

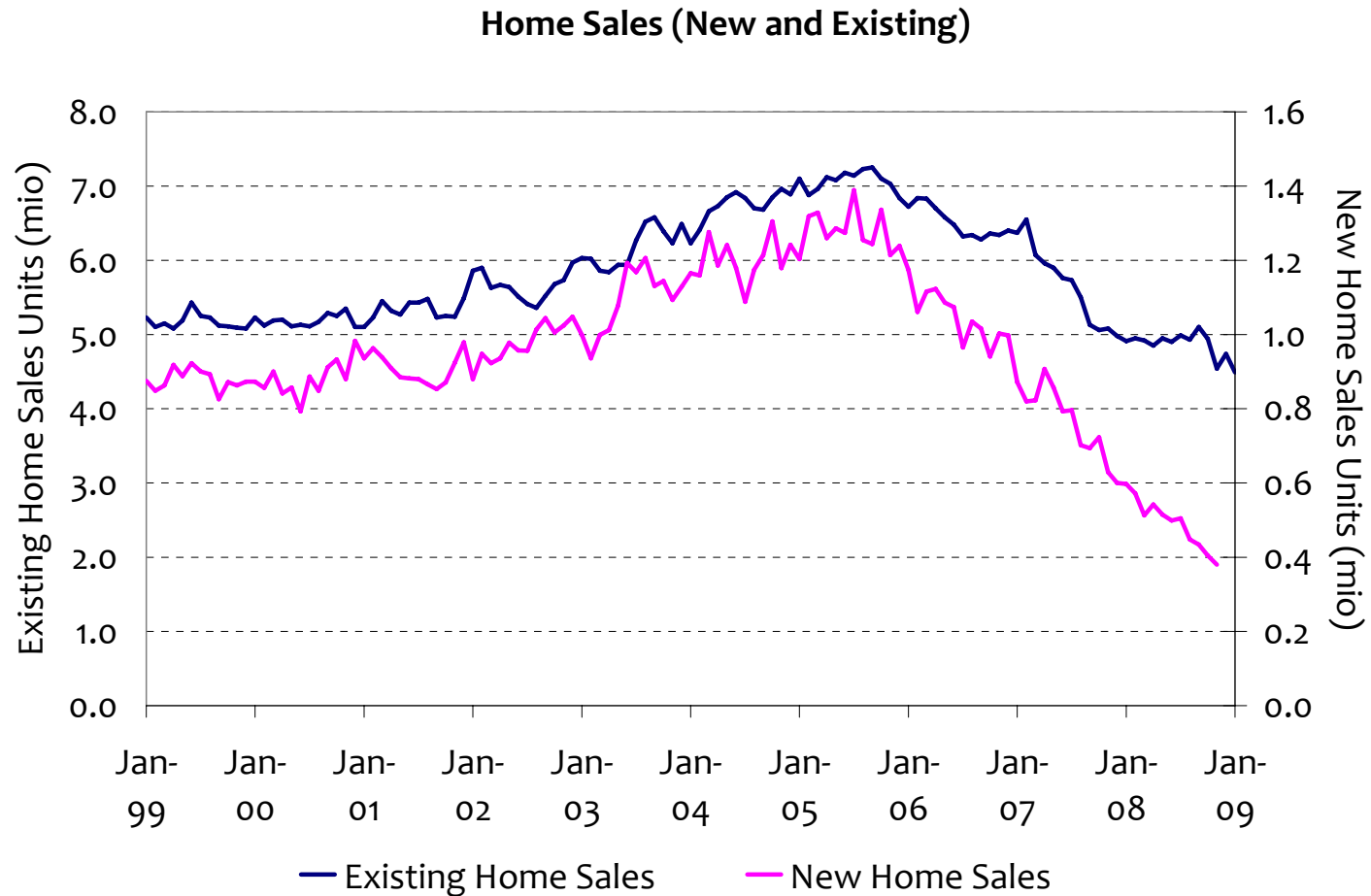


The Deflating Bubble, Part V: Forecast and Policy Recommendations for the Next Six Months

AEI-PRIMA
March 17, 2009

Thomas Zimmerman
Managing Director
UBS AG

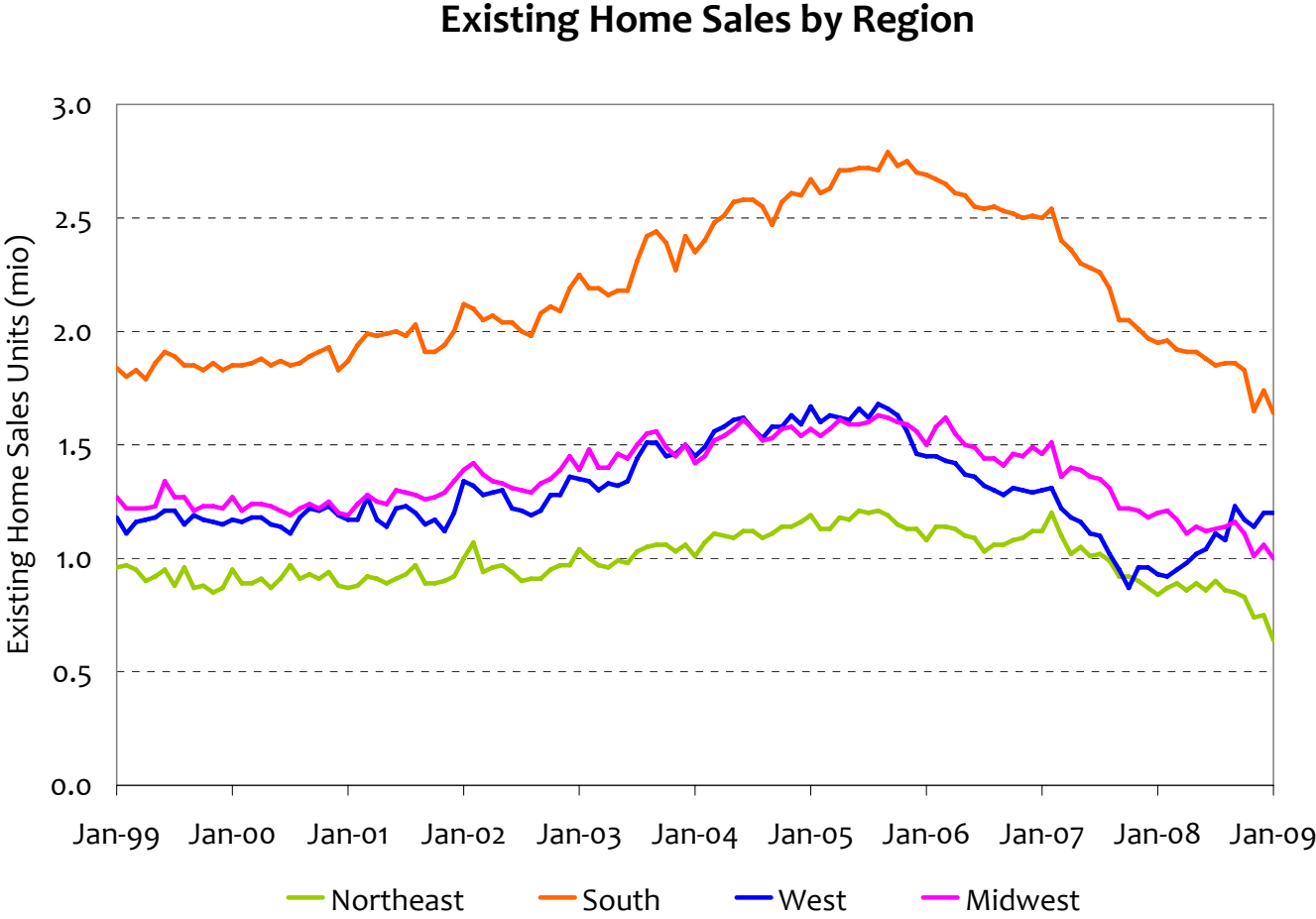
Existing Home Sales Turn Down Again



Source: National Association of Realtors and U.S. Census Bureau
Latest Data: January 2009



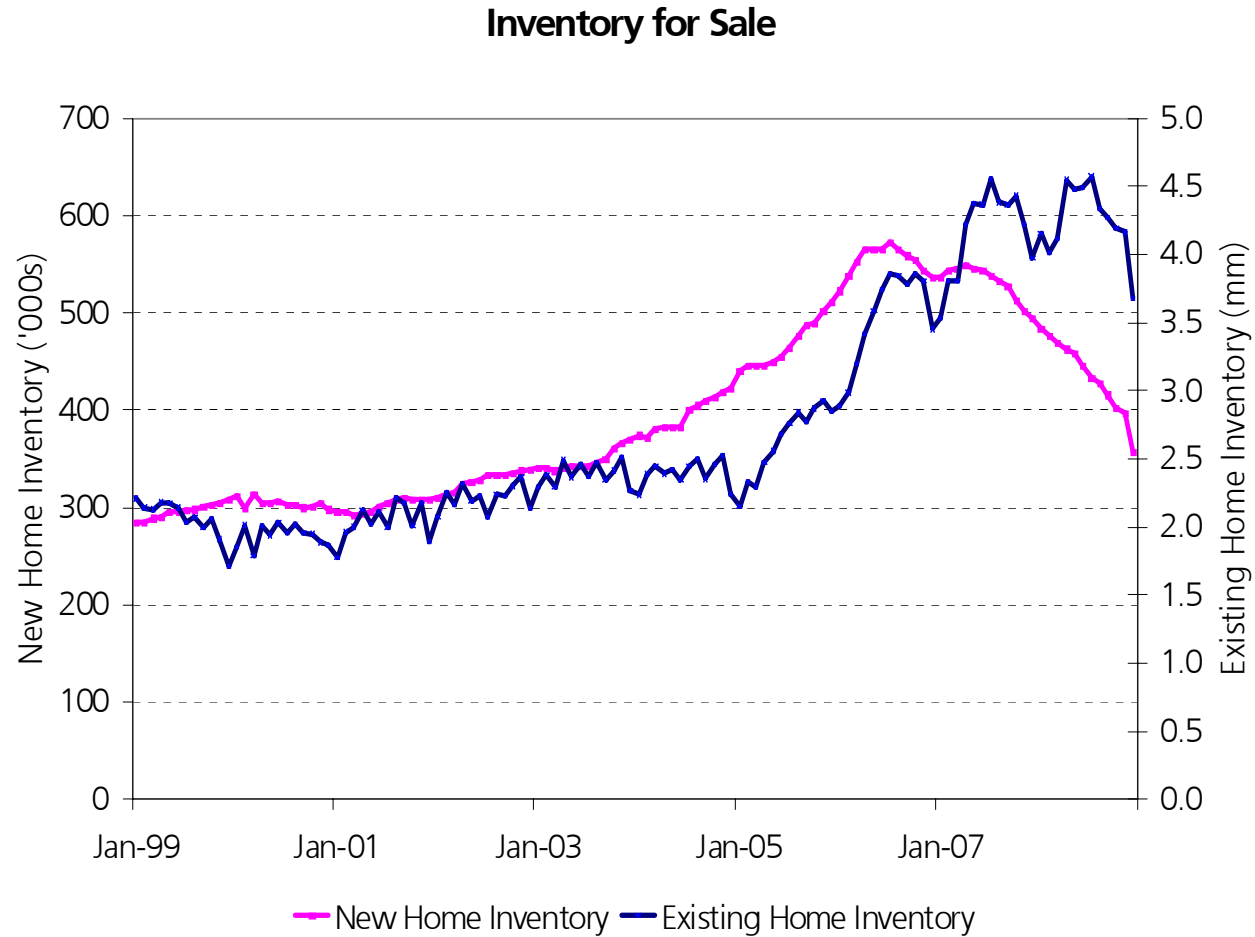
Existing Home Sales by Region



Source: National Association of Realtors
Latest Data: January 2009



Inventory Remained High With January Levels Down

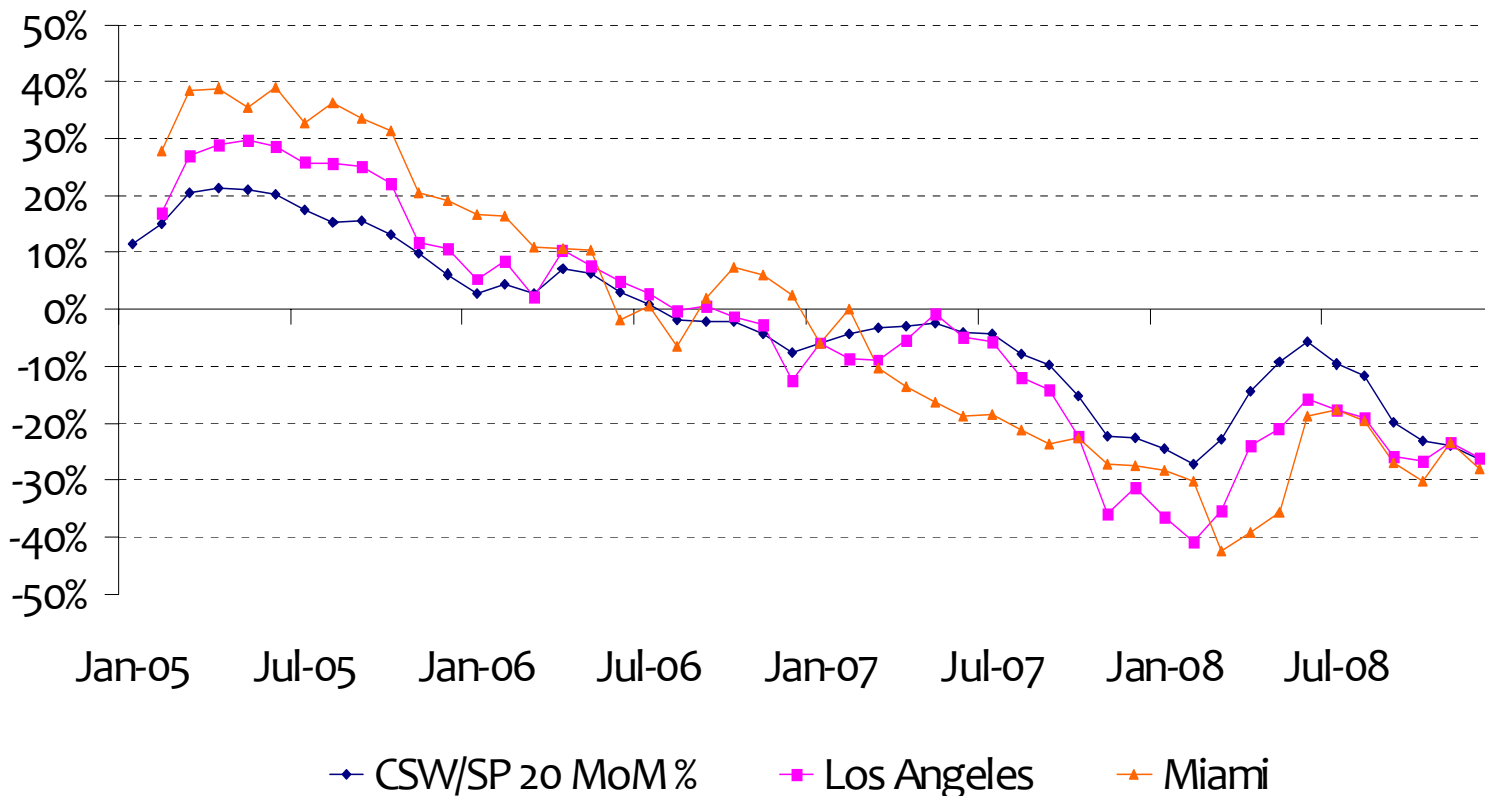


Source: National Association of Realtors
Latest Data: January 2009



Case-Shiller 20 City Index

Case-Shiller-Weiss/S&P Indices (MoM Annualized)

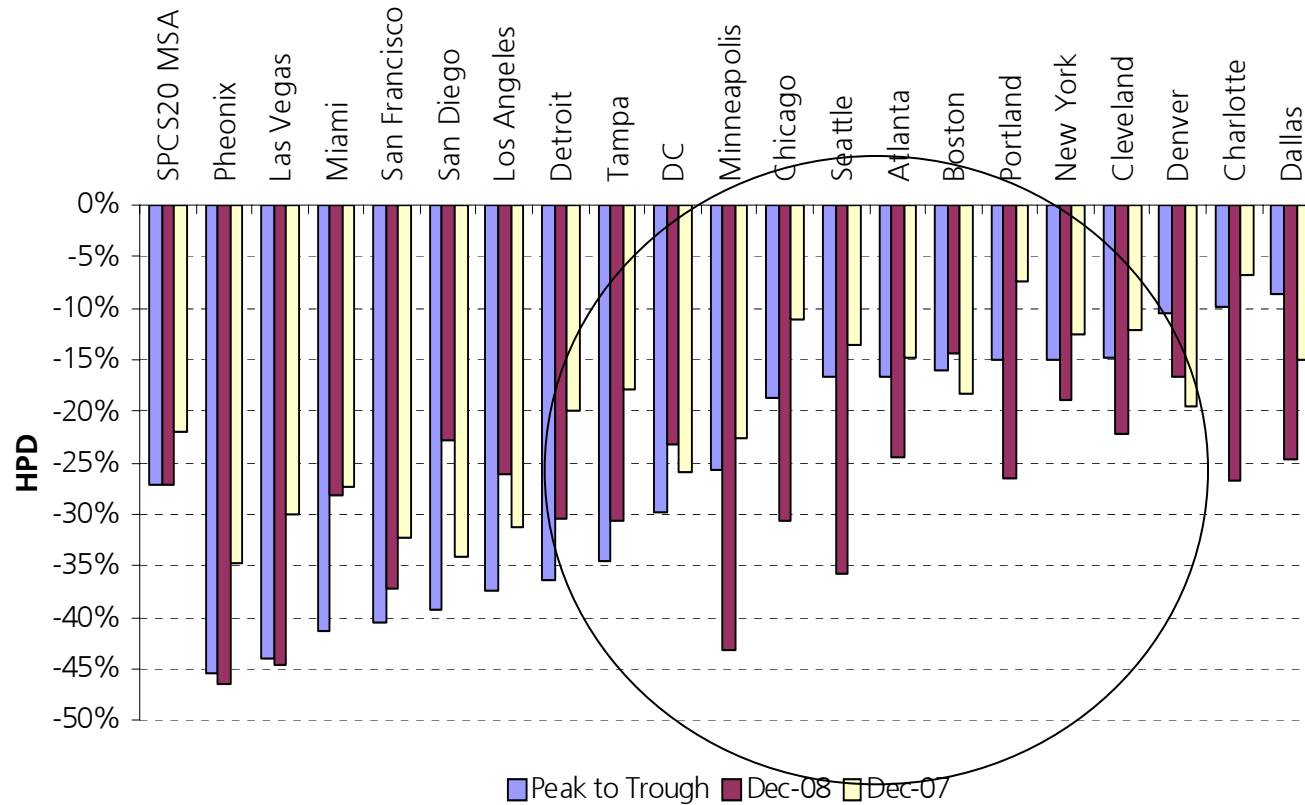


Source: Case-Shiller
Latest Data: December 2008



Case-Shiller 20 MSA Data Also Revealed Weakness in New Areas

SP/CS 20 MSA HPD Comparison



Source: Case-Shiller
 Latest Data: December 2008



House Price Changes To 3Q 2008

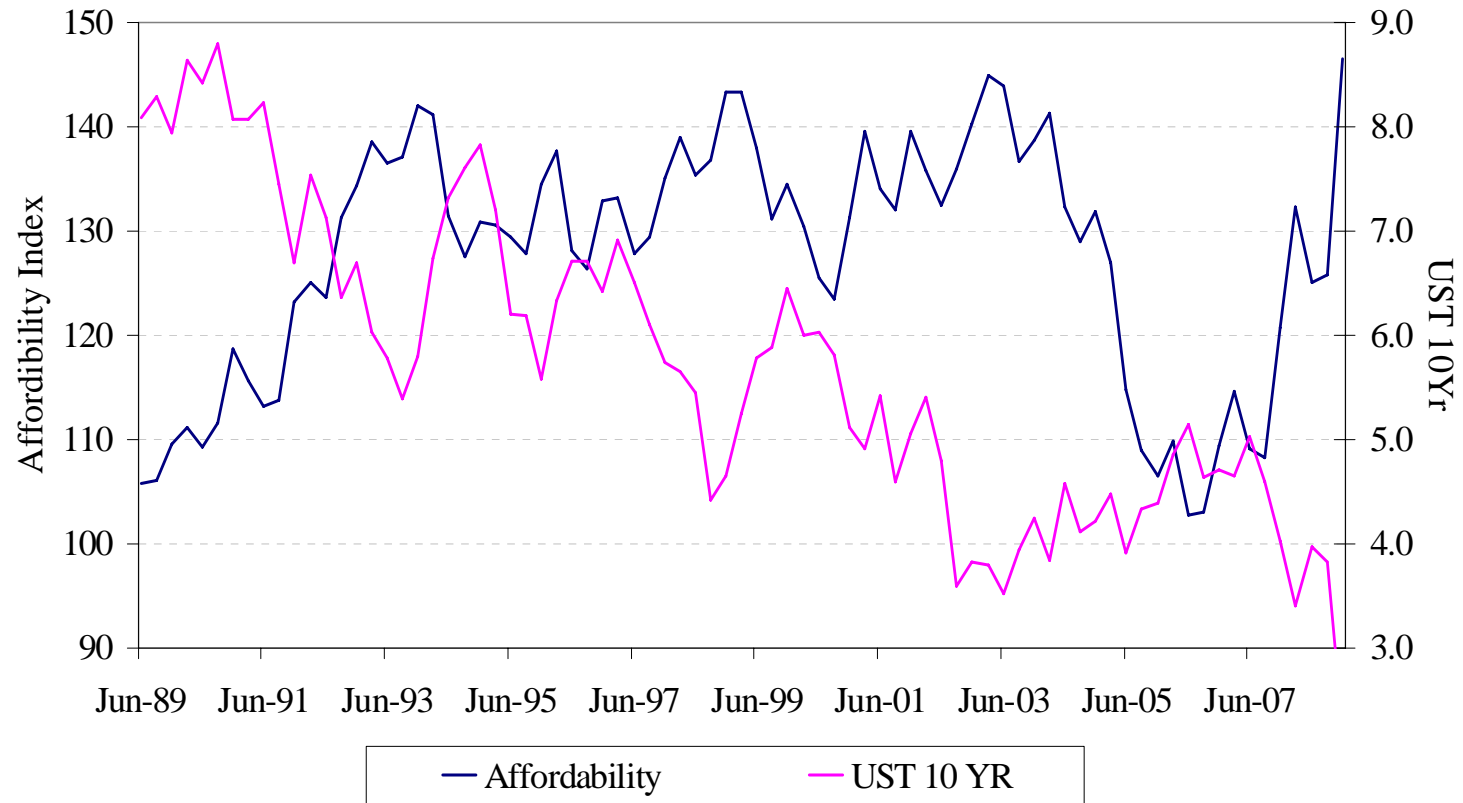
State	1y HPA	2y HPA	5y HPA	State	1y HPA	2y HPA	5y HPA
AK	-8.54	-4.97	4.08	MS	-4.58	-1.14	3.95
AL	-2.72	0.28	4.47	MT	-7.39	-2.89	5.82
AR	-4.82	-1.63	3.05	NC	-6.63	-3.20	2.70
AZ	-28.19	-19.46	2.73	ND	-4.40	-0.94	3.93
CA	-30.44	-21.81	-1.26	NE	-4.66	-2.07	1.13
CO	-3.66	-2.57	1.18	NH	-7.31	-4.94	1.25
CT	-4.54	-2.37	3.40	NJ	-7.05	-5.83	3.90
DC	-7.70	-4.55	6.37	NM	-28.35	-19.95	-0.40
DE	-6.71	-3.87	4.77	NV	-28.02	-20.13	1.43
FL	-22.33	-17.22	2.88	NY	-12.07	-8.00	2.71
GA	-8.28	-4.57	0.73	OH	-3.58	-3.33	-0.17
HI	-6.17	-4.83	8.63	OK	2.04	4.09	5.02
IA	-1.82	0.58	2.92	OR	-7.41	-2.62	7.11
ID	-9.53	-5.23	6.23	PA	-1.30	-0.41	5.25
IL	-9.81	-6.21	1.81	RI	-9.80	-6.94	1.44
IN	-4.22	-2.08	0.61	SC	-2.29	0.88	3.91
KS	-7.29	-4.80	0.65	SD	-4.98	-2.44	2.67
KY	-1.03	-0.05	2.26	TN	-2.44	-0.46	3.28
LA	-2.76	-0.32	5.23	TX	0.92	3.25	4.41
MA	-5.03	-3.71	0.88	UT	-28.35	-19.95	-0.52
MD	-10.08	-6.82	5.54	VA	-17.33	-12.76	2.07
ME	-9.66	-6.25	2.68	VT	-0.05	0.28	6.08
MI	-13.92	-11.27	-4.14	WA	-9.17	-3.03	6.98
MN	-13.25	-8.99	-1.09	WI	-3.62	-1.25	2.93
MO	-8.32	-5.60	1.13	WV	-8.23	-5.10	2.40
				WY	-6.10	-1.62	6.71

Source: Fiserve, OFHEO, UBS



Affordability Has Rebounded

NAR Quarterly Housing Affordability Index

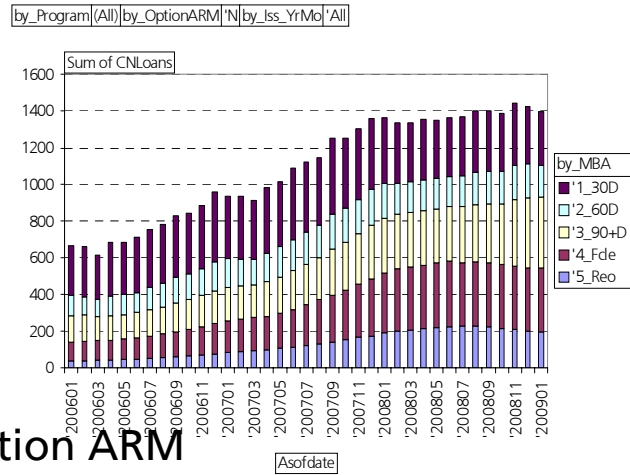


Source: National Association of Realtors
Latest Data: 4Q 2008

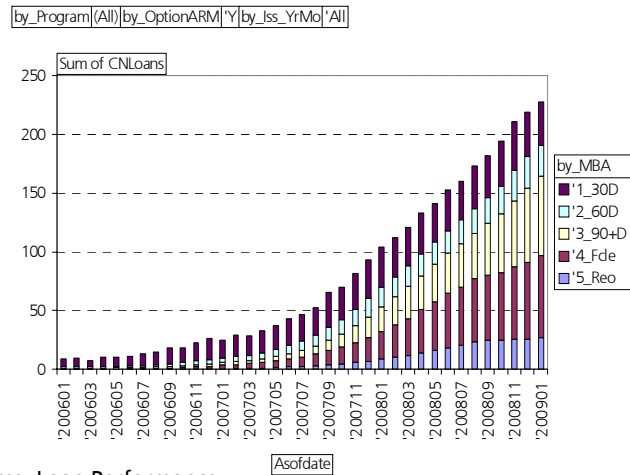


Delinquencies Have Peaked in Subprime, Not So In Other Sectors

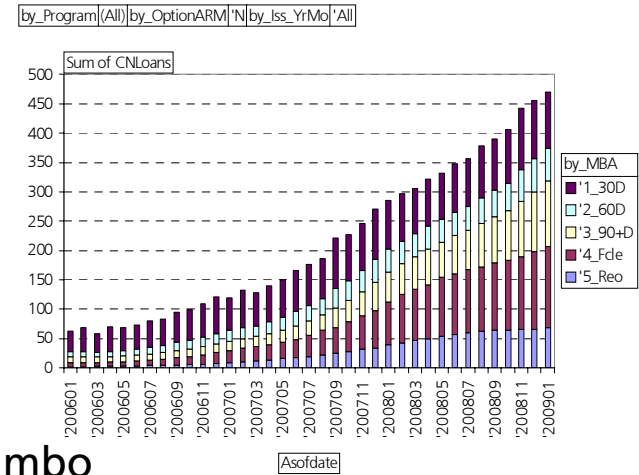
Subprime



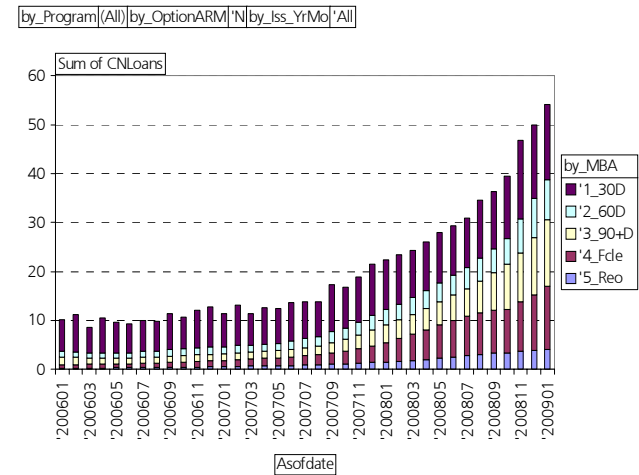
Option ARM



Alt A



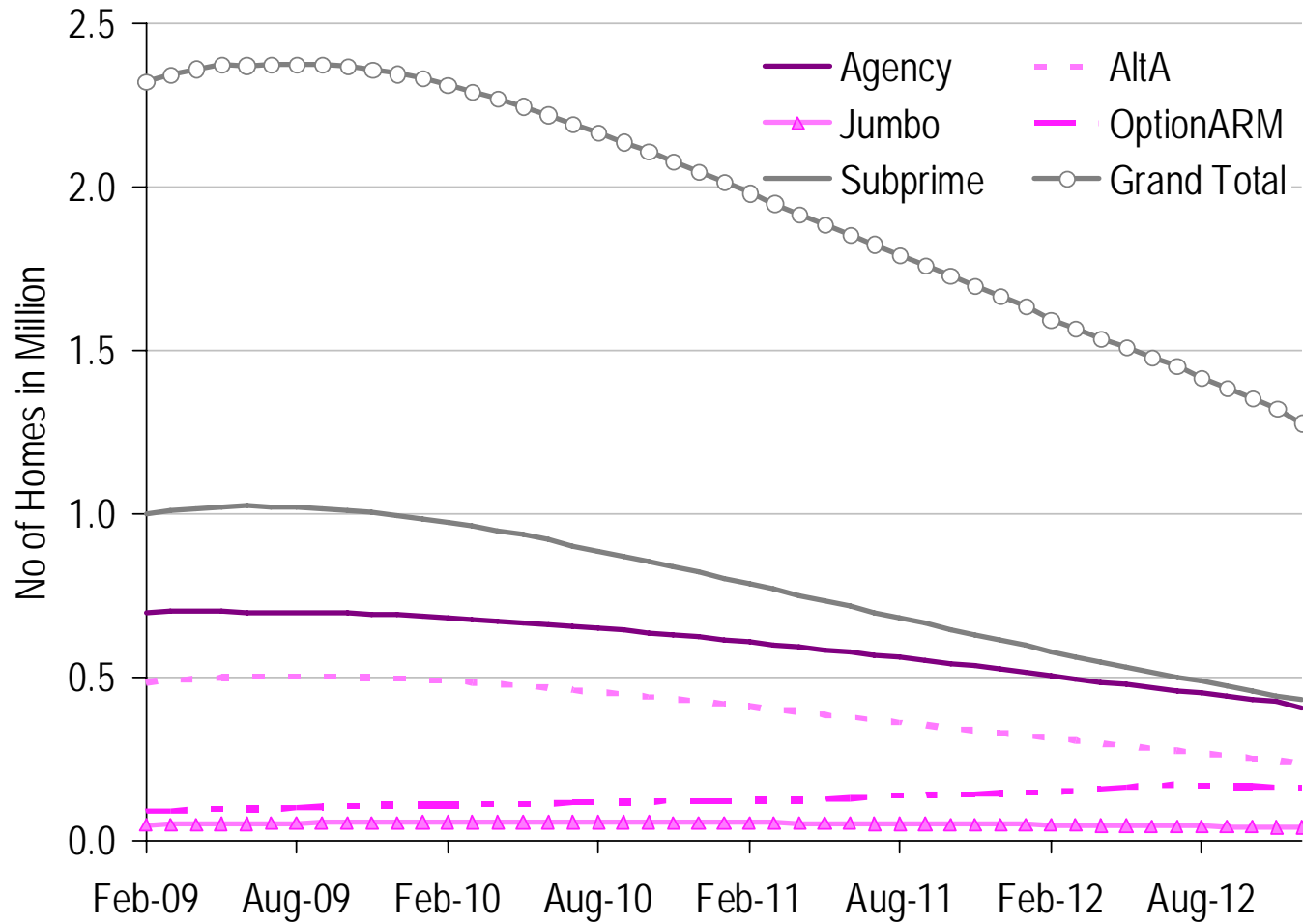
Jumbo



Source: Loan Performance
Latest Data: January 2009



Loans In Foreclosure/REO And Those Expected To Go Into Foreclosure

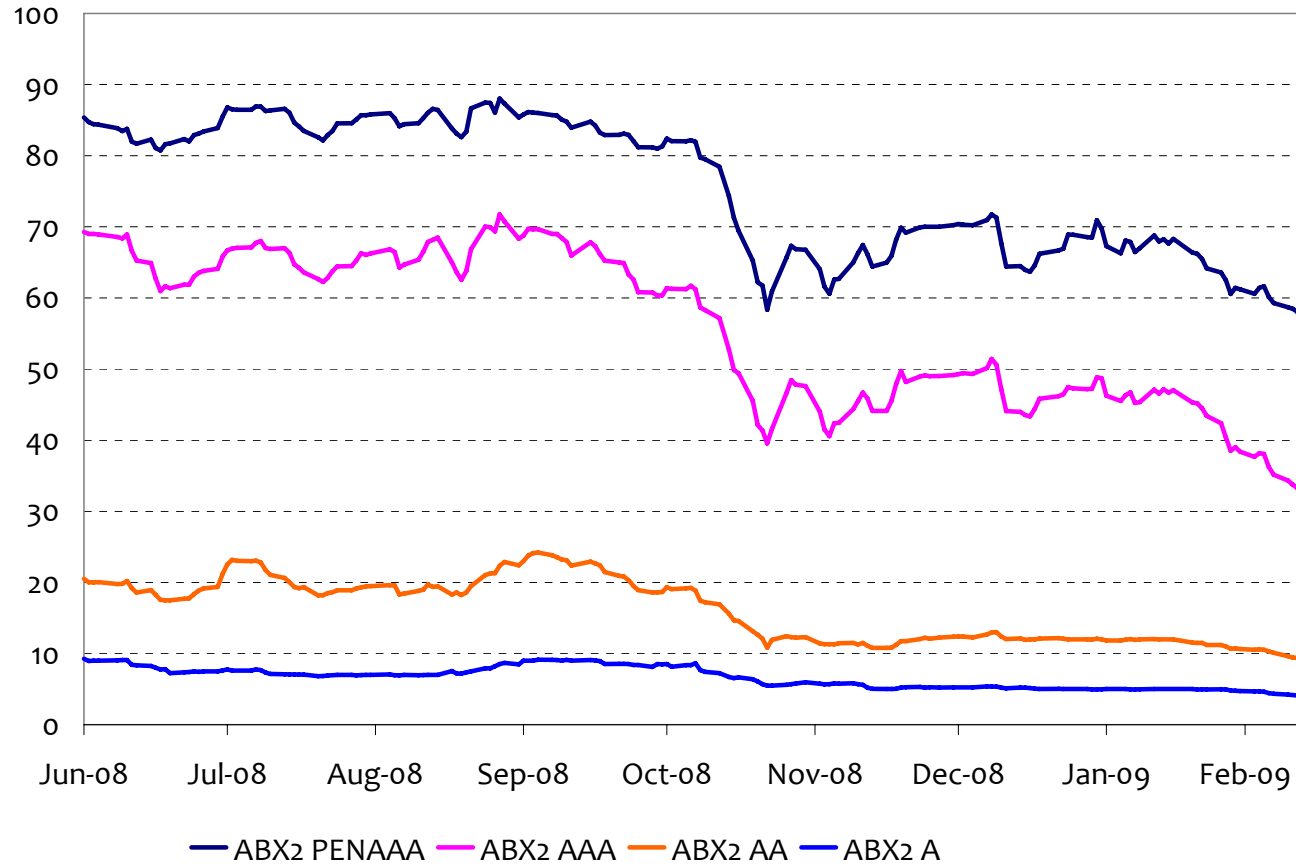


Source: Loan Performance and UBS



ABX Pricing (\$s)

ABX2 PENAAA, ABX2 AAA, ABX2 AA, ABX2 A

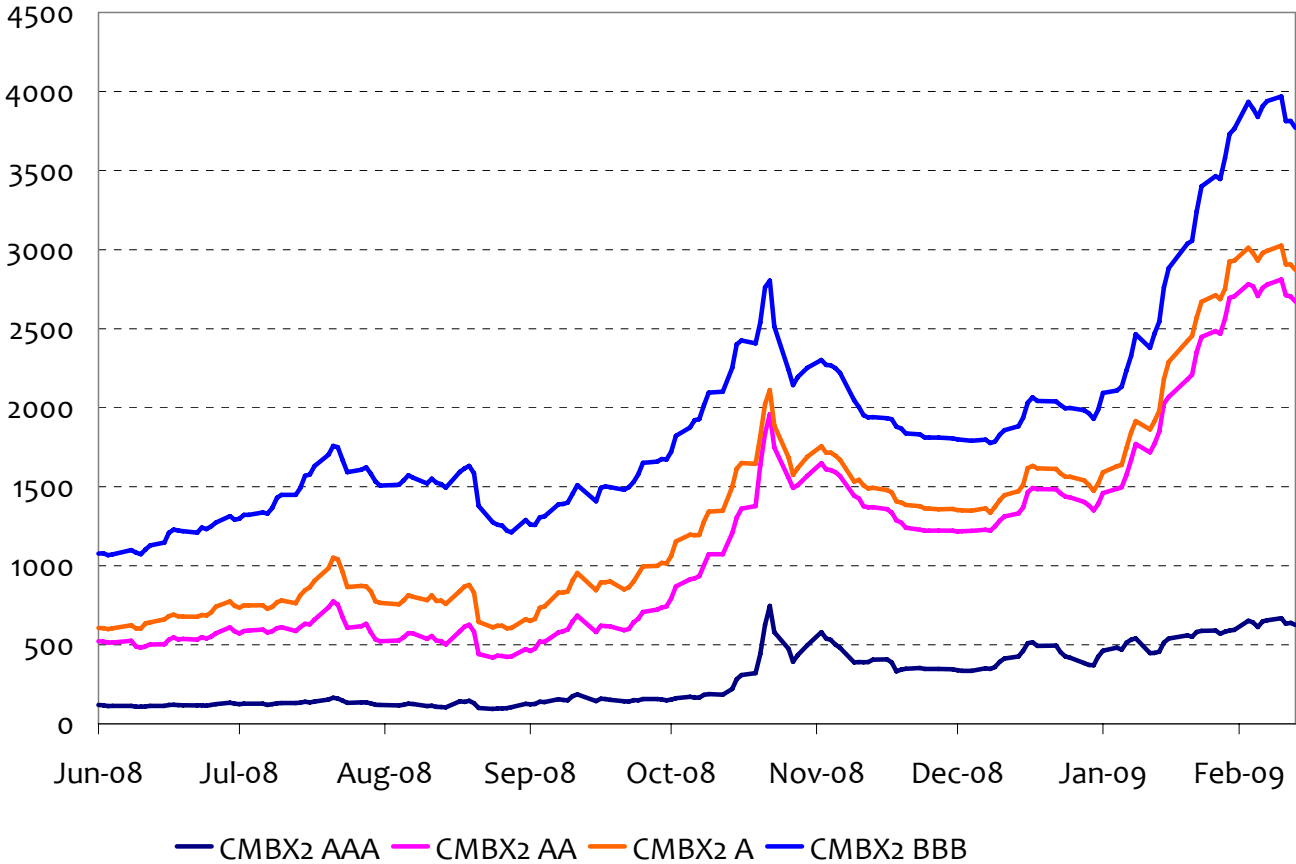


Source: UBS



CMBX Pricing (Spread in bps)

CMBX2 AAA, CMBX2 AA, CMBX2 A, CMBX2 BBB



Source: UBS



Other Securitized Sectors To Follow RMBS

- ◆ Consumer Finance:
 - Credit Cards
 - Autos
 - HELOCS

- ◆ CMBS

- ◆ CLOS

Administration Homeowner Plan

CARROT	STICK
<i>Homeowner Affordability and Stability Plan</i> Subsidy to homeowners, servicers and to a limited degree, investors	<i>Bankruptcy Cramdown</i> (HR 1106)

latest in series of initiatives

- ◆ FHA Secure -- Sep. 2007
- ◆ Hope Now -- consortium of servicers, banks, government agencies and non-profits advocating modifications – Oct. 2007
- ◆ Expanded FHA Secure -- Jul. 2008
- ◆ Hope for Homeowners -- Oct. 2008
- ◆ Homeowner Affordability and Stability Plan – Mar. 2009

HASP Selected Details

◆ Servicers

- \$ 1,000 upfront and \$ 1,000 per year for 3 years
- Total subsidy = \$ 4,000
- Compare to typical servicing fee for
 - Alt-A: \$ 300,000 @ 37.5 bps / year = \$ 1,125 / year
 - Subprime: \$ 180,000 @ 50.0 bps / year = \$ 900 / year

◆ Homeowners

- DTI reduced to 31%
For example: monthly payment lowered sharply
\$ 1,750 → \$ 1,200
- Plus principle reduction of \$ 1,000 / year for five years
- Plus upside in home if HPA turns positive

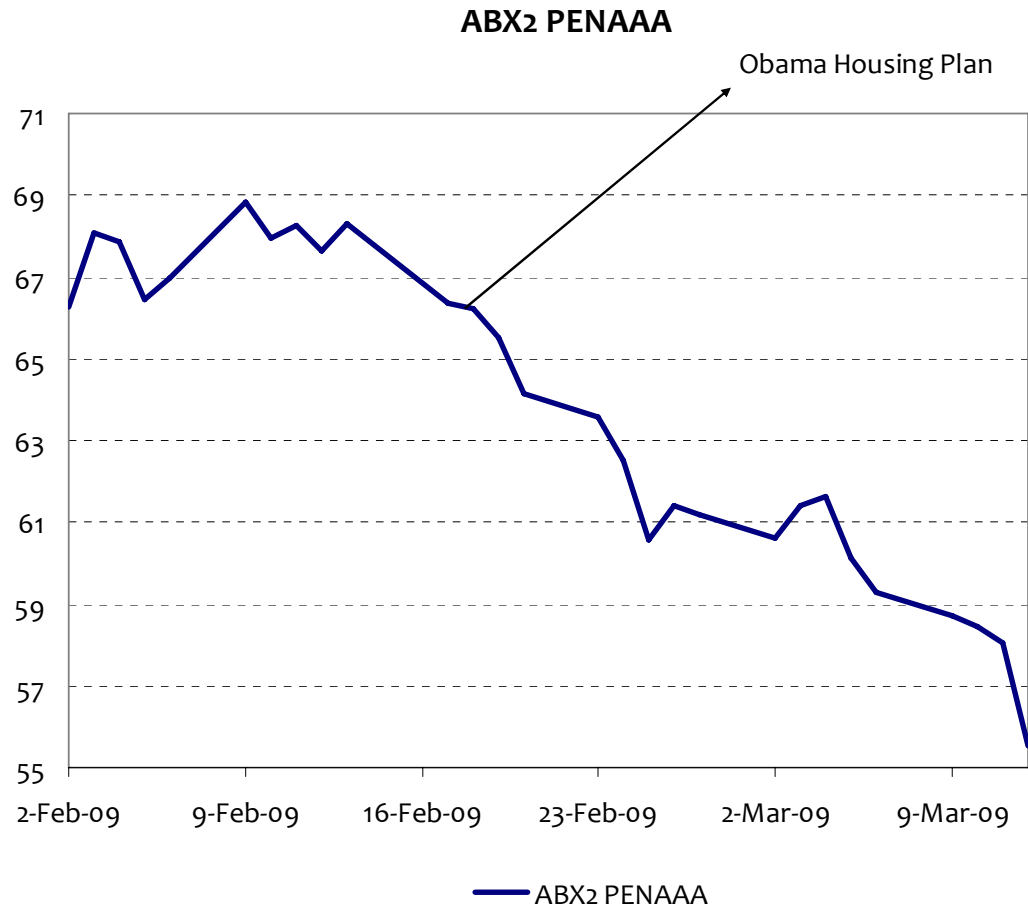
◆ Investors / Banks

- Sharply reduced monthly payment
- Loan amount paid down by \$ 5,000

Problems with HASP

- ◆ Homeowner's loan is turned into an Option ARM. This will cause a very large reset at the end of the five year subsidy period. Data shows very high default rates for loans with large resets.
- ◆ Program provides strong incentive for servicer to modify loan even if modification is not in best interest of the securitization trust. It sets up a contentious situation between servicers and investors.
- ◆ With a common DTI of 31% the largest benefit goes to those that lied the most on their original loan applications or took the greatest risk on the housing market.
- ◆ Program rewards those that are already delinquent. This will encourage more homeowners to become delinquent.
- ◆ By punishing investors in order to save homeowners the program greatly lowers the probability that securitization will resume in the near future. It stands in direct contradiction to the objectives of TALF.

ABX2 PENAAA



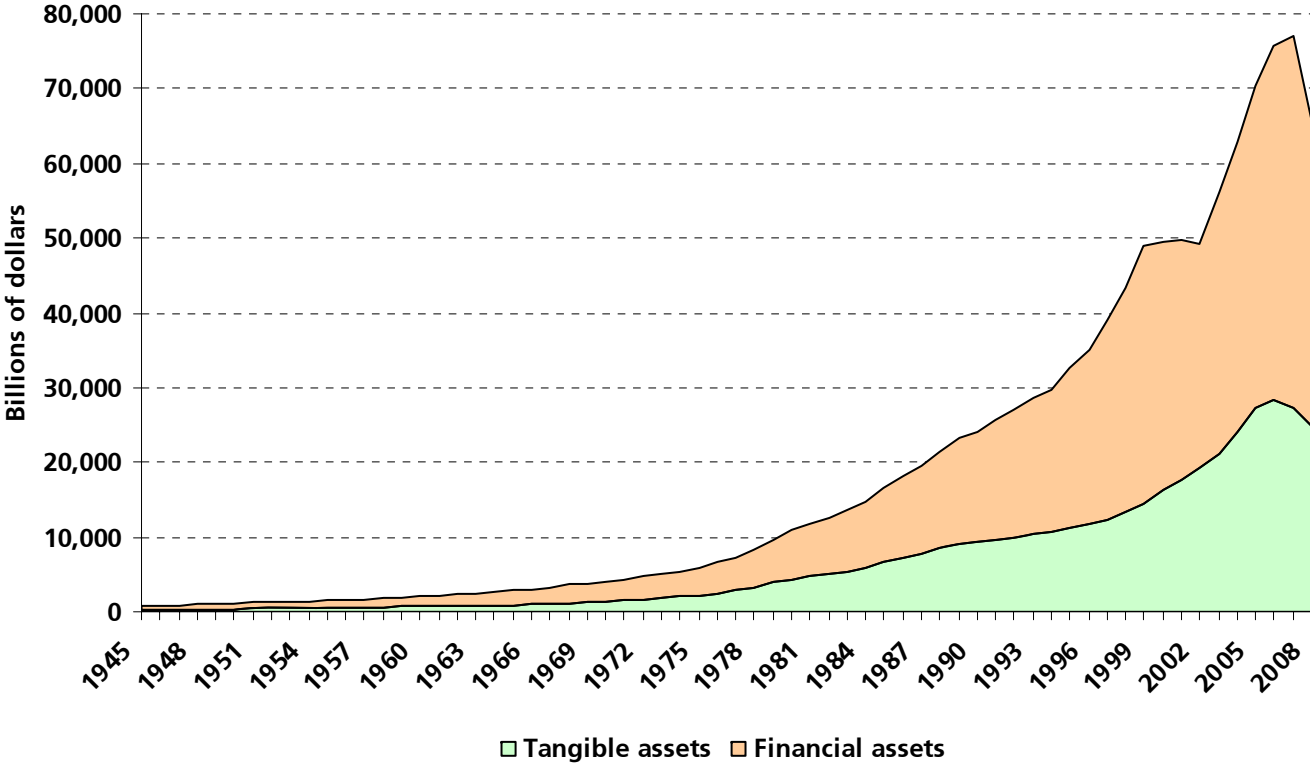
Source: UBS



The New, New Deal

- ◆ CPP – Capital Purchase Program - Treasury
- ◆ TLGP – Temporary Liquidity Guarantee Program – FDIC
- ◆ CPEF – Commercial Paper Funding Facility – Federal Reserve
- ◆ TGPMMF – Temporary Guarantee Program for Money Market Funds – Treasury
- ◆ MMEFF – Money Market Investor Funding Facility - Federal Reserve
- ◆ TALF – Term Asset-Backed Securities Loan Facility – Federal Reserve
- ◆ TARP – Troubled Asset Relief Program – Treasury
- ◆ CAP – Capital Assistance Program

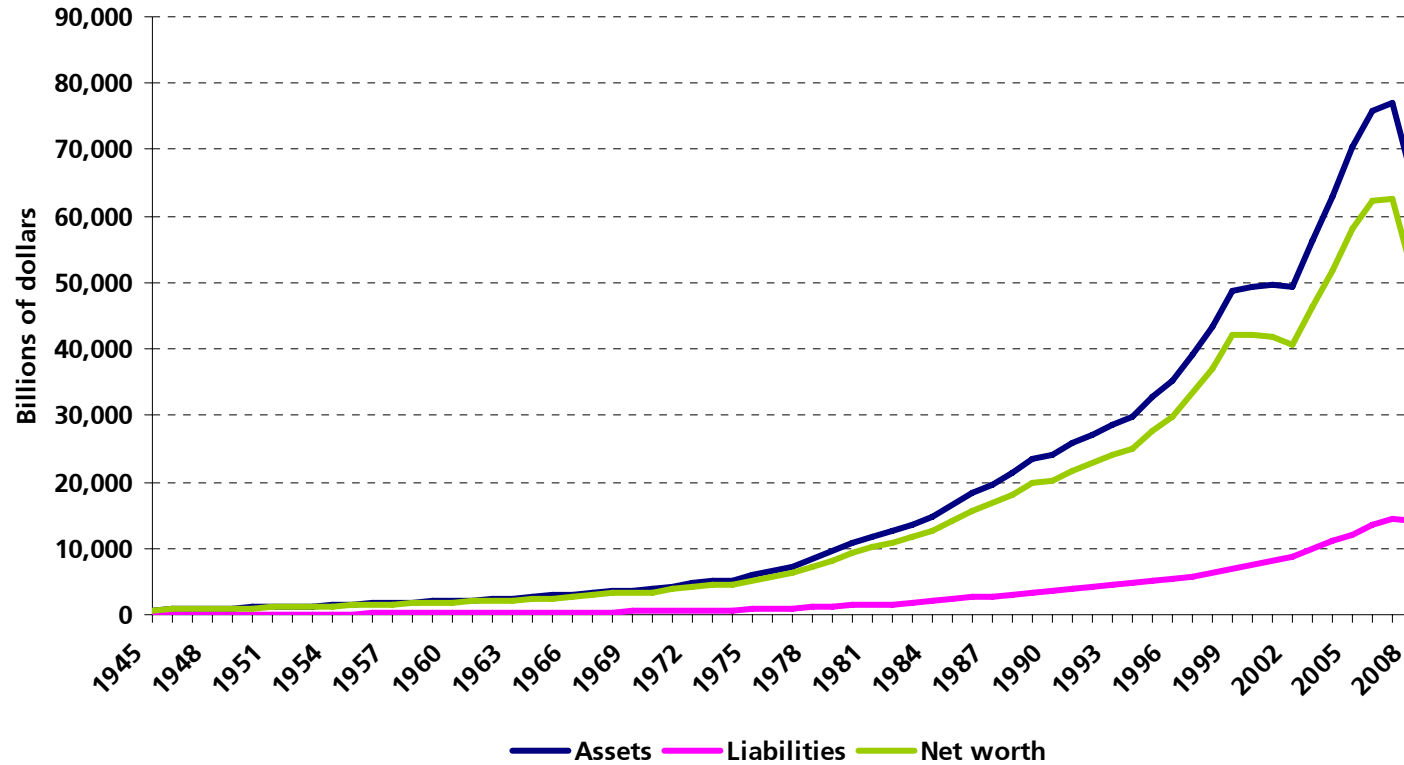
Household Assets – Tangible Assets And Financial Assets



Source: Federal Reserve



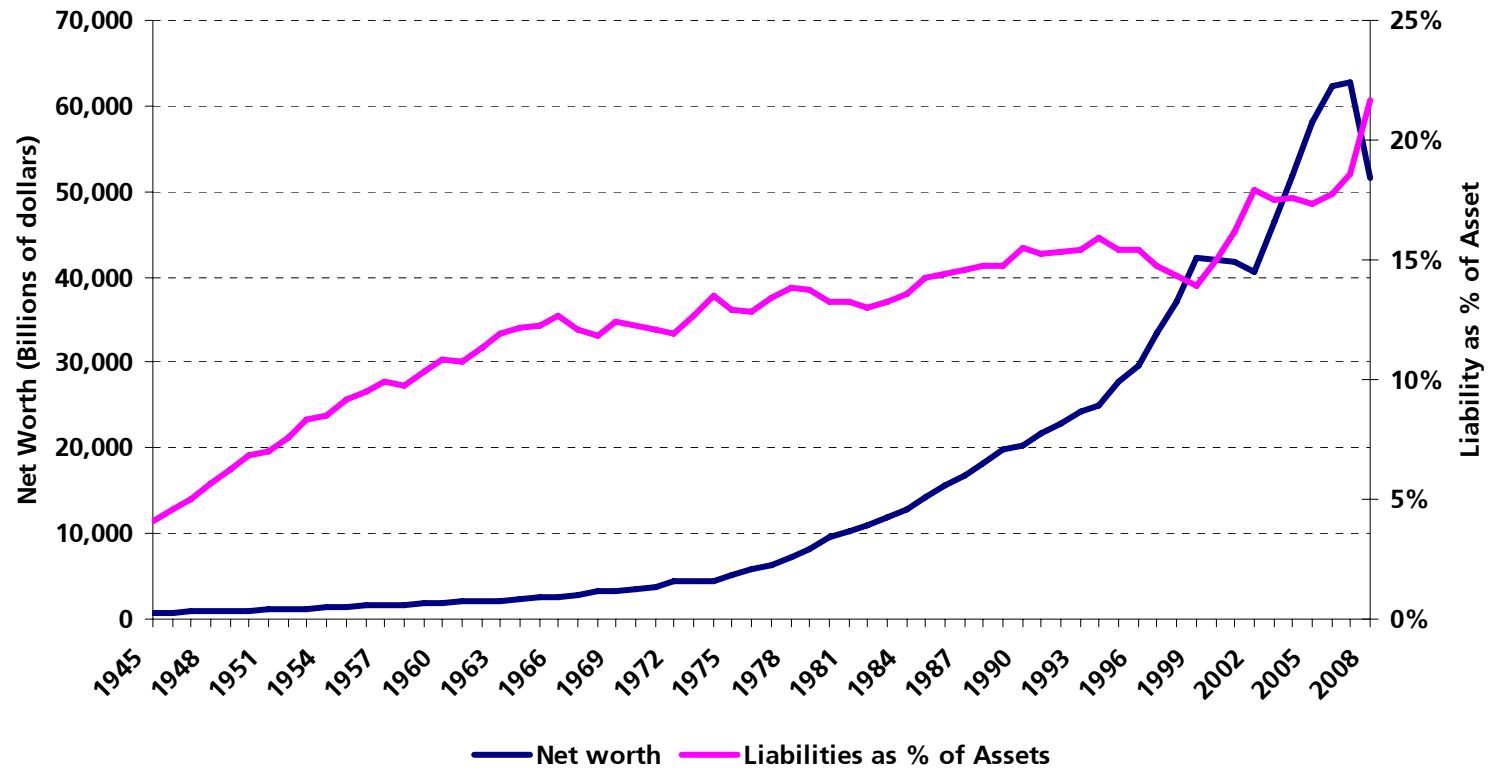
Household Assets, Liabilities And Net Worth



Source: Federal Reserve



Net Worth And Leverage (Liabilities As % Of Assets)



Source: Federal Reserve

