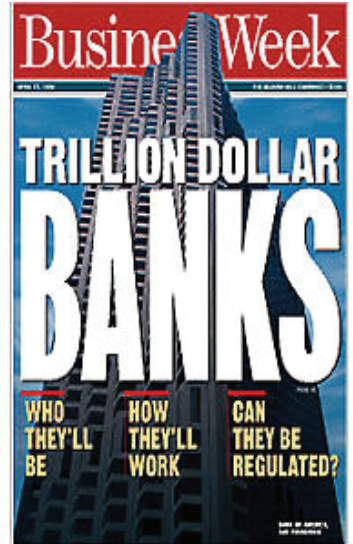
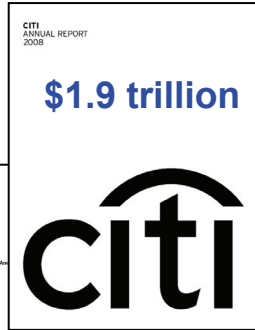


~~trillion~~ ~~trillion~~  
“A billion here, a billion there, and pretty soon you  
are talking about ~~real money.~~”  
“too big to fail”



Sources: Bloomberg.

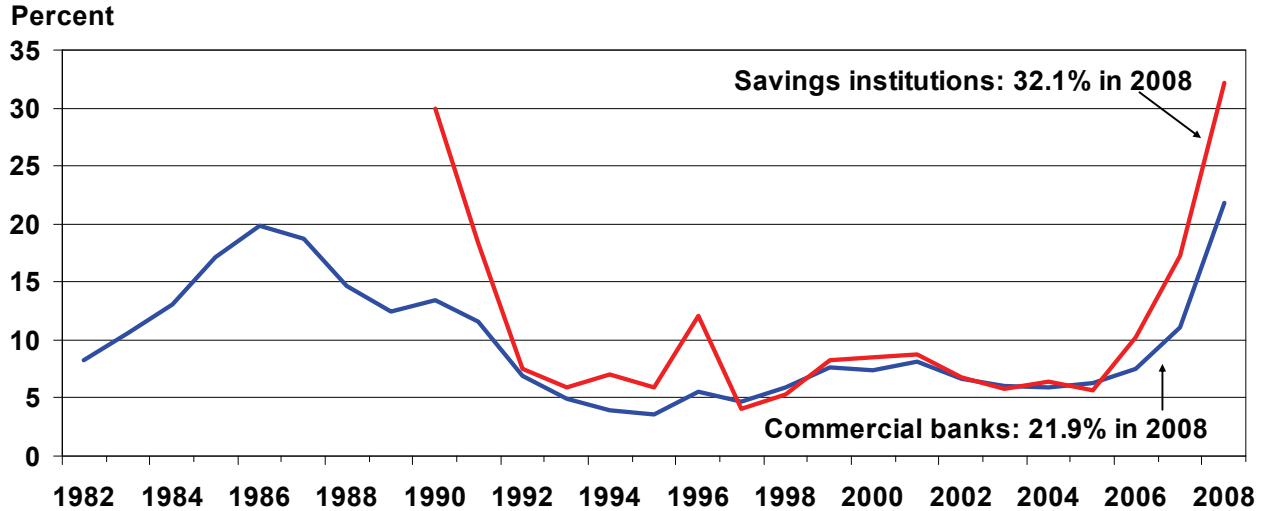


## Subprime write-downs

US\$ billions, as of April 10, 2009	Loss	Capital
Wachovia, United States	101.9	11
Citigroup, United States	88.3	109.3
AIG, United States	87.3	91.7
Freddie Mac, United States	81.6	51.6
Fannie Mae, United States	71.3	30.8
Merrill Lynch, United States	55.9	29.9
UBS, Switzerland	50.6	32.1
Washington Mutual, United States	45.3	12.1
Bank of America, United States	42.7	78.5
HSBC, United Kingdom	42.2	23.7
Others	621	633.2
<b>Grand total</b>	<b>1,288.1</b>	<b>1,103.9</b>

Source: Bloomberg.

# Number of unprofitable financial institutions on the rise *Annual, 1982-2008*

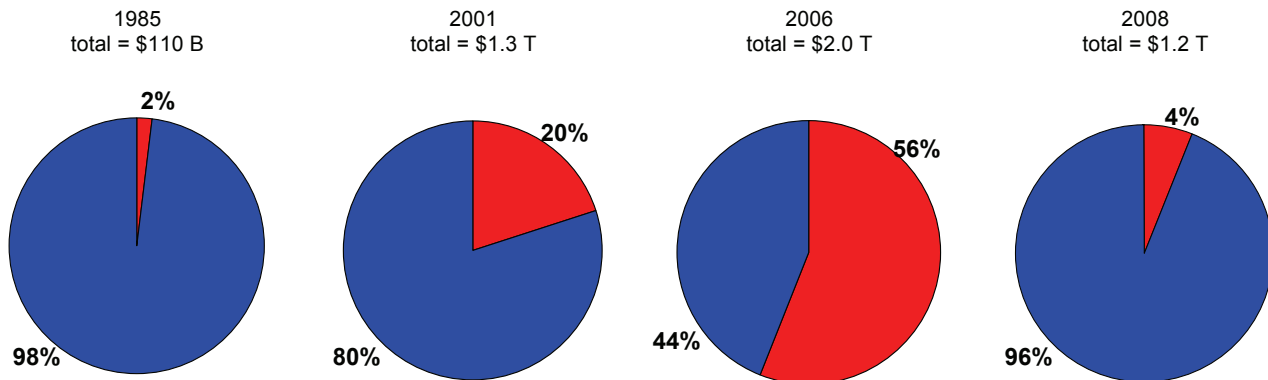


Sources: Moody's Economy.com, FDIC, Milken Institute.

# The rise and fall of private-label securitizers

## *New securities issuance*

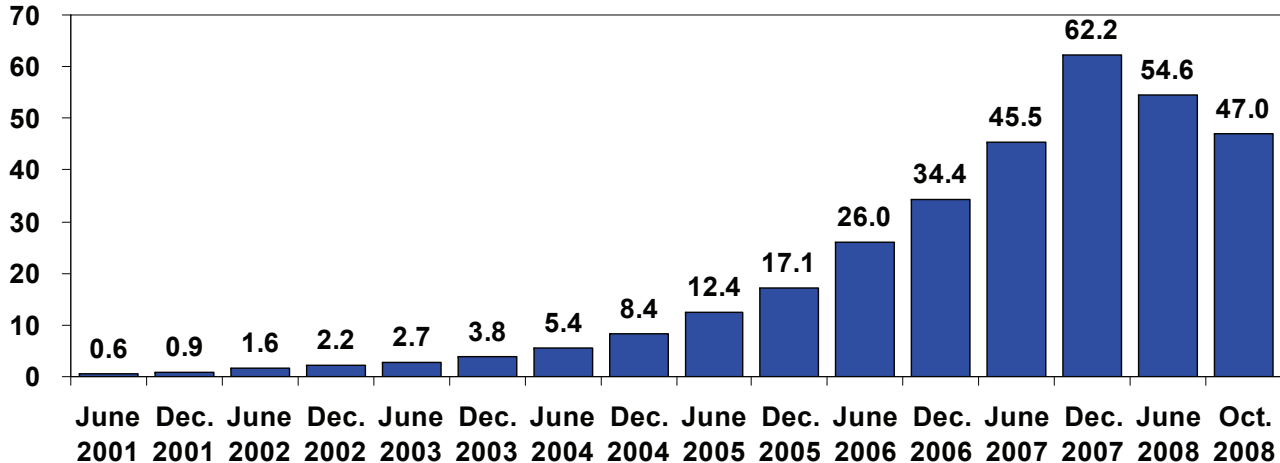
 Private-label       Fannie Mae, Freddie Mac, Ginnie Mae



Sources: Federal Reserve, Milken Institute.

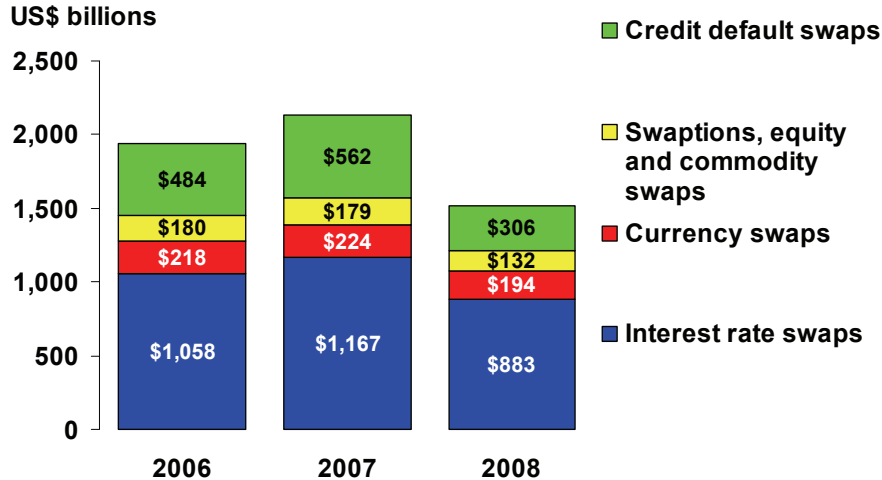
# Rising risk: The credit default swap market nearly doubled each year from June 2001 through October 2008

Notional amount of credit default swaps outstanding, US\$ trillions



Source: International Swaps and Derivatives Association.

# AIG received AA rating despite large exposure in credit default swaps



Note: Credit default swaps exposure not released in 10K before 2006.

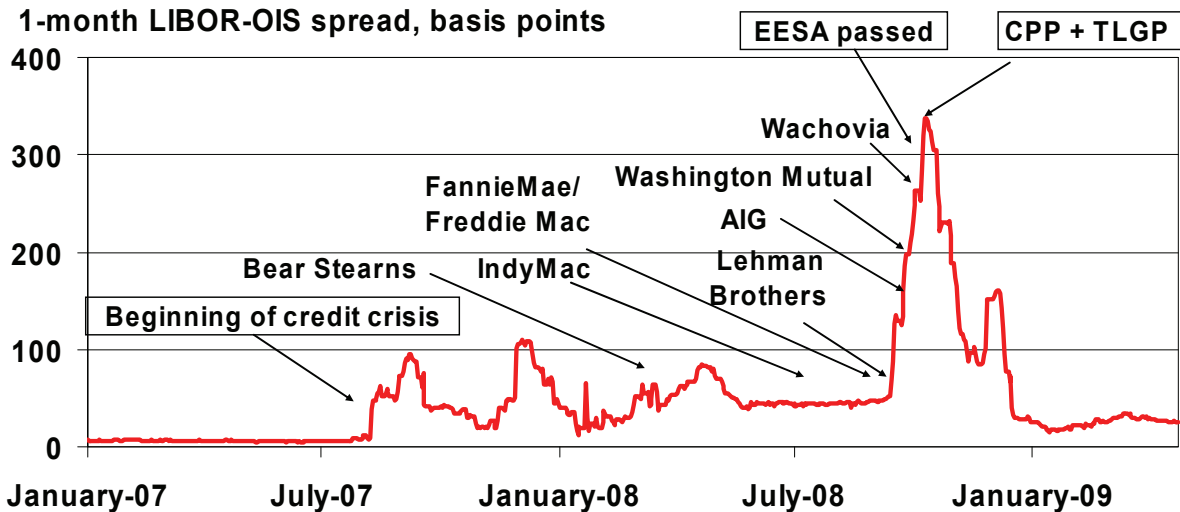
Sources: AIG, Bloomberg.

## Issuer rating for AIG, 2005-2008

S&P	AA
Moody's	Aa2
Fitch	AA

# Market for liquidity freezes

## Spread between 1-month LIBOR and OIS



Note: LIBOR: London Interbank Offered Rate; OIS: Overnight indexed swap.

Sources: Bloomberg, Milken Institute.

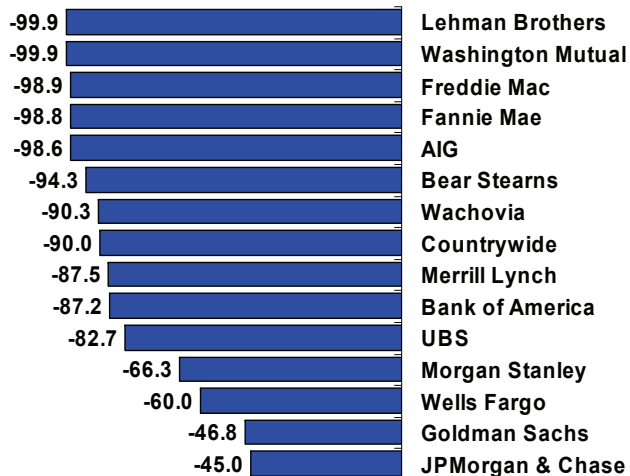
EESA:  
Emergency  
Economic  
Stabilization  
Act.

CPP:  
Capital  
Purchase  
Program

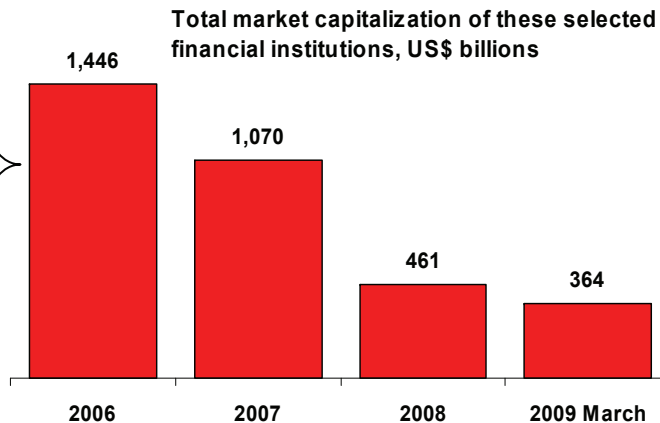
TLGP:  
Temporary  
Liquidity  
Guarantee  
Program

# Financial stocks take big hits

Percentage change in stock price, Dec. 2006-March 2009



Total loss in market value: \$1,081 billion from December 2006 to March 2009



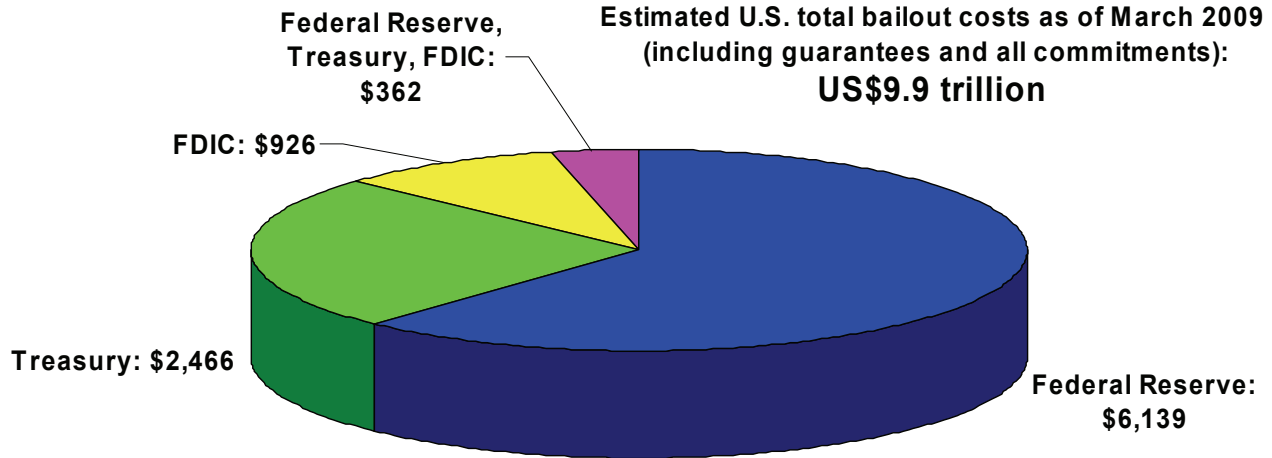
Note: Bear Stearns stock price is to May 2008. Countrywide stock price is to June 2008. Merrill Lynch and Wachovia stock prices are to December 2008.

Sources: Bloomberg, Milken Institute.



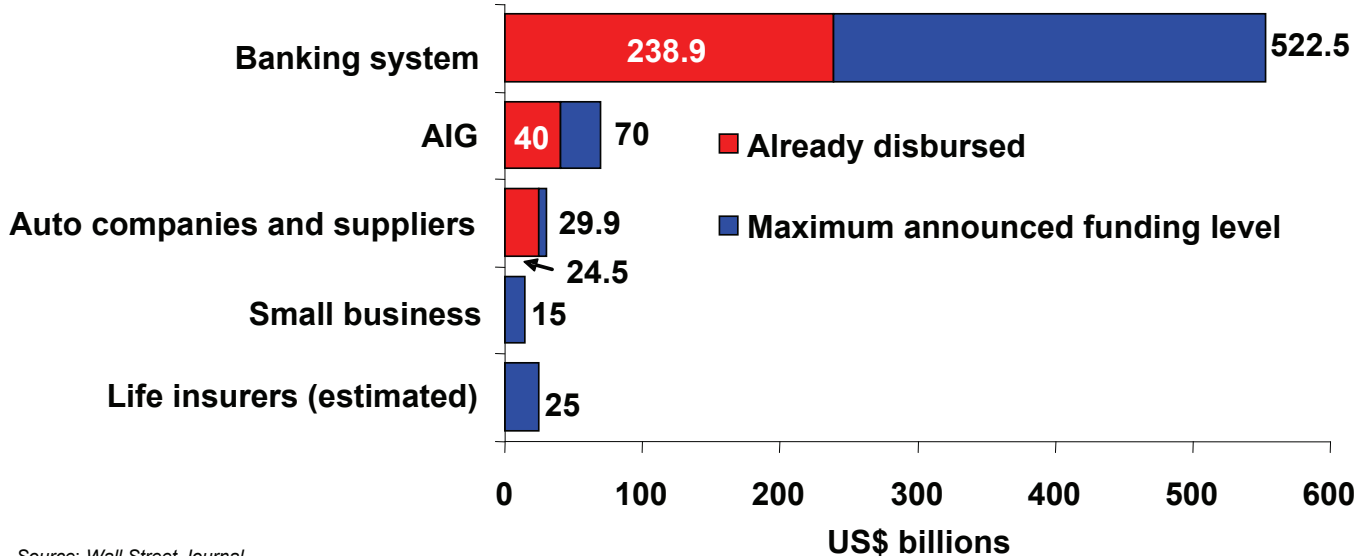
# Estimated U.S. total bailout costs (US\$ billions)

*The government has extended the bailouts to nearly \$US10 trillion*



# TARP: Troubled Asset Relief Program

Status of TARP funds (US\$ billions) as of March 27, 2009



Source: Wall Street Journal.

# U.S. Treasury Department TARP funds

*As of April 15, 2009*



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<b>Company</b>	<b>US\$ billions</b>
<b>Citigroup</b>	<b>50.0</b>
<b>Bank of America/Merrill Lynch</b>	<b>45.0</b>
<b>JPMorgan Chase</b>	<b>25.0</b>
<b>Wells Fargo</b>	<b>27.9</b>
<b>Goldman Sachs</b>	<b>10.0</b>
<b>Morgan Stanley</b>	<b>10.0</b>
<b>PNC Financial Services</b>	<b>7.6</b>
<b>U.S. Bancorp</b>	<b>6.6</b>
<b>Other</b>	<b>161.0</b>
<b>Total</b>	<b>343.1</b>

Source: U.S. Treasury Department.

# Lending less



MILKEN INSTITUTE

*Loan volumes decline in the fourth quarter 2008*

US\$ billions	TARP received	Q4 2008 loans	Change from Q3 2008 loans
Bank of America	45	931.45	-1.2%
Citigroup	50	694.50	-3.1
JPMorgan Chase	25	744.90	-2.2
U.S. Bancorp	6.60	168.13	3.9
SunTrust Banks	4.85	127.00	0.2
Capital One	3.56	146.94	-0.3
Regions Financial	3.50	97.42	-1.3
Fifth Third Bancorp	3.41	85.60	-1.0
BB&T	3.13	98.67	2.1
KeyCorp	2.50	76.50	-0.3
Comerica	2.25	50.51	-2.0
Marshall&Isley	1.72	49.99	-0.9
Huntington Bancshares	1.40	41.09	-0.2
<b>Total</b>	<b>152.92</b>	<b>3,312.68</b>	<b>-1.4</b>

Source: Wall Street Journal.



# Recipients of Treasury funds distributed to AIG

Company	US\$ billions
Goldman Sachs	12.9
Societe Generale	11.9
Deutsche Bank	11.8
Barclays	8.5
Bank of America/Merrill Lynch	12.0
UBS	5.0
BNP Paribas	4.9
HSBC	3.5
Calyon	2.3
Citigroup	2.3
Morgan Stanley	1.2
JPMorgan Chase	0.4
Other	19.0
<b>Total</b>	<b>95.7</b>

Source: AIG, March 15, 2009 .



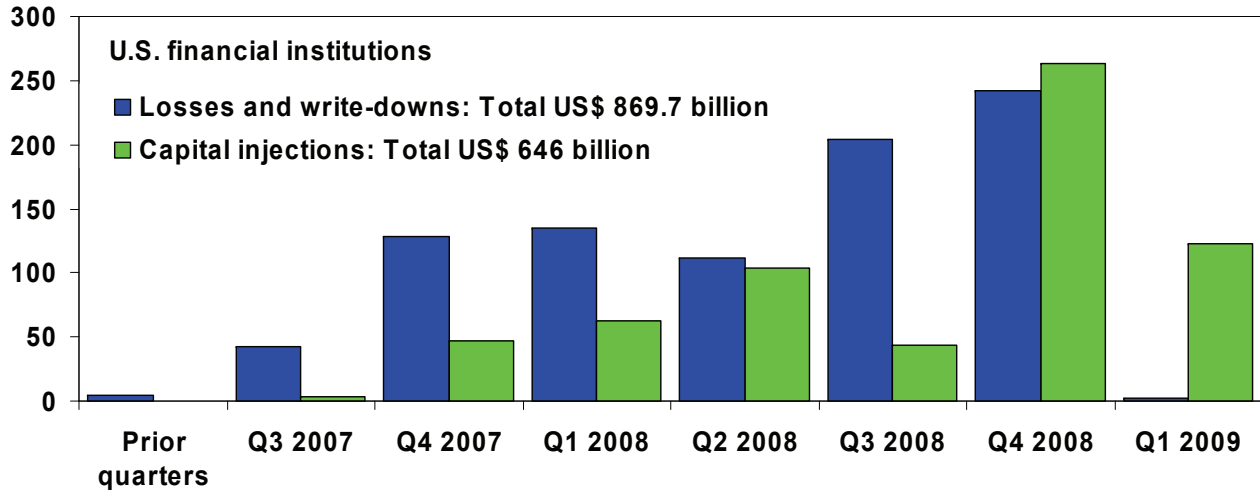
# GM and Chrysler to receive TARP funds

- The Treasury has injected about \$25 billion -- or 3.5 percent -- of the TARP funds, including \$1.5 billion to Chrysler Financial, \$6 billion to support GMAC.
- TARP will support up to \$1.25 billion on an auto industry warranty program. That would back Chrysler or GM vehicle warranties in the event either company filed for bankruptcy protection.
- A separate \$5 billion auto supplier program has also been created.
- On March 30, the Obama administration gave General Motors Corp. 60 days to come up with a tougher restructuring plan.

# U.S. capital injections and write-downs

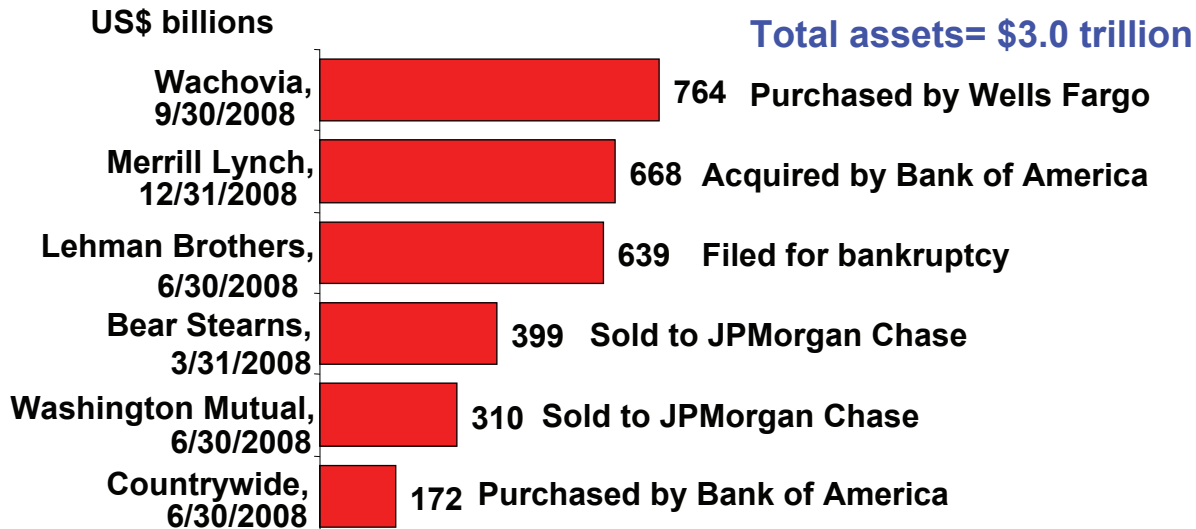
*Will the massive write-downs continue?*

US\$ billions, most recently available data, as of March 2009



Source: Bloomberg.

# Total assets of selected failed or acquired financial institutions



Sources: Bloomberg, Milken Institute.



# Public-Private Investment Program

*US\$ 75-100 billion of TARP/FSP capital*

## Legacy Loans Program

## Legacy Securities Program

### Capital

Public-Private  
Investment Funds

- Combines USG and private capital

### Financing

Funds will raise FDIC  
guaranteed debt

- FDIC will guarantee debt
- Leverage up to 6.1

### Capital

Public-Private  
Investment Funds

- Combines private capital with USG capital and potential USG leverage

### Financing

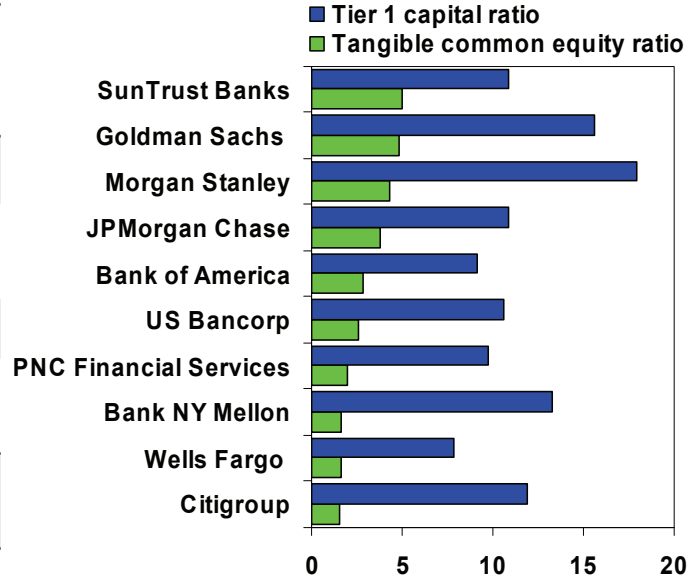
Leverage from  
Federal Reserve

- Builds on existing TALF framework

# A question of equity: Stress tests?

## U.S. regulatory capital requirements and selected equity ratios

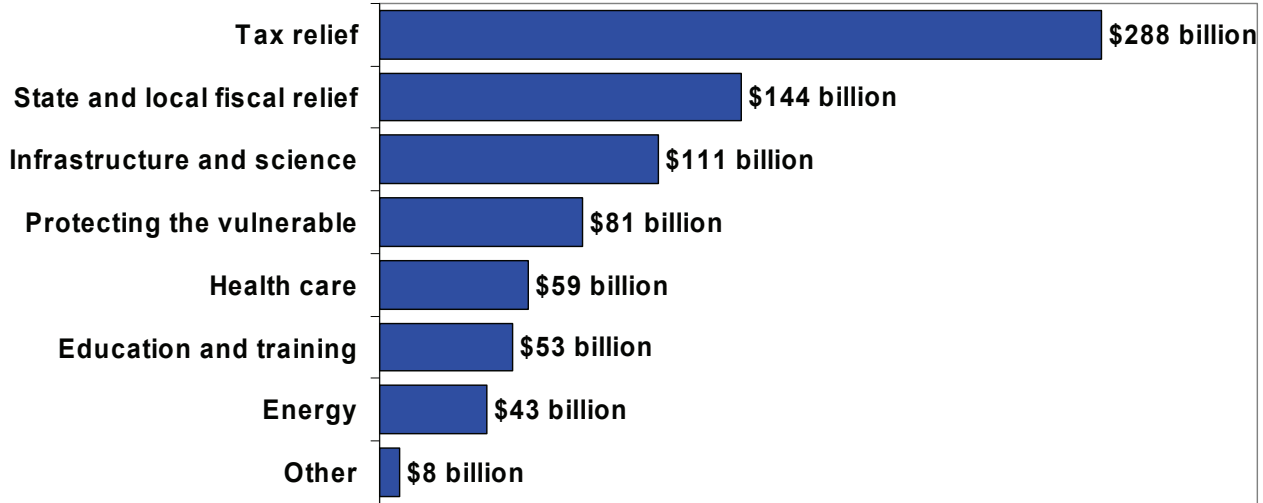
	Tier 1 leverage	Tier 1 risk-based	Total risk-based
Well capitalized	<b>&gt;= 5%</b>	<b>&gt;= 6%</b>	<b>&gt;= 10%</b>
Adequately capitalized	<b>&gt;= 4%</b>	<b>&gt;= 4%</b>	<b>&gt;= 8%</b>
Undercapitalized	<b>&lt; 4%</b>	<b>&lt; 4%</b>	<b>&lt; 8%</b>
Significantly undercapitalized	<b>&lt; 3%</b>	<b>&lt; 3%</b>	<b>&lt; 6%</b>
Critically undercapitalized	<b>Tangible equity capital ratio that is &lt;= 2%</b>		



Sources: FDIC, Bloomberg, Milken Institute.

# American Recovery and Reinvestment Act of 2009

*The US\$787 billion stimulus plan is intended to create 3-4 million jobs*



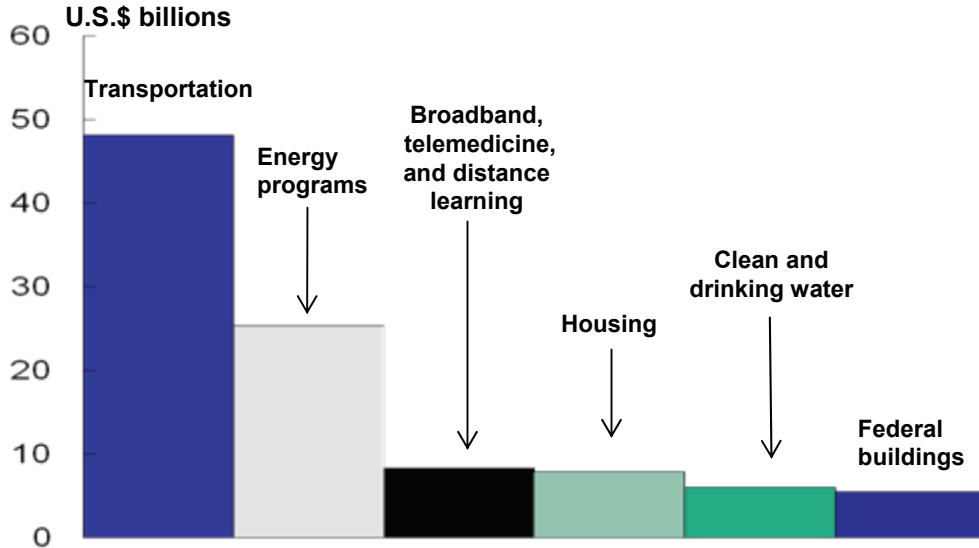
Source: Recovery.gov.

# Administration estimated aggregate effect of the recovery package on GDP and jobs in Q4 2010

	Real GDP (US\$ billions)	Payroll employment
Without Stimulus	\$11,770	133,876,000
With Stimulus	\$12,203	137,550,000
Effect of Package	Increase GDP by 3.7%	Increase jobs by 3,675,000

Source: Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan."

# Infrastructure outlays from the American Recovery and Reinvestment Act



Source: Congressional Budget Office.