

Rational Re-Pricing or Credit Crunch

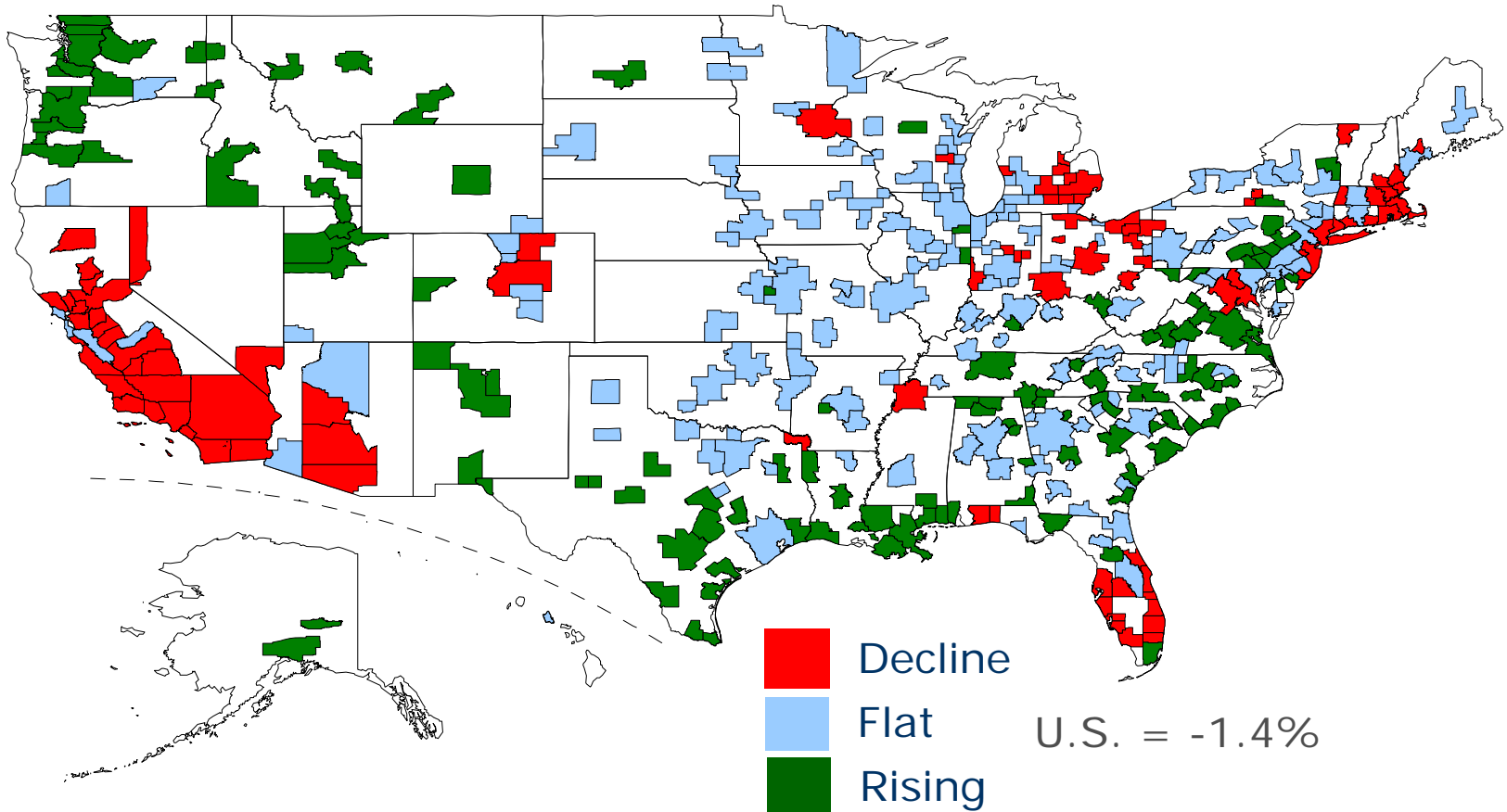
Presented by:

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Chief Economist

August 7, 2007

The Housing Downturn is in Full Swing...

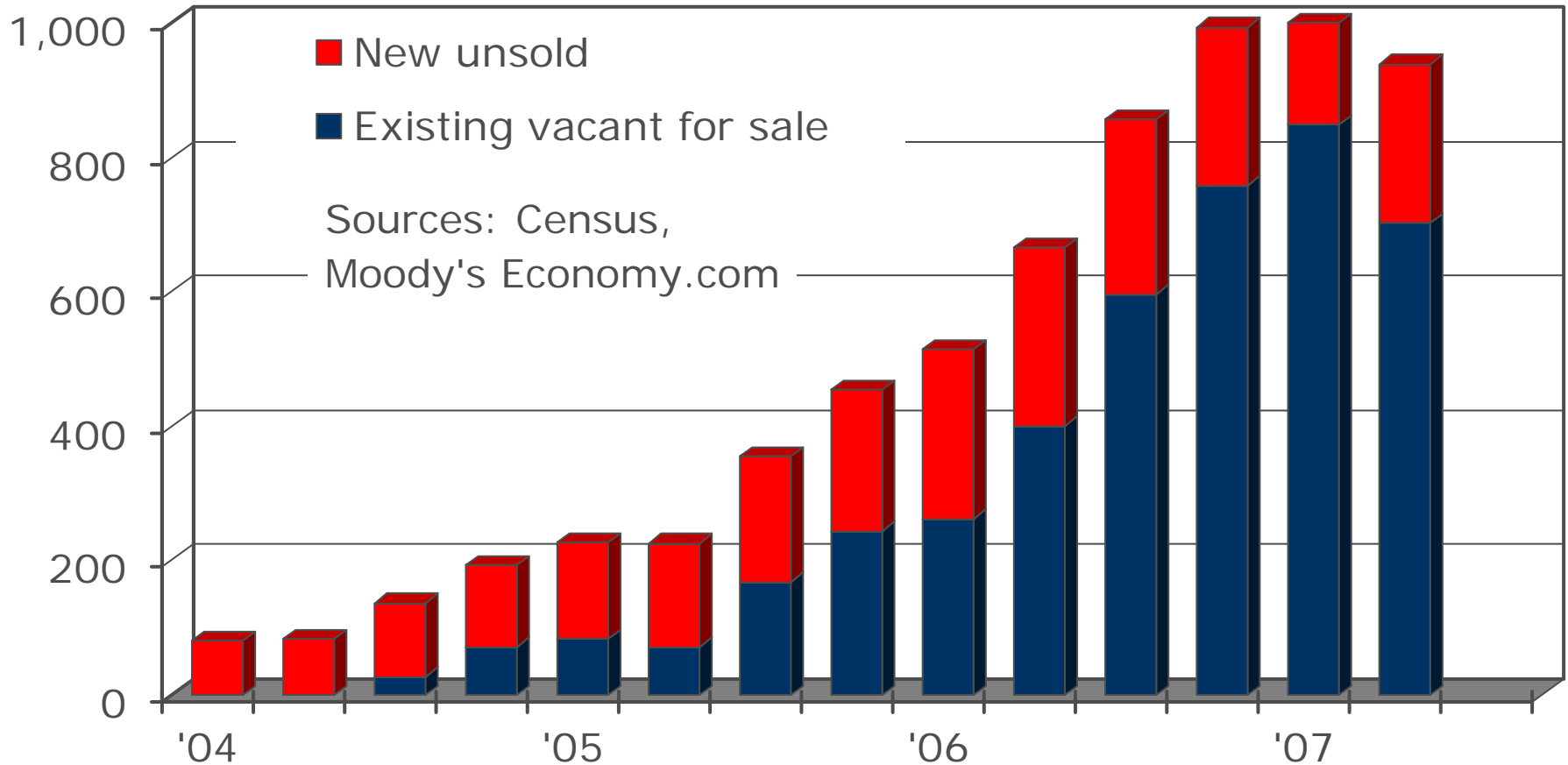
Single-Family House Price, % chg yr ago, '06q1-'07q1



Sources: Fiserv CSW; OFHEO, Moody's Economy.com

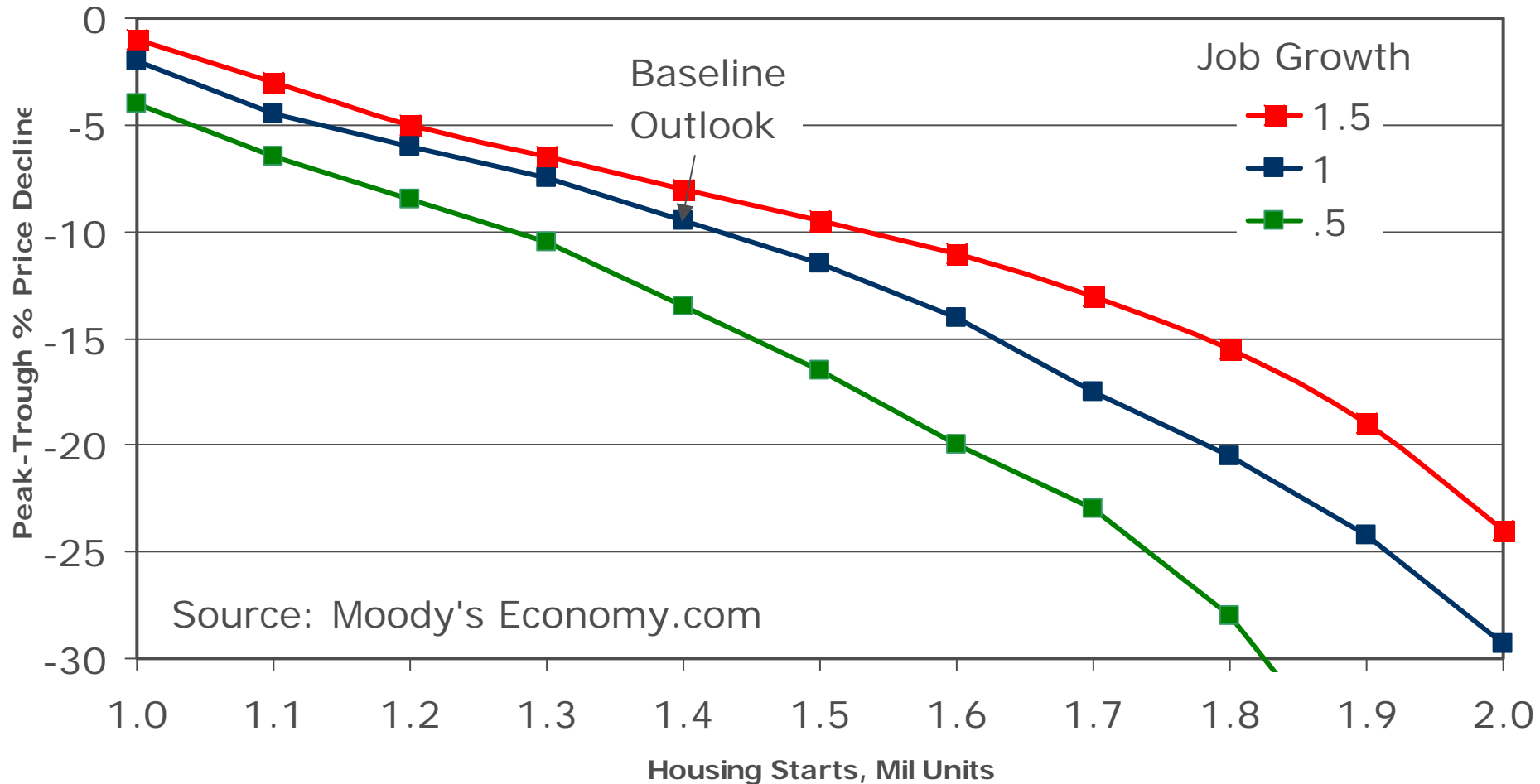
...Driven by Swollen Inventories...

of excess housing units, ths



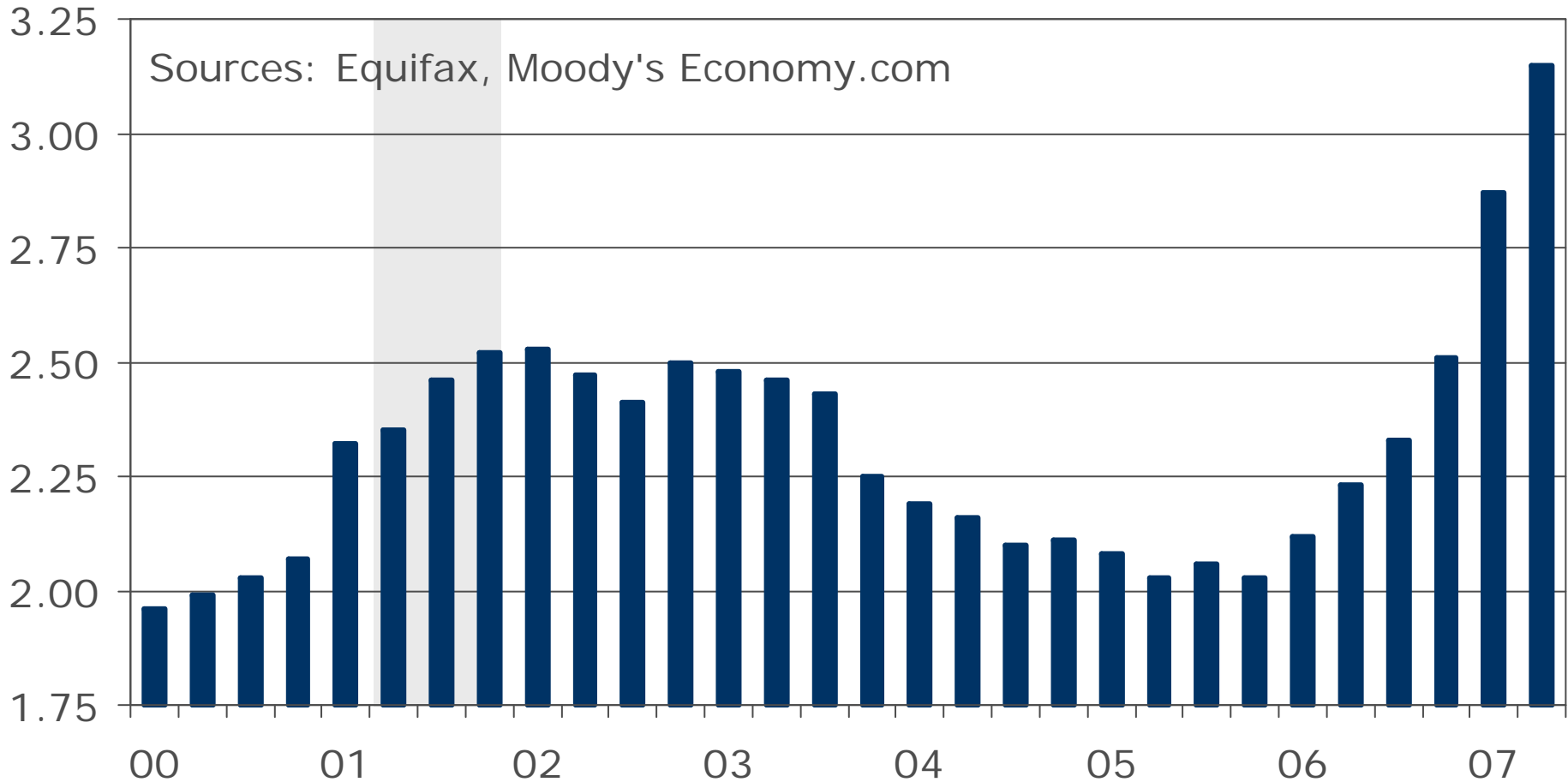
...and There is More to Come

What It Would Take To Reach a Bottom By Year-End 2008



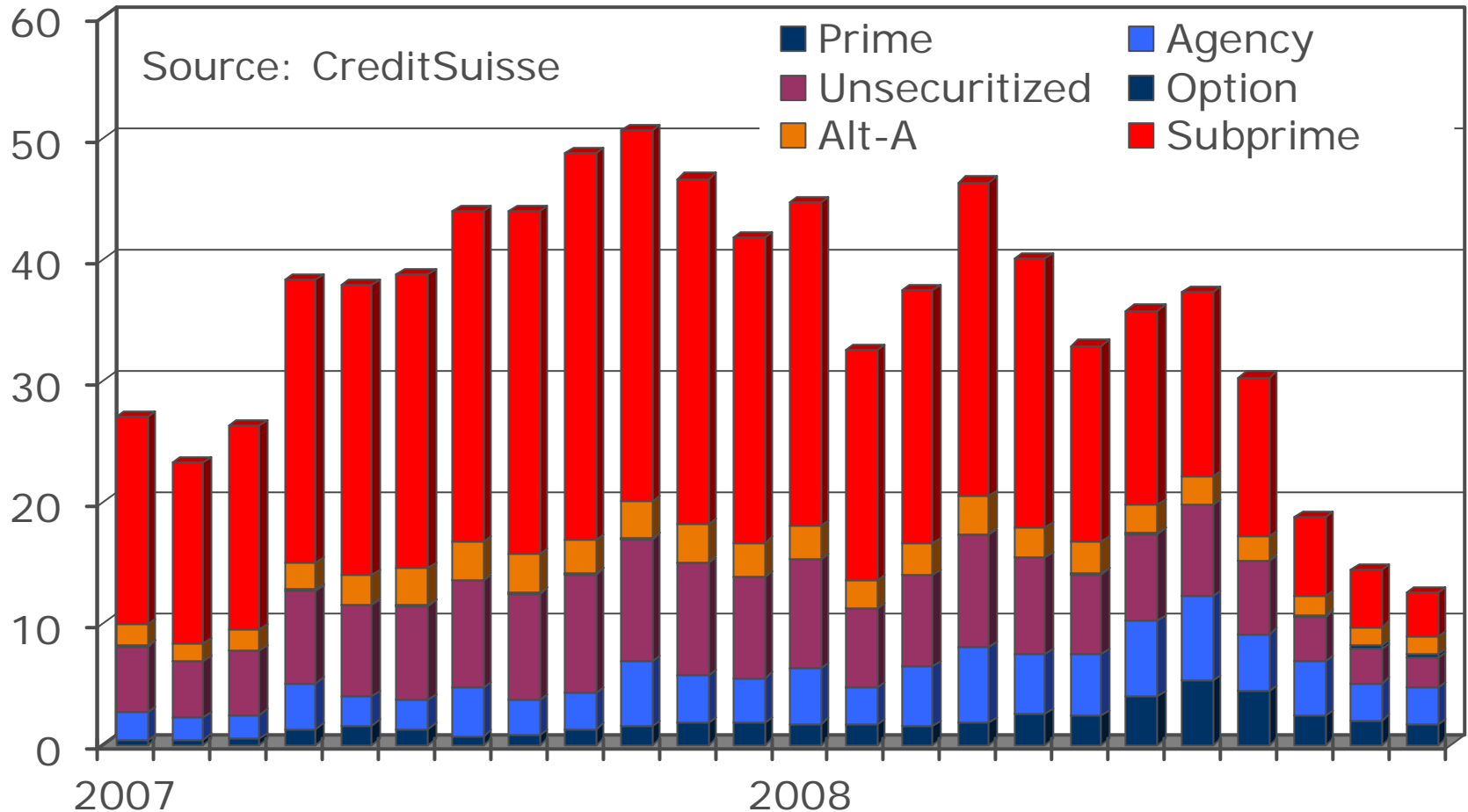
Stunning Erosion in Mortgage Quality...

Delinquency rate, % of residential mortgage debt, \$



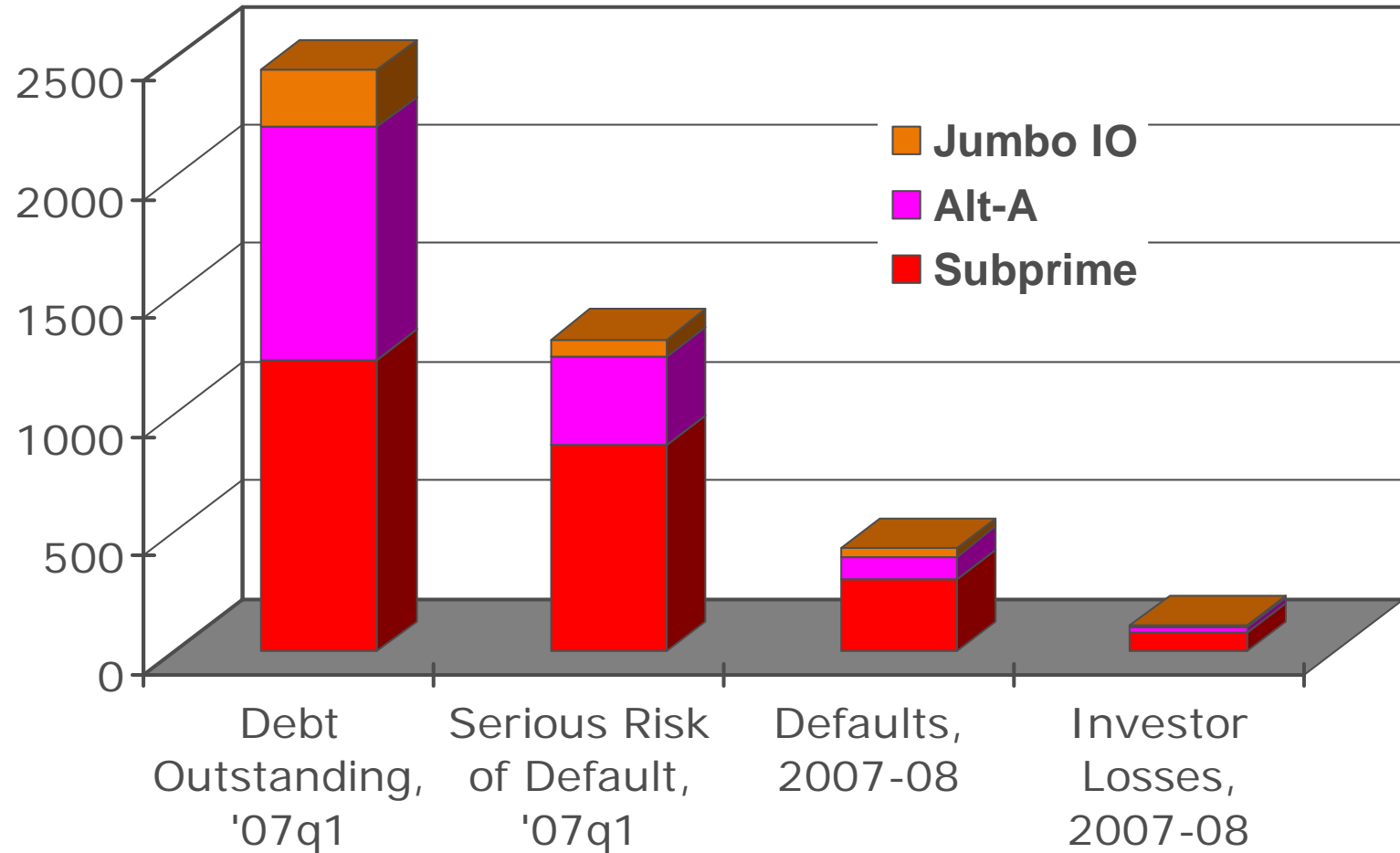
...With More Credit Problems Coming...

Mortgage debt outstanding facing first payment reset, \$ bil



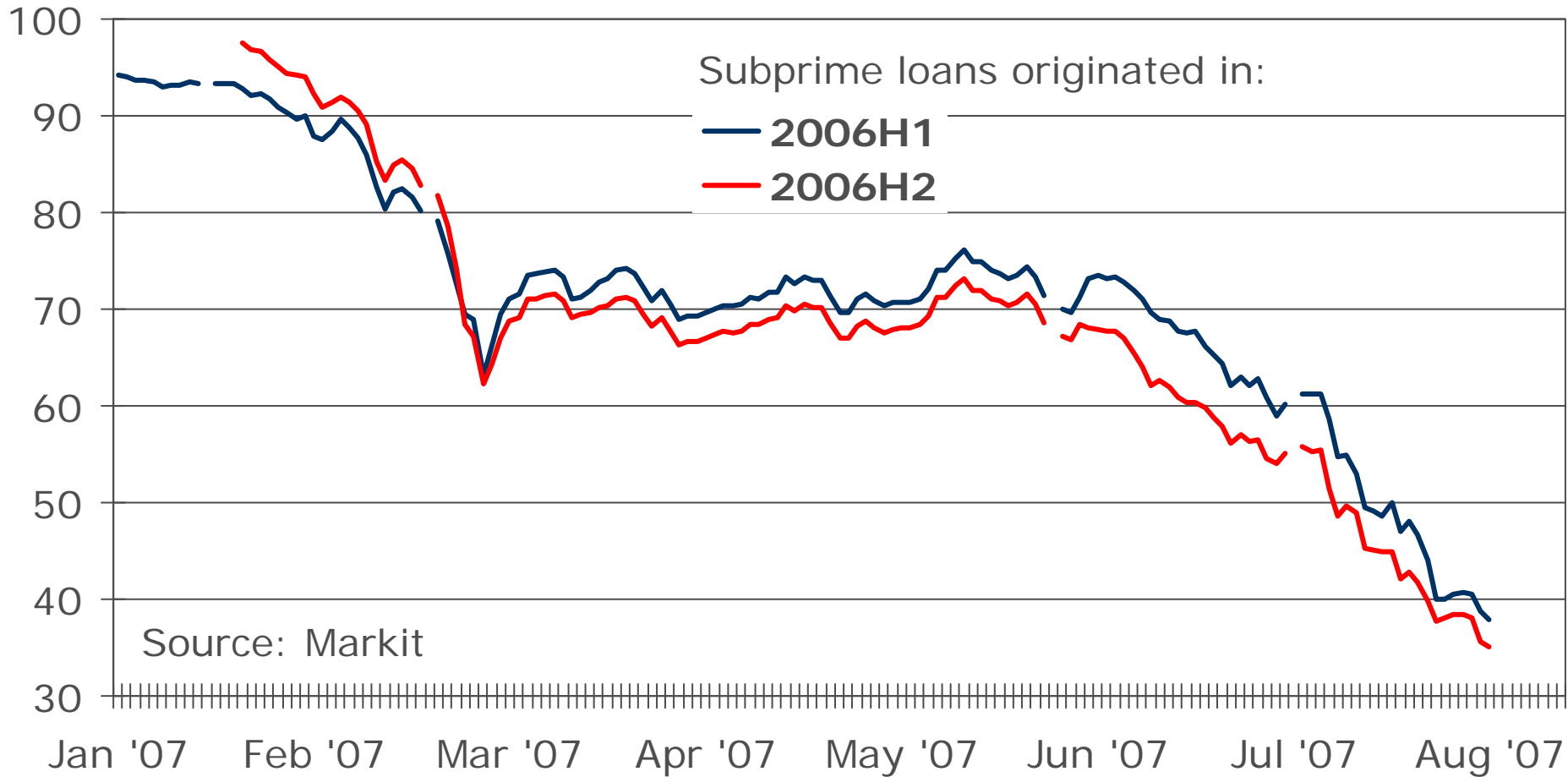
...Generating Substantial Financial Damage

\$mil, Source: Moody's Economy.com



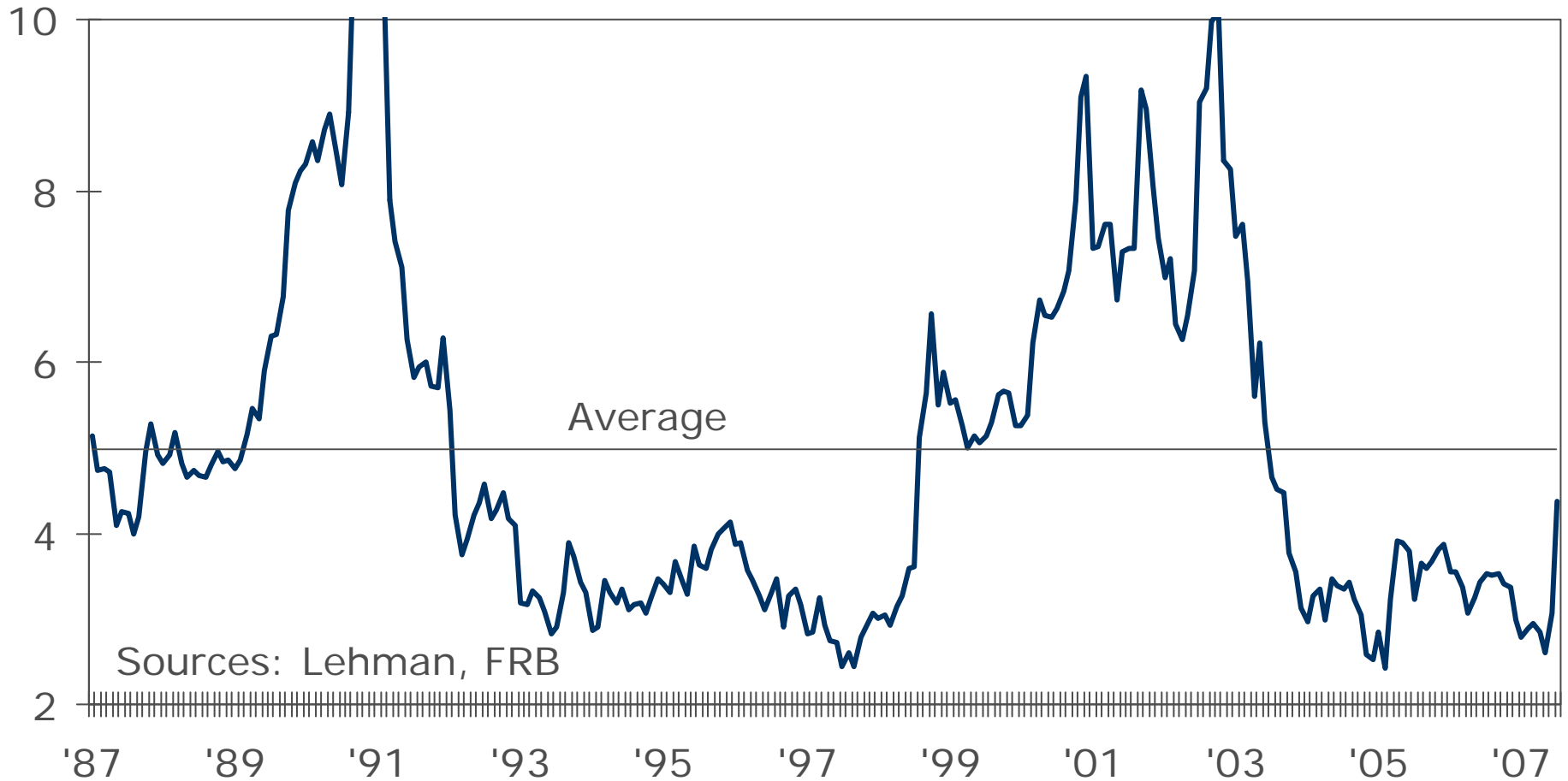
Subprime Mortgage Market Unravels...

Price of ABX BBB- Index



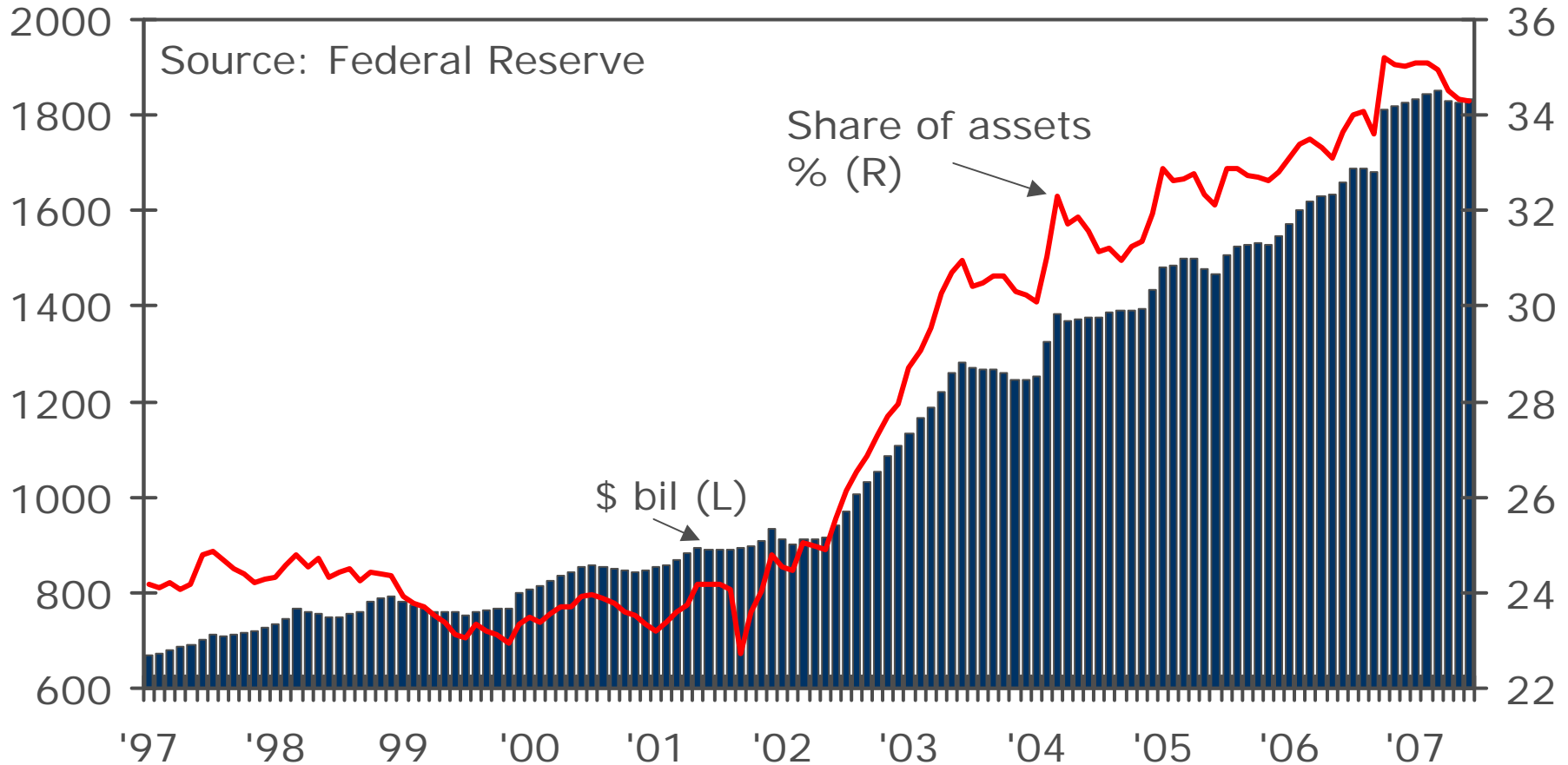
...Rest of the Credit Market Reprices...

Interest rate spread over 10-yr Treasury, basis points



...But the Risks are Rising

Residential RE Assets of Large Commercial Banks



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