

# Results of TARP Survey



Discussion document

November 6, 2008

# EXECUTIVE SUMMARY

- Financial Institutions across asset sizes generally anticipate participating in Troubled Asset Relief Program (TARP)
  - Survey elicited 445 responses (of which 260 disclosed potential TARP assets of ~\$580 billion\*)
  - Anticipated participation rate of larger financial institutions (total assets >\$5bn) greater than smaller institutions (~70% vs. ~50%)
  - Lack of clarity regarding implementation, warrant provisions, and uncertainty over shareholder perception of participation significantly affect willingness to participate
- Financial Institutions would prioritize the purchase of subprime and Alt-A residential real estate, followed by commercial real estate (CRE) particularly for small financial institutions
  - Survey respondents would evenly allocate TARP purchases between whole loans and securities
  - Residential real estate is their largest holding (e.g., ~50-60% of total assets disclosed), and CRE the second largest holding for small institutions (roughly a third of total assets disclosed)
  - Larger institutions target a decline in origination and net new purchases of Alt-A and subprime of >30% yoy
  - Significant uncertainty remains around forecasts for peak-to-trough real estate price decline (e.g., survey respondents estimates for nationwide peak-to-trough ranged from 5 to 45%)
  - In addition to CRE, smaller institutions identified Other Real Estate Owned (OREO) and larger institutions corporate loans and Collateralized Debt Obligations (CDOs) as having the greatest illiquidity premium and would be the most beneficial to their institution if purchased by TARP
- Treasury will need to use other mechanisms, such as guarantees, in addition to reverse auctions if its goal is to ensure the greatest breadth of participation across asset sizes
  - Financial institutions would sell ~50% of their assets targeted for TARP at a slight discount to model-based valuations (or current book value if marked to market) but small institutions would require prices closer to cost
  - Small institutions are more concerned about uncertainty over future realized losses and large institutions about illiquidity premium
  - Consistently, small institutions have a stronger preference than large institutions for guarantee programs, particularly for residential and commercial real estate

\* Includes only notional outstanding declared in the survey

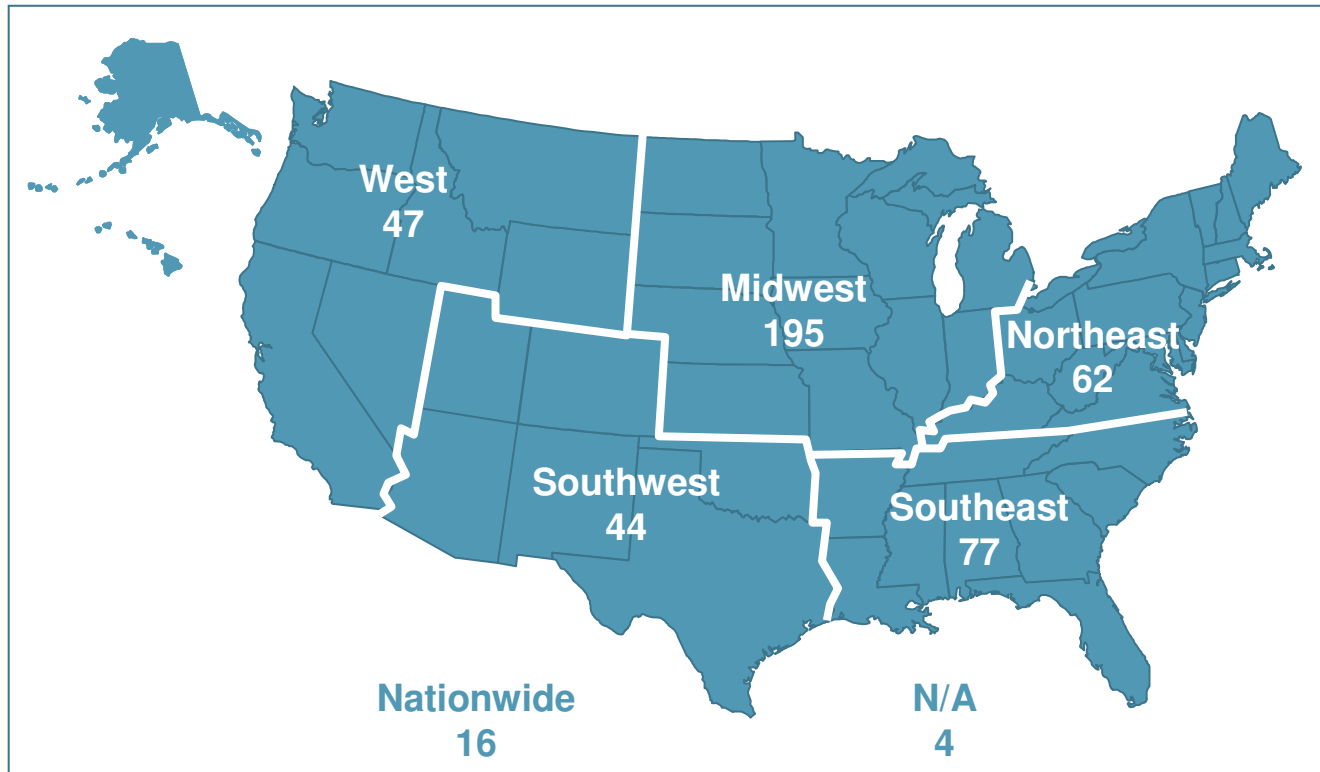
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- **Overview of results**

- Asset class selection and prioritization
- Implications for TARP structure
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# SURVEY RESPONDENTS ARE BROADLY REPRESENTATIVE OF THE UNIVERSE OF FINANCIAL INSTITUTIONS\*

**Profile of survey respondents by primary region of exposure to real estate lending**  
Number of financial institution\* respondents



- **445 financial institutions in the survey\*\*:**
  - 20 institutions with more than \$5 billion in assets
  - 41 institutions with \$1 to \$5 billion in assets
  - 384 institutions with less than \$1 billion in assets
- 260 survey respondents disclosed **potential TARP assets of ~\$580 billion\*\*\***

\* Includes banks, savings associations, thrifts, credit unions, brokers dealers, and specialty lenders

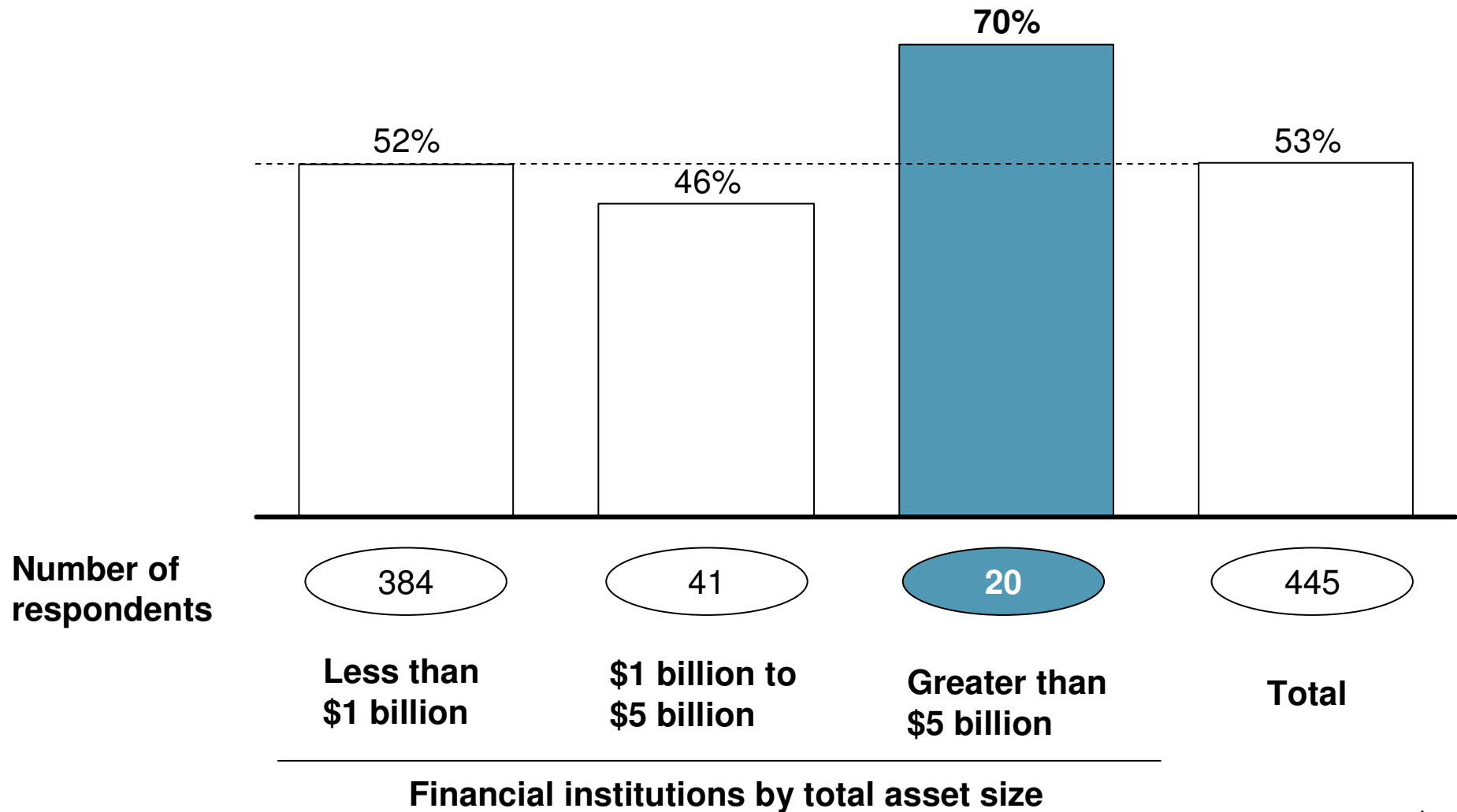
\*\* Survey conducted October 8-20, 2008 administered in a blind format and addressed to CEO-level representatives

\*\*\* Includes only notional outstanding declared in the survey

# LARGER INSTITUTIONS ARE MORE LIKELY TO PARTICIPATE IN TARP

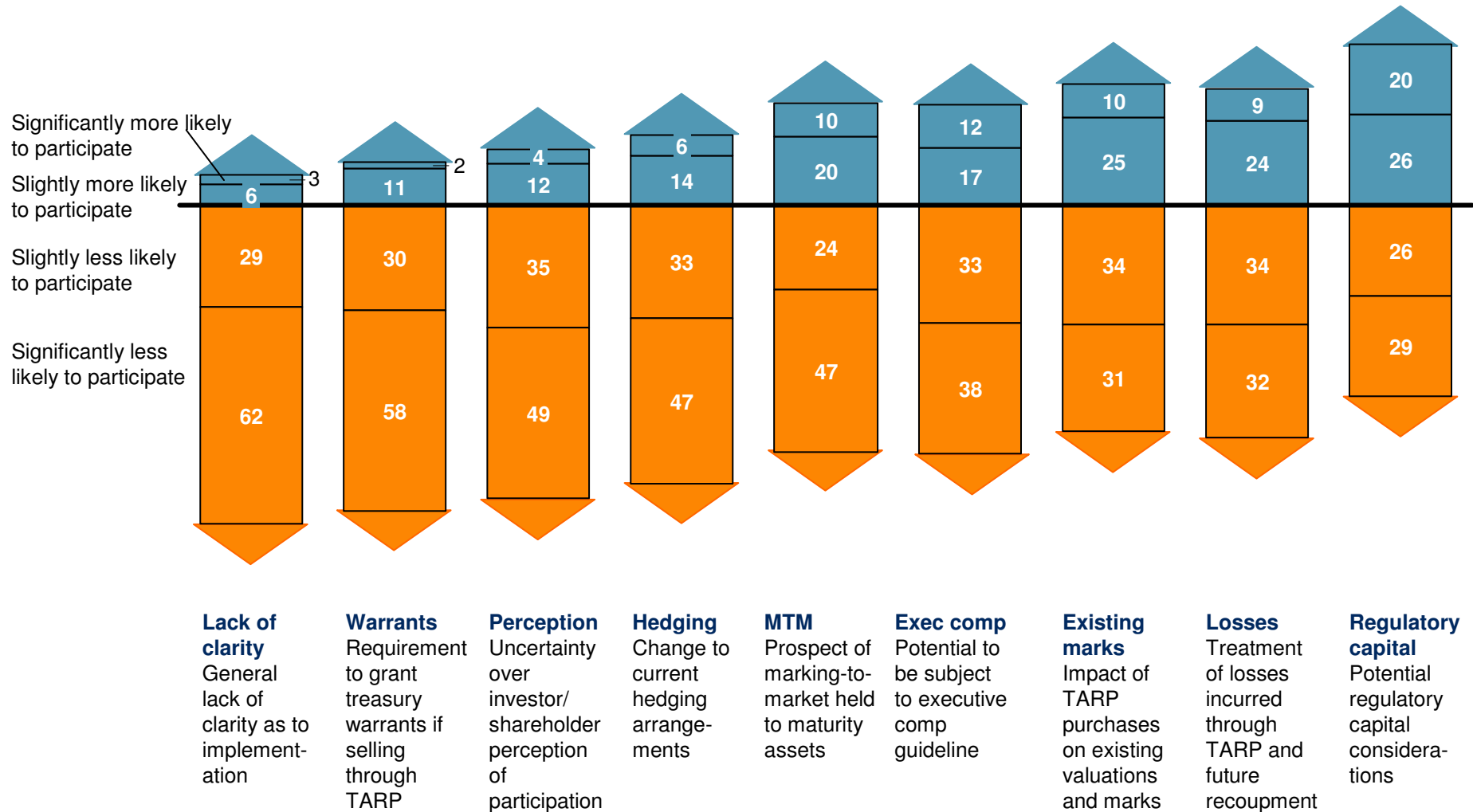
*Assuming that the price offered for assets through TARP would be acceptable to your institution, do you anticipate participating in TARP?*

*Percent of respondents that anticipate participating*



# LACK OF CLARITY REGARDING IMPLEMENTATION SIGNIFICANTLY AFFECTS WILLINGNESS TO PARTICIPATE

*How would the following factors\* impact your willingness to participate in the repurchase program?  
Percent of total respondents*



Note: Survey results relatively consistent across financial institutions with different total asset size

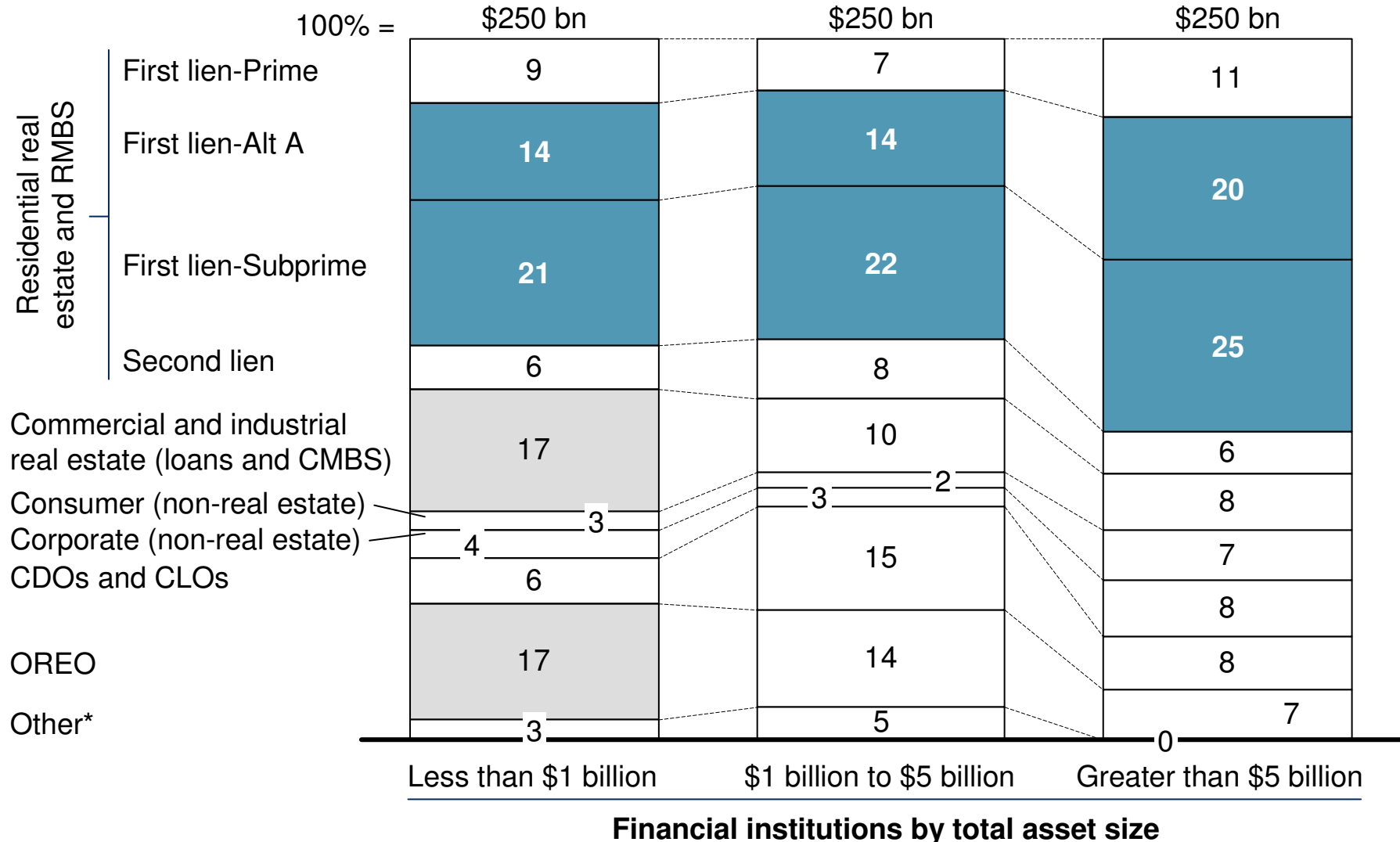
\* Excludes "other" category with less than 50 respondents; responses in the "other" category include "Fannie Mae and Freddie Mac preferred exclusion from TARP" and potential lack of "speed of execution"

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# ALL INSTITUTIONS WOULD PRIORITIZE ALT-A AND SUBPRIME; SMALL INSTITUTIONS ALSO EMPHASIZE COMMERCIAL REAL ESTATE AND OREO

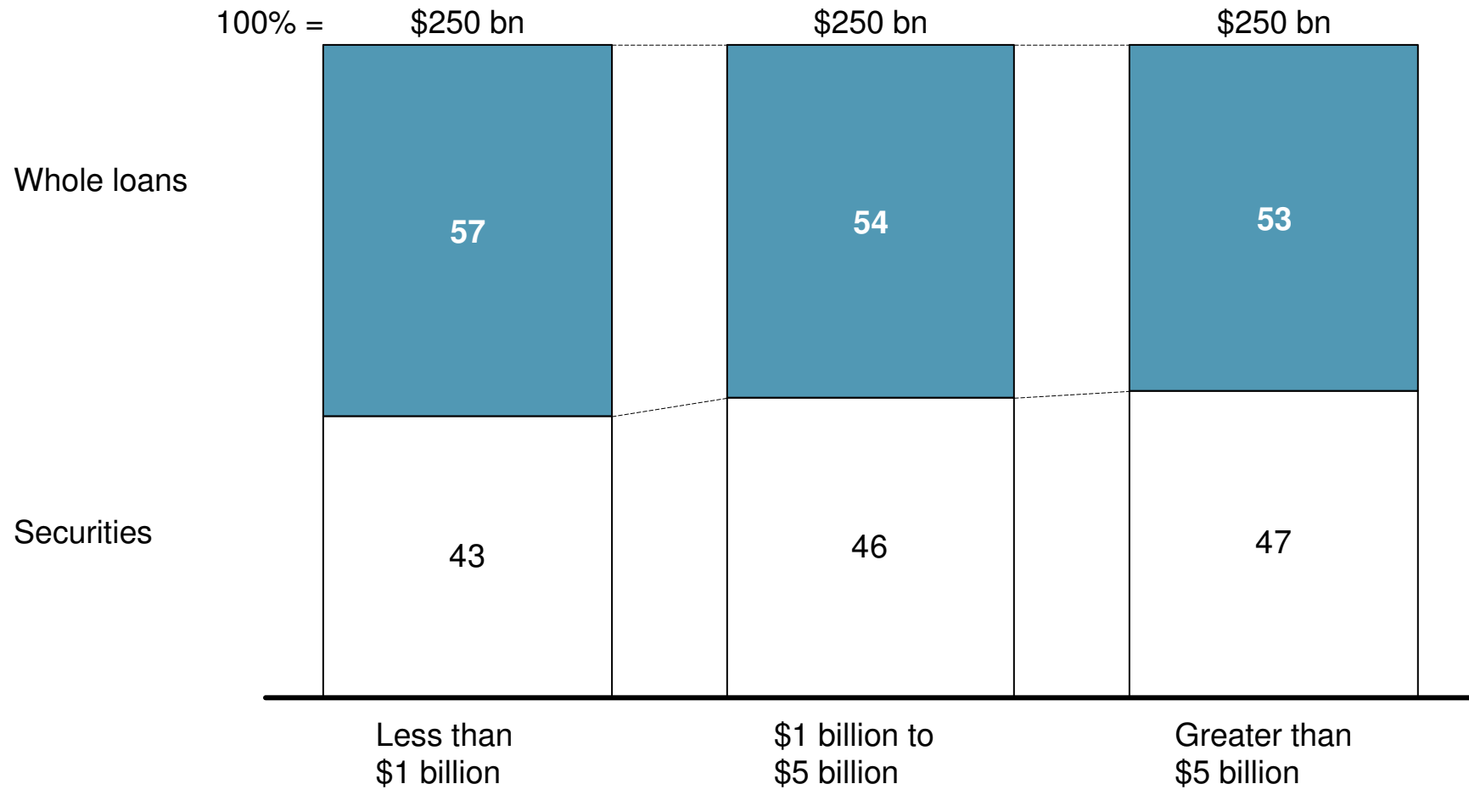
*How would you allocate the first \$250 bn that could be purchased through TARP across asset classes?*  
Percent



\* Includes other assets disclosed by participants, e.g., Fannie Freddie preferred, impaired securities, ARPS

# WHOLE LOANS AND SECURITIES ARE EQUALLY IMPORTANT

*How would you allocate the first \$250 bn that could be purchased through TARP across asset classes?  
Percent*



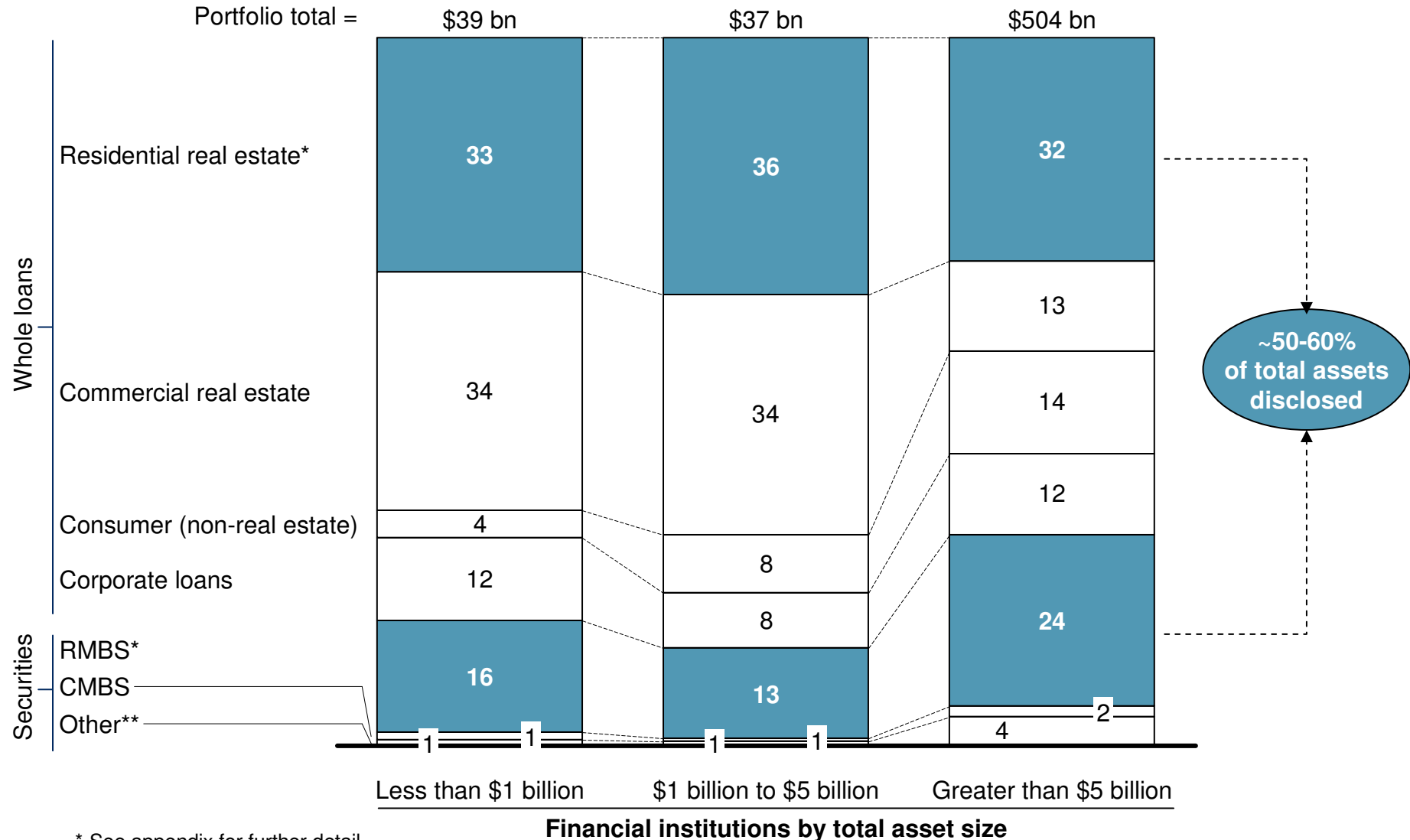
**Financial institutions by total asset size**

# RESIDENTIAL REAL ESTATE REPRESENTS THE LARGEST HOLDING, FOLLOW BY COMMERCIAL REAL ESTATE

## Current holdings

Percent of total disclosed portfolio

■ Residential RE holdings



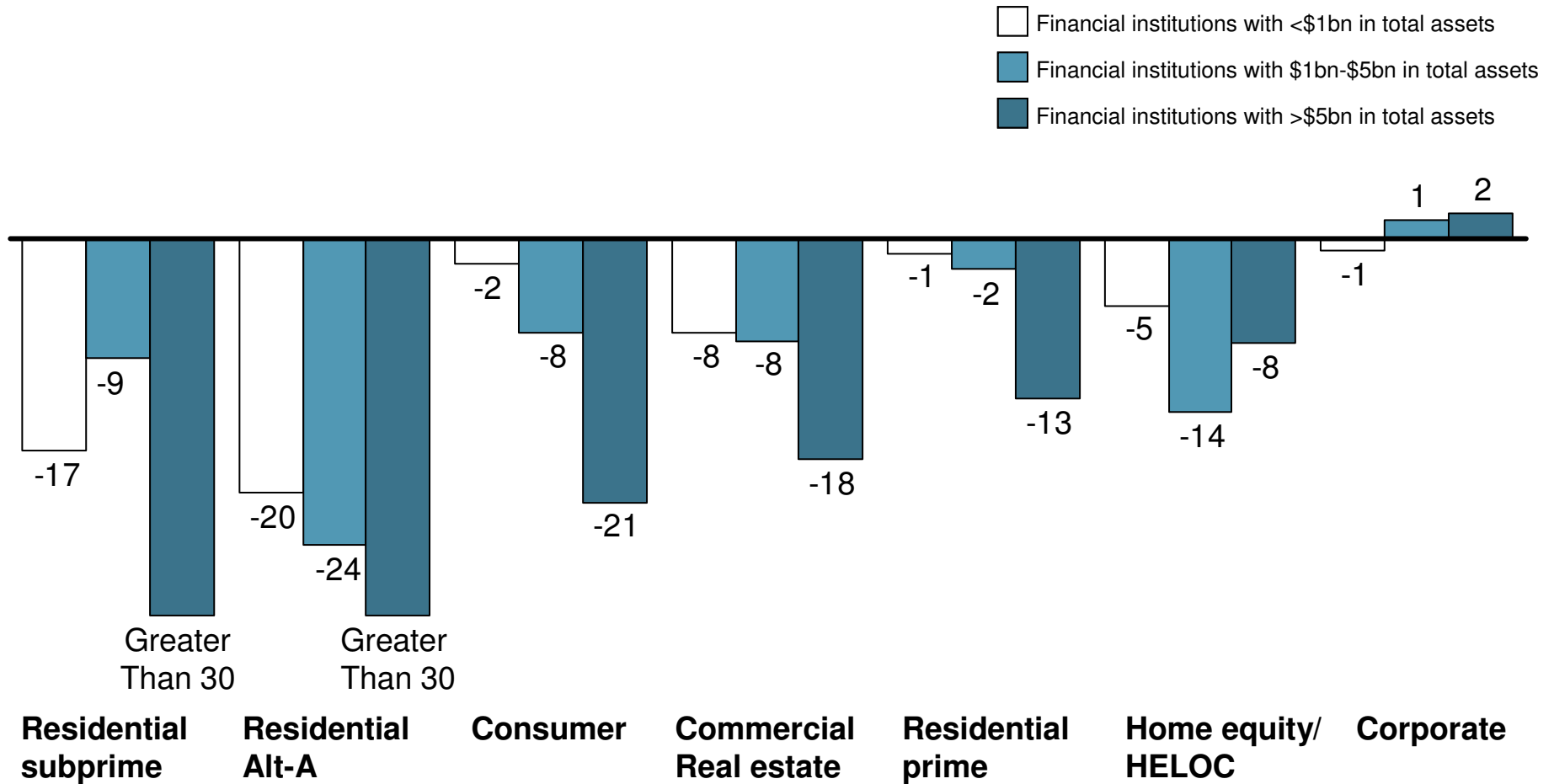
\* See appendix for further detail

\*\* Includes consumer ABS, CDOs and CLOs

# LARGE INSTITUTIONS TARGET >30% YOY DECLINE IN SUBPRIME AND ALT-A

**How do you expect the total of your origination volumes and net new purchases of securities to decline over the next 12 months compared to the last 12 months?**

*Percent change in originations or net new purchases over next 12 months\**

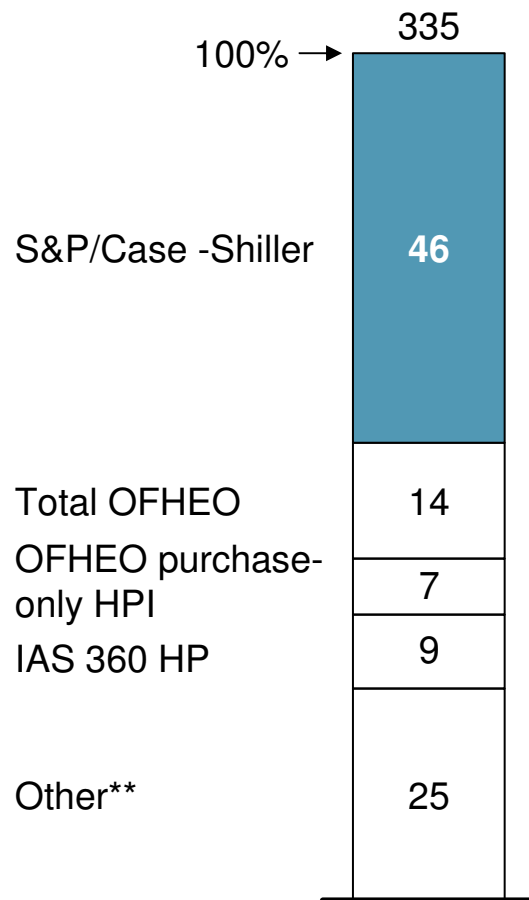


\* Excludes participants that did not answer the question

# SIGNIFICANT DISPERSION OF HOUSING PRICE FORECASTS EXISTS

## Respondents who use housing measure in financial models\*

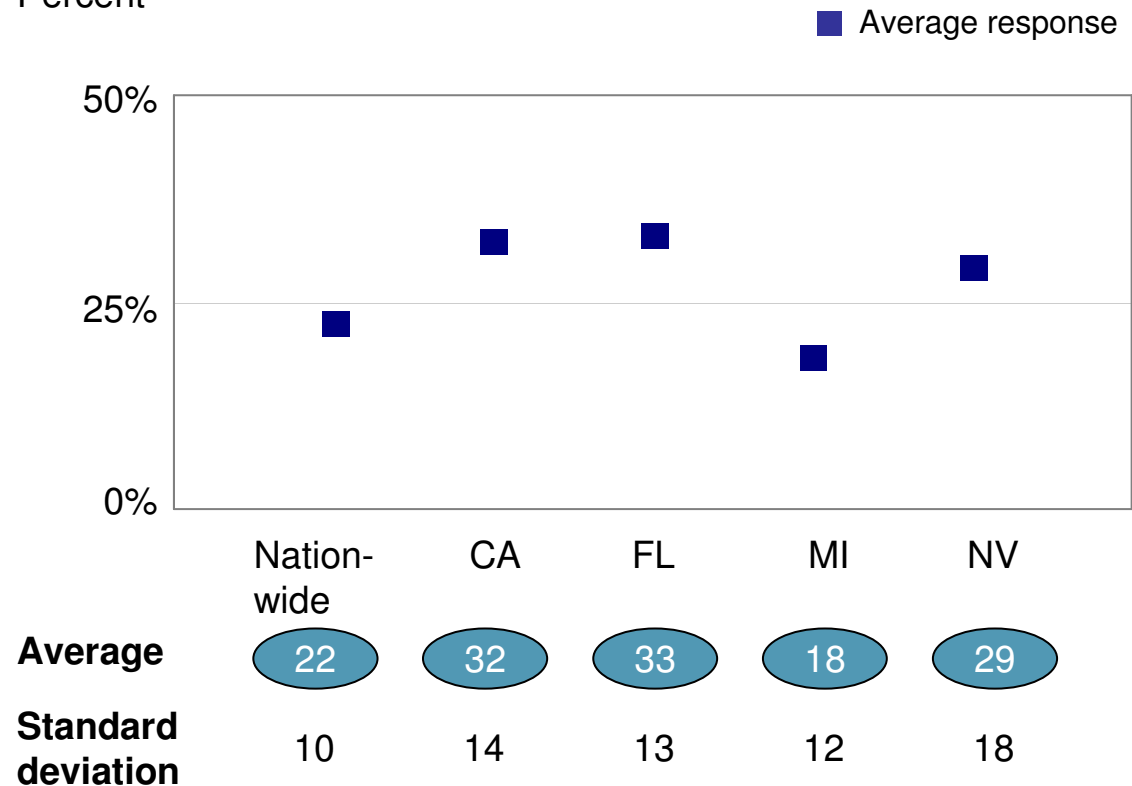
Percent



## S&P / Case-Shiller® National HP

### Assumed decline from peak-to-trough by market

Percent



\* Exclude respondents who indicate they do not use housing measures

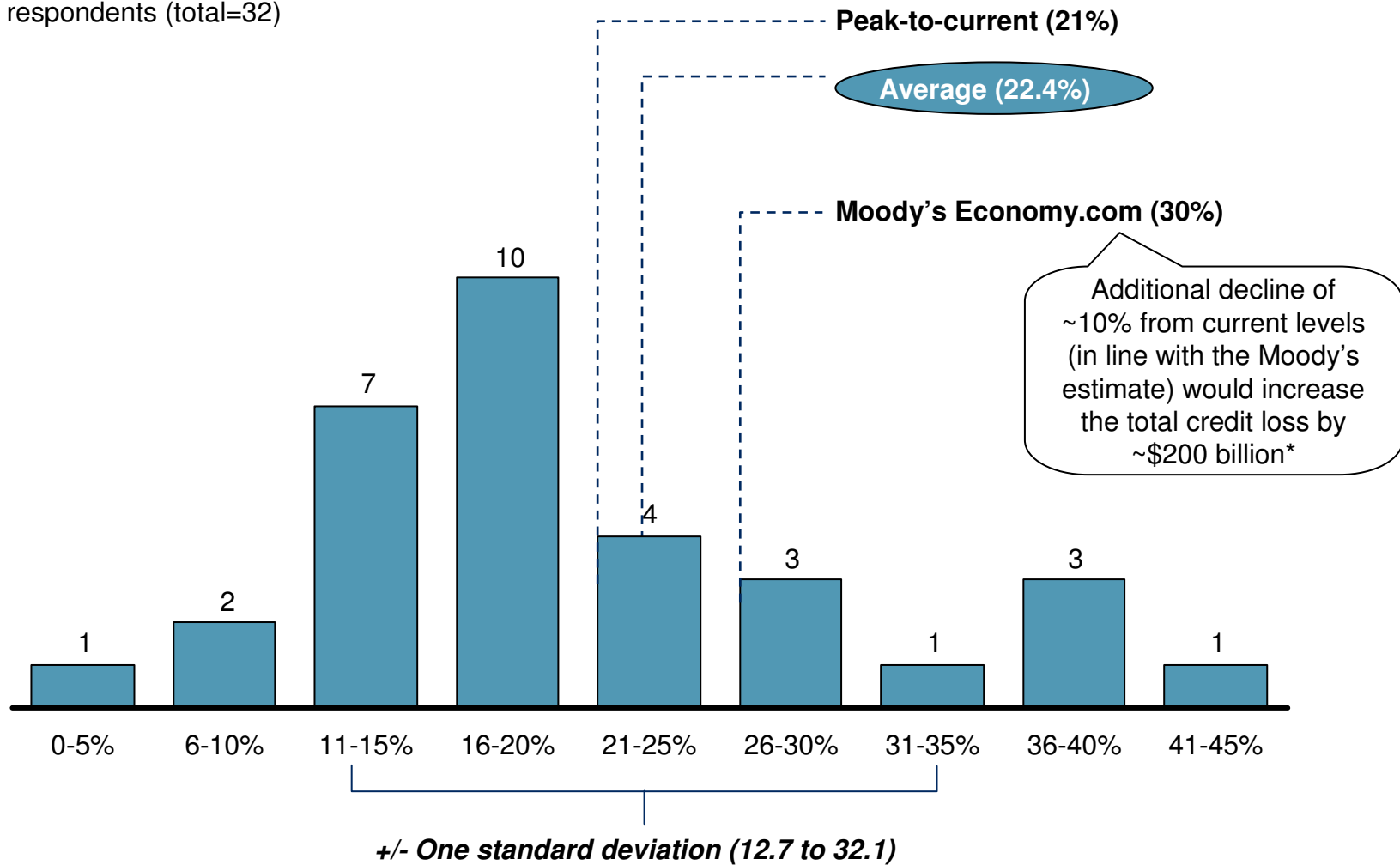
\*\* Includes local markets, appraisals

# AVERAGE ESTIMATE INDICATES ~3% FURTHER DECLINE IN NATIONWIDE HOUSING PRICES

S&P / Case-Shiller® National HP

Nationwide assumed decline from peak-to-trough

Number of respondents (total=32)



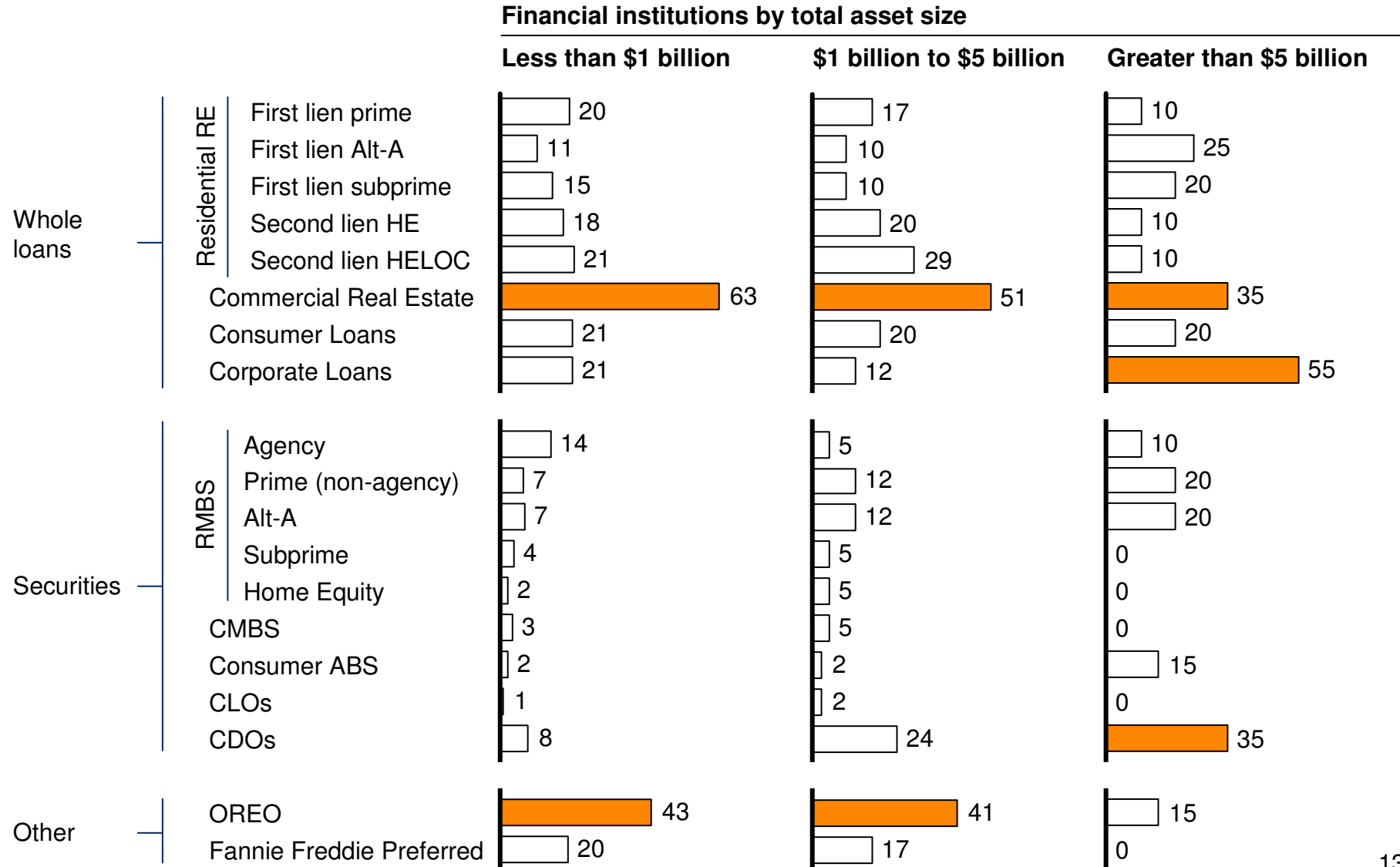
\* Mortgage credit losses realized in the Q3 2008-2012 period

Source: Moody's; "Beyond Leveraged Losses: The Balance Sheet Effects of the Home Price Downturn", Jan Hatzius, Fall 2008, Brookings papers on economic activity

# CRE, OREOs, CDOs, AND CORPORATE LOANS HAVE THE GREATEST ILLIQUIDITY PREMIUM...

Percent of respondents who indicated asset has greatest illiquidity premium  
Percent


Assets identified by >30% of respondents



# ...AND ARE NOTED AS MOST BENEFICIAL IF PURCHASED BY TARP

## Respondents ranking asset in top 3 most beneficial to their institution if purchased by TARP

Percent

 Assets identified by >30% of respondents

### Financial institutions by total asset size

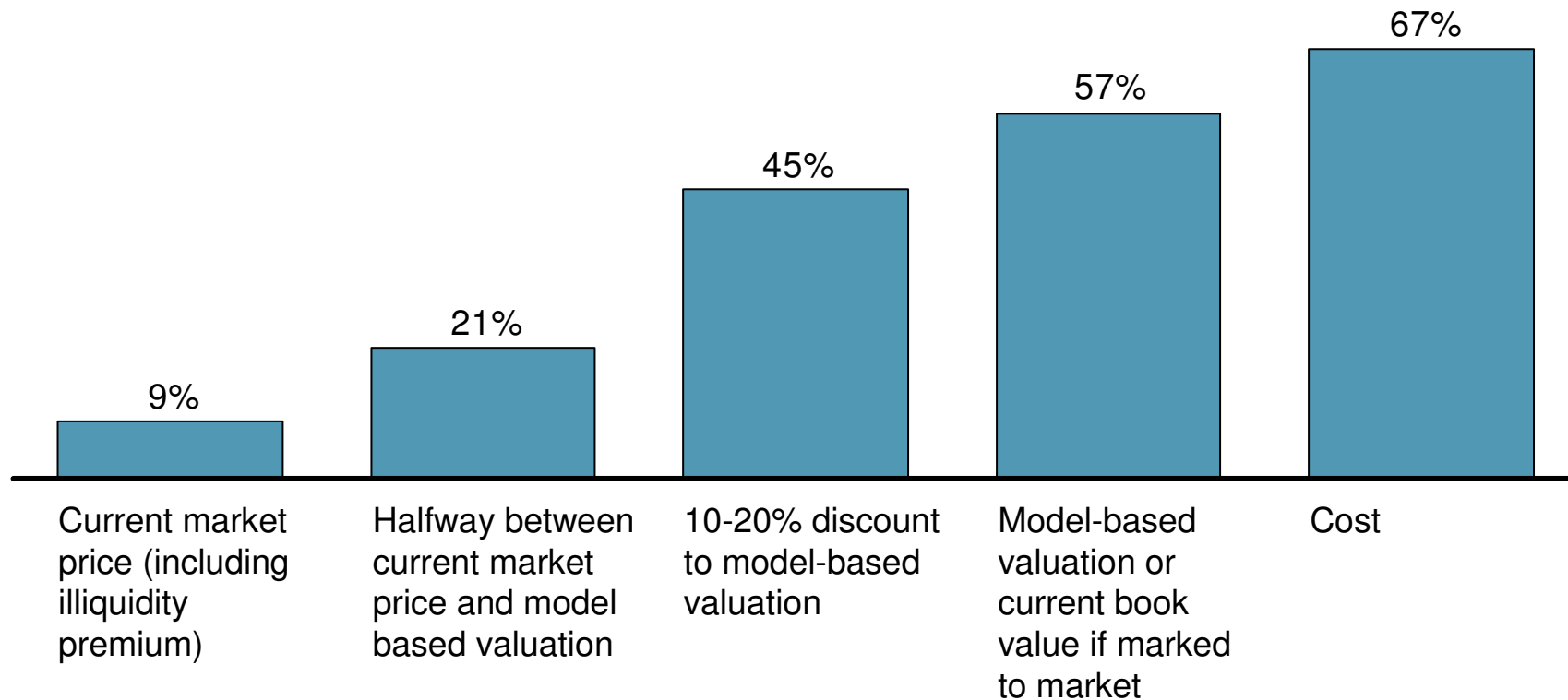


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## TREASURY COULD BUY ~50% OF ASSETS TARGETED FOR TARP AT A SLIGHT DISCOUNT TO MODEL-BASED VALUATION

*Percentage estimate of residential and commercial mortgage troubled assets that survey respondents would be willing to sell in a reverse auction if the price in the auction were equal to each of the following levels  
Percent of total notional outstanding to be sold into program at each price level\**

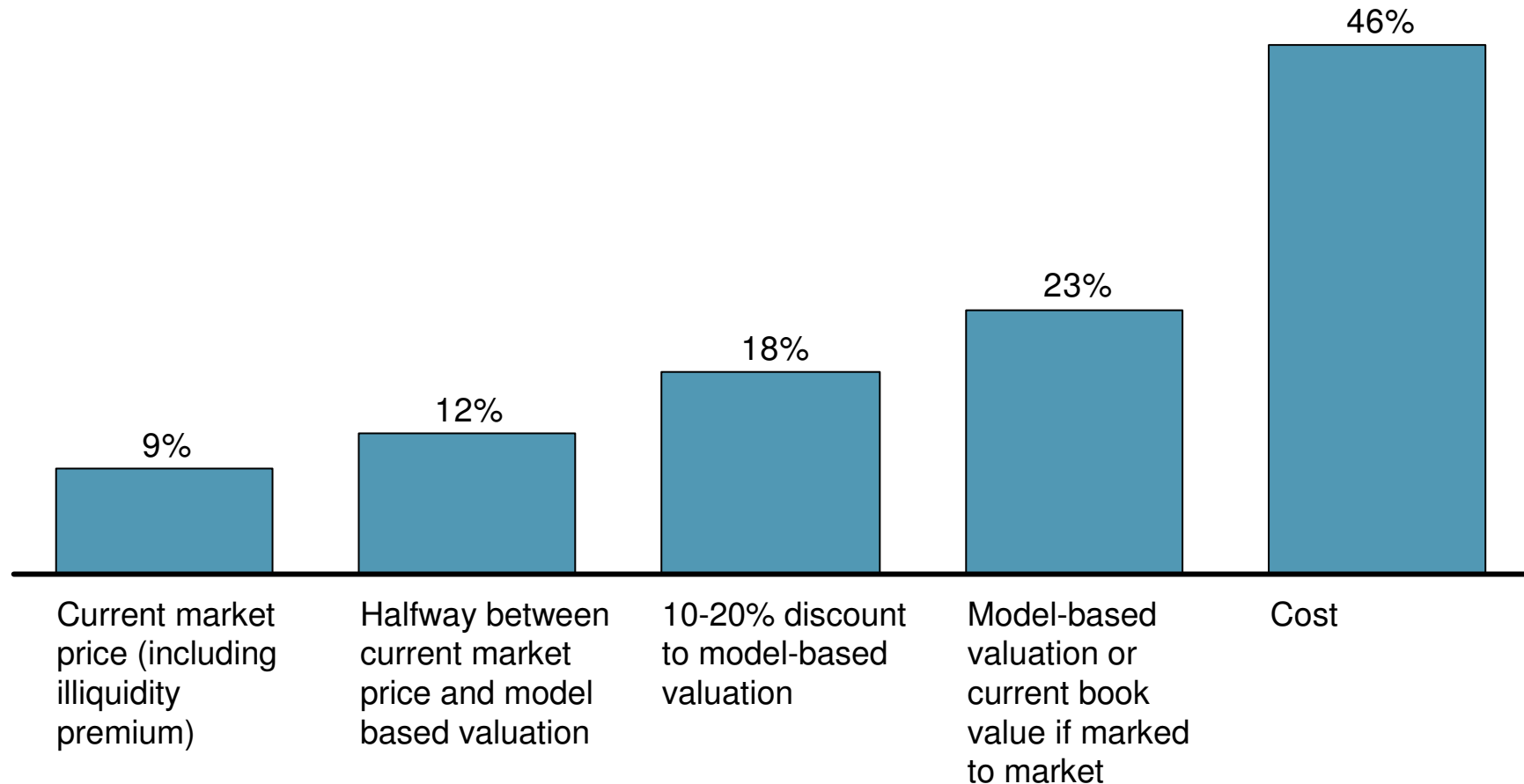


\* Excludes those not expecting to participate in TARP and those responses that are non-applicable or unwilling / unable to respond

## HOWEVER, SMALL INSTITUTIONS WOULD BE FAR LESS WILLING TO PARTICIPATE AT A PRICE BELOW COST

Participants in a reverse auction of residential and commercial mortgage troubled assets if the price in the auction were equal to each of the following levels

Percent of total notional outstanding of financial institutions with less than \$1 billion in assets to be sold into program at each price level\*




\* Excludes those not expecting to participate in TARP and those responses that are non-applicable or unwilling / unable to respond

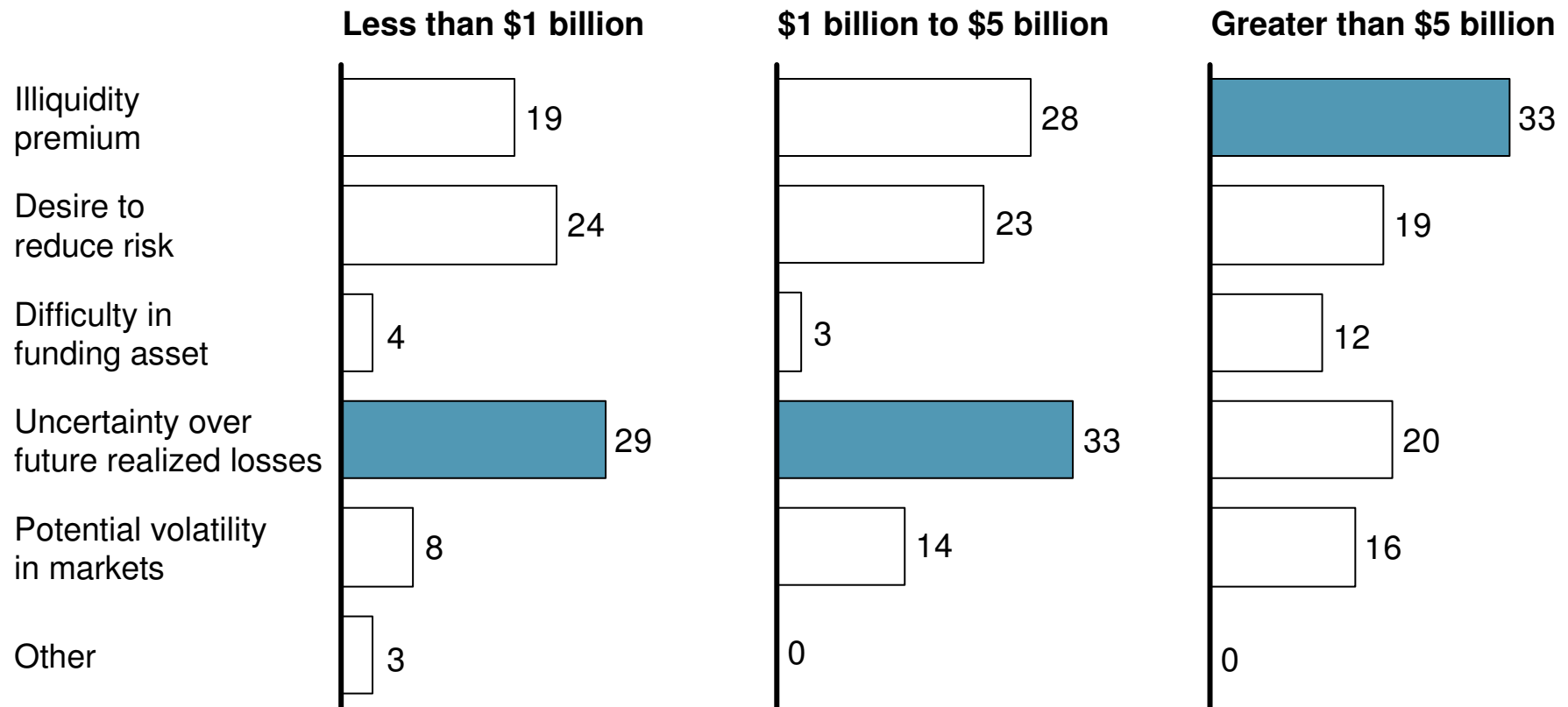
# SMALL INSTITUTIONS ARE PRIMARILY CONCERNED ABOUT FUTURE LOSSES WHILE LARGE INSTITUTIONS ABOUT ILLIQUIDITY PREMIUM

*Considering the three asset classes for which purchase by TARP would be most beneficial to your institution, indicate the relative importance of each of the factors below to your determination*

*Average points allocated out of 100*

 Top choice by institution category

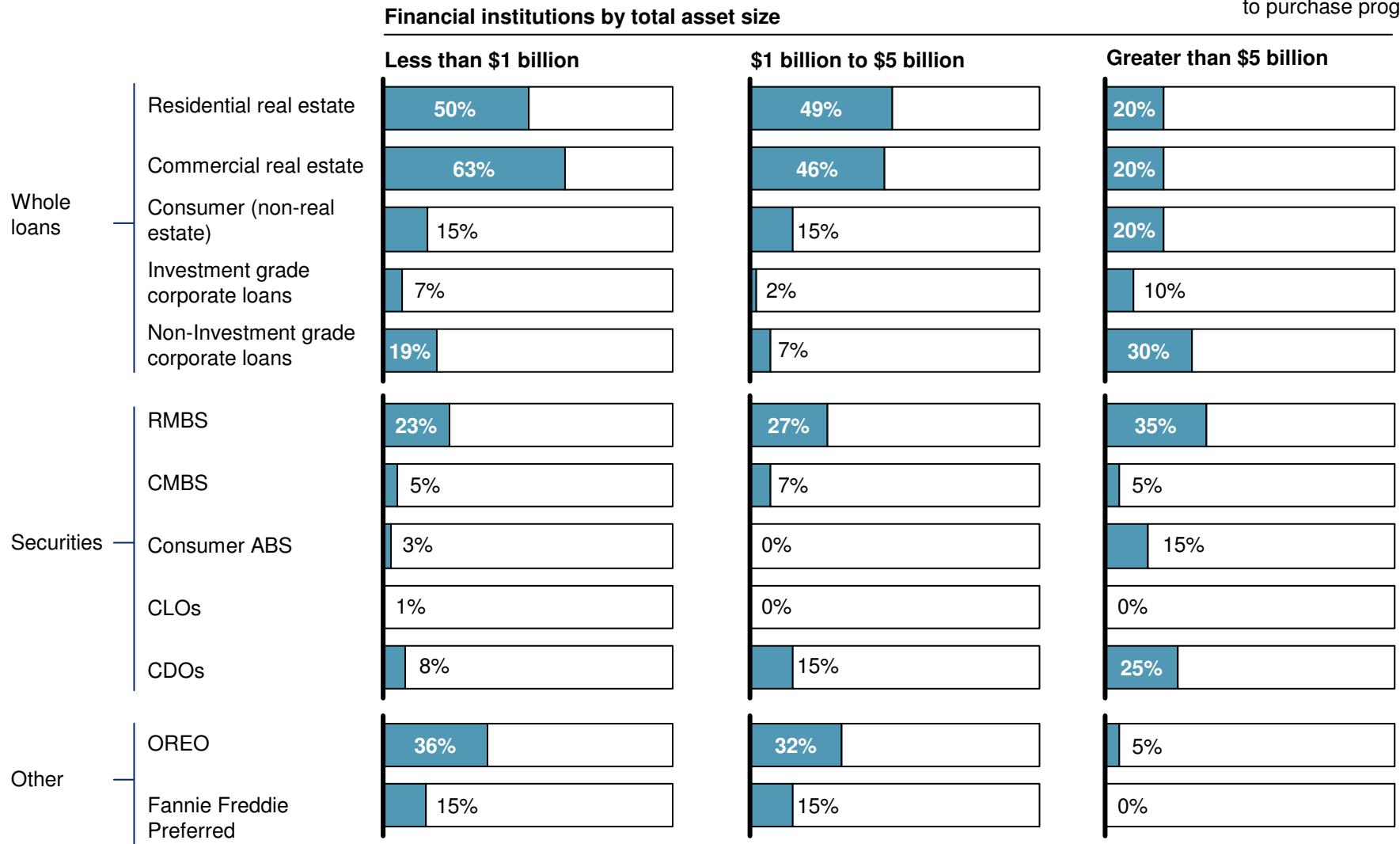
## Financial institutions by total asset size



# GUARANTEES COULD BE TARGETED AT LESS LIQUID LOANS AND OREO

***For which asset classes would a guarantee by the Treasury be preferable for your institution to an outright purchase assuming the economics of the two transactions are equal?***

*Percent of financial institution respondents indicated that a guarantee would be preferable* ■ Percent of institutions that prefer a guarantee to purchase program

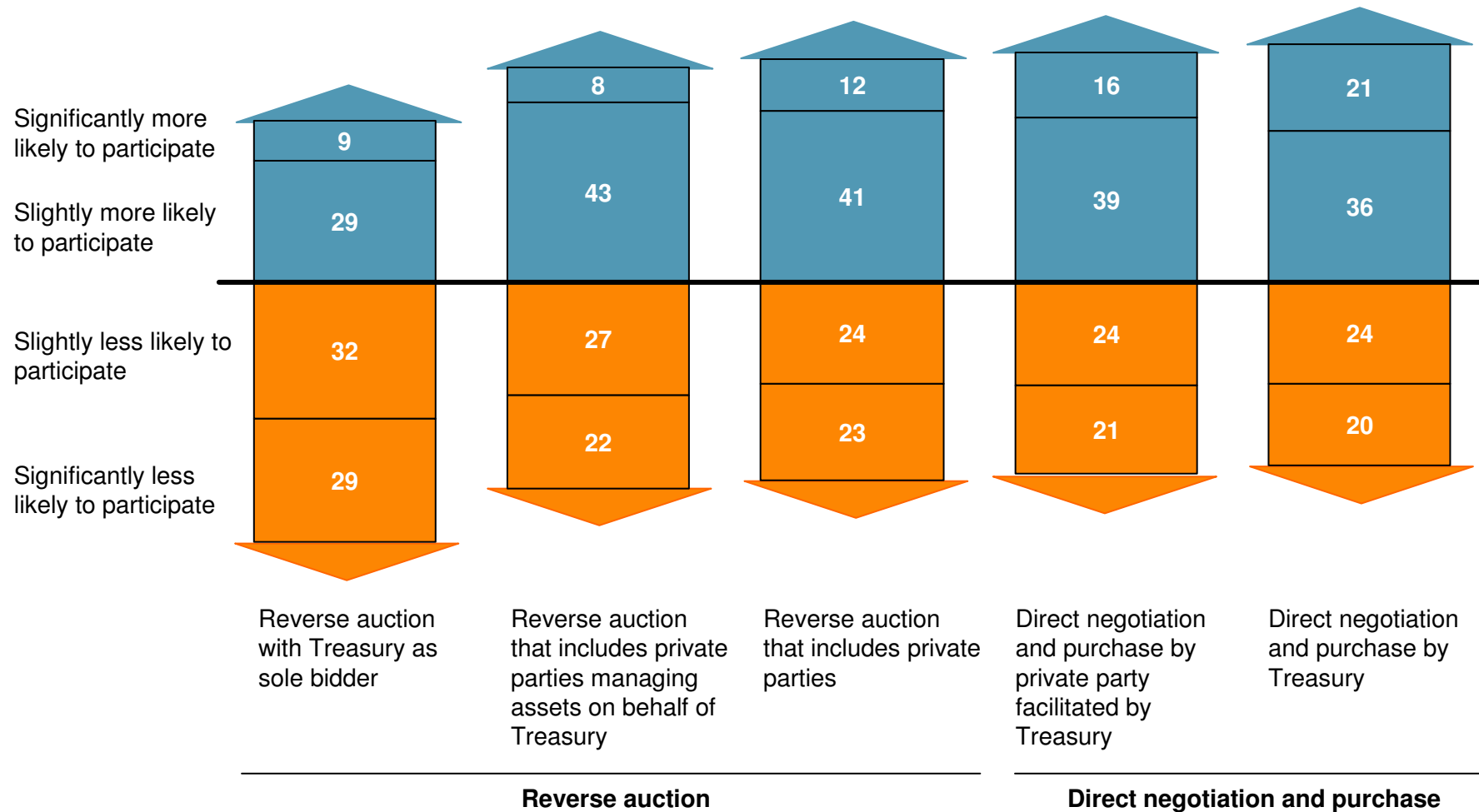


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# IMPLEMENTATION PREFERENCES

**How do the following potential implementation procedures of the repurchase program affect your willingness to participate?**  
*Percent of total respondents*

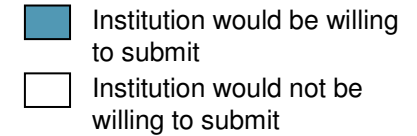


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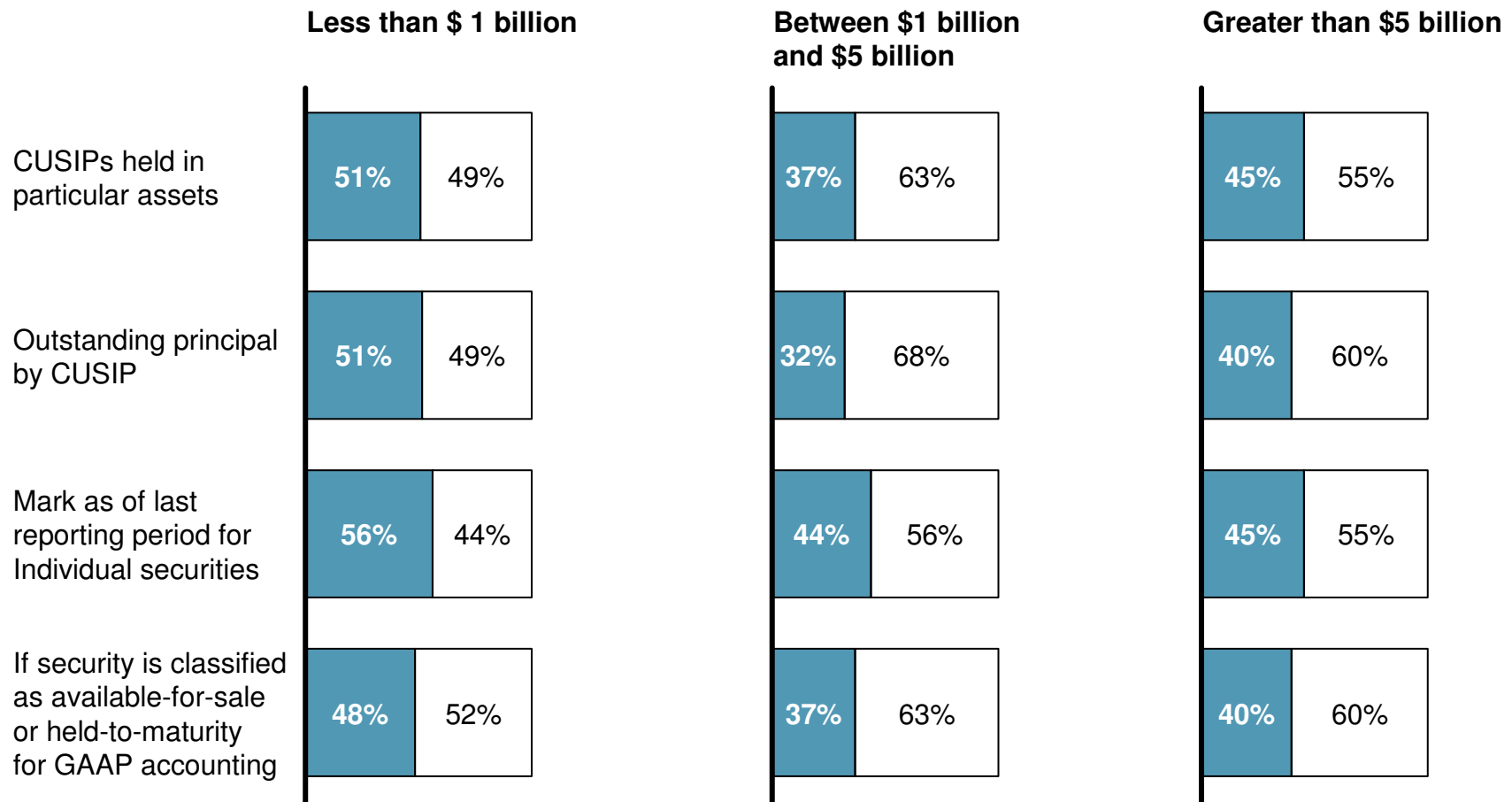
# FINANCIAL INSTITUTIONS WILLINGNESS TO SUBMIT INFORMATION

**What following specific information regarding your firm's securities holdings would your institution be willing to submit on a confidential basis directly to Treasury to assist in the planning of different purchase programs?**

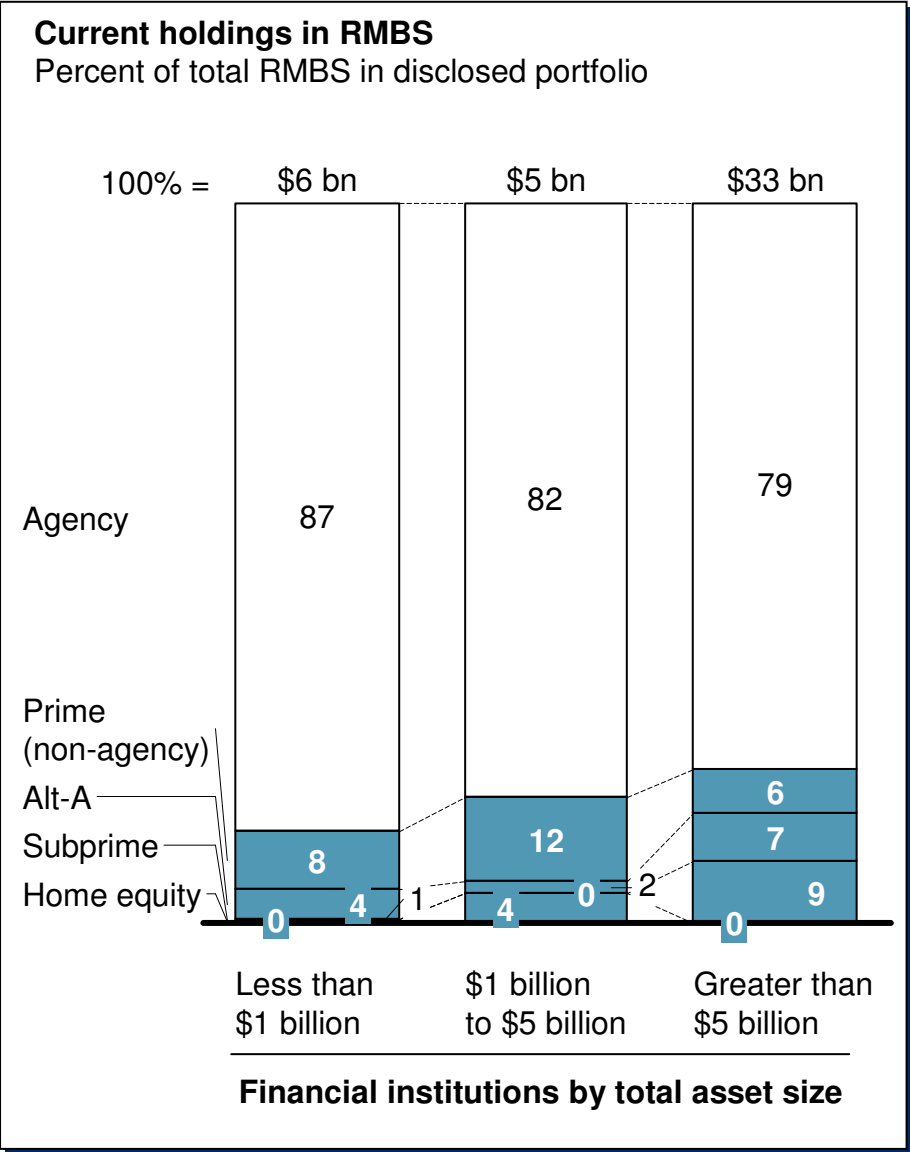
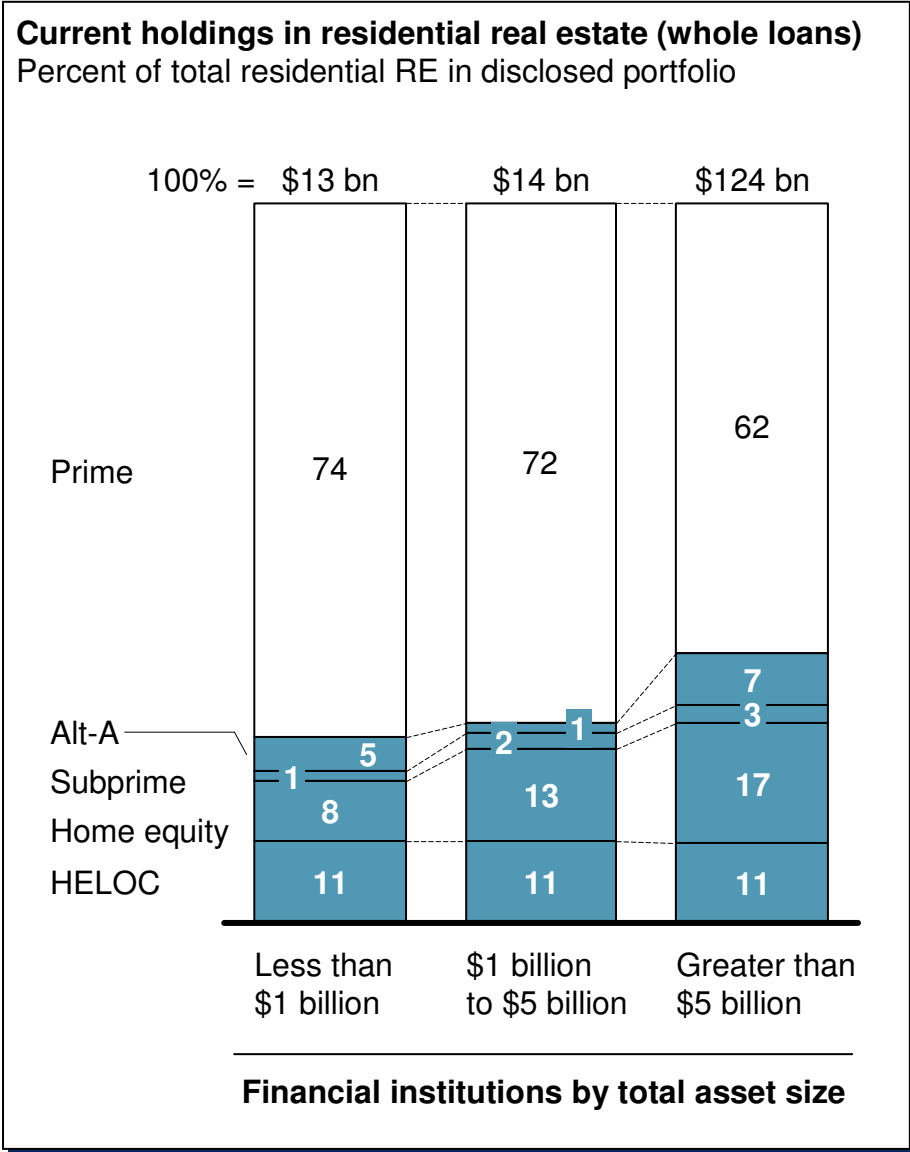
*Percent of total respondents*



## Financial institutions by total asset size




# DETAIL OF RESIDENTIAL REAL ESTATE HOLDINGS

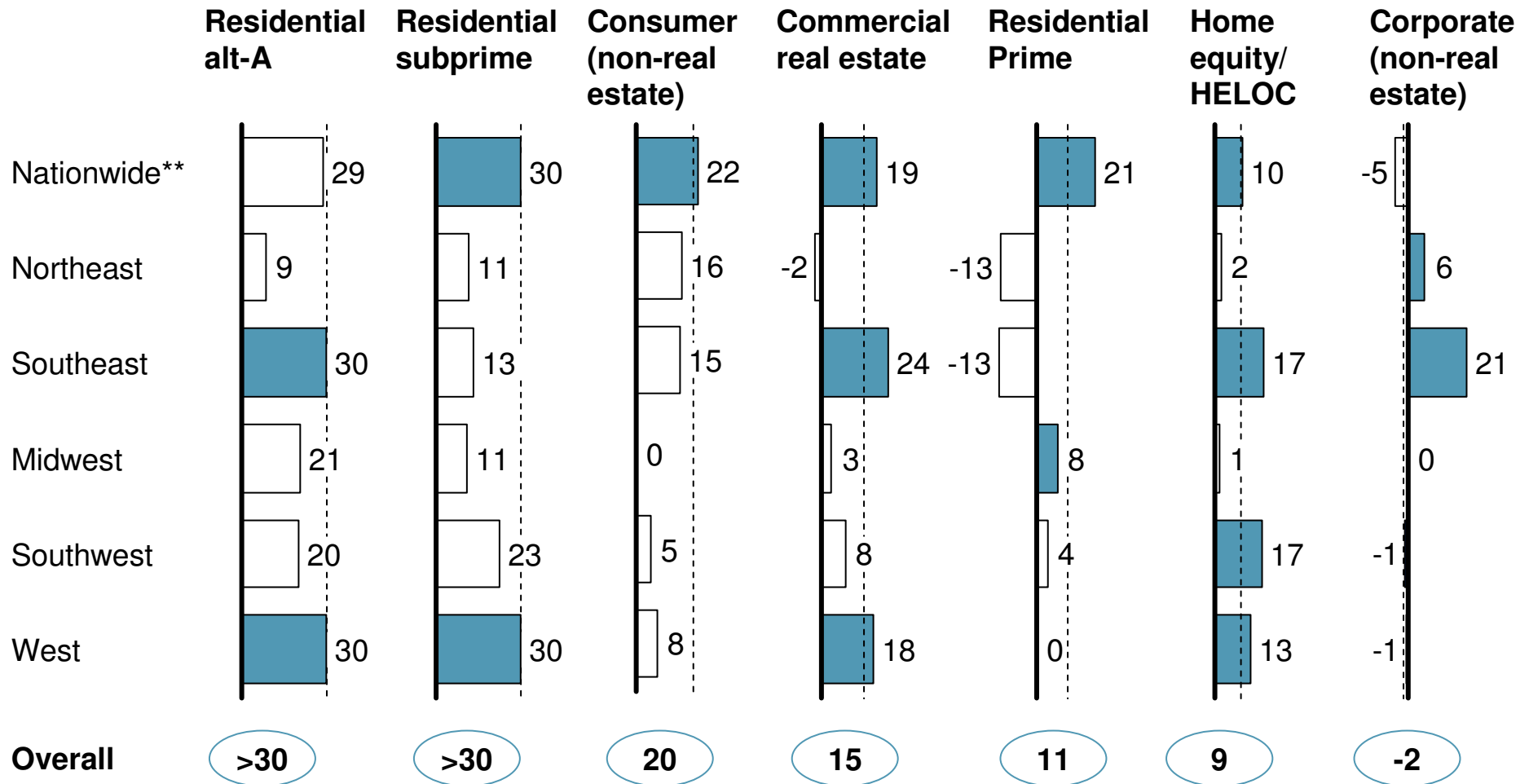


# EXPECTED REDUCTION IN ORIGINATIONS AND NET NEW PURCHASES BY LENDING REGION

*How do you expect the total of your origination volumes and net new purchases of securities to change over the next 12 months compared to the last 12 months?*

*Percent decline in originations or net new purchases over next 12 months\**

 Declines in asset classes exceeds average decline



\* Excludes not applicable responses (i.e., respondents who do not own asset); does not sum to 100% due to rounding

\*\* Includes N/A respondents