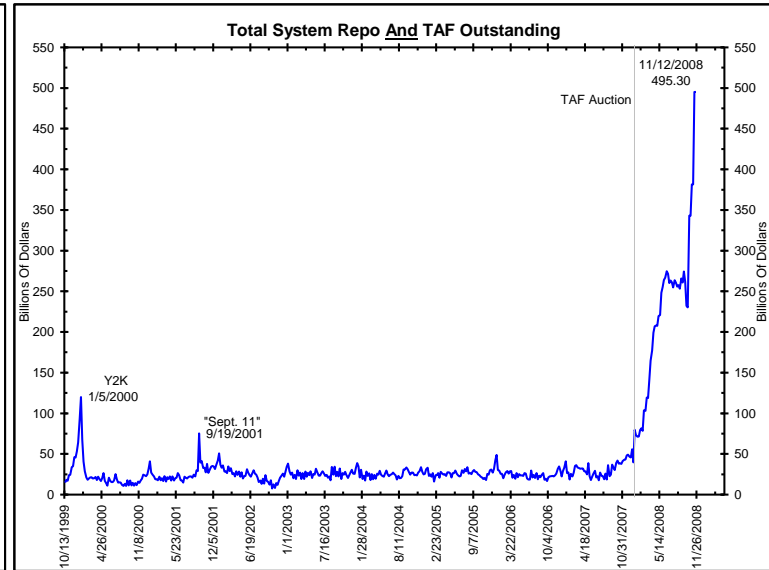
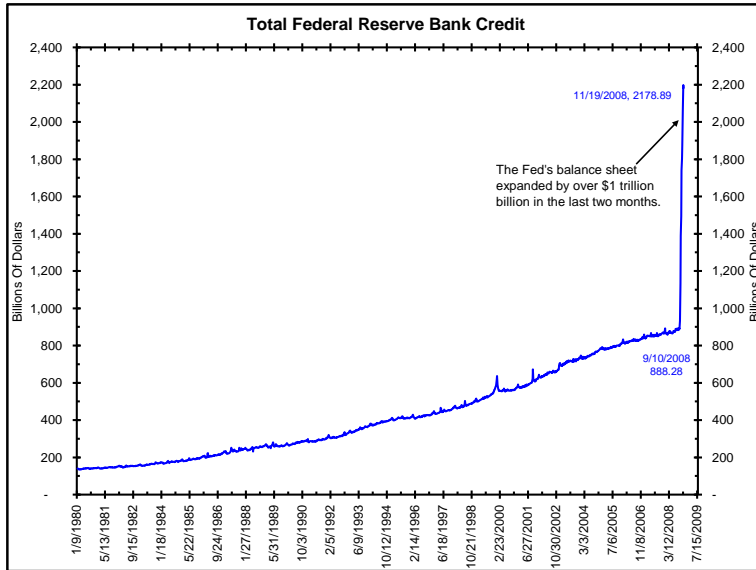
Bank Name	Date Announced	Amount (in Millions)
Citigroup	10/12/2008	\$45,000
American International Group	11/12/2008	\$40,000
Wells Fargo	10/12/2008	\$25,000
JPMorgan Chase	10/12/2008	\$25,000
Bank of America	10/12/2008	\$15,000
Morgan Stanley	10/12/2008	\$10,000
Merrill Lynch	10/12/2008	\$10,000
Goldman Sachs Group	10/12/2008	\$10,000
PNC Financial Services Group	10/12/2008	\$7,700
US Bancorp	11/12/2008	\$6,600
Capital One Financial	10/12/2008	\$3,550
SunTrust Banks	10/12/2008	\$3,500
Regions Financial	10/12/2008	\$3,500
Fifth Third Bancorp	10/12/2008	\$3,400
BB&T	10/12/2008	\$3,100
Bank of New York Mellon	10/12/2008	\$3,000
KeyCorp	10/12/2008	\$2,500
Comerica	10/12/2008	\$2,250
State Street	10/12/2008	\$2,000
Marshall & Ilsley	10/12/2008	\$1,700
Northern Trust	10/12/2008	\$1,500
Zions Bancorp	10/12/2008	\$1,400
Huntington Bancshares	10/12/2008	\$1,400
Freddie Mac	9/12/2008	\$1,000
Fannie Mae	9/12/2008	\$1,000
Synovus	11/14/2008	\$973
Popular, Inc	11/18/2008	\$950
First Horizon National	10/12/2008	\$866
E-Trade	11/8/2008	\$800
M&T bank Corporation	11/20/2008	\$600
Colonial BancGroup	12/2/2008	\$550
Associated Banc-Corp.	11/8/2008	\$530
Webster Financial	11/12/2008	\$400
City National	10/12/2008	\$395
Fulton Financial	11/8/2008	\$375
TCF Financial	11/12/2008	\$361
South Financial Group	11/14/2008	\$347
Wilmington Trust	11/14/2008	\$330
Valley National Bancorp	10/12/2008	\$330
Whitney Holding	11/26/2008	\$301
Tennessee Commerce Bancorp	11/25/2008	\$300
Susquehanna Bancshares	11/19/2008	\$300
Sterling Financial Corp	11/24/2008	\$300
Citizens Republic Bancorp	11/14/2008	\$300
UCBH Holdings	10/12/2008	\$298
Whitney Holding	10/12/2008	\$282
Cathay General Bancorp	11/18/2008	\$258
Wintrust Financial Corp	11/26/2008	\$250
First Merit	11/13/2008	\$248
Trustmark	11/8/2008	\$215
Umpqua Holdings	10/12/2008	\$214
Washington Federal	10/12/2008	\$200
International Bancshares	10/8/2008	\$200
First Midwest Bancorp	11/12/2008	\$193
Pacific Capital Bancorp	11/12/2008	\$188
First Niagara Financial	10/12/2008	\$186
United Community Banks	11/18/2008	\$180
Old National Bancorp	10/12/2008	\$162
Provident Bankshares	10/12/2008	\$157
National Penn Bancshares	11/26/2008	\$150
Boston Private Financial Holdings	11/19/2008	\$150
Western Alliance Bancorp	11/13/2008	\$140
CVB Financial	11/19/2008	\$130
Sterling Bancshares	12/2/2008	\$125
Banner Corp	11/12/2008	\$124
Signature	10/8/2008	\$120
Iberiabank Corp	11/18/2008	\$115

Known TARP Money Awarded

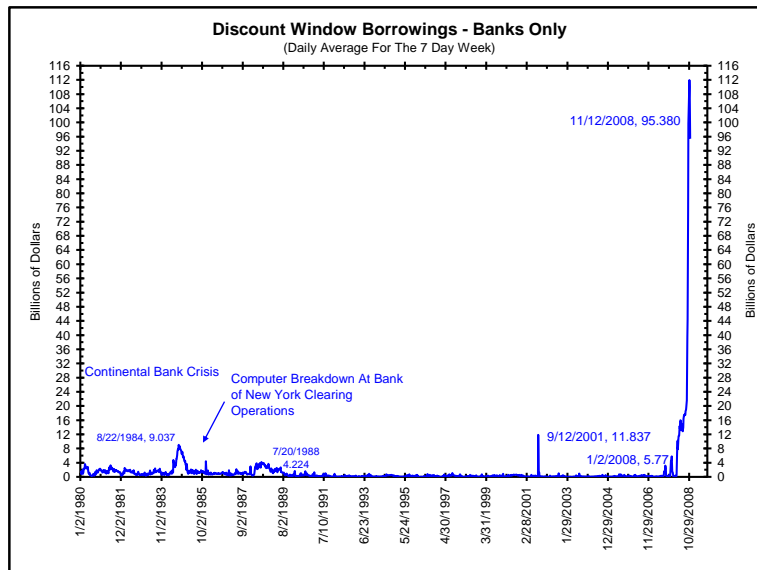
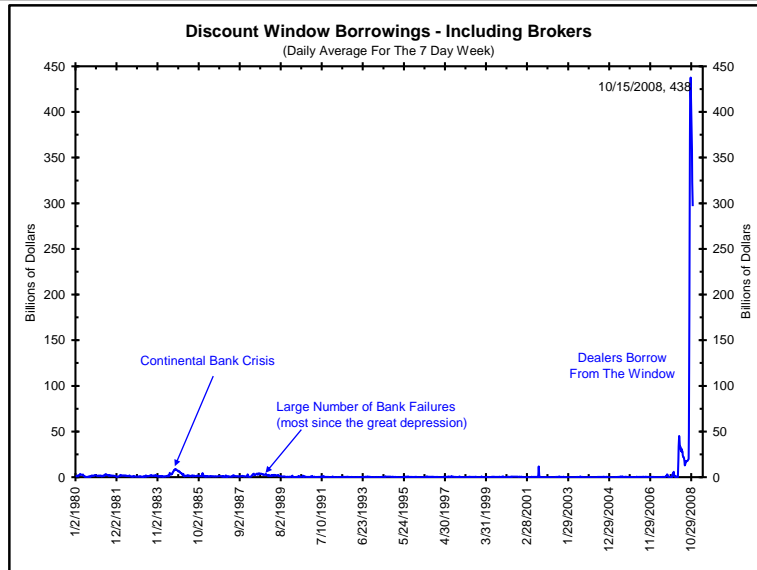
as of December 2, 2008

Bank Name	Date Announced	Amount (in Millions)
Taylor Capital	11/8/2008	\$105
Park National Corp	12/2/2008	\$100
Midwest Banc Holdings	11/12/2008	\$85.5
Sandy Spring Bancorp	11/20/2008	\$83.0
First Financial	10/8/2008	\$80.0
Columbia Banking System	11/12/2008	\$76.9
TowneBank	11/26/2008	\$76.5
Independent Bank Corp	11/24/2008	\$72.0
Virginia Commerce Bancorp	11/26/2008	\$71.0
Southwest Bancorp	11/20/2008	\$70.0
Superior Bancorp	11/18/2008	\$69.0
Nara Bancorp	11/14/2008	\$67.0
First Financial Holdings	12/1/2008	\$65.0
CoBiz Financial	11/8/2008	\$64.4
Wilshire Bancorp	11/20/2008	\$62.0
Great Southern Bancorp	11/17/2008	\$60.0
American West Bank	11/8/2008	\$57.0
Center Financial Corp	11/24/2008	\$55.0
NewBridge	11/8/2008	\$52.0
Ameris Bancorp	11/21/2008	\$52.0
Home Bancshares, Inc	11/21/2008	\$50.0
Fidelity Southern Corp	11/24/2008	\$48.2
Capital Bank	11/17/2008	\$43.0
Southern Community Group	11/18/2008	\$42.8
First Community Bancshares	10/30/2008	\$42.5
Bank of Florida	10/12/2008	\$40.7
Simmons First National	10/8/2008	\$40.0
Heritage Commerce	11/8/2008	\$40.0
Porter Bancorp	11/13/2008	\$39.0
Peoples Bancorp	11/13/2008	\$39.0
Cascade Financial	11/12/2008	\$39.0
Eagle Bancorp	11/21/2008	\$38.2
TIB Financial Corp	12/1/2008	\$37.0
First Defiance Financial Corp	11/24/2008	\$37.0
HFF Financial Corp	11/14/2008	\$35.0
Peapack-Gladstone Financial	11/20/2008	\$28.7
Bank of Marin Bancorp	12/2/2008	\$28.0
CenterState Banks of Florida	11/24/2008	\$27.9
Intermountain Community Bancorp	11/7/2008	\$27.0
Washington Banking Company	12/1/2008	\$26.4
LNB Bancorp	11/20/2008	\$25.2
VIST Financial Corp	11/24/2008	\$25.0
Horizon Bancorp	11/26/2008	\$25.0
Home Federal Financial	10/12/2008	\$25.0
First California Financial Group	12/2/2008	\$25.0
Heritage Financial	11/8/2008	\$24.0
Severn Bancorp	11/18/2008	\$23.5
Wainwright Bank & Trust	11/20/2008	\$22.0
Indiana Community Bancorp	11/20/2008	\$21.5
Unity Bancorp	11/24/2008	\$20.6
Citizens South Banking Corp	12/1/2008	\$20.5
First PacTrust Bank	11/13/2008	\$19.3
HopFed Bancorp	11/20/2008	\$18.4
Redding Bank	10/27/2008	\$17.0
Bank of Commerce	10/12/2008	\$17.0
Valley National Corp	11/26/2008	\$16.0
First Financial Services	11/14/2008	\$16.0
The Bank Holdings	11/8/2008	\$15.0
Bridge Bancorp	11/8/2008	\$14.3
Pamrapo	11/8/2008	\$11.4
Mackinac Financial	10/8/2008	\$11.1
Mid Penn Bancorp	11/26/2008	\$10.0
Broadway Financial Corp	11/14/2008	\$9.0
Central Federal Corp.	11/24/2008	\$7.2
American River Bancorp	11/24/2008	\$6.0
Capital Pacific Bancorp	11/8/2008	\$4.0
Seacoast Commerce Bank	12/1/2008	\$1.8
Saigon National Bank	10/12/2008	\$1.2
Total		\$245,318

The Federal Reserve's Exploding Balance Sheet



The Federal Reserve's Exploding Discount Window

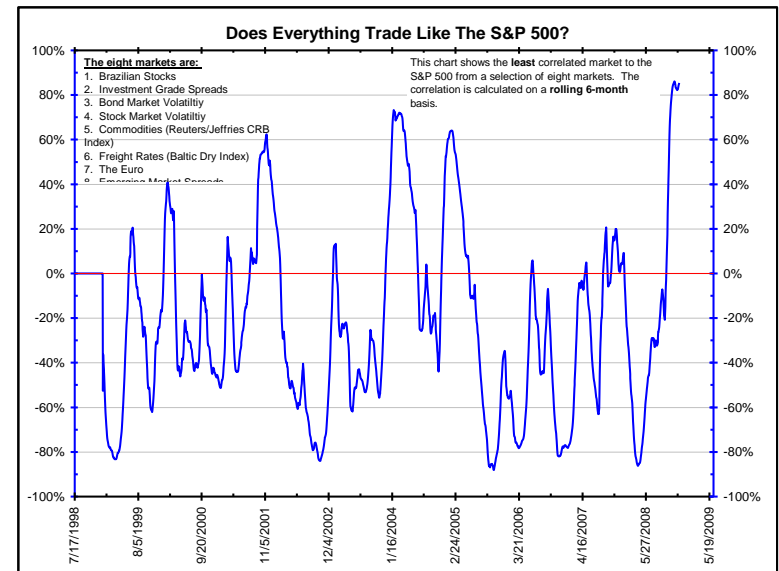
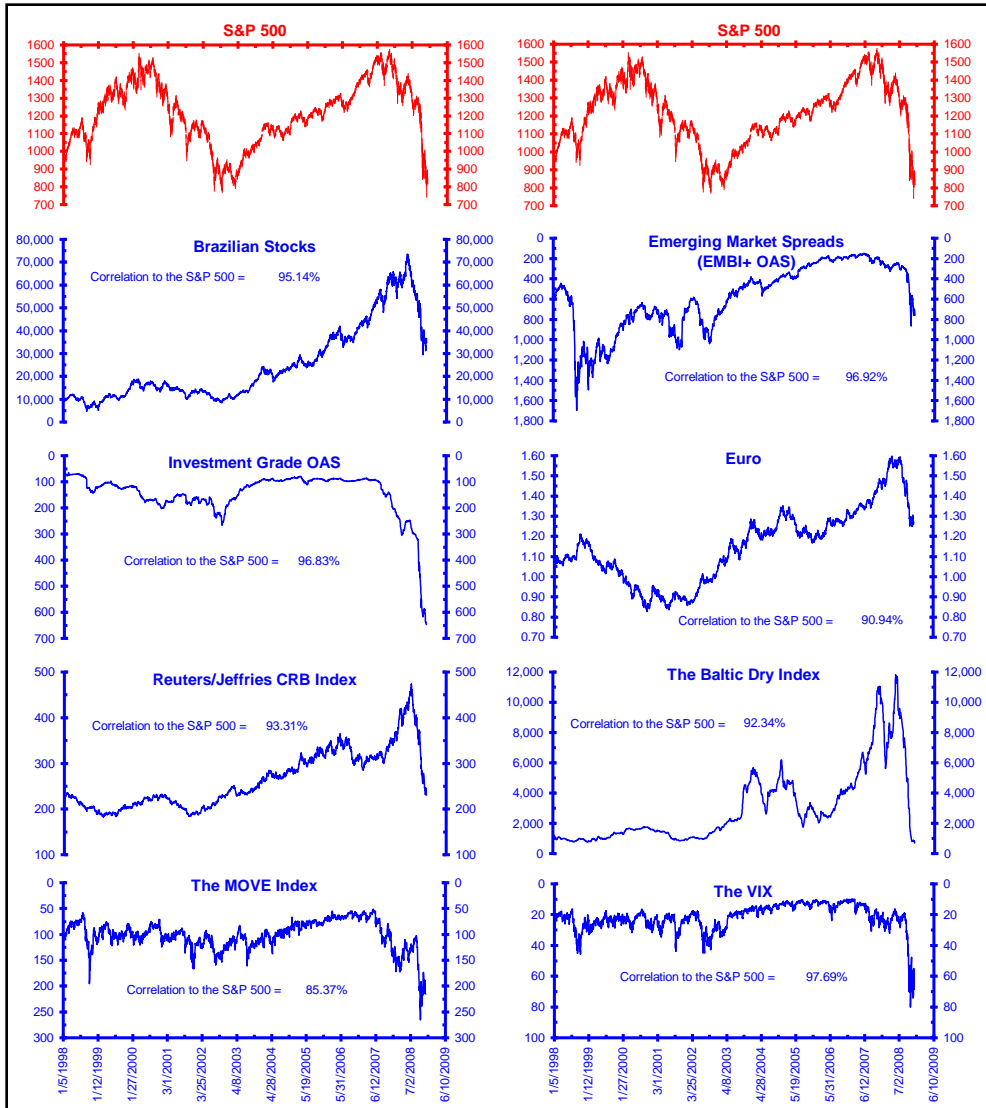


Breaking Down Discount Window Borrowings

Weekly Average For November 12, 2008

Type of Loan	Total (Billions)	Chg. From 10-Sep
Primary Loans (Traditional Bank Borrowings)	\$95.38	\$75.58
Primary Dealer Credit Facility (PDCF)	\$64.93	\$64.93
ABCP MMMF Liquidity Facility (New This Week)	\$80.24	\$80.24
Other Credit Extensions (Primarily The AIG Loan)	\$82.28	\$82.28
Seasonal Credit (Traditional Bank Borrowings)	\$0.10	\$0.01
Total	\$322.93	\$303.04

It Is All The Same Trade



Medicated Market - LIBOR And The TED Spread

From Our [Newsclips/Daily Commentary](#)

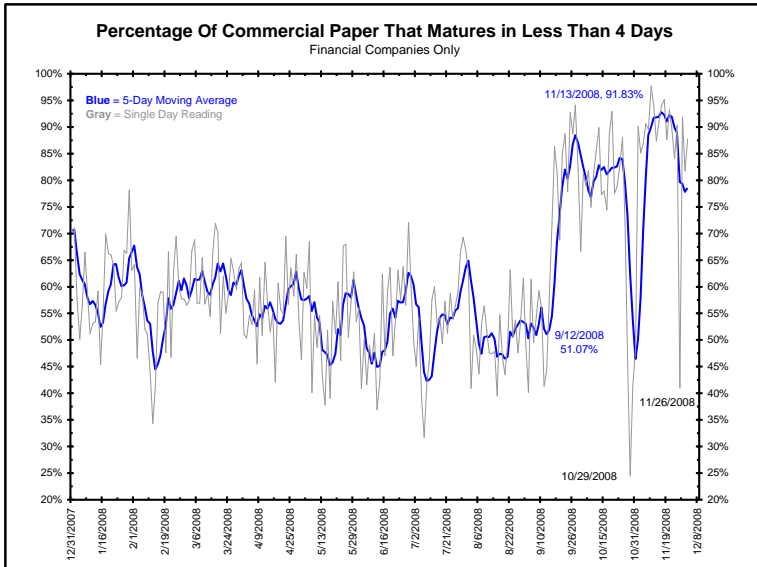
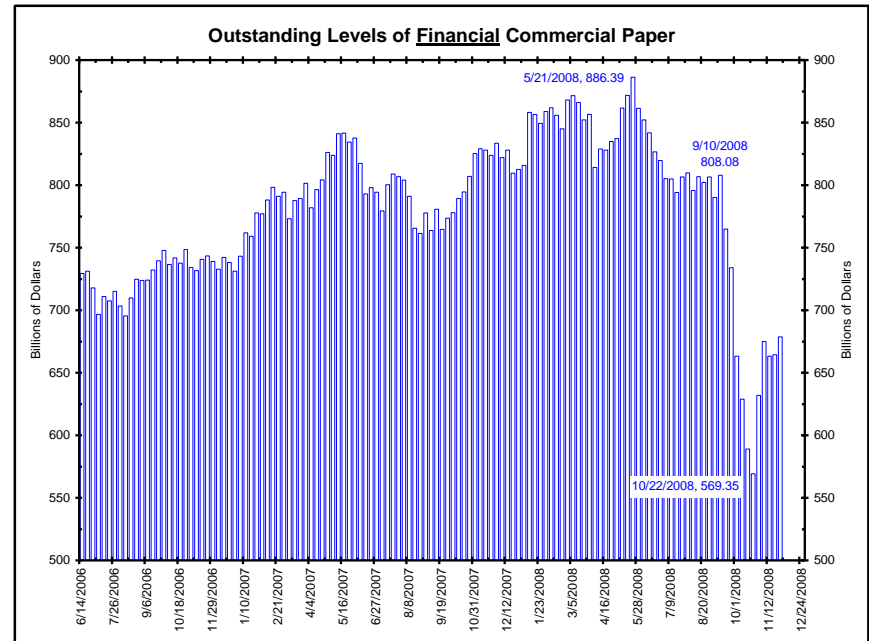
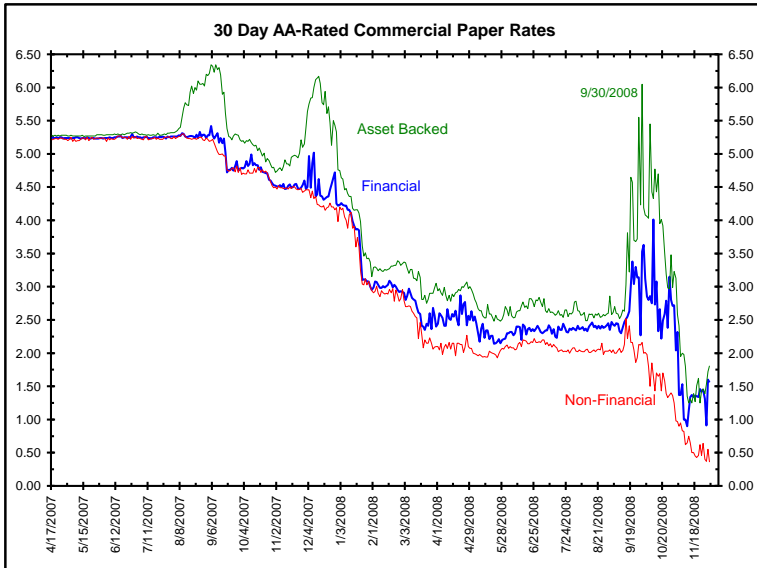
Comment – With LIBOR stabilizing nearly 200 basis points above the 3-month T-bill rate, it is still at what would have been considered a panic level any time before Labor Day. Just because current rates “look good” relative to the levels of early October does not mean this market is well.

Further, as we have been highlighting, LIBOR and commercial paper are what we called “**medicated** markets.” Government involvement (medication) is so large in these markets that it is almost questionable whether they can still be considered markets. Who is buying term commercial paper other than the Federal Reserve? If investors are not buying, is it still a market? Over half the banks that report LIBOR are receiving government assistance (marked in red in the table above), and they are being told publicly to “[do something](#)” about the high level of LIBOR. Furthermore, with over \$1 trillion in Term Auction Facilities (TAF) and swap agreements designed to manipulate LIBOR, can we honestly consider this a freely traded market?

Given the high level of manipulation from the Federal Reserve/Treasury, we believe it is impossible to say if these “markets” are getting better. Only when government involvement subsides and these rates can stand on their own can we say things are getting better. Currently, these markets are a long way from this happening.

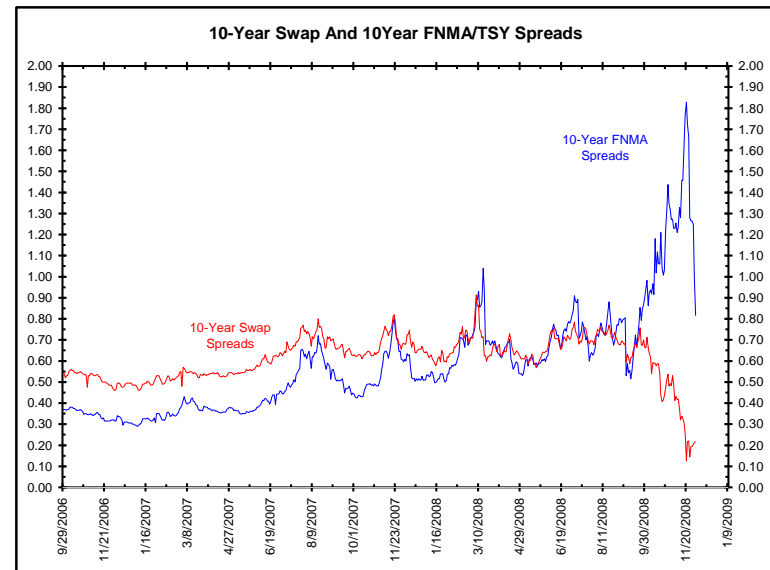
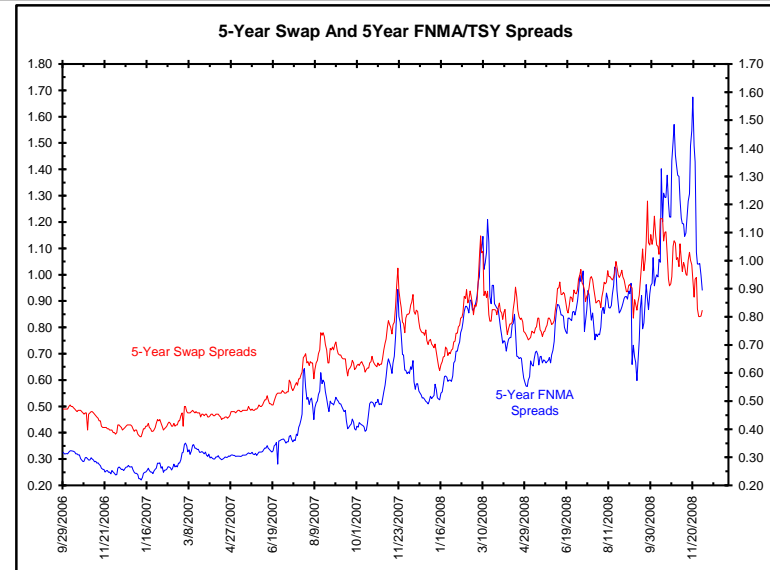
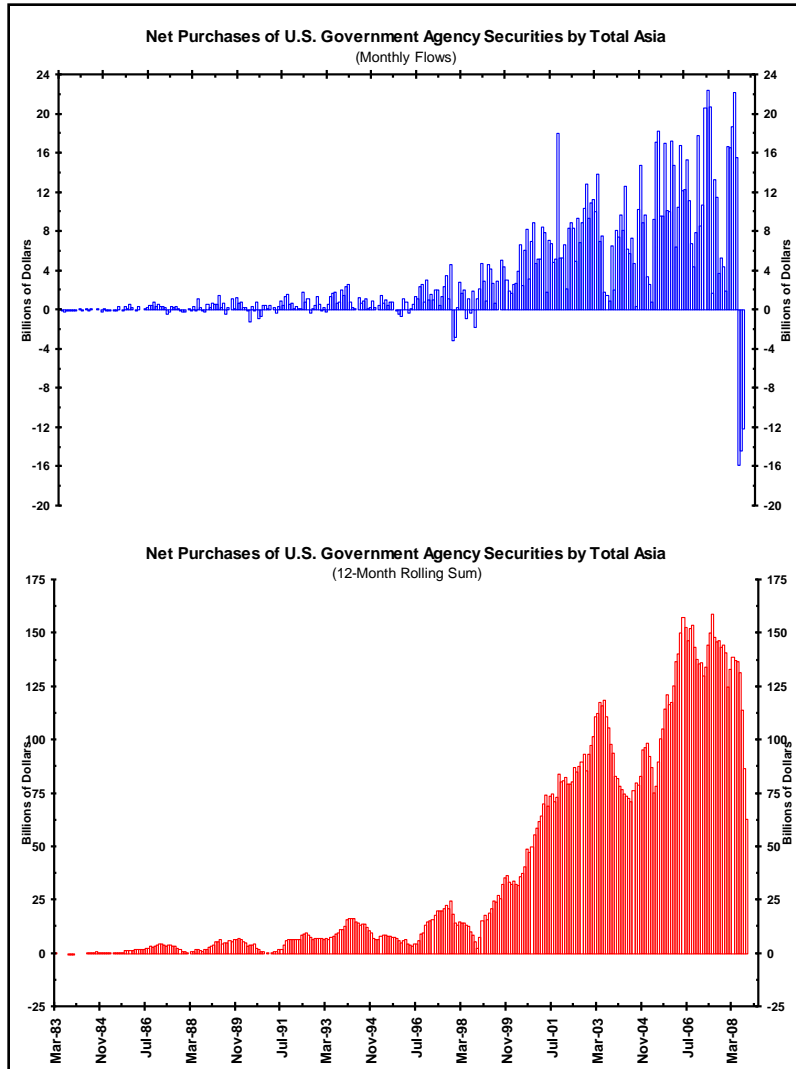


Medicated Market - Commercial Paper

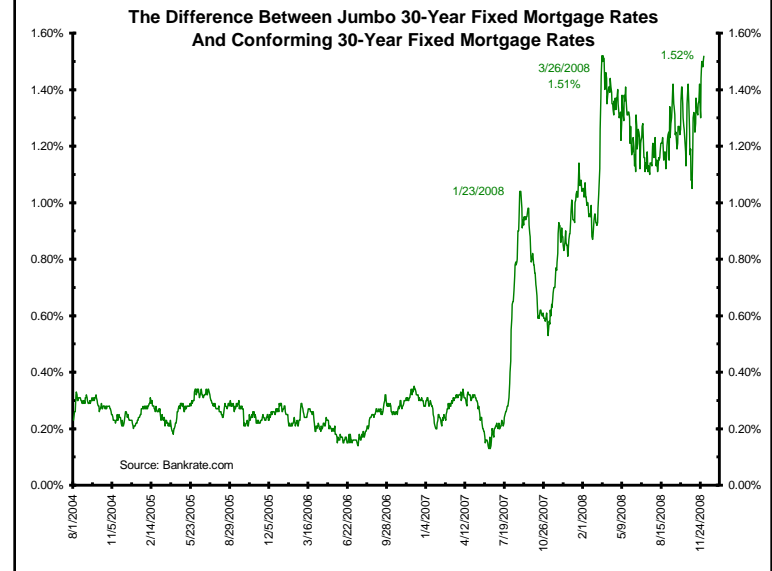
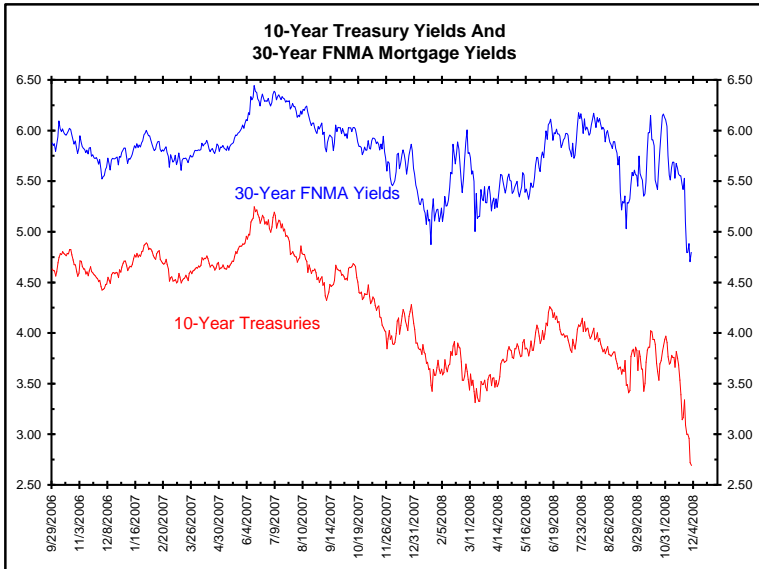
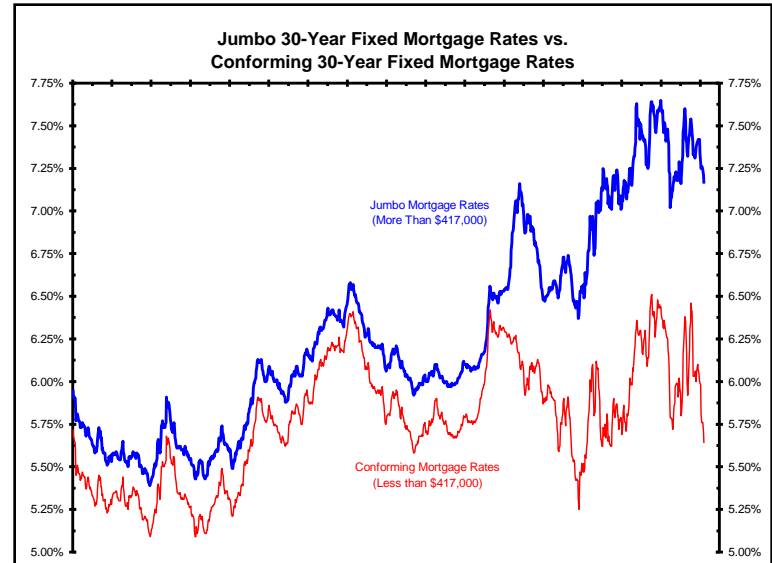
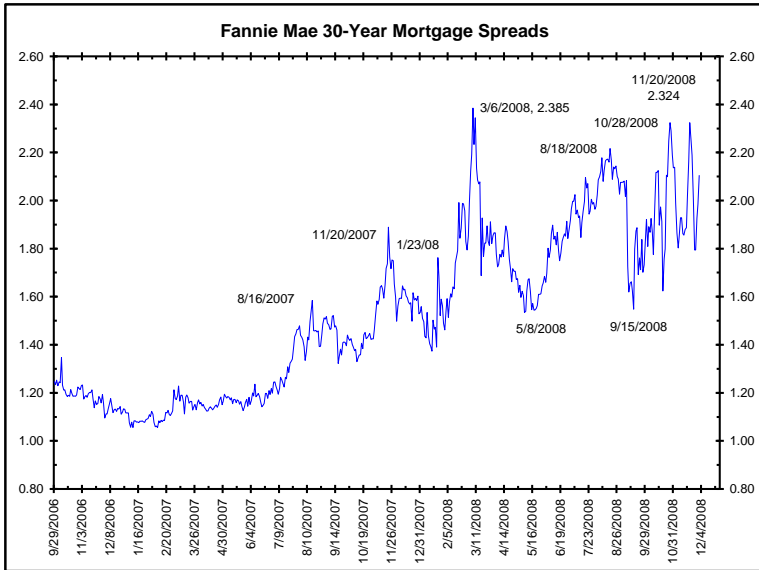


Agency Spreads – The Fed Replaces The Chinese

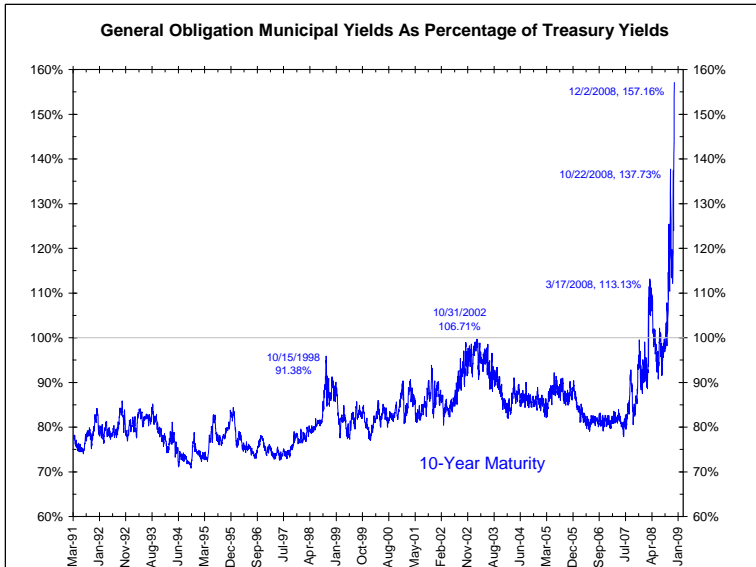
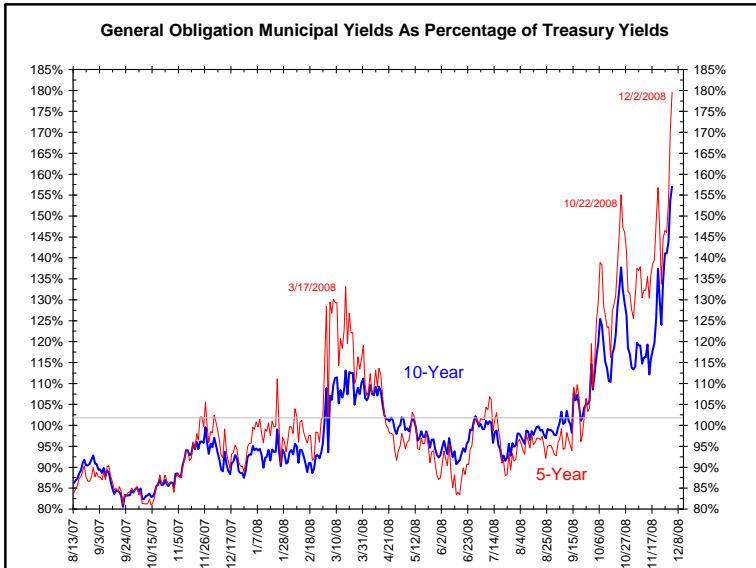
From Our Recent [TIC Update](#)



Mortgage Spreads – Not Getting Worse



Muni Spreads – Still At Panic Levels



Reuters - [Massachusetts explores funding options](#)

Massachusetts' state treasurer has asked the federal government about borrowing money under similar conditions that banks have received if the state runs into financial trouble during the current financial crisis. "I hope that the money won't be needed," Rep. Barney Frank, a Massachusetts Democrat and the powerful head of the House Financial Services Committee, told Reuters on Monday. "But if it is, there is no better borrower than the state," he said. Treasurer Tim Cahill last week explored the possibility of going to the Federal Reserve to borrow money if needed.

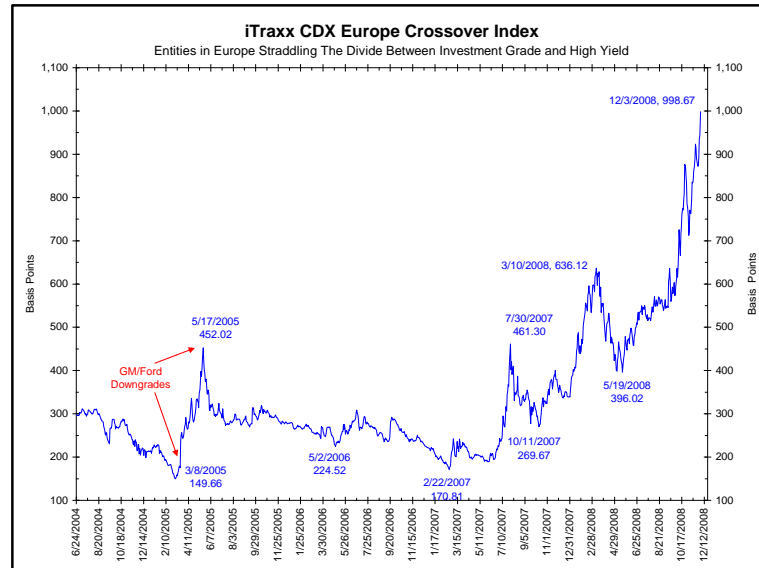
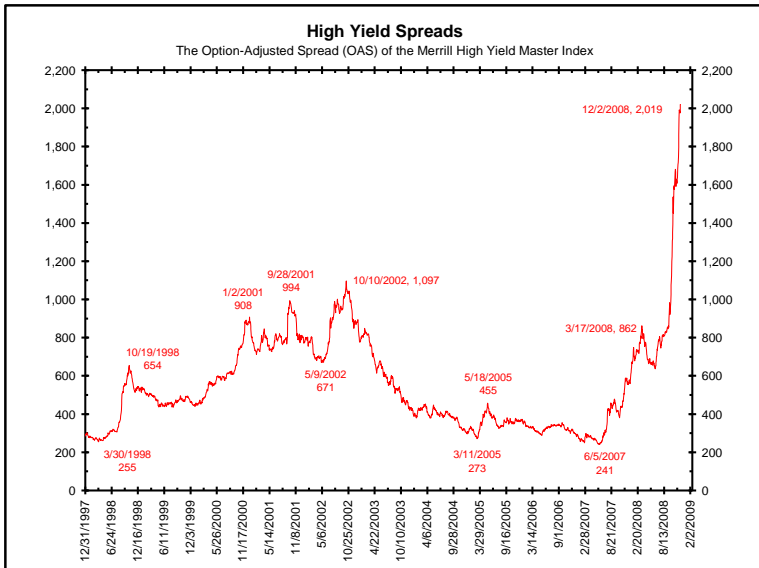
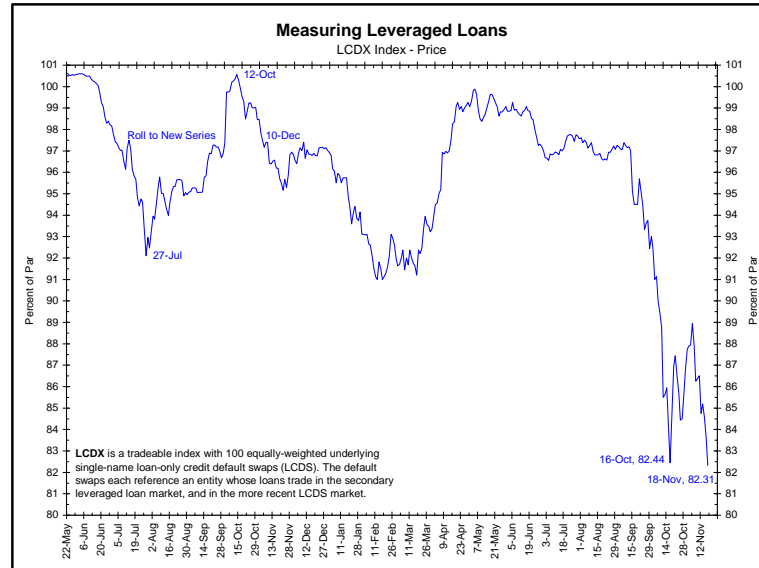
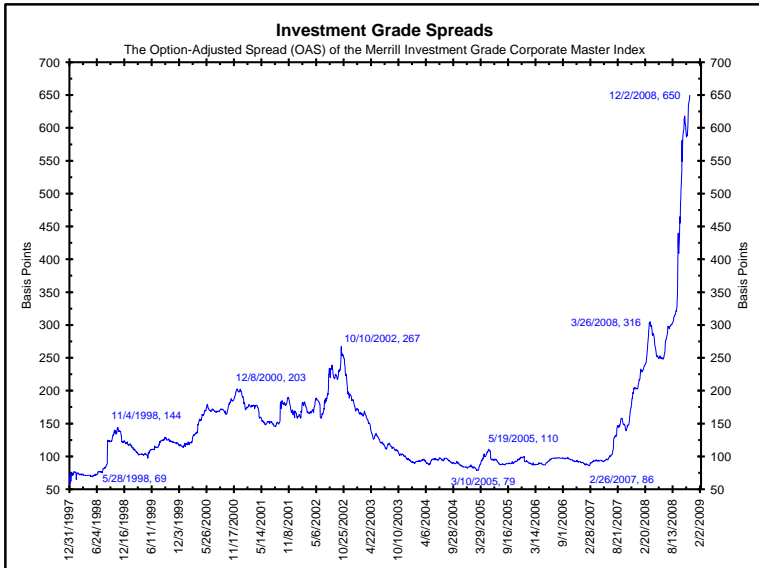
Comment - It is tempting to joke about two "blue states" asking for a bailout. However, as the two charts below show (same series, different time periods), the muni market is in chaos again. General obligation bonds as a percentage of Treasury yields are at their highest level ever. The previous record was during the Bear Stearns failure, which led directly to the Auction-Rate Securities (ARS) implosion.

Add munis to the ever-growing list of crisis markets.

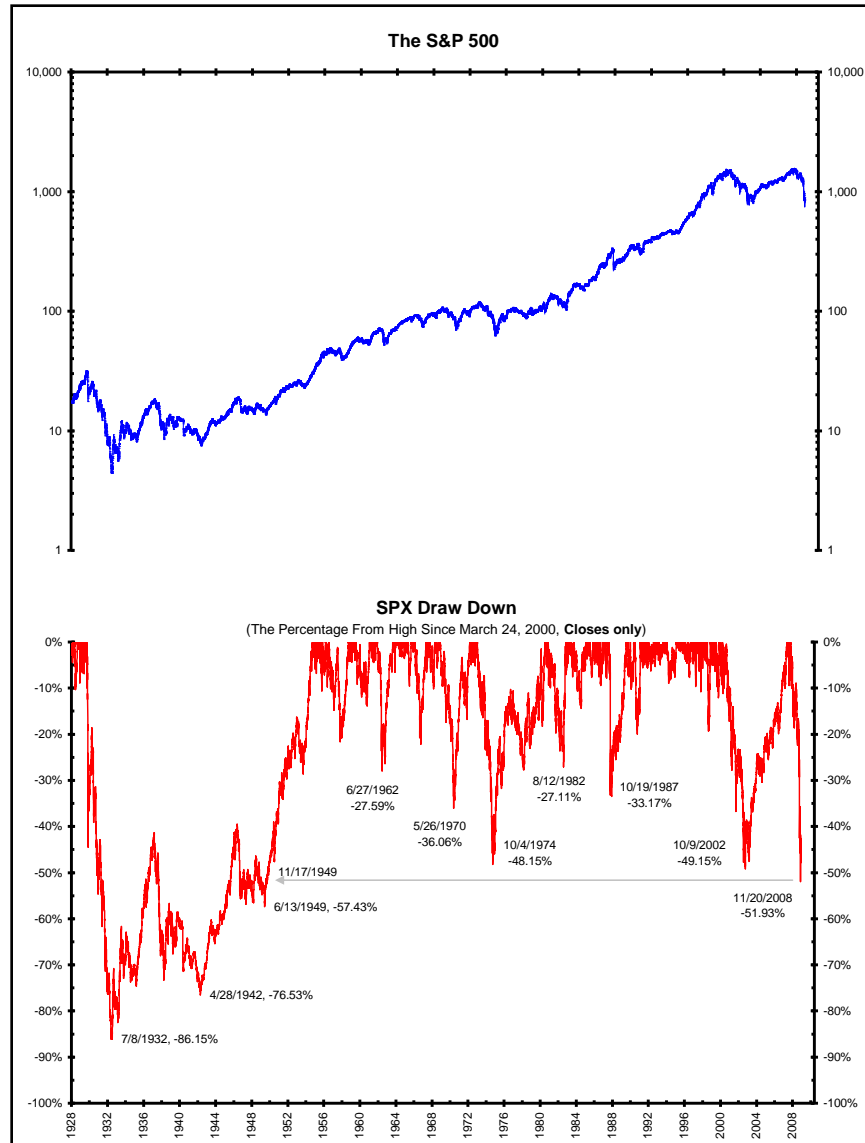
Bloomberg.com – [Joe Mysak: Begging for Bailout Cash, U.S. Cities Told to Go Fish](#)

Atlanta, Detroit, Philadelphia and Phoenix have all asked in recent days for some of the Troubled Asset Relief Program billions. You can expect more to ask. Some want the government to spend the money on infrastructure-construction projects and to buy short-term note issues to help tide them over. Others want the money to help pay for employees and mass transit, among other things. Whether you're a municipal bond investor or simply a taxpayer, this should make you feel a little queasy. **This isn't good news.**

Credit Spreads Are At Their Worst Levels



The Stock Market Decline Now Rivals The 1930s



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