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EUROCATALYST 2009

LIVE FROM AUSTIN

INTERACTIVITY QUESTIONS
AND A FEW PHOTOS FROM THE SHOW

Day 2 Session 1
TOO BIG TO FAIL

QUESTIONS, COMPLAINTS, REQUESTS FOR PHOTOS, PLEASE CONTACT
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EUROCATALYST

STRATEGIC ADVISORY AND MARKET POSITIONING

WITH THE SUPPORT OF

HW HOUSINGWIRE

15, 16, 17 NOVEMBER 2009

DAY 2 SESSION 1 TOO BIG TO FAIL

Government as lender, investor, risk manager of last resort

The increase in uncertainty, unpredictability and risk introduced by globalization doesn't mean giving up hope to influence, shape and control it. As globalization increasingly transforms our nations, basic institutions, and personal lives, expect government to play a much larger, rather than lesser role through regulation designed to manage and control risk on behalf of its citizens.

In 1971 U.S. President Richard Nixon effectively replaced the "gold standard" with a new "information standard". Within a short period of time all fiat currencies were no longer based on tangible commodities but on intangible information flowing about a currency to support its value. Propelled by the rise of the information age, electronic currency has flowed across and beyond national borders at the speed of a mouse click, going, as former Citibank CEO Walter Wriston famously stated, "where it is wanted and is well-treated". If free market enterprise is the virus, the Internet is the host. Thus the free flow of information has transcended national boundaries, forcing nations to reinvent their identity by asserting their authority. Today, we see governments asserting their authority to gain control over economic boundaries that have been exposed and exploited by all of the unknowns of the shadow banking system.

Because the housing finance crisis has been close to catastrophic on a global scale, most Western governments have become lenders to and investors in most systemically significant financial institutions, creating a new reality in which these institutions now benefit from an implicit federal government guarantee. With no "exit plans" in sight, we should expect these guarantees and oversight of them to continue long after the immediate crisis has passed. This past June the Obama Administration announced its intent to create a "21st century regulatory regime" sophisticated enough to address a globalized economy to prevent further crises. But consider the fact that the same power that allows governments to compel, withhold, and tax also allows them to spread risks broadly (even onto generations that have not yet been born) and overcome failures in the private marketplace. Therefore, the role that governments play is really that of the ultimate risk manager, when everyone else fails.

This session provides an update of current government and regulatory intervention and increased prudential regulation in capital markets, and how they impact current programs targeted to address the U.S. housing finance crisis. In addition to a detailed analysis of current U.S. programs that impact liquidity (TARP, TALF, PPIP, CPP), we take a close look at HAMP, MHA and other programs and the opportunities – and obstacles – they present. Finally, we consider programs yet to be announced and discuss ideas for programs that could work more effectively to bring investors and stability back into the markets. **(TONI MOSS)**

17 NOVEMBER 2009
08:15 – 09:30 SESSION 1

TOO BIG TO FAIL

Government as lender, investor, risk manager of last resort

TONI MOSS
EUROCATALYST

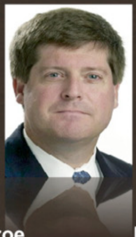
host

TIM SKEET
BANK OF AMERICA
MERRILL LYNCH

co-host

Ron d'Vari
NewOak Capital

Todd Groome
AIMA



John Kiff
International
Monetary Fund

Peter Monroe
National Real Estate
Ventures

Laurence E. Platt
K&L Gates

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Day Two – Interactivity questions, comments from Session 1

1. To what extend does it matter that nations retain their identity? Do they really have fundamentally different financial cultures/ ideologies?
2. The difficulty with government intervention is how to unwind the intervention. What are the implications of a permanent government ownership share
3. Shouldn't the government support the Ross/Friedman Plan?
4. Government is not going in the direction, but they do not have a choice
5. Free market economy has failed in this case – why NOT get the government in some form involved?
6. Separate of the government... do any of you anticipate regulatory guidance changes that will allow non-performing loans to be liquidated from existing securities where termination of the loan is inevitable? (really a QSPE vs SPE issue)
7. Free market? You should listen to what Tim observed about Fannie/Freddie and the history of this country's mortgage market
8. No-one speaks up because they will get called to DC to appear in front of Barney Frank and his bully pulpit
9. What do the other panelists think?
10. Why should US taxpayers trust the Treasury when they misrepresented how they would use the initial $787 billion?
11. Think the problem is that most folks (government and banks) do not understand how credit derivatives work and their consequences – Financial entities are still delivering their off balance sheet exposure from credit derivatives – What kind of regulation do the panelists think should be installed re the CDS market?
12. I notice how nobody on the panel works or worked for Goldman. That means it's impossible to have a coherent conversation about government intervention
13. Different treasury (sort of)... also, give Treas credit for having to improvise in a hurry!
14. TARP created the oligarchical structure in the financial systems where racketeering is now permissible

Day Two – Interactivity questions, comments from Session 1 (continued)

15. Agree with Q8 ("No-one speaks up because they will get called to DC to appear in front of Barney Frank and his bully pulpit"). Disagree with Todd. It's 90% political. The people in this room can create solutions to the problem but with government led programs like TARP that reduce incentives to clear the housing market, but government programs get in the way. Look at FHA mortgage rates – they are lending to higher risk borrowers at lower interest rates
16. Problem with complaining about executive branch guys is that at least they have information... it's clear if you listen to one hearing that congressional staff are only as inquiring and honest with facts as their bosses – Maxine Waters is a great example of how little congress knows about the problems
17. If you read the book too big to fail one should agree that
18. Let's talk about solutions... we know the problems
19. Can we please get a brief assessment of the PPIP and Treasury programs before we run out of time in this session? Enough blame chasing
20. PPIP hasn't bought anything yet (much any way...) but the hope of PPIP raised prices and improved liquidity... rising tide lifts all boats
21. The situation is similar in other countries, i.e., that government programs have inconsistent effectiveness. Let's talk about the solutions rather than complain
22. Toni – get the panel on nuts and bolts programs ... PPIP, talf etc. the questions here are much more specific and little picture
23. Too much macro discussion
24. We're spending too much time on a diagnosis of past system failures... we're all government owned now! how do we move forward

Day Two – Interactivity questions, comments from Session 1 (continued)

25. What does the panel think of the CFPA? Fed passed rules to eliminate the ability to issue exotic mortgages in the midst of crisis – how can we get back to lending outside of government FHA, FNMA and Freddie
26. We lack a clear vision as to the guiding principles and leadership to execute that vision. The main principle seems to be to tax the owners of debt secured by real estate by increasing loss severity through foreclosure moratorium both direct and indirect through mandatory loan mod as well as mandatory occupancy after foreclosure
27. H4H has zero loans
28. Ditto... please get panelists to comment on current status of PPIP, Treasury and impending financial institution troubled asset liquidation
29. Why hasn't some investor challenged the actions of out government to abrogate contracts between borrowers and investors – aren't these actions a violation of contract law?
30. Solution, serving market via competition, transparency, rule of law; vs. serving 'management' or existing power elite via fiat, speculation and negotiation?
31. The dollars needed for government writing down loan by loan are not enough in tarp for what is needed
32. Are European countries using government programs similar to HAMP or H4H? If not, how are they dealing with the high level of delinquencies and high LTV?
33. What would the US mortgage market look like if Fannie and Freddie ceased to exist? Where would this $6T of exposure go, how would it be managed?
34. What are the solutions that financial institutions can create on their own without government involvement. There must be some other ways to improve from a more granular level
35. Cramdown is currently available under existing bankruptcy law on second lien mortgages... it is commonly referred to lien stripping
36. BK lien stripping sine it is available, maybe modify the bk code to allow a fast-track lien stripping and modification of first or short sale. give incentives to BK trustees to conduct the short sale

Day Two – Interactivity questions, comments from Session 1 (continued)

37. Front line has a great piece on failure to regulate CDS etc. called the warning...
38. Seems like senior tranches would be pro-Ross/Friedman. Have they not been? Juniors are toast anyway, so what do they care?
39. Isn't the solution about experiencing some pain? Susan Lund spoke about this yesterday. Otherwise we are just "kicking the can"
40. You cannot modify loans unless significant reduction in principal, this is why Ross plan will work better. Question: how can government be sure Ross plan will not simply be predatory in rush to foreclosure... prove to me
41. Hedge funds can be the white night and they want to keep the borrower in the homes!
42. Not every bad loan has: 1) a borrower 2) a borrower who wants to stay in the house 3) who has a borrower who can stay in the house. Half to two thirds of these loans WILL go to REO. Many of these loans have vacant properties
43. Hedge funds don't want to hold for 3 years. They want to buy at a discount and resell immediately
44. Agree with 42 (“Not every bad loan has: 1) a borrower 2) a borrower who wants to stay in the house 3) who has a borrower who can stay in the house. Half to two thirds of these loans WILL go to REO. Many of these loans have vacant properties”)... All possible outcomes of enabling professional distressed asset investors to participate effectively reboot the markets!
45. We also must alter the flawed rhetoric of 'losing their homes'. We should be saying people are 'improving their financial situation'
46. Shortage of housing?
47. The banks have the same data on roll rates and property value, so how do they avoid having to write down these assets?
48. The commercial loans are what caused the failure of the S&Ls in the late 80s
49. PPIP has not failed... yet... it actually had a positive affect on the market
50. What are the solutions? Step by step… What should we as an industry be saying?
51. Agree with 45 (“We also must alter the flawed rhetoric of 'losing their homes'. We should be saying people are 'improving their financial situation'”). Delinquent borrowers must improve their financial situation by downsizing to a more affordable home
52. About trades, the ASF has a servicer sub-forum to raise issues that affect investors and the MBA has a loan admin committee to raise servicing issues as an industry

DAY 2 SESSION 1 TOO BIG TO FAIL

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EUROCATALYST 2009

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ABOUT THE EUROCATALYST ANNUAL EVENT

EuroCatalyst BV established the annual EuroCatalyst event as a "peer-to-peer" think tank in 2002 to widen the industry's perspective, challenge the status quo, and improve the products, processes, and practices of an industry that we had hoped would lead the new system of globalization, rather than become a victim of it. We identified housing finance as the core of the global economy and focused on the accelerated globalization of mortgage markets as the main factor that would shake the world's economic fault line if national markets and market sectors did not communicate with one another.

In 2001 we approached the World Bank, the European Commission, the World Economic Forum, the International Monetary Fund, the US Mortgage Banker's Association and the European Mortgage Federation to produce the event but found no interest as mortgages were viewed as "just one of many financial services products" in Europe, and the event was considered too broad in scope for US-based organizations. We were told that if our conviction was compelling enough, we should do it ourselves with their participation in support. The style and scope of the event would be modeled after the TED Conferences, Esther Dyson's PC Forum and similar "big picture" events focusing on education and interaction in an intellectually challenging and entertaining environment.

The event was launched in 2002 with the participation of all European trade organizations and the European Commission. In subsequent years we chose to focus on the commercial realities of the markets, leaving their political implications to the political process. As such, starting in 2003, EuroCatalyst adopted a policy of independence and neutrality, and has never asked for nor received endorsement from any official organization. Instead, we invite regulators and policy-makers to attend the event anonymously, on complimentary passes, to communicate with and understand the mindset of industry players.

Identifying globalization as the fundamental context in which to establish the event allowed discussions to center around the vast divide between the local activities of housing (origination, distribution, risk management, servicing, and consumer protection) vs. the increasingly global activities of funding (leverage, relative value, servicing, risk management, and recovery) and the ways in which this dramatic "disconnect" impacted each sector of the mortgage lifecycle. This became the ongoing theme of the event, and broke new ground in bringing together disparate sectors of the industry in one place, at one time, for the first time. Because the industry continued to evolve differently in various nations, EuroCatalyst moved the event each year, as an editorial and educational commentary, to the country in which the most significant changes were occurring.

In 2007 EuroCatalyst introduced a media ban on the content of current and future event sessions to encourage the open and honest dialogue among peers sharing ideas and seeking solutions to the fundamental restructuring of the markets. Participation has always been limited to 350 on an invitation-only basis to continually increase the caliber of dialogue and discussion among key regulators, investors and crucial market participants.

EuroCatalyst 2002: Madrid 23-24 September
Mortgage lending in Europe: Will national market structures survive globalization?

EuroCatalyst 2003: Lisbon 22-24 October
Competition and convergence in European housing finance and fixed-income investment, the future of funding

EuroCatalyst 2004: Berlin 11-13 October
Growth, integration, and differentiation in European mortgage markets and fixed-income products

EuroCatalyst 2005: Rome 26-28 September
Risk, relationships, and reward in European mortgage markets

EuroCatalyst 2007 : Madrid 4-5 October
Burning Down the House | Quemando la casa

EUROPESERVICING

Given the increasing financial leverage and risk that was occurring in mortgage markets, in 2005 we decided to directly address the weakest link, the mortgage administration and servicing sector. That year, we launched EuropeServicing to reposition the role of servicing from the originator's back office to the investor and consumer's front office. We highlighted the crucial role of servicing as the "bank within the bank" and the bridge between the primary and secondary markets, and brought investors and regulators directly into the discussion for the first time. The event became an industry-wide movement to generate ideas and strategies for improving the CMBS and RMBS servicing sectors and to highlight the most significant trends and players in Europe and the rest of the world. The event continually challenged what were considered to be "best practices" and brought awareness to the need to consider servicing issues prior to lending funds. At our last event in 2008, the audience overwhelmingly encouraged us to move the dialogue to the United States in 2009.

EuropeServicing 2005: 3 June | Amsterdam
Maximizing growth, minimizing operational risk and recovering asset value in European mortgage markets

EuropeServicing 2006: 31 May-1 June | British Academy of Film and Television Arts (BAFTA) London
Bridging primary and secondary markets, enabling cross-border lending and protecting investment value in European mortgage and real estate markets

EuropeServicing 2008: 28-29 April | British Film Institute (BFI), London
Vertigo: Mortgage servicing, processing, and administration in a world off-balance