

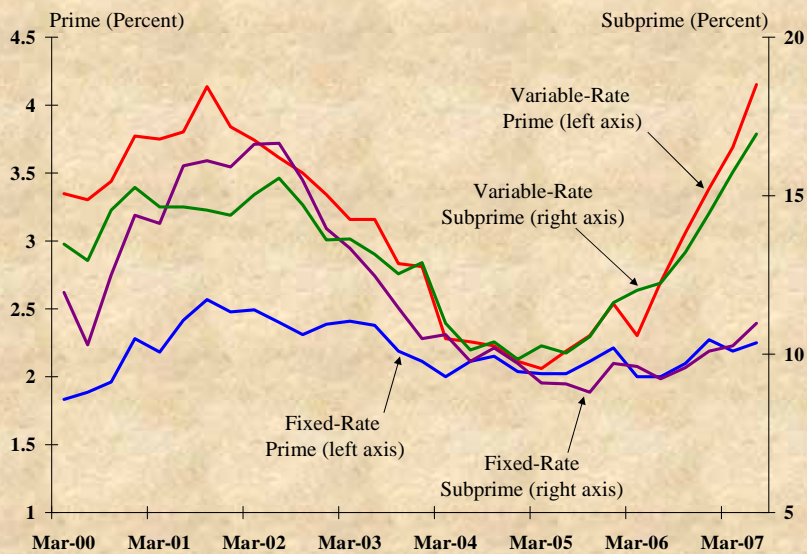
# Financial Markets

## *Innovations and Challenges*

November 29, 2007

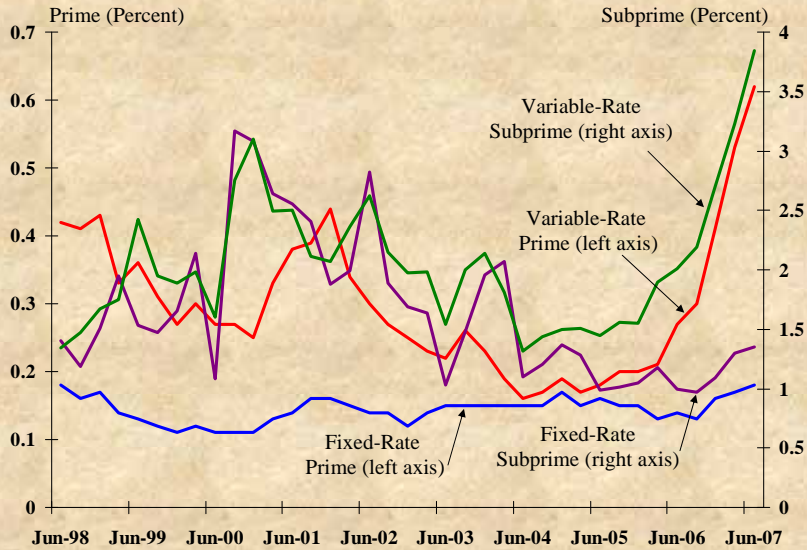
Jeffery W. Gunther

### Home Mortgage Delinquency Rates



SOURCE: Mortgage Bankers Association.

## Home Mortgage Foreclosure Rates

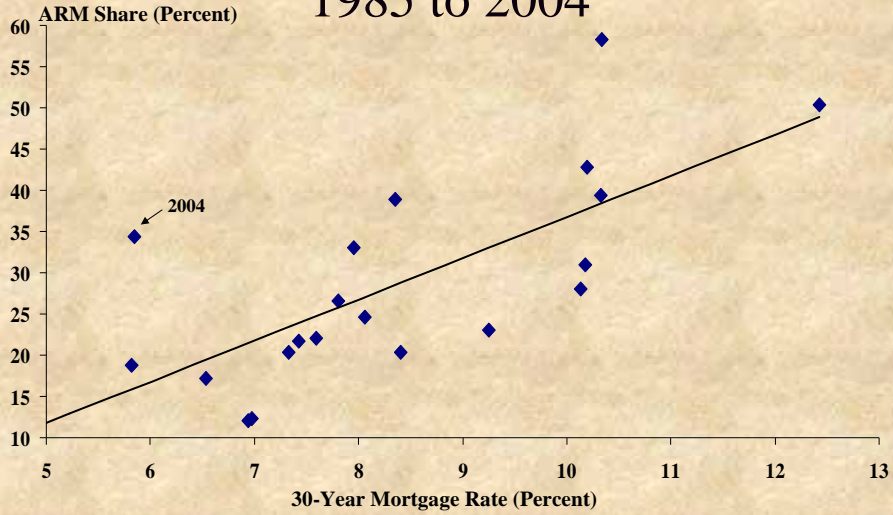


SOURCE: Mortgage Bankers Association.

## Mortgage Related Innovations

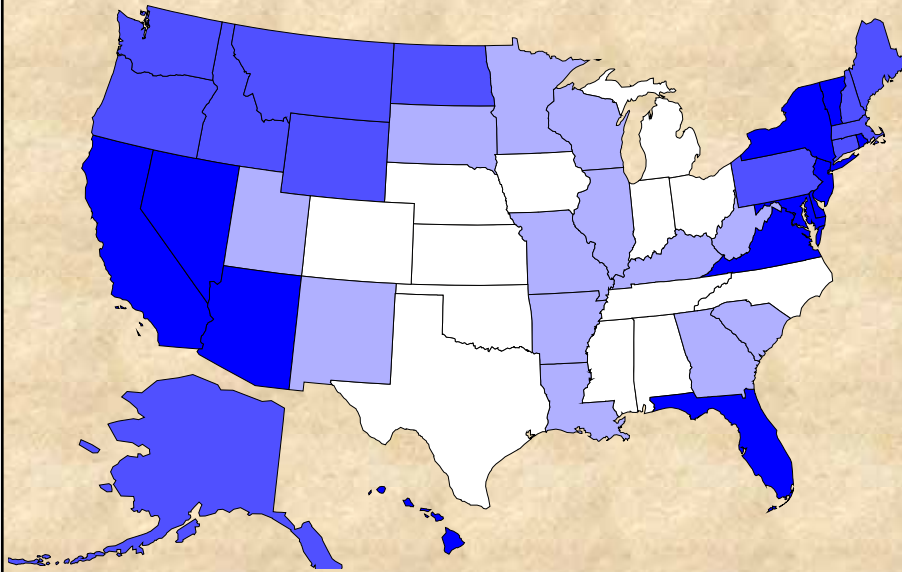
- 2/28 ARM
- Interest-Only ARM
- Option ARM
- Low/No Doc
- Zero Down
- Piggyback
- HELOC
- Subprime Securitization
- SIV

## Mortgage Rates and ARM Usage 1985 to 2004

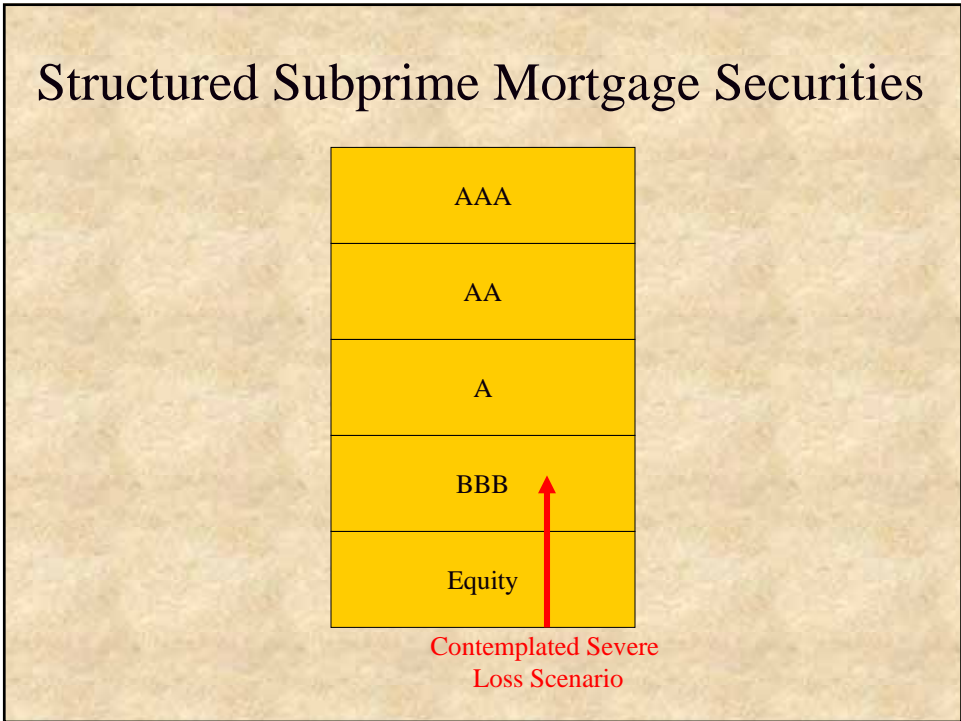
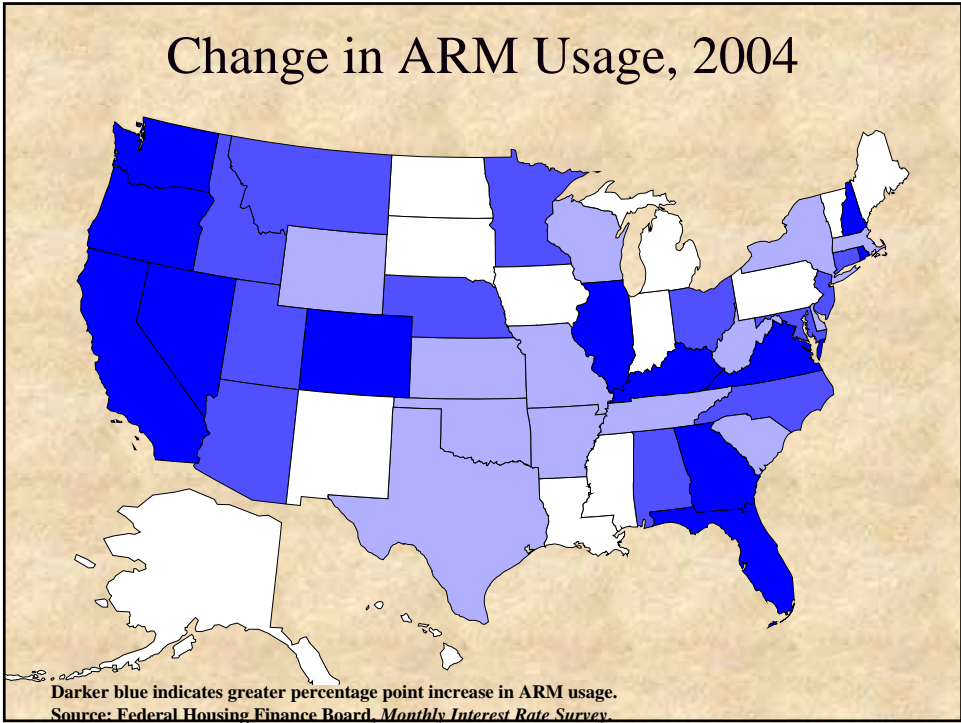


Sources: Federal Housing Finance Board, *Monthly Interest Rate Survey*; Federal Reserve Board.

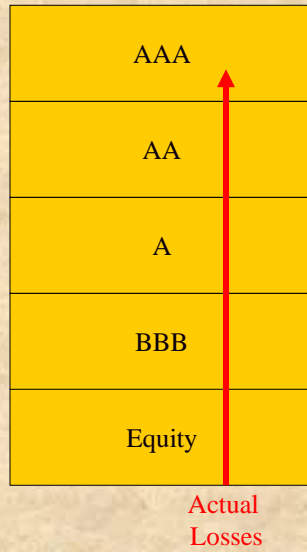
## House Price Appreciation, 2004



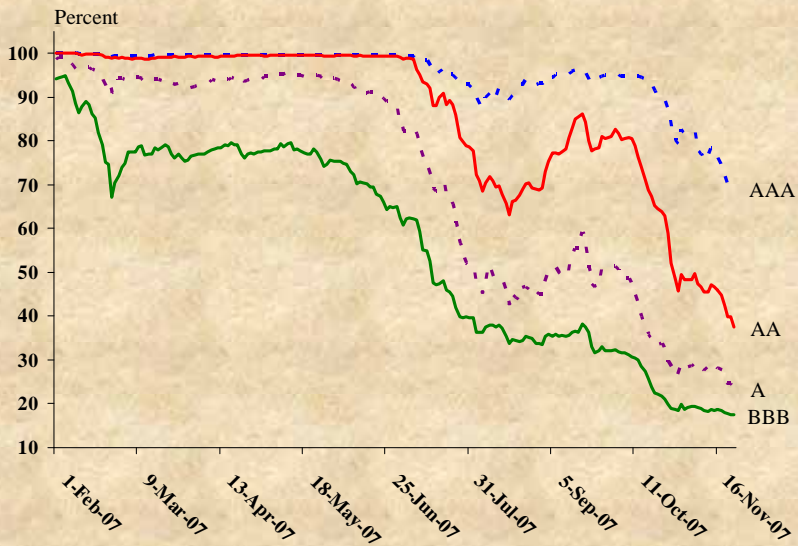
Darker blue indicates greater appreciation.  
Source: Office of Federal Housing Enterprise Oversight *House Price Index*.



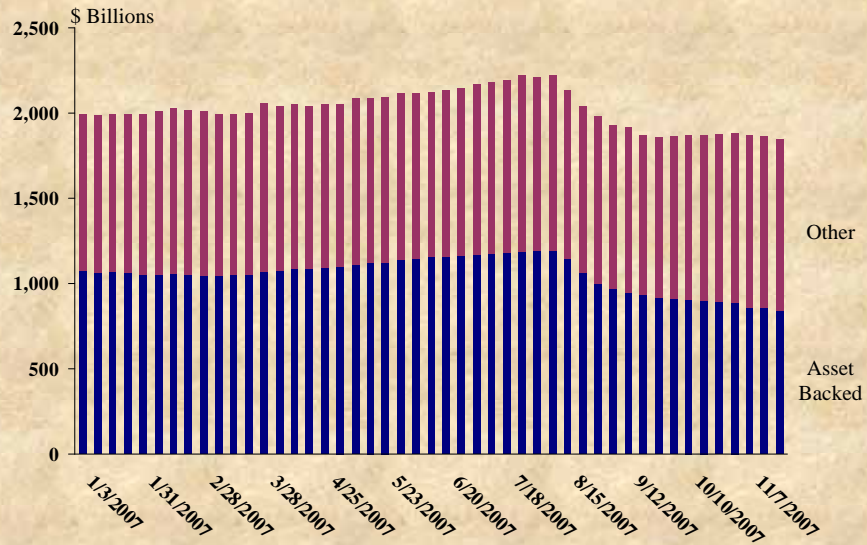
# Structured Subprime Mortgage Securities



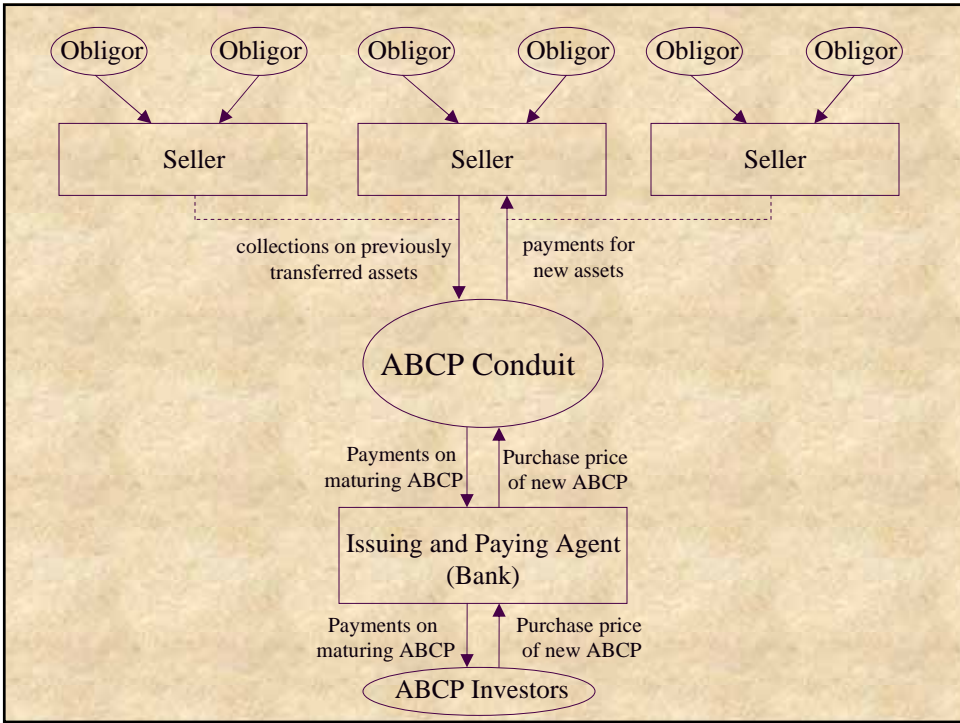
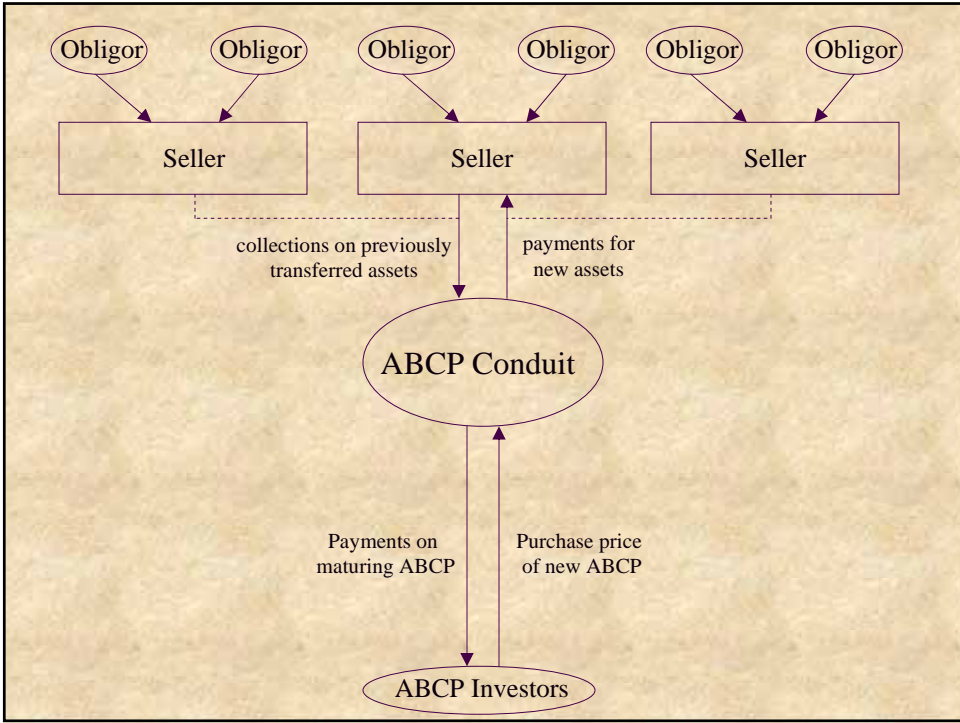
# Safety of Subprime Mortgage Securities

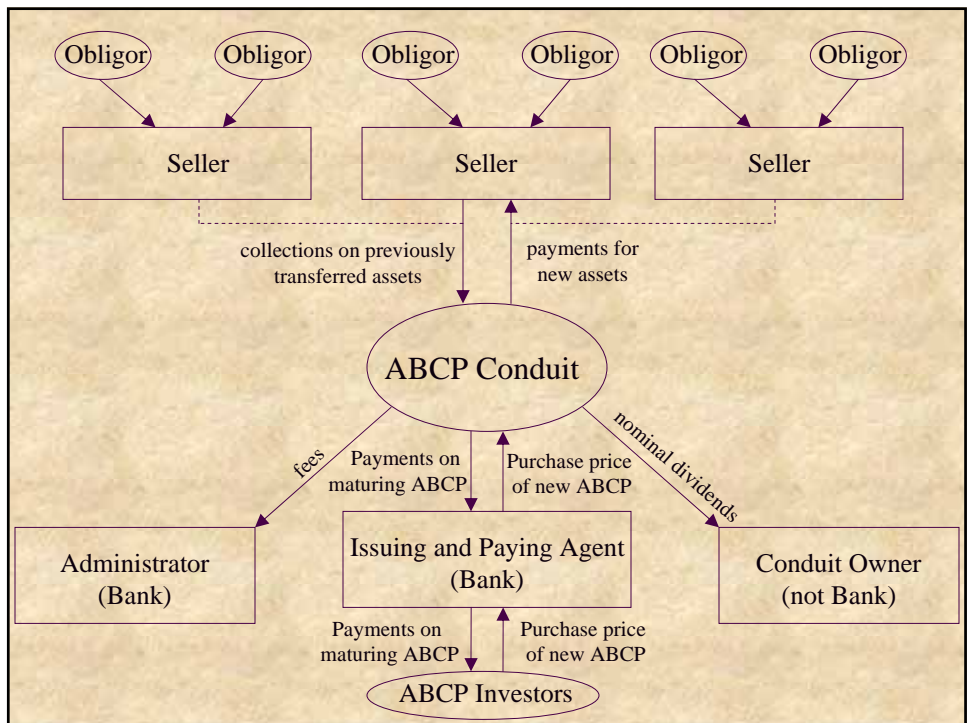
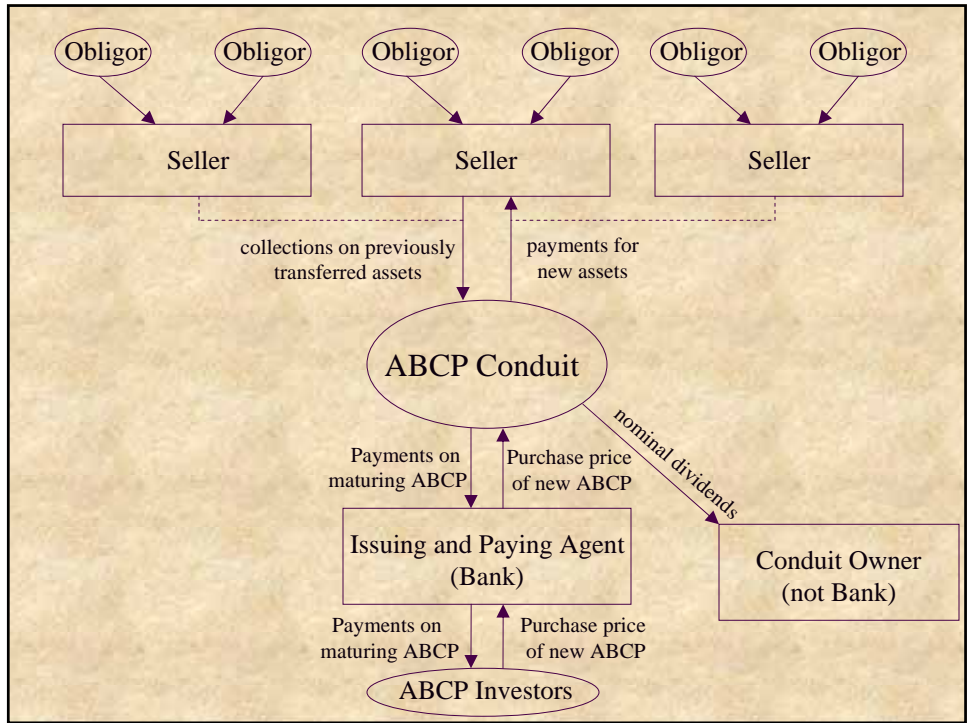


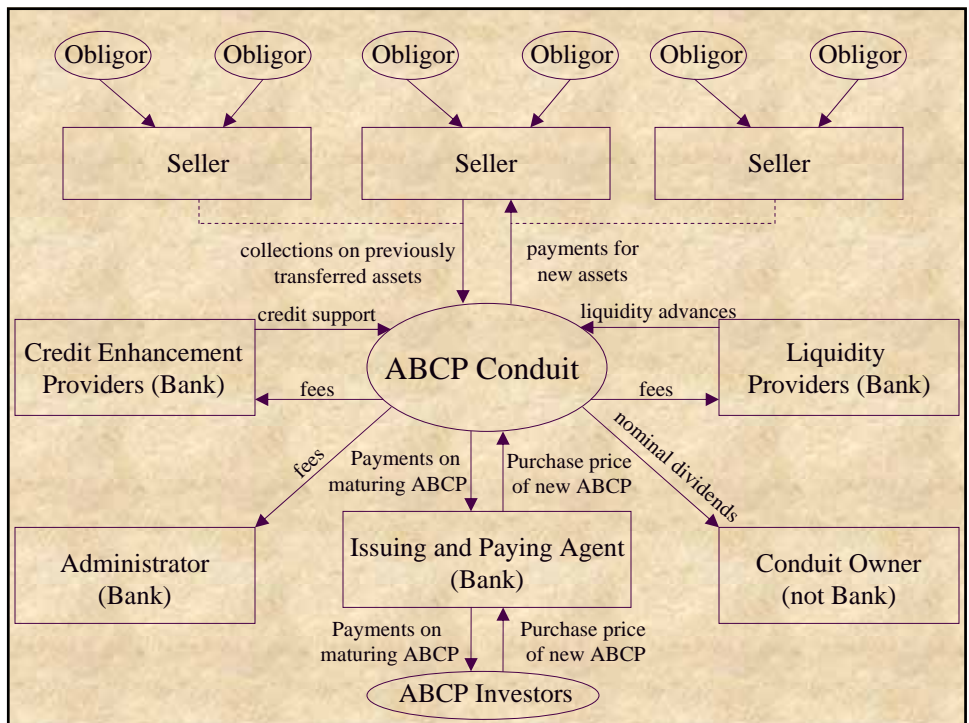
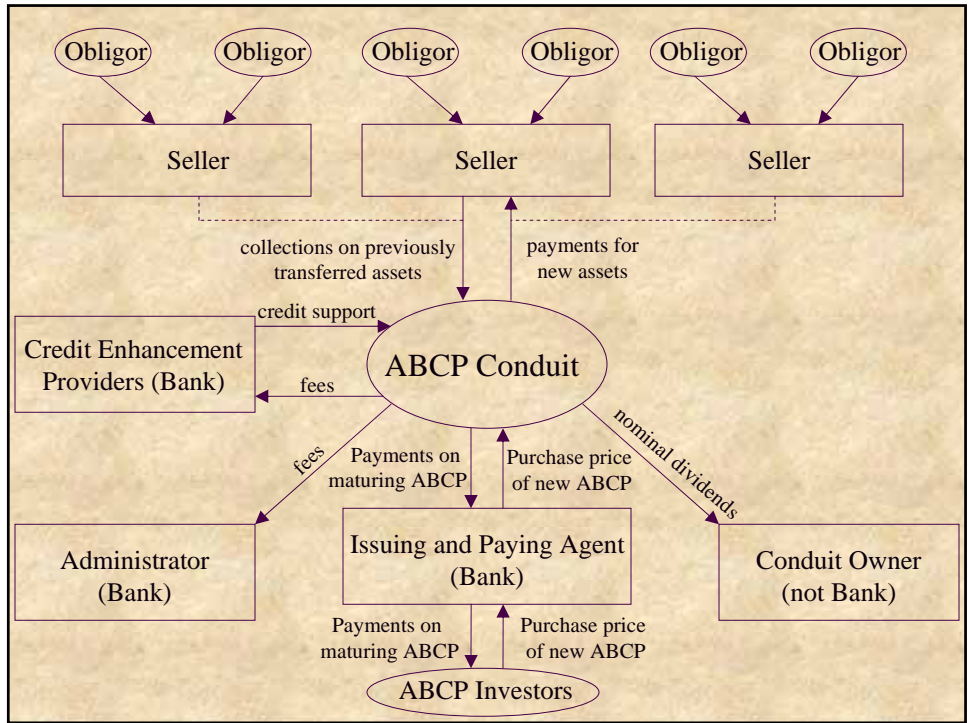
# Commercial Paper Outstanding

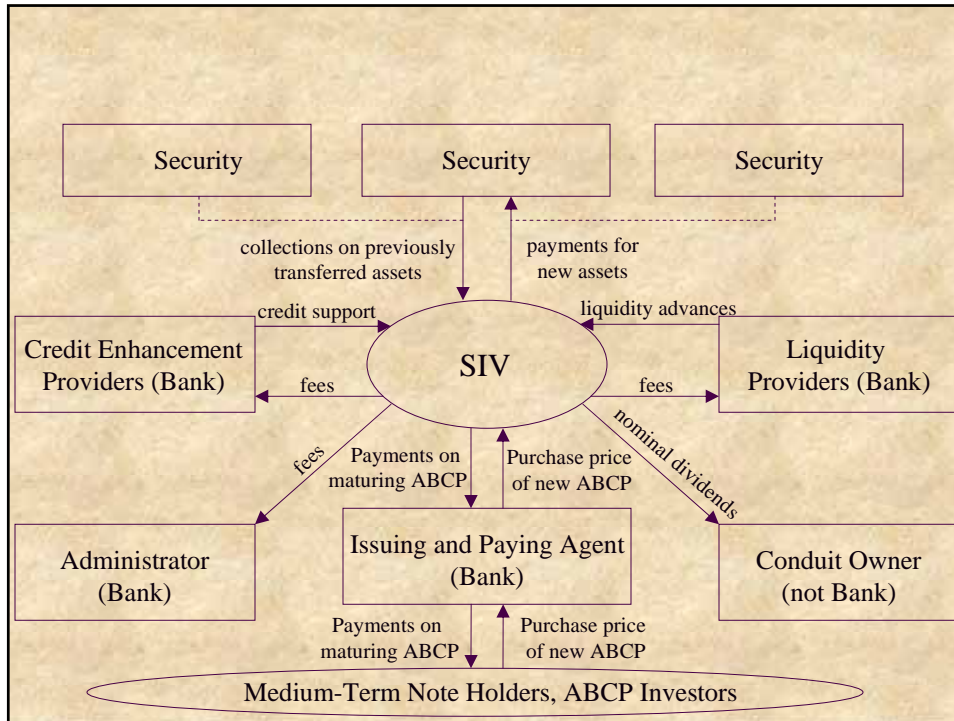


ABCP Conduit

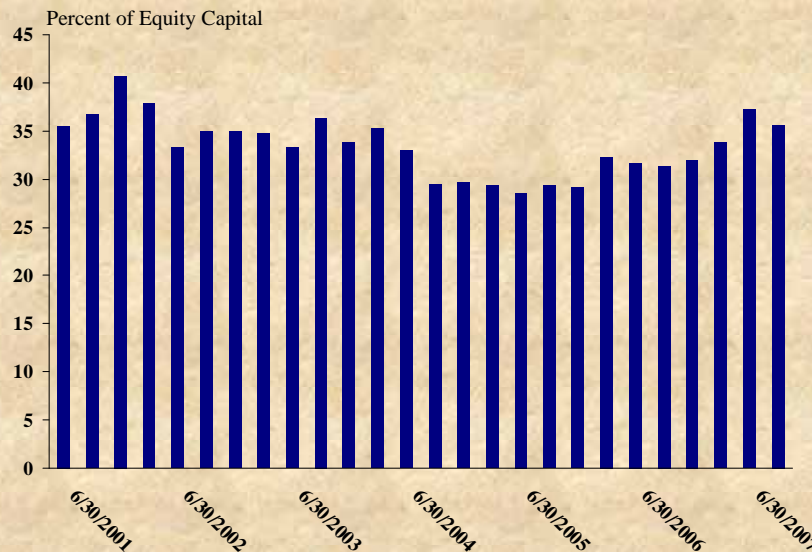




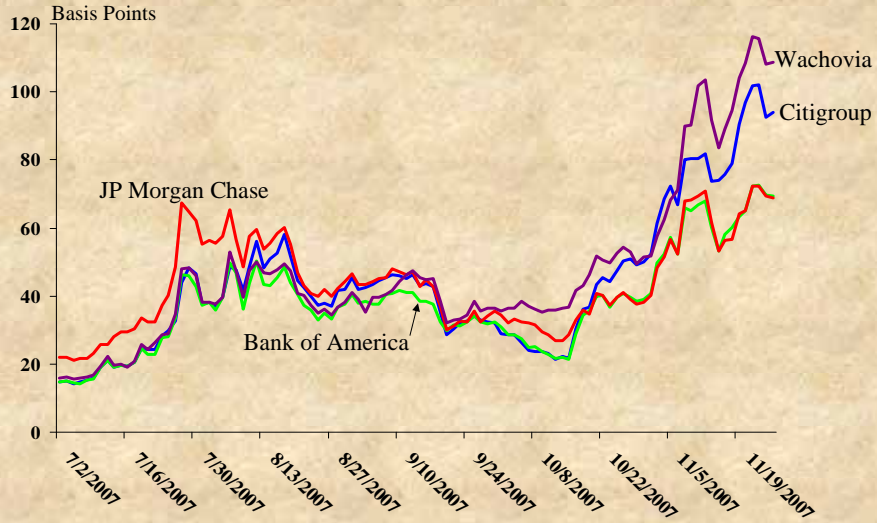




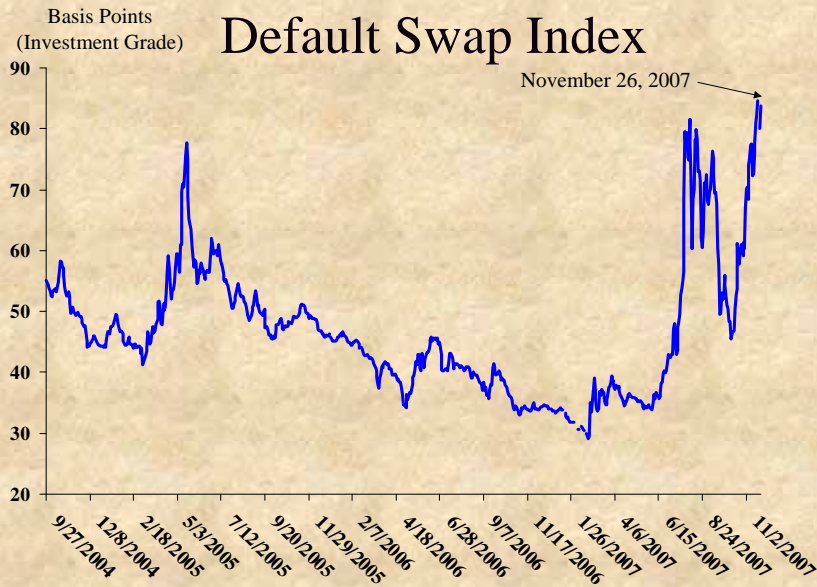
## Commercial Bank Exposure to Asset-Backed Commercial Paper Conduits



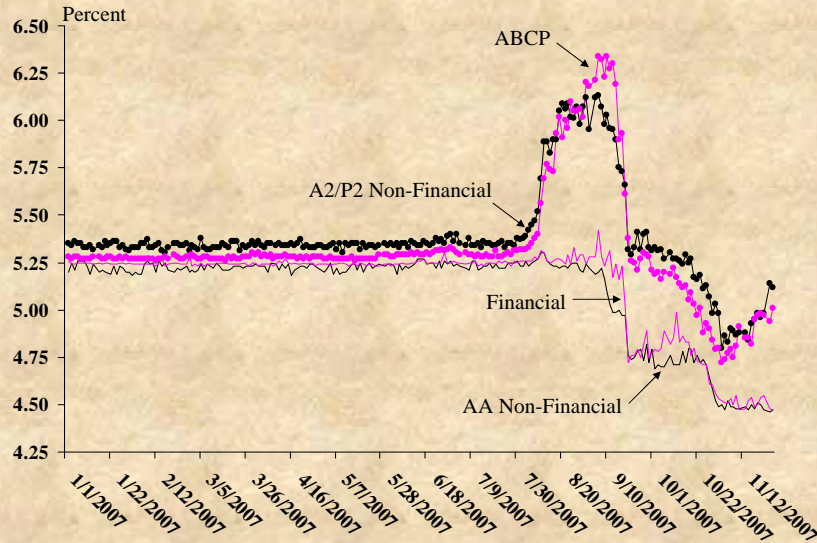
## Credit Default Swap Premiums for Large Bank Holding Companies



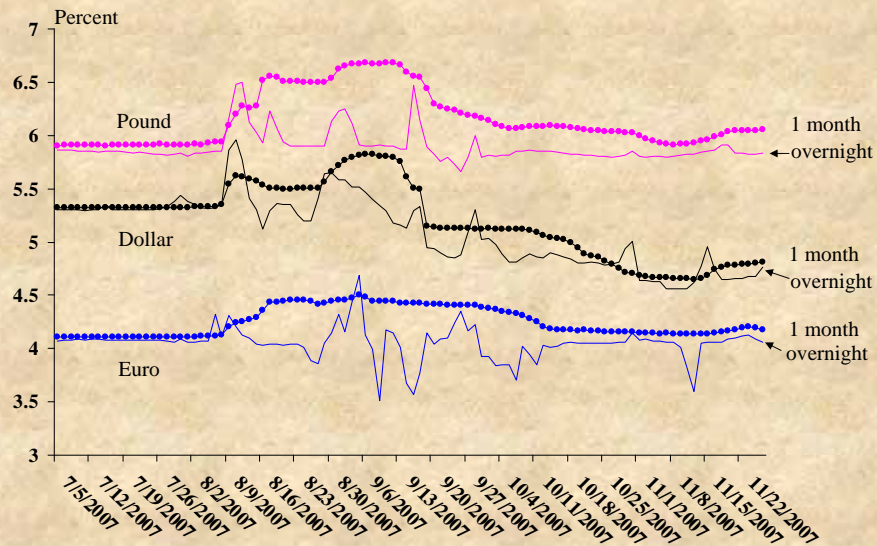
## Premium on 5-Year Credit Default Swap Index



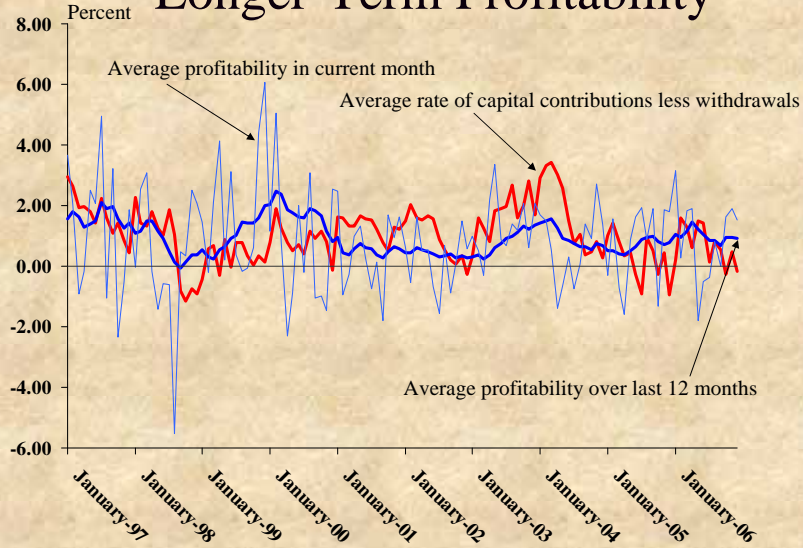
## Yields on 30-Day Commercial Paper



## Selected LIBOR Rates

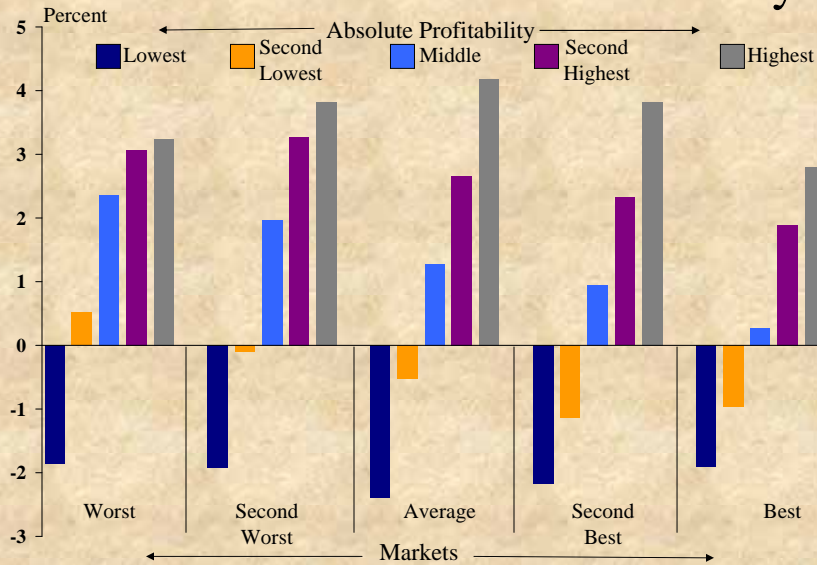


## Hedge Fund Money Flows Track Longer-Term Profitability



SOURCE: Author's calculations using Lipper TASS database.

## Hedge Fund Money Flows Rise with Absolute and Relative Profitability



SOURCE: Author's calculations using Lipper TASS database.