DAILY GLOBAL COMMENTARY

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Treasury's Public-Private Investment Program Aims to Unclog Credit Markets and Promote Credit Extensions

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The Public-Private Investment Program is intended to mend balance sheets of financial institutions, promote the growth of credit, and bring about economic recovery. The program has chalked out two initiatives – Legacy Loans Program and Legacy Securities Program. The Legacy Loans Program combines FDIC guarantee with debt financing from the private sector and Treasury to purchase troubled loans from financial institutions. Holding troubled loans on the books of banks has reduced the ability of banks to raise capital and to make new loans. Under this program, the bank would identify a pool of loans it needs to sell. The highest bidder for the pool in an auction would form a Public-Private Investment Fund to purchase the pool of securities. The FDIC would guarantee roughly 85% of the purchase price, leaving the remaining for new equity. Of this remaining equity, Treasury would provide 50% of the equity funding required and the private investor would manage the pool. Effectively, the private investor has to contribute only approximately a little over 7% of the purchase price. The main motive is to cleanse balance sheets of banks in a short period. If banks were to liquidate these toxic loans over time it would extend the financial crisis and destabilize economic conditions.

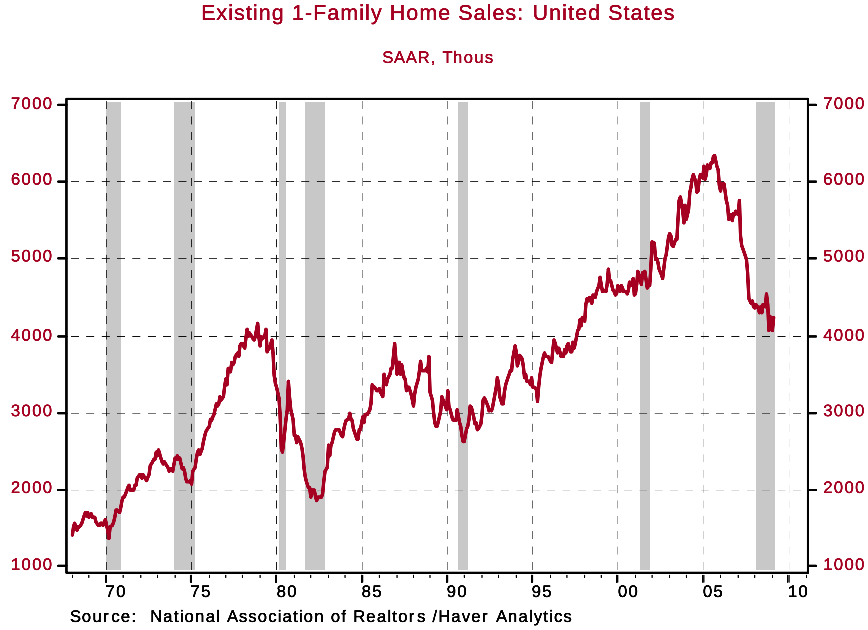
Legacy securities are commercial mortgage backed securities and residential mortgage backed securities originally issued prior to 2009. These securities are held by various financial institutions and in individual retirement accounts. The market for these securities has become highly illiquid. The objective is to restart these markets such that it will enable banks to free up capital and get the credit machine working once again. The program draws capital from the private sector for legacy securities by providing matching capital under the Treasury's Public-Private Investment Program and debt financing from the Fed and Treasury under the Term Asset Backed Securities Lending Facility (TALF). The Treasury provides one-for-one match for every dollar of private capital that a fund manager raises. In addition, it will provide another loan of the same amount. Effectively, the fund manager will have twice the amount of private capital to purchase legacy securities. Moreover, the fund manager can take advantage of the TALF program.

Equity markets have responded favorably to this program, with the S&P 500 up a little over 5.0% as of this writing. The KBW Bank index was trading close to 13% higher than its close on March 20, 2009. The Treasury has indicated that the application deadline for the Legacy Securities Program is April 10, 2009 and it expects to notify eligible applicants by May 1, 2009. The plan will use $75 billion to $100 billion in TARP allocation to fund these programs. If the program is successful, additional funds may be necessary. There is a placeholder in the 2010 budget, not passed as yet, if more is required to address the toxic asset problem.

Existing Home Sales Advance in February – Noteworthy For Several Reasons

Sales of all existing homes increased 5.1% in February to an annual rate of 4.72 million units. The February gain in existing home sales marks the third monthly increase in the last six months. Sales of single-family existing homes rose 4.4% in February to an annual rate of 4.23 million units. Sales of single-family homes rose in all four regions of the economy, with the Northeast recording the largest gain (+14.6%) and the Midwest posting the smallest increase (+1.0%). Sales of existing single-family homes advanced 4.6% and 2.8% in the South and West, respectively. The National Association of Realtors has indicated that 40%-45% of sales in February were 'distressed' sales.

Chart 1



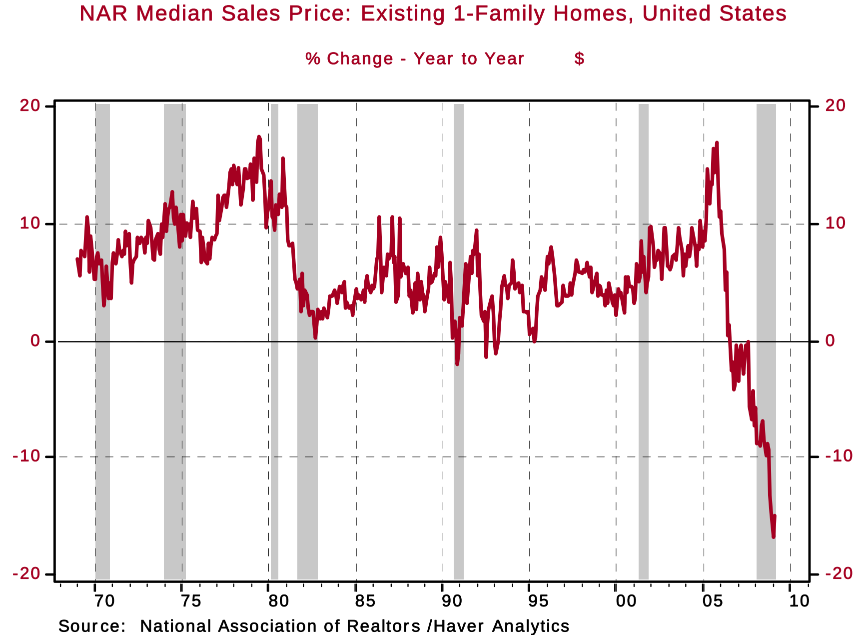
If the sales mark of January 2009 is the bottom for the current business cycle, then the peak-to-trough decline in sales of existing single-family homes would be less severe than the 1981-82 recession (see table below).

Sales of Existing Single-Family Homes across Business Cycles

Recession - Economy	Peak of Single-Family Existing home sales		Trough of Single-Family Existing home sales		Peak-to-trough change (percent)
	Date	'000s units	Date	'000s units	
Dec. 69-Nov.70	Dec-68	1710	Mar-70	1370	-19.88%
Nov. 73-Mar.75	Feb-74	2380	Jan-75	2060	-13.45%
Jan.80-Jul. 80	Nov-78	4150	May-80	2480	-40.24%
Jul.81-Nov. 82	Sep-80	3400	May-82	1860	-45.29%
Jul. 90-Mar.91	Dec-88	3730	Dec-90	2620	-29.76%
Mar. 01-Nov. 01	Mar-01	4830	Sep-01	4630	-4.14%
Current cycle	Sep-05	6340	Jan-09	4050	-36.12%
			Feb-09	4230	-33.28%

The median price of an existing single-family home fell 15.0% from a year ago to $164,600 in February (up 0.2% from a month ago). This is notable because the median price fell 16.7% in January 2009.

Chart 2



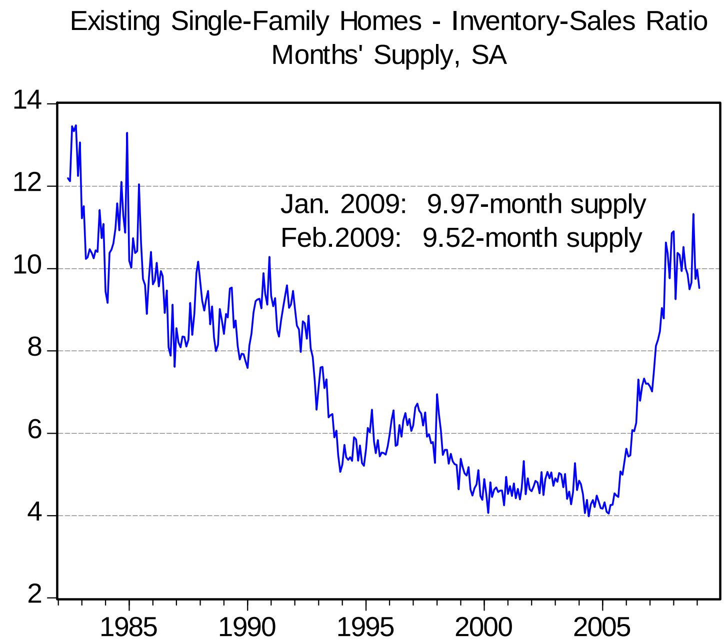
The median price of an existing single-family home during February is down 28.7% from the peak in July 2006, which is marginally smaller than the decline in January. In sum, there has been a moderation in sales and prices during February. We will need to see additional such occurrences to declare the worst is behind us.

Median Price of Existing Single-Family Home across Business Cycles

Recession - Economy	Peak of Median Price Existing Single-Family Home Date	$	Trough of Median Price Existing Single-Family Home Date	$	Peak-to-trough change (percent)
Dec. 69-Nov.70	Jul-70	23,700	Oct-70	22,700	-4.22%
Nov. 73-Mar.75	Jul-74	33,000	Oct-74	31,900	-3.33%
Jan.80-Jul. 80	Jun-79	56,800	Nov-79	55,600	-2.11%
Jul.81-Nov. 82	Jun-82	69,400	Oct-82	66,900	-3.60%
Jul. 90-Mar.91	Jun-90	101,200	Dec-90	94,200	-6.92%
Mar. 01-Nov. 01	Jun-01	160,800	Oct-01	153,800	-4.35%
Current cycle	Jul-06	230,900	Jan-09	164,200	-28.89%
			Feb-09	164,600	-28.71%

The inventory of unsold existing homes held steady in February at a 9.7-month supply. Our computations for seasonally adjusted inventory-sales ratio of existing single-family homes show a small improvement of the inventory-sales ratio (9.5-month supply in February vs. 9.97-month supply in January. This is another noteworthy feature of today's report.

Chart 3


Existing Single-Family Homes - Inventory-Sales Ratio
Months' Supply, SA
Jan. 2009: 9.97-month supply
Feb.2009: 9.52-month supply
14
12
10
8
6
4
2
1985
1990
1995
2000
2005