

The Value of Rating Though the Cycle

AFSA Conference for Fixed Income Investors
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Insight beyond the rating.

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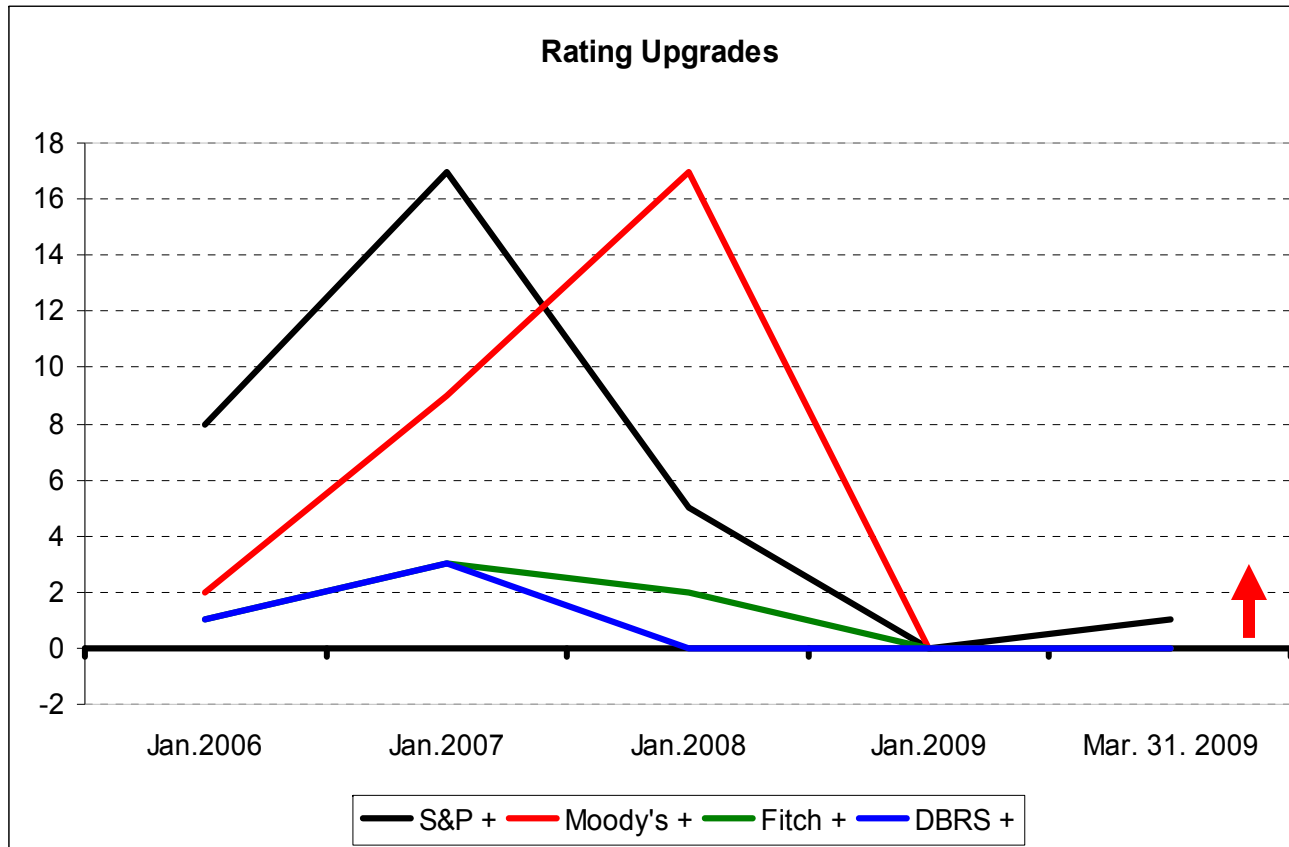
Financial Institutions Group

Why Rate Through The Cycle?



- **Our investor base believes it is important for investment decisions**
- **Our issuer base does not like rating volatility**

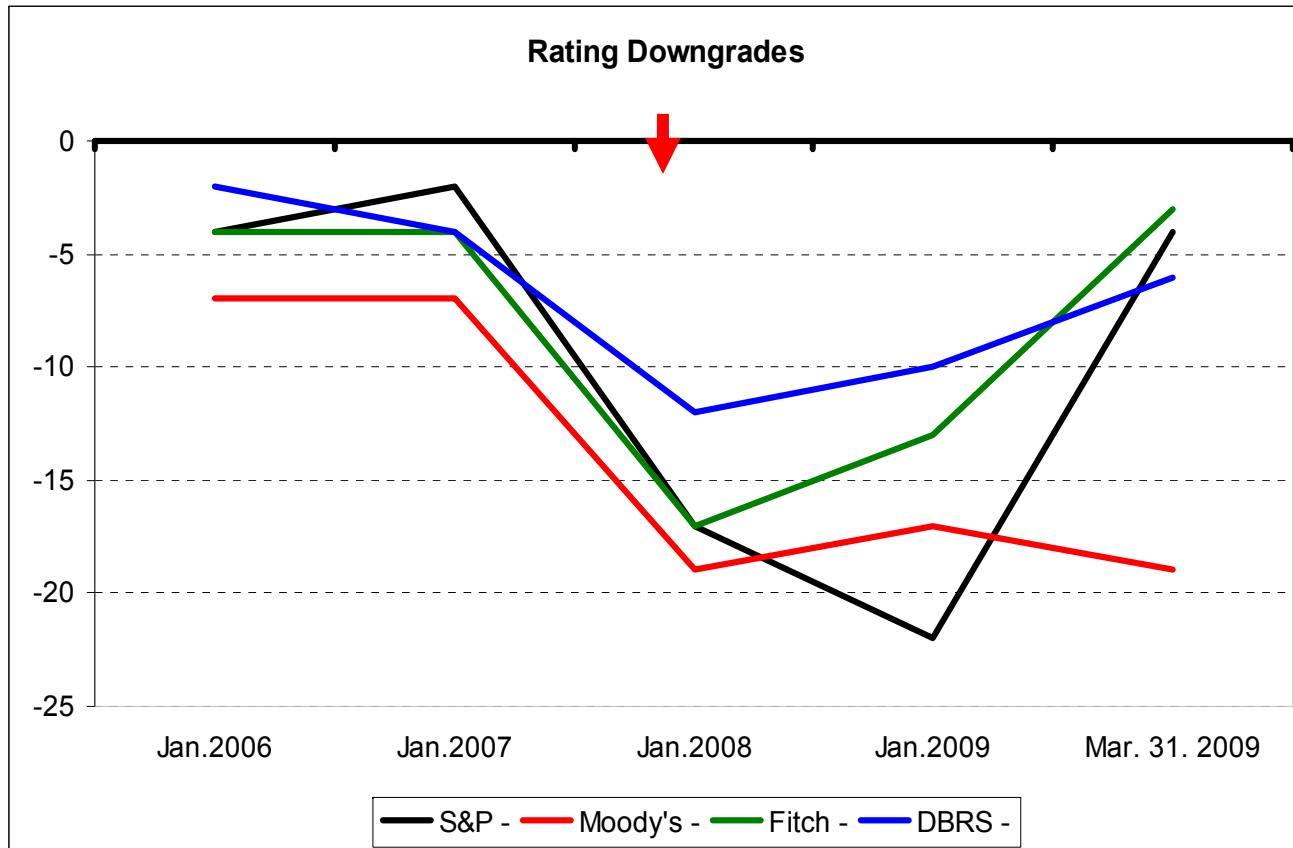
DBRS Rating Through The Cycle



Source: Bloomberg

Data comprises the universe of 50 US financial institutions commonly rated by DBRS, Fitch, Moody's, and S&P from 1 January 2006 through 31 March 2009.

DBRS Minimizes Rating Volatility



Source: Bloomberg

Data comprises the universe of 50 US financial institutions commonly rated by DBRS, Fitch, Moody's, and S&P from 1 January 2006 through March 31, 2009.

How Do We Rate Through The Cycle?



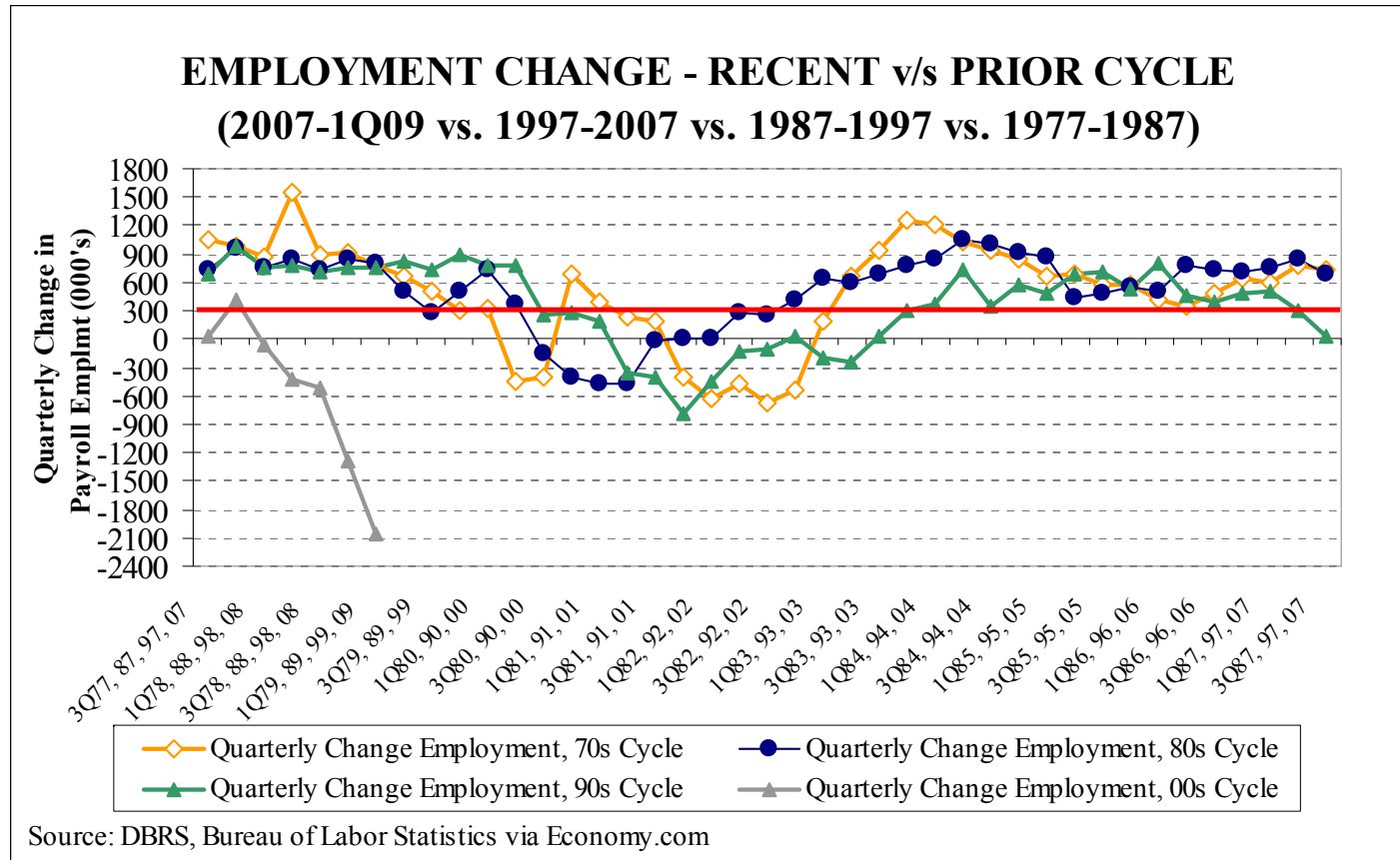
- **Two Basic Principles:**
 - **1. When times are good we need to get a grip on reality and we need to think about how things will be when times are bad**
 - **2. When times are bad, again we need to get a grip on reality and we need to think about how things will be when times are good**

U.S. – In Recession Since 4th Quarter 2007



*Employment falling,
Risk increasing*

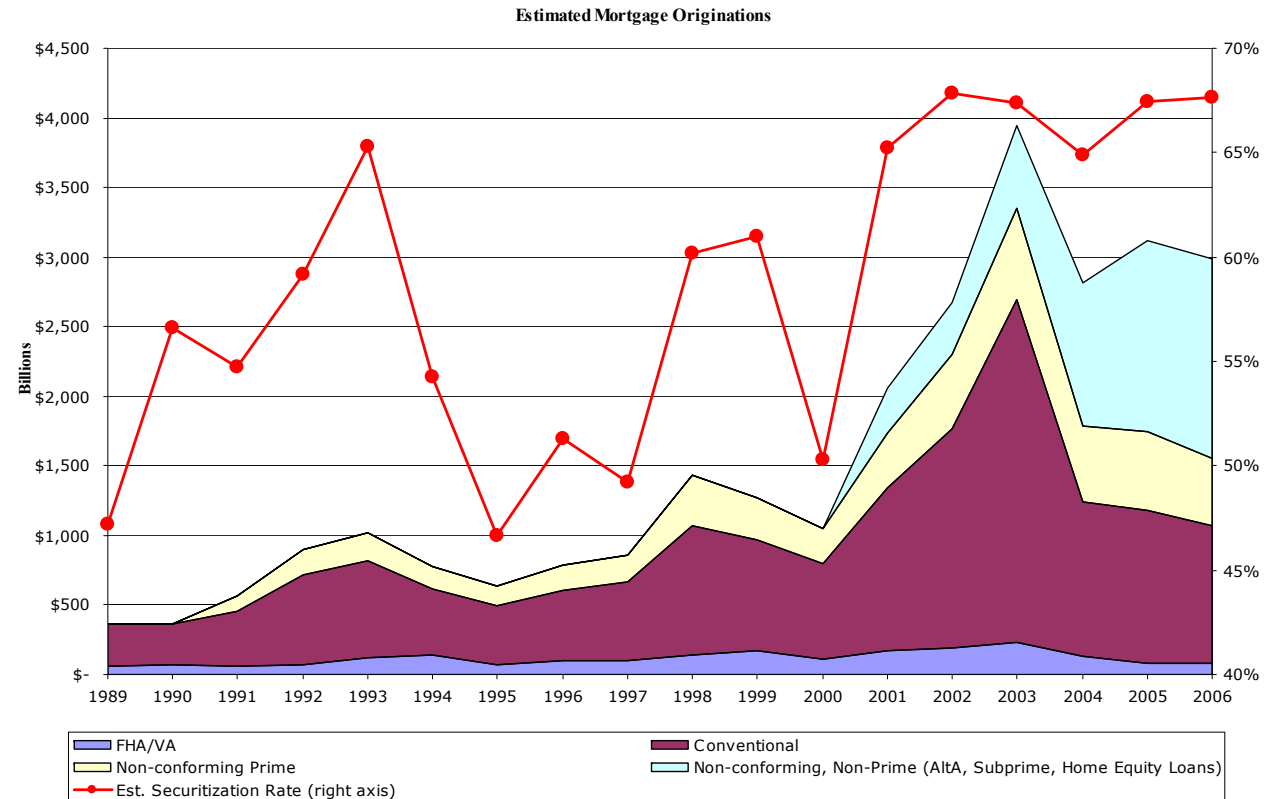
- Jobs lost
- Q1=(2,049,000)
Q4 =(1,277,000)
Q3 =(505,000)
- Created 1.2M jobs in 2007, But, slowed to stall speed 300,000 qtr.
- Expect more qtrs of job losses in 2009



Source of US Crisis – Growth in Non-conforming Mortgages



- **Non-conforming mortgage finance supported housing after Fed rate increases in 2005-06**
- **Lack of mortgage products due to the evaporated liquidity impacted most financial institutions in varying degrees**
- **Look for the FI's ability to manage through**

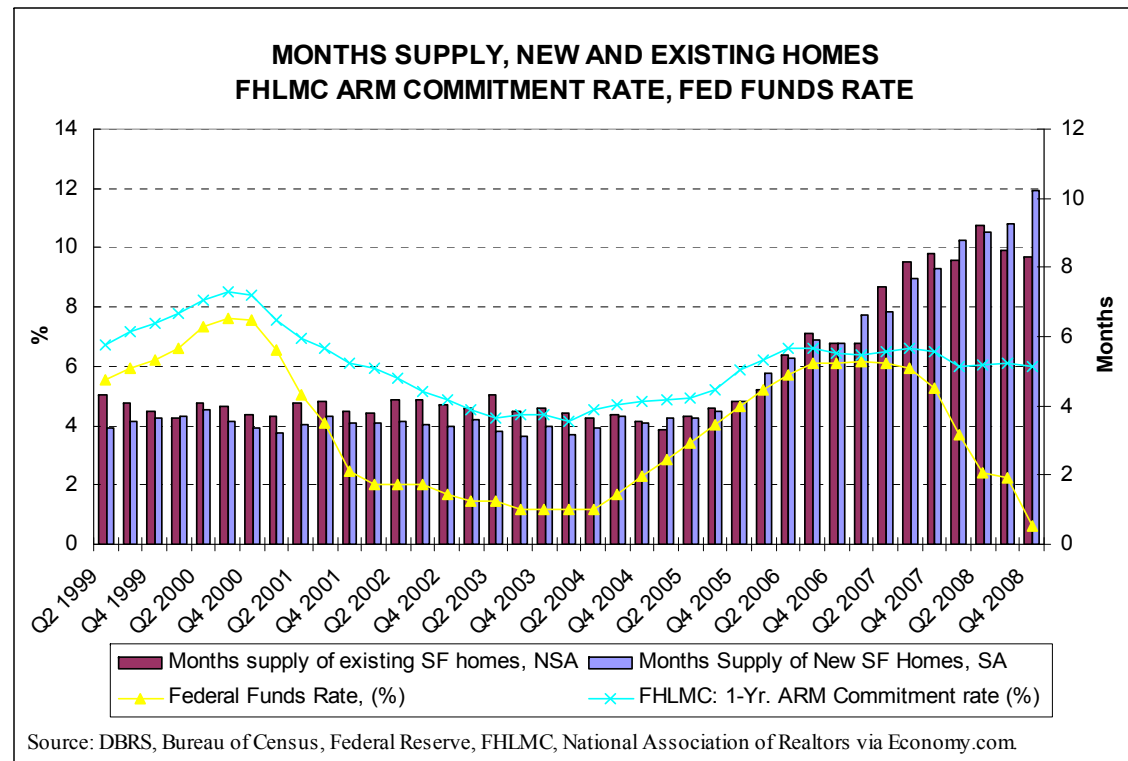


Source: Inside MBS & ABS, Inside Mortgage Finance; DBRS

Housing Overhang



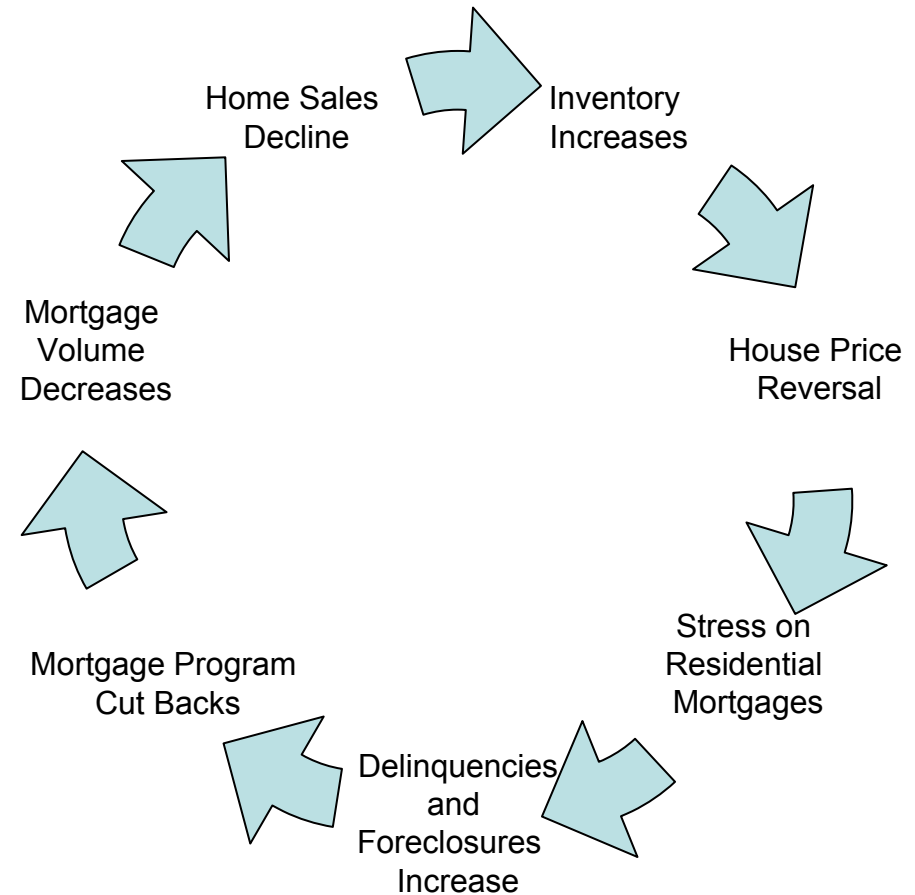
- Inventory at historic highs
- Sellers vs. Buyers – The stalemate continues
- Buyers not convinced that prices have bottomed out
- Foreclosures exacerbating overhang in some markets
- Still looking for uptick in sales to provide relief
- Lower prices leads to increased affordability



Negative Spiral in Housing Markets Continues



- Extensive weakness continues
- Difficult economic environment adds to the cycle
- Impacting other sectors such as cars, auto, student loans, etc.
- No reduction in overhang of unsold homes
- Entering into key home selling season
- Looking for reduction in inventory
- Affordability may break cycle

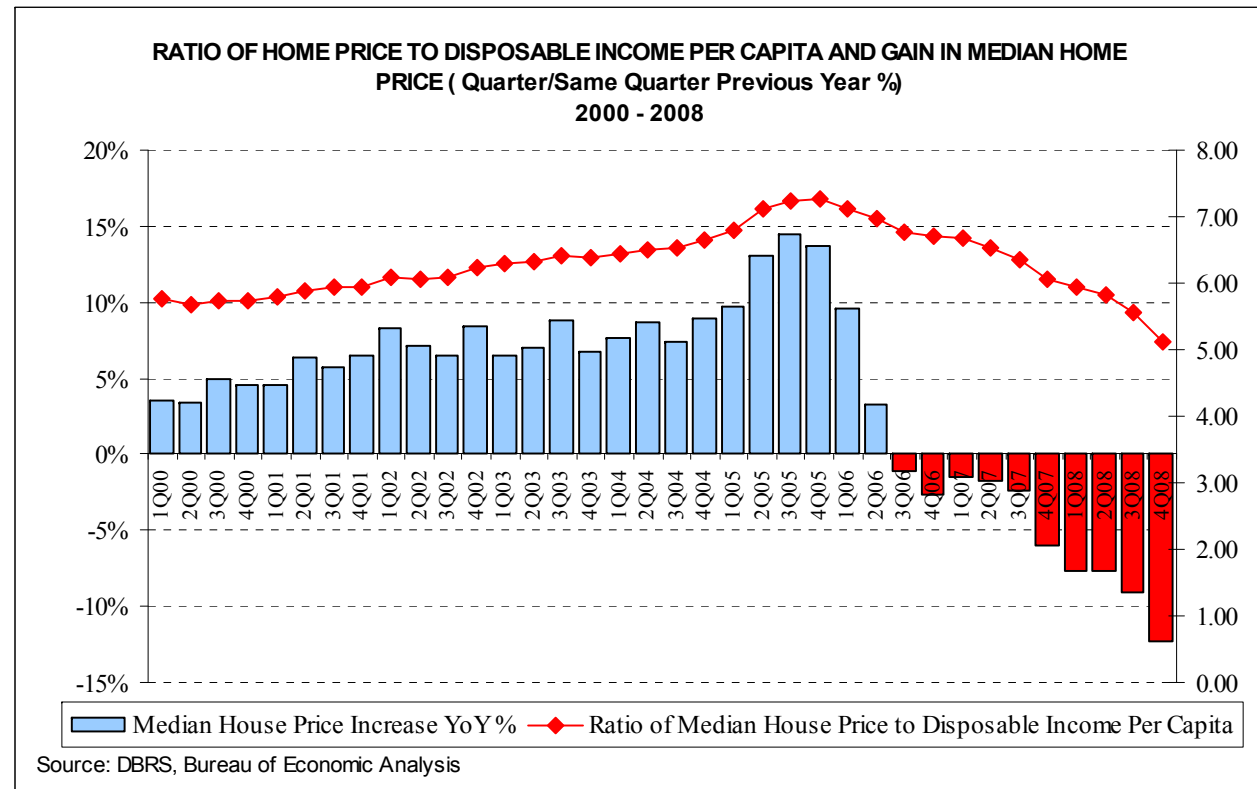


Lower House Prices Improve Affordability



The good news is...

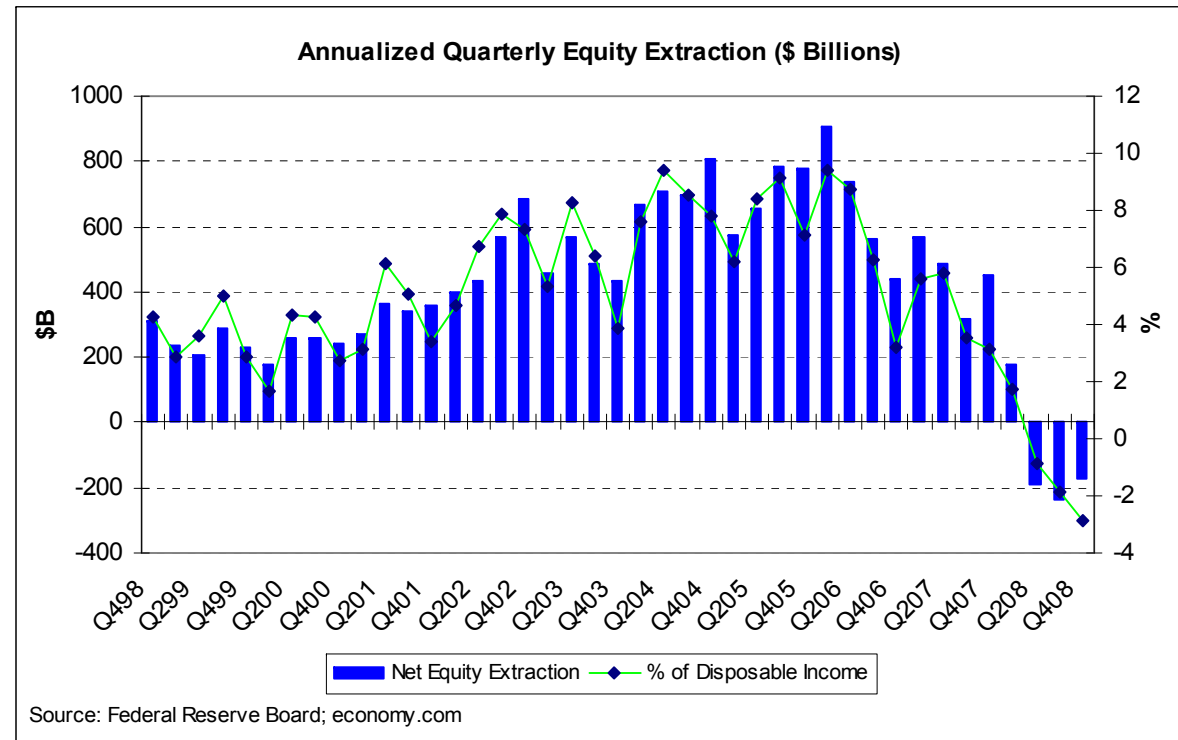
- Affordability is improving as house prices fall
- Encourages buyers if financing is available
- Need entry level buyers to help break cycle



Reduction in the Home Equity Safety Net



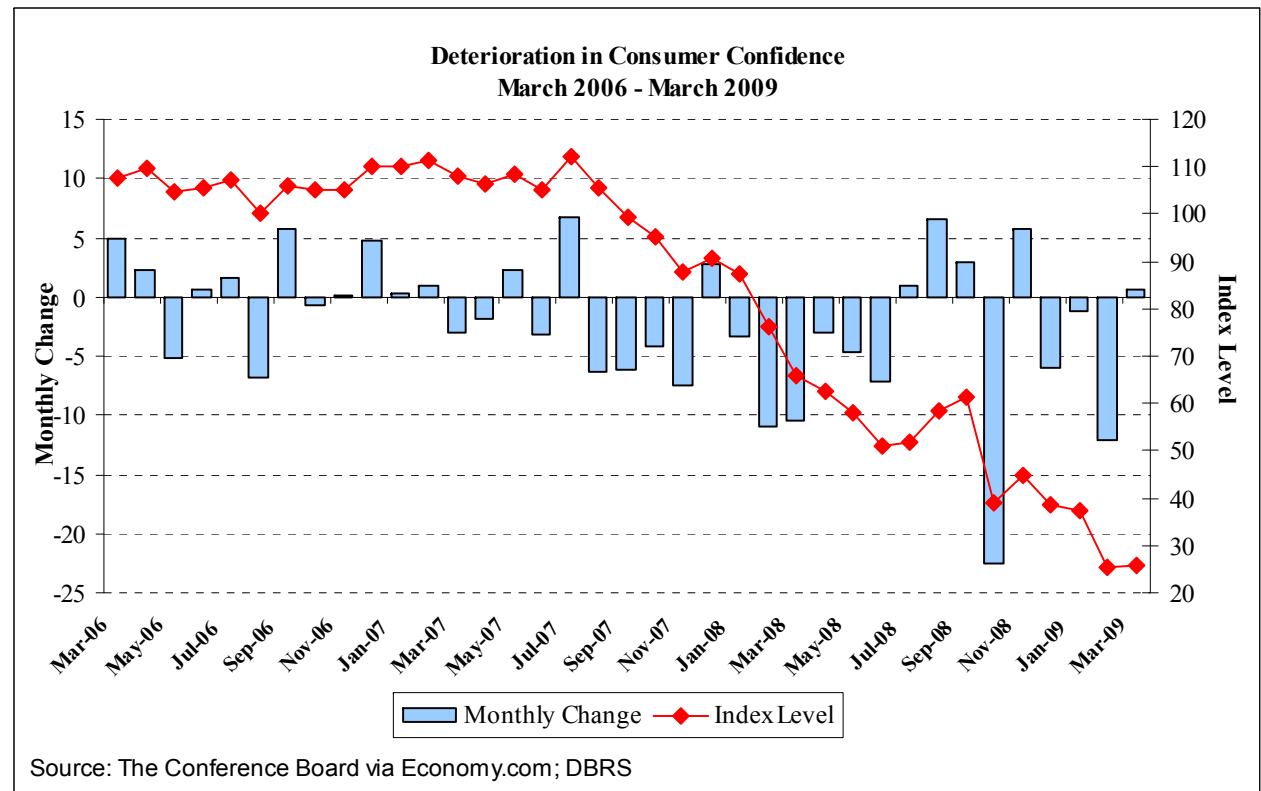
- Large amount of homeowners' equity supported consumer spending
- Many consumers now can't cope without home equity gains
- Levered homeowners are impacted, if they can not or did not curb spending
- Many homeowners still have untapped equity



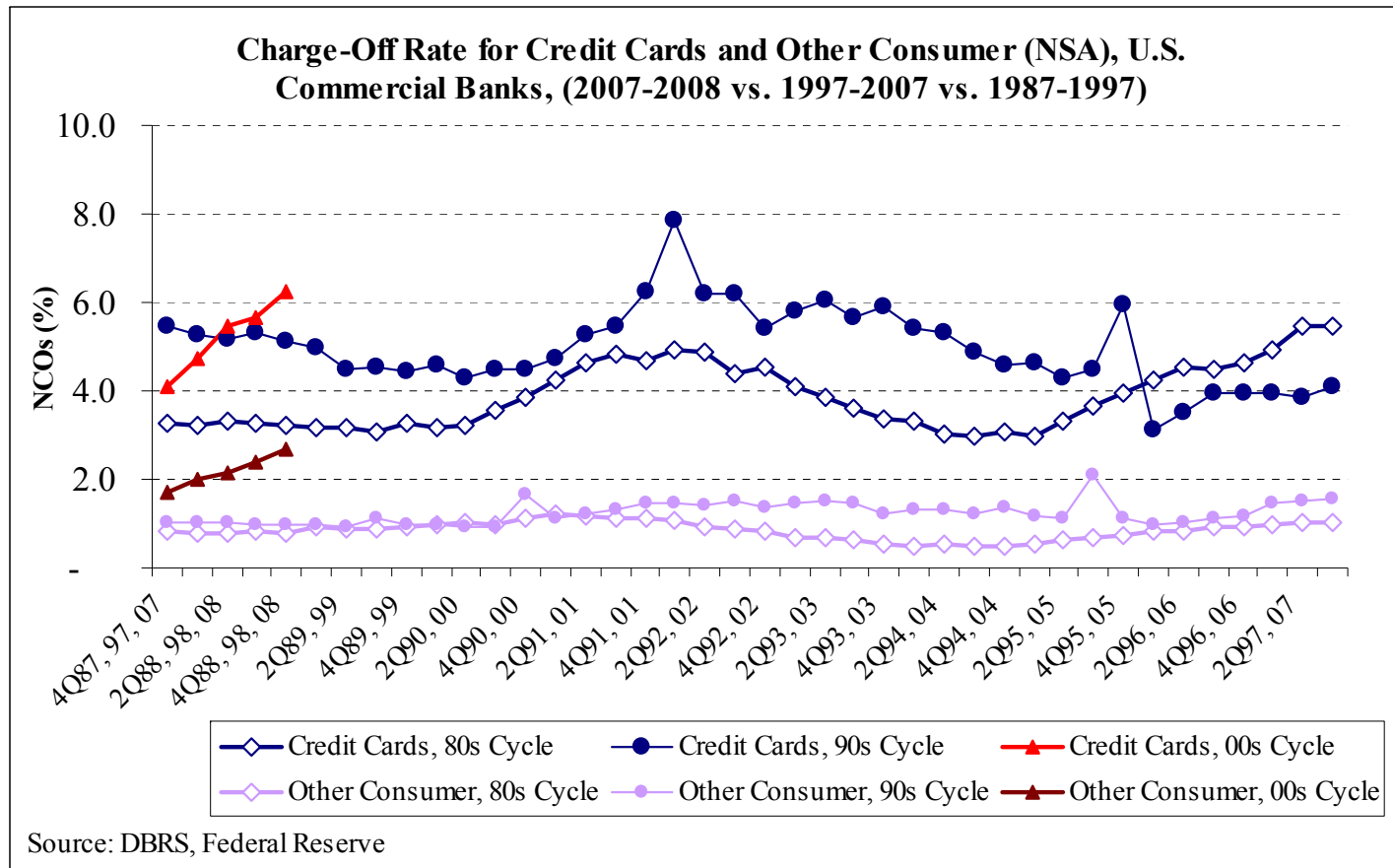
Consumer Confidence Plunges



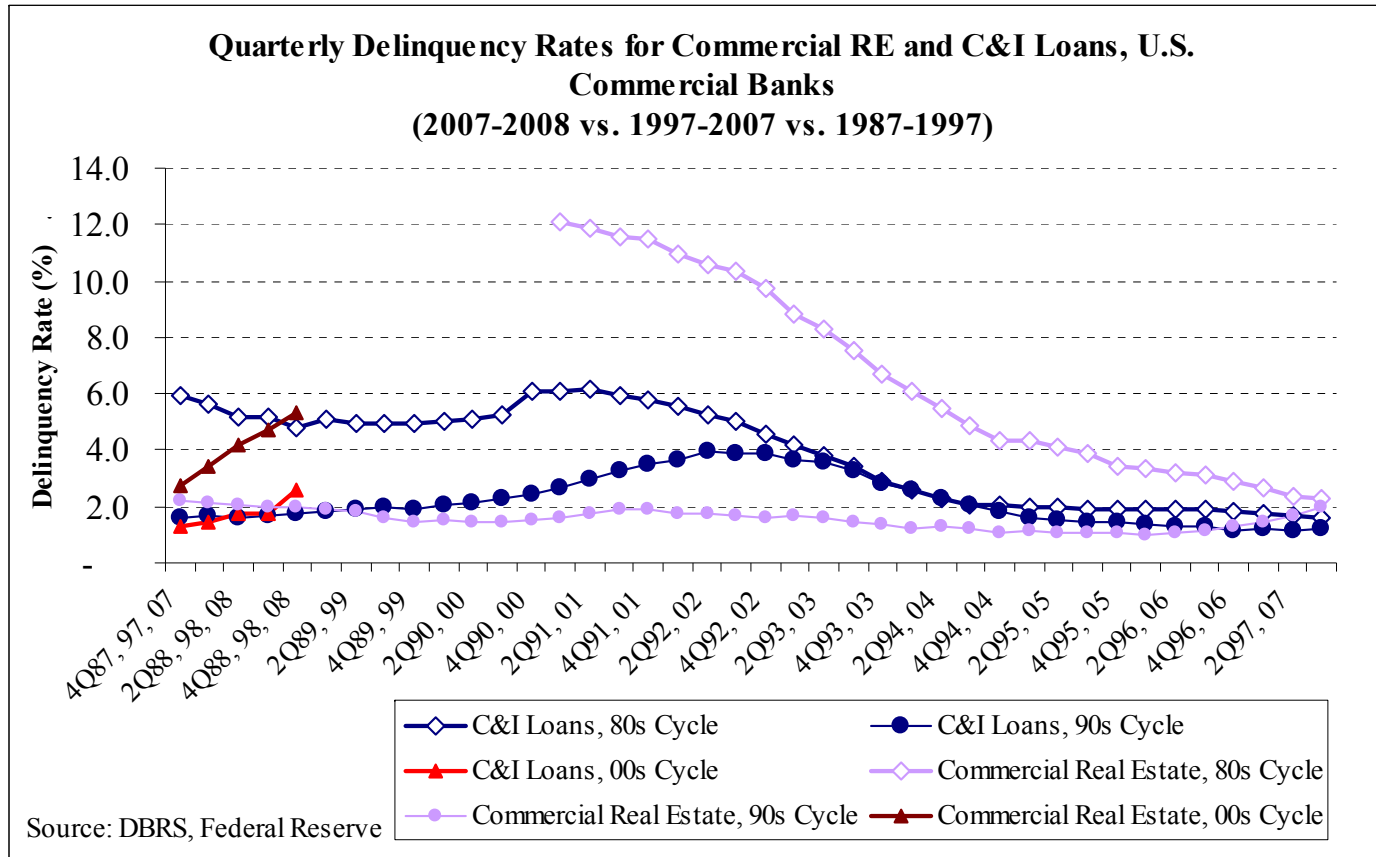
- **Consumer Confidence plunged in October, after recovery in summer**
- **Households spending slowed significantly**
- **Impact rippled through the entire economy**

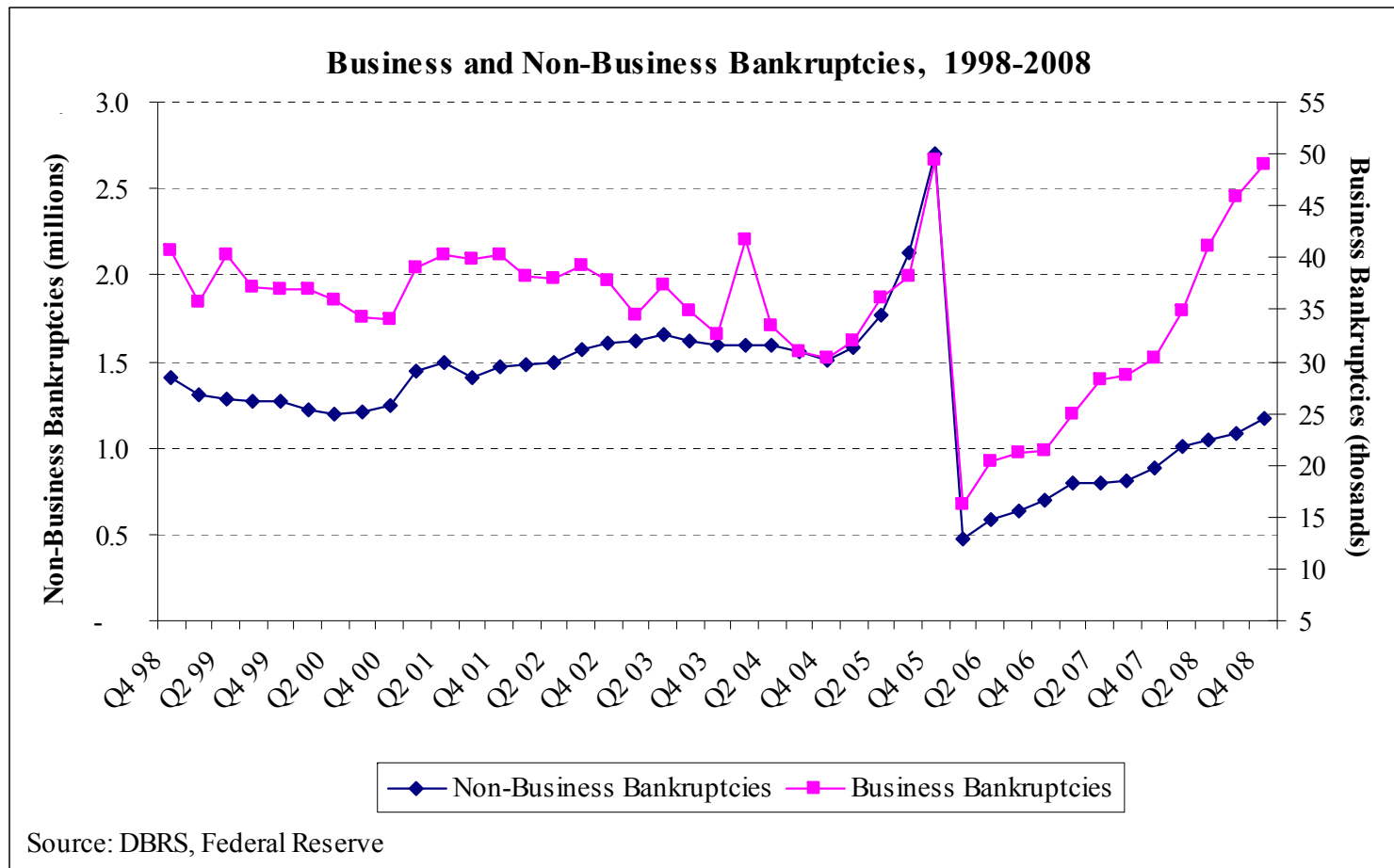


Increasing Pressure on the Consumer



CRE deterioration more rapid than C&I

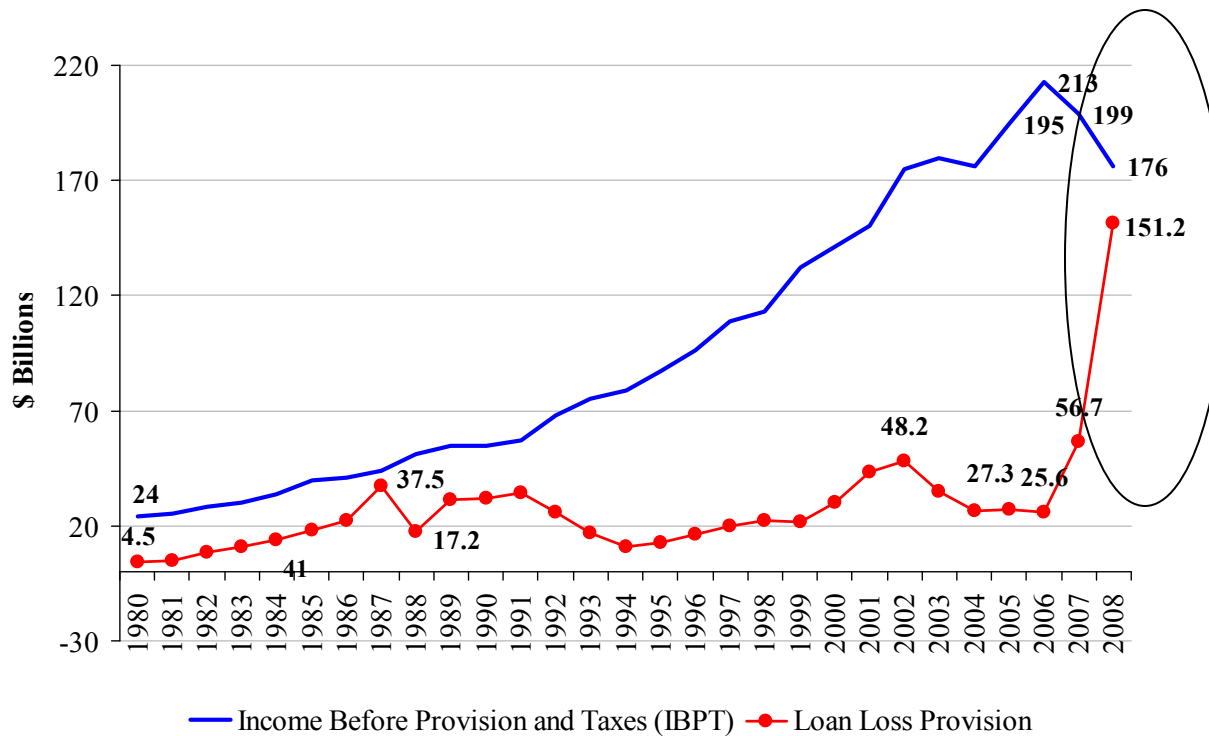




The Jaws of Life – December 31, 2008



Income Before Provision and Taxes and Loan Loss Provision,
U.S. Commercial Banks, 1980-2008 (7,085 BHCs at 12/31/2008)



Source: FDIC, DBRS



Insight beyond the rating.

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