



Restoring Confidence in the Securitization Markets: A Global Initiative

December 3, 2008

Speakers

Opening Remarks

- ▶ **T. Timothy Ryan, Jr.**, President & CEO, Securities Industry and Financial Markets Association

Presentation of Joint Report and Recommendations

- ▶ **Greg Medcraft**, CEO & Executive Director, Australian Securitisation Forum
- ▶ **George P. Miller**, Executive Director, American Securitization Forum
- ▶ **Rick Watson**, Managing Director, European Securitisation Forum

Discussion/Critique of Joint Report Analysis and Recommendations

- ▶ **Robert Camilleri**, Senior Manager, Credit, Aviva Investors Australia
- ▶ **Sanjeev Handa**, Head of Global Public Markets, TIAA-CREF
- ▶ **Jason H.P. Kravitt**, Senior Partner, Mayer Brown, LLP
- ▶ **Jeffrey A. Perlowitz**, Managing Director and Co-Head of Global Securitized Markets, Citi
- ▶ **Cecilia Tarrant**, Managing Director, Morgan Stanley & Co. International plc
- ▶ **Steven L. Schwarcz**, Stanley A. Star Professor of Law & Business, Duke University School of Law; Founding/Co-Academic Director, Global Capital Markets Center



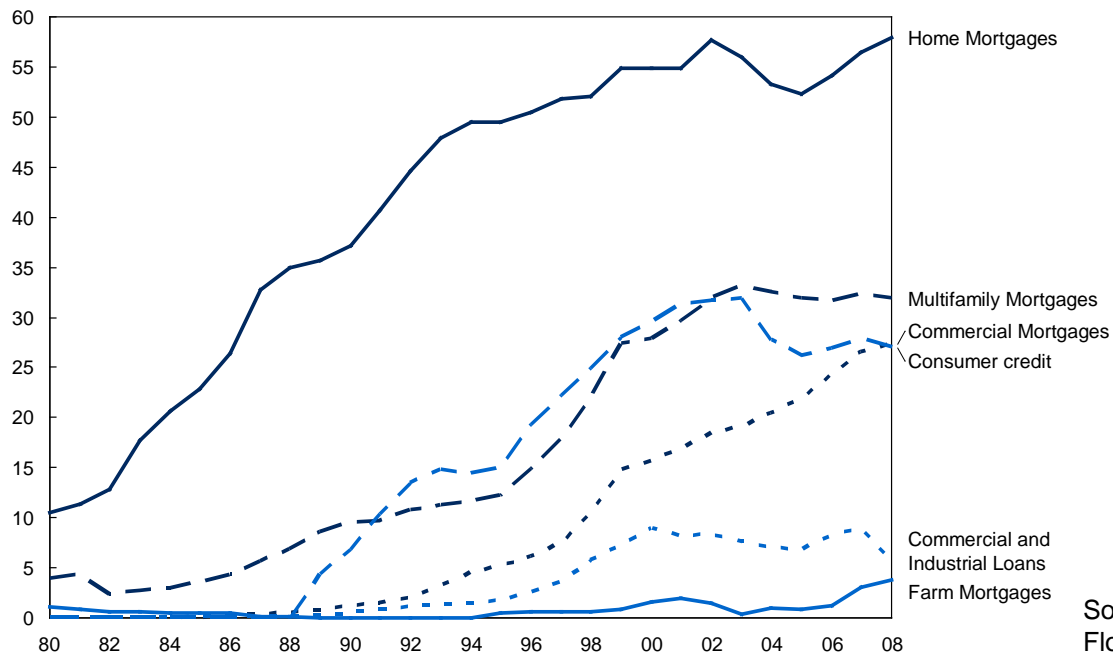
Presentation of Joint Report and Recommendations

Global Credit Availability

Securitization has fueled the growth of global credit availability

Securitization of loans in the US economy 1980 - 2008

% of total loans outstanding, Q1 numbers*



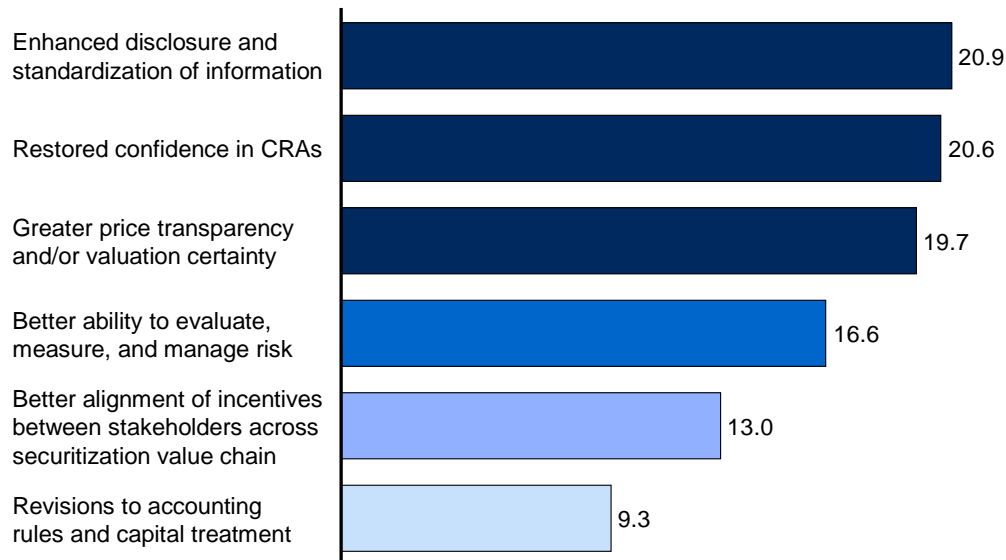
* Percent securitized is calculated as the percentage of loans securitized outstanding over total loans outstanding

Source: Federal Reserve's US
Flows of Funds Accounts
(Table L2, L125, L126)

Key Factors to Restore Confidence

Respondents see better disclosure, restored confidence in CRAs, and greater valuation certainty as key to restoring confidence

Average weight given by respondents allocating 100 points across 6 factors

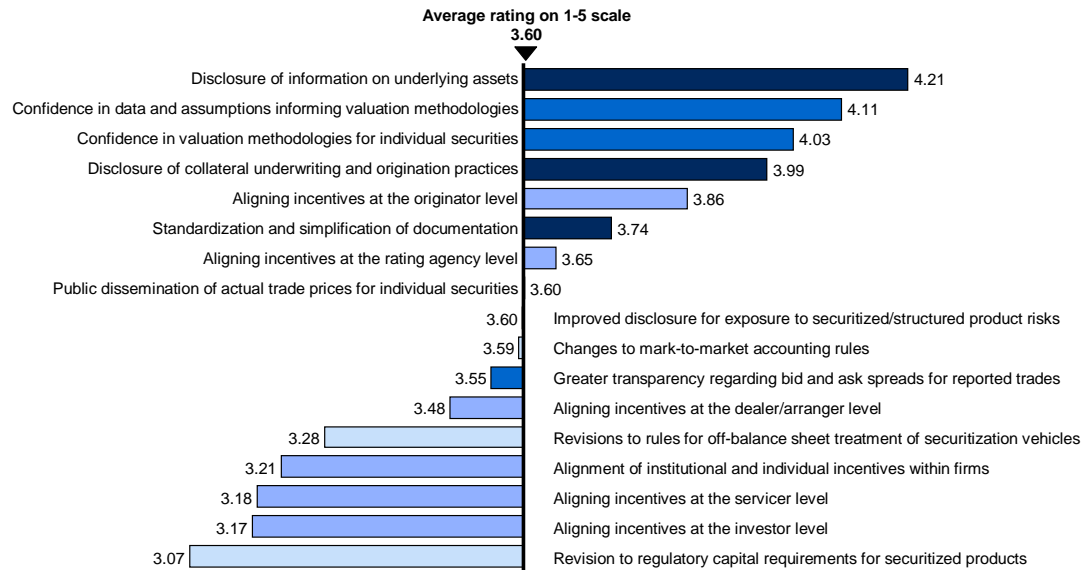
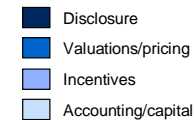


Source: SIFMA/ASF/ESF/AuSF survey; McKinsey analysis

Disclosure and Valuation

Stakeholders view disclosure and valuation as most critical to restarting the market

Relative importance of factor to restoring confidence in the securitization markets in the near-term
Average relative rating received



Source:
SIFMA/ASF/ESF/AuSF
survey; McKinsey analysis

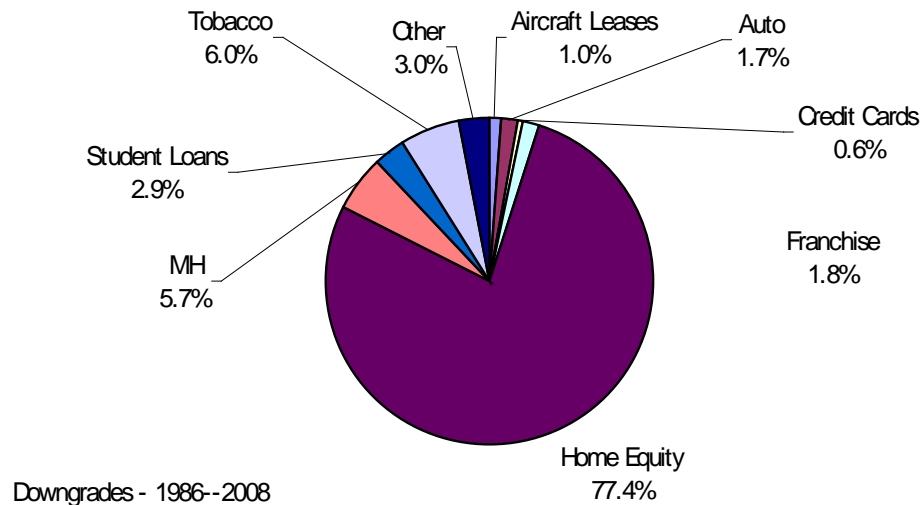
Recommendations

- ▶ Increase and enhance initial and on-going pool information on US non-agency RMBS and European RMBS into a more easily accessible and more standardized format.
- ▶ Establish core industry-wide market standards of due diligence disclosure and quality assurance practices for RMBS.
- ▶ Strengthen and standardize the representations and warranties as well as repurchase procedures for RMBS.
- ▶ Develop industry-wide standard norms for RMBS servicing duties and evaluating servicer performance.
- ▶ Expand and improve independent, third-party sources of valuations and improve the valuation infrastructure and contribution process for specified types of securitization and structured products.
- ▶ Restore market confidence in the CRAs by enhancing transparency into the CRA process.
- ▶ Establish a Global Securitization Markets Group to report publicly on the state of the market and changes in market practices.
- ▶ Establish and enhance educational programs aimed at directors and executives with oversight over securitized and structured credit groups, as well as at investors with significant exposure to these products.



Discussion/Critique of Joint Report Analysis and Recommendations

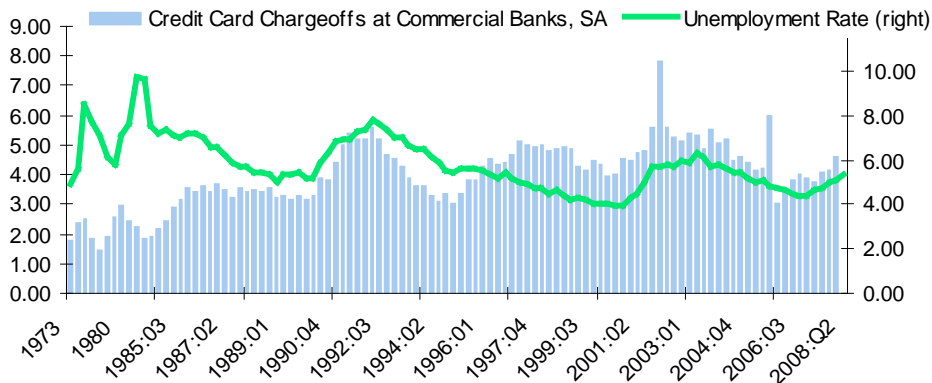
Consumer ABS -- Ratings Record Remains Stellar (Jan 86—Oct 08)



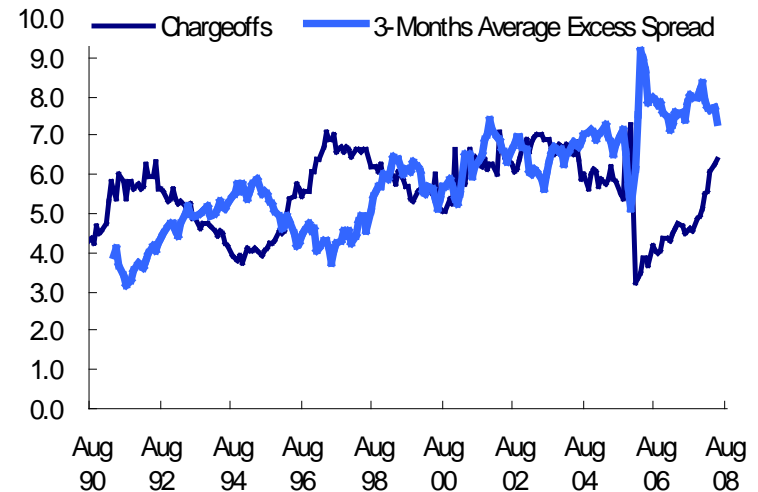
Source: Moody's Ratings.

- ▶ Autos account for 23% of all ABS upgrades / only 1.7% of downgrades
- ▶ Consumer ABS account for small minority of adverse rating actions
- ▶ Consumer ABS downgrades account for only 5.5% of downgrades ever in ABS market

Credit Cards – Consistent With Long-Term Trends

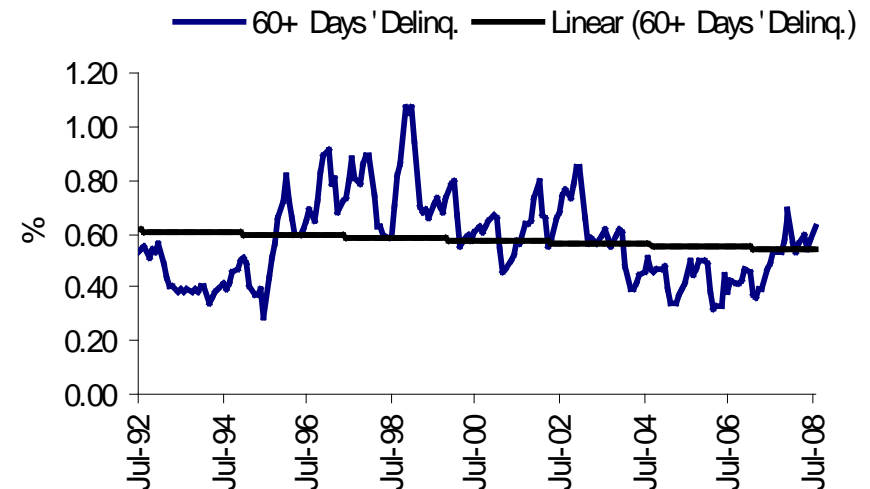
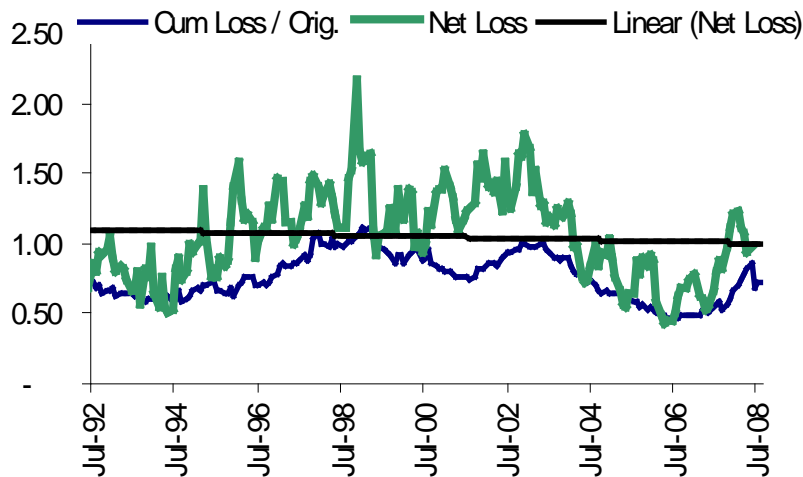


Source: Federal Reserve Bank



- ▶ Credit card chargeoffs reverting to more normalized long-term levels (5–6%, currently roughly 6% range)
- ▶ Chargeoffs dipped to unsustainably low levels post-2005 (bankruptcy law change and strong economy)
- ▶ Excess spread remains near record high levels in 5—6% range

Prime Auto Performance Is Consistent With Historical Trends



Source: Moody's Prime Auto Index

- ▶ Auto net losses revert to long-term trends
- ▶ Weakening outlook— expect 2-4% net loss, but structures built for performance volatility

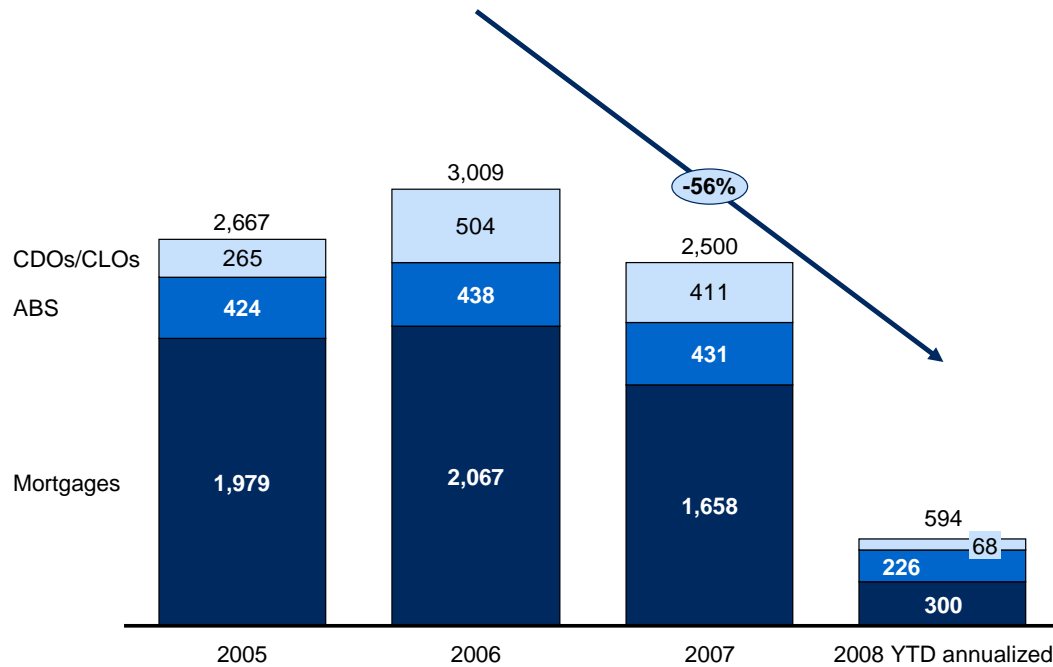
Current Securitization Markets

Securitization markets remain anemic

Global structured product issuances

\$ Billions

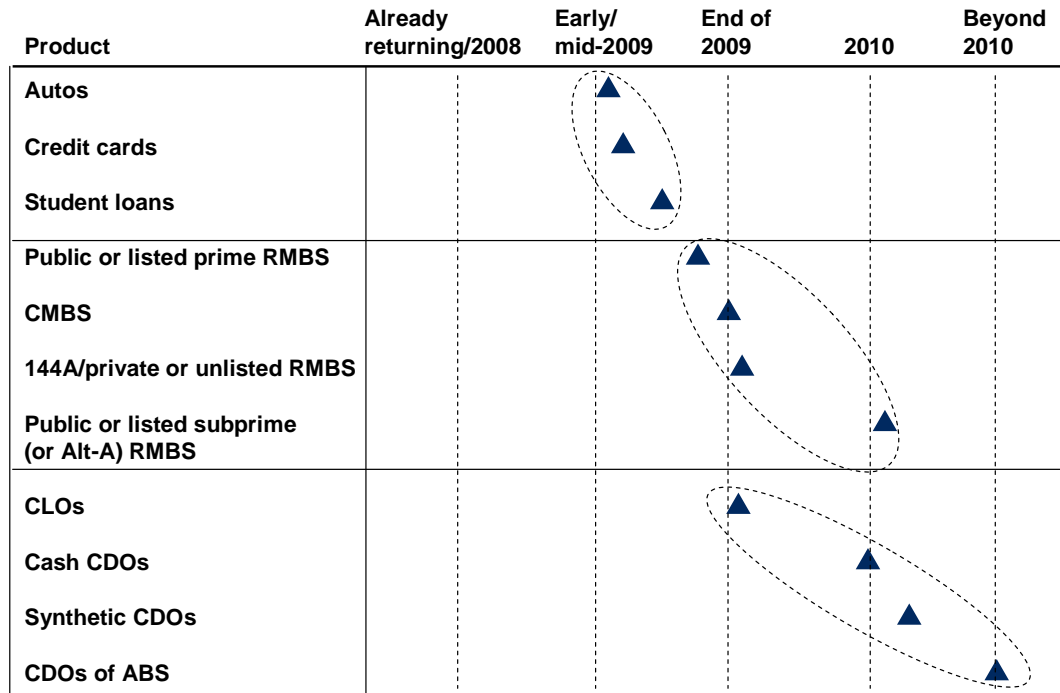
x% → Compound annual growth rate



Source: Thomson Reuters;
2008 annualized based on
monthly data through
September 30, 2008

Product Expectations

Market participants expect products to recover at different speeds



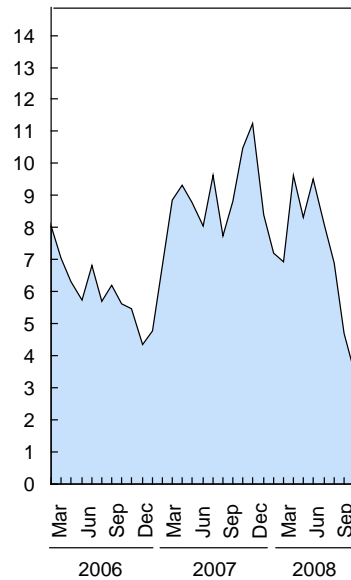
Source:
SIFMA/ASF/ESF/AuSF
survey; McKinsey
analysis

Consumer ABS Issuance

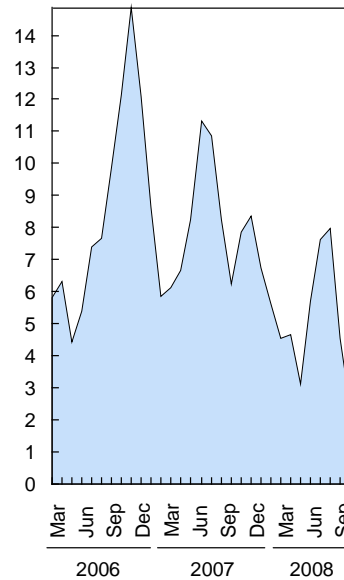
Consumer ABS issuances held up relatively well prior to fall of 2008

3-months running average global issuance
\$ Billions

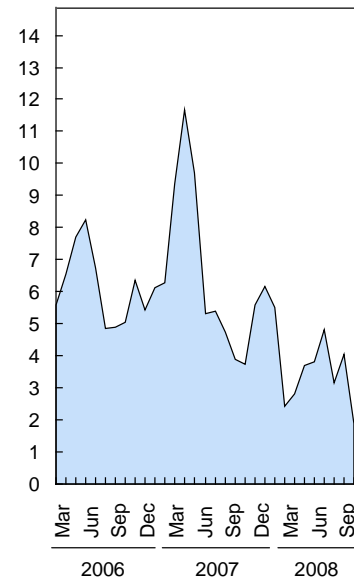
Credit card



Auto



Student loan

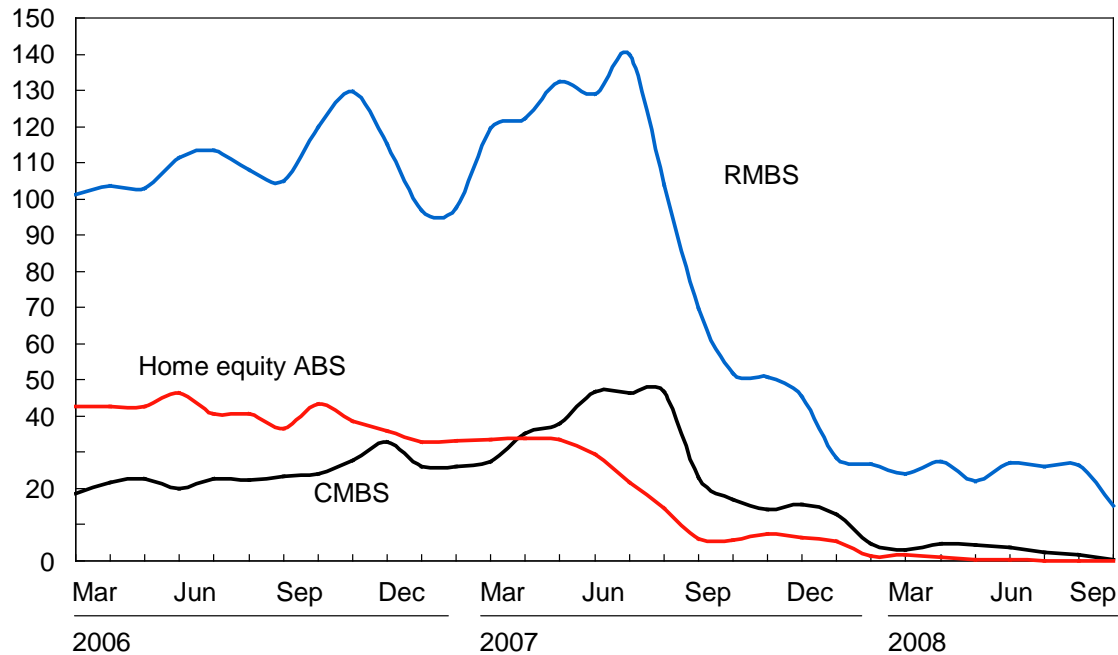


Source: Thomson Reuters

Global Real Estate Issuance

Global real estate issuances have ground to a halt

3-Months running average issuance
\$ Billions



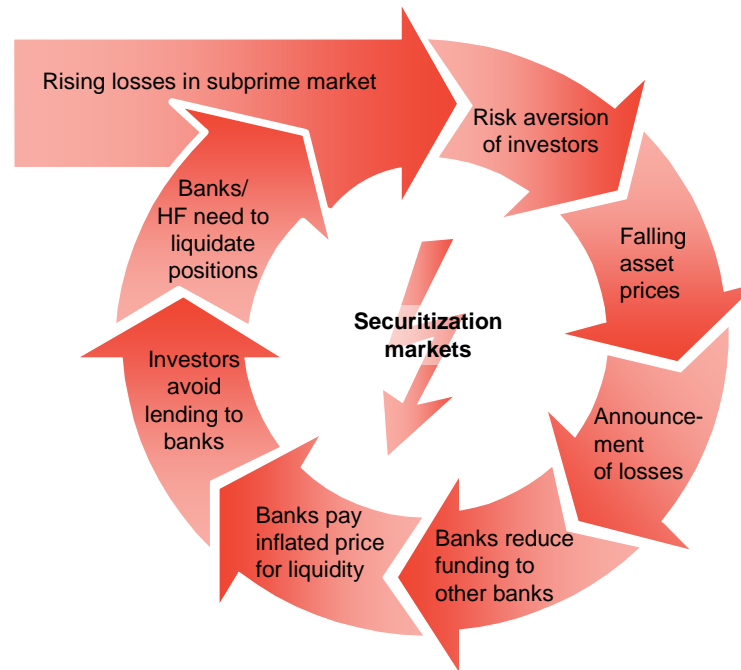
Source: Thomson Reuters

Contributing Factors to Current Crisis

- ▶ Deteriorating loan underwriting standards undermined underlying asset quality.
- ▶ The market relied too extensively on ratings that in some instances proved to be overly optimistic.
- ▶ Complex, highly leveraged positions created a precarious market position.
- ▶ Dealers and investors misjudged liquidity risk and fell victim to the carry trade.
- ▶ Lack of a sense of shared responsibility for the integrity of the system as a whole.
- ▶ Rising losses in the US subprime market triggered a crisis in confidence that drove a self-reinforcing and vicious downward cycle.

Contributing Factors to Current Crisis

Rising losses in the subprime market drove the vicious cycle that yielded the current crisis



Global Initiatives Underway

Action plan and SIFMA, ASF, ESF, AusSF efforts already underway

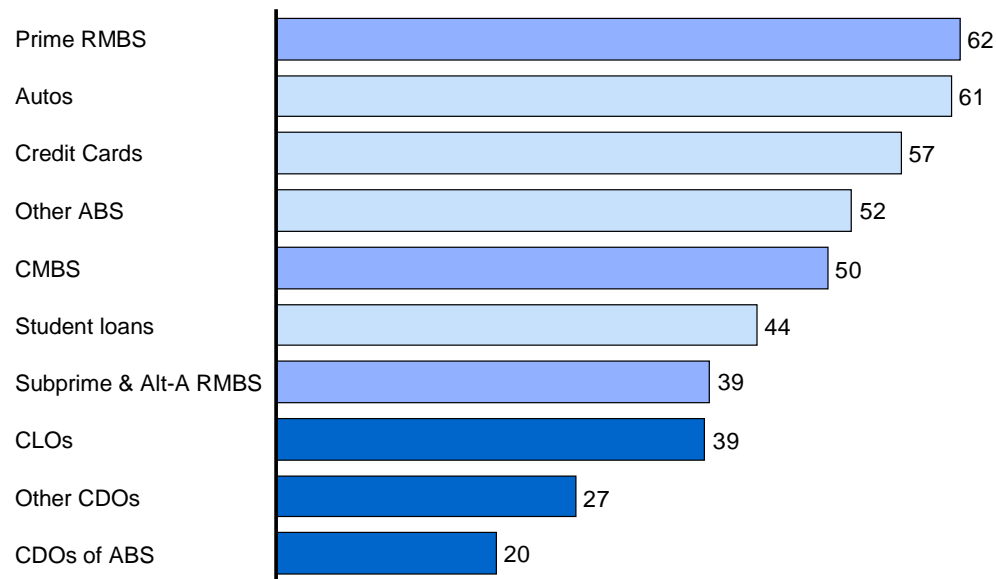
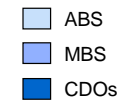
Recommendation	Effort	Next steps
1. Increase and enhance initial and on-going pool information on US non-agency and European RMBS into more easily accessible and more standardized format	<ul style="list-style-type: none"> ASF Project RESTART ESF RMBS Issuer Transparency Principles project 	<ul style="list-style-type: none"> Revised request for comment on ASF RMBS Disclosure Package – 2008 ESF Issuer Transparency Principles – Dec 2008
2. Establish core industry-wide market standards of due diligence disclosure and quality assurance practices for RMBS	<ul style="list-style-type: none"> SIFMA US RMBS Pre-securitisation Due Diligence Standards Working Group ASF Project RESTART AuSF Transparency Task Force 	<ul style="list-style-type: none"> Integrated set of recommendations – 2009 ESF implementation
3. Strengthen and standardize the representations and warranties as well as repurchase procedures for RMBS	<ul style="list-style-type: none"> ASF Project RESTART Repurchase Working Group 	<ul style="list-style-type: none"> Initial request for comment on uniform set of repurchase procedures – Early 2009 ESF implementation
4. Develop industry-wide standard norms for RMBS servicing duties and evaluating servicer performance	<ul style="list-style-type: none"> ASF Project RESTART 	<ul style="list-style-type: none"> Request for comment on both servicer performance metrics and model set of servicing provisions – Early 2009 ESF implementation
5. Expand and improve independent, 3 rd -party sources of valuations and improve the valuation infrastructure and contribution process for specified types of securitization and structured products	<ul style="list-style-type: none"> SIFMA Project Value Task Force AuSF Transparency Task Force 	<ul style="list-style-type: none"> Project Value Task Force being formed – 2008 Australian Best Practice Pricing Model concept launched
6. Restore market confidence in CRAs by enhancing transparency in the CRA process	<ul style="list-style-type: none"> SIFMA CRA Task Force recommendations released Comment letters on SEC and EC CRA reform proposals submitted by ASF and SIFMA/ESF CRA Task Forces 	<ul style="list-style-type: none"> Second phase of CRA reform proposals
7. Establish Global Securitization Markets Group to report publicly on the state of the market and changes in market practices	<ul style="list-style-type: none"> Global Securitization Markets Group 	<ul style="list-style-type: none"> Markets Group to be established prior to 2008 year end and publish first report – mid-2009
8. Establish and enhance educational programs aimed at directors, executives and investors with significant exposure to securitized and structured credit products	<ul style="list-style-type: none"> ASF Securitization Institute AuSF Transparency Task Force ESF Member Education Programs 	<ul style="list-style-type: none"> In progress AuSF proposed Fit and Proper person certification program through its education arm

Source: SIFMA, ASF, ESF, and AuSF

Projected 2010 Volume

2010 volumes expected to decline considerably for non-prime RMBS and CDOs, but ABS to hold up somewhat better

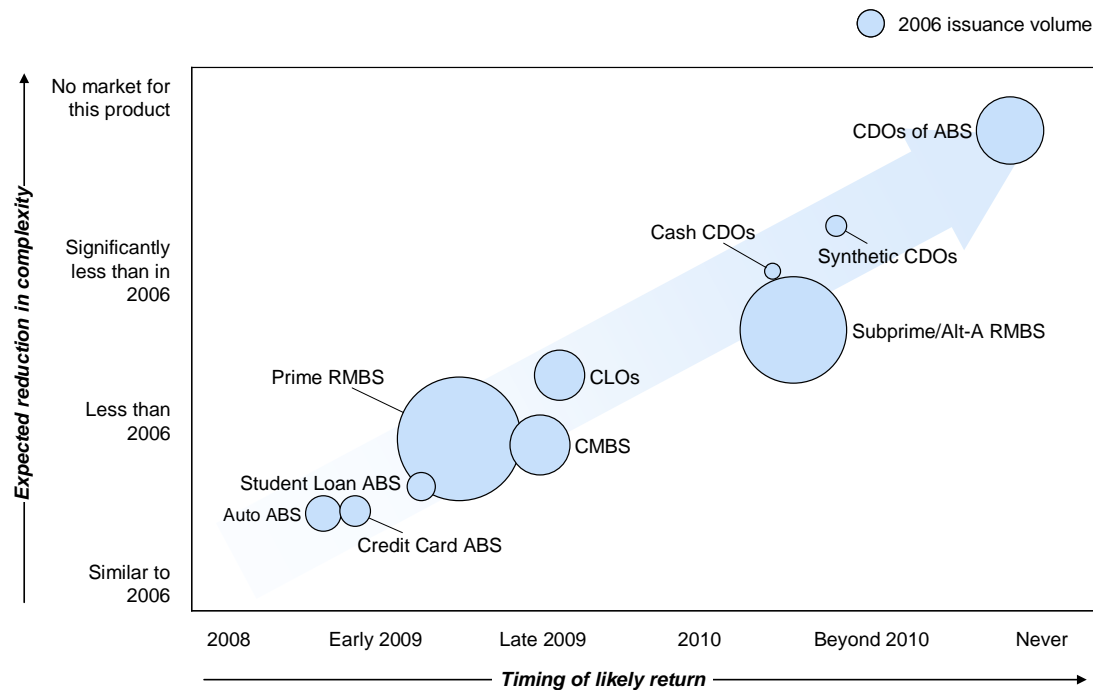
Projected 2010 volumes
Percent of 2006 volumes



Source: SIFMA/ASF/ESF/AuSF survey; Thomson Reuters; McKinsey analysis

Projected Product Return

Expectation of reduced complexity is highly correlated with timing of market return and differs significantly by asset class



Source:
SIFMA/ASF/ESF/AuSF
survey; McKinsey analysis

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