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SECURITIES

Financial Crisis Inquiry Commission

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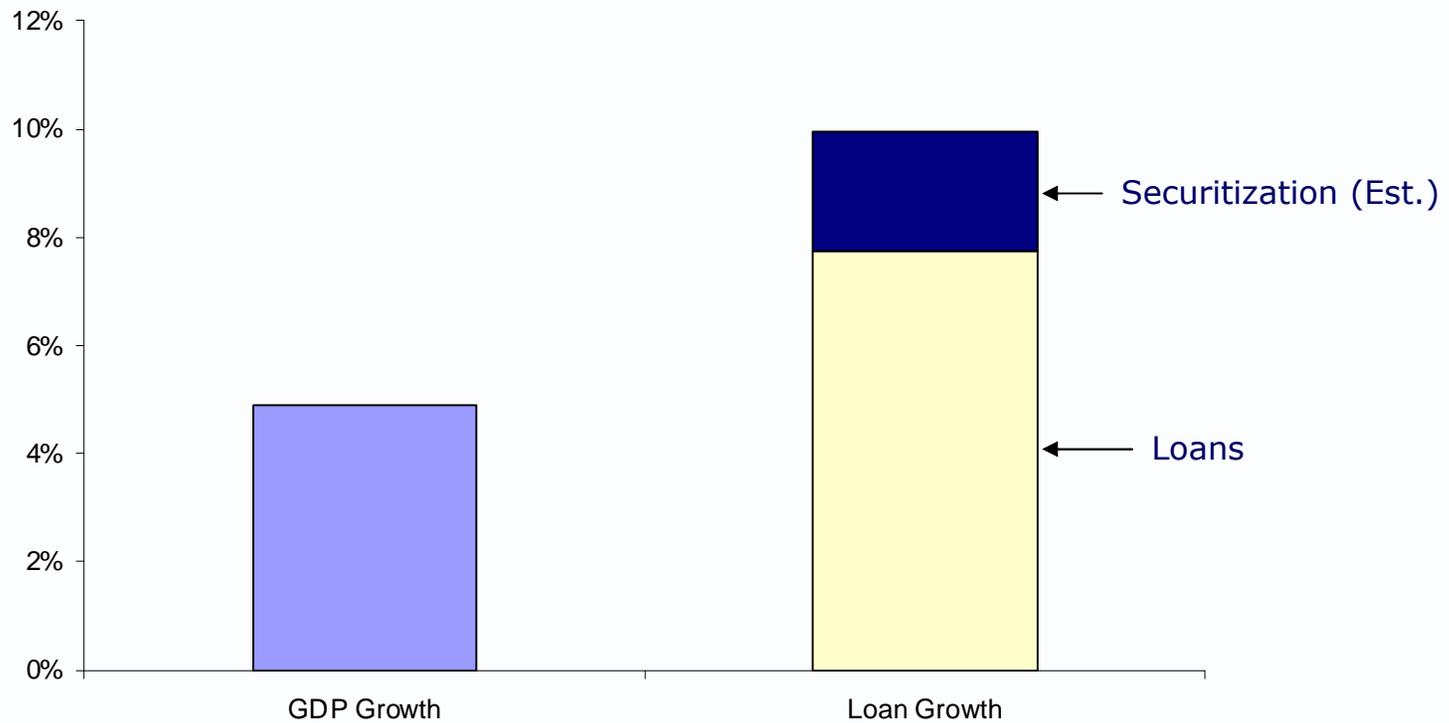
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Industry on Steroids

- 1) Excessive Loan Growth
- 2) Higher Yielding Assets
- 3) Concentration of Assets
- 4) High Bank Balance Sheet Leverage
- 5) More Exotic Securities
- 6) Consumers Went Along
- 7) Accountants Assisted
- 8) Regulators Aided
- 9) Government Facilitated
- 10) Incentives Encouraged Behavior

1) Excessive Loan Growth

Loan vs GDP growth in the 2000's



Source: FDIC - All banks, Pre-Crisis

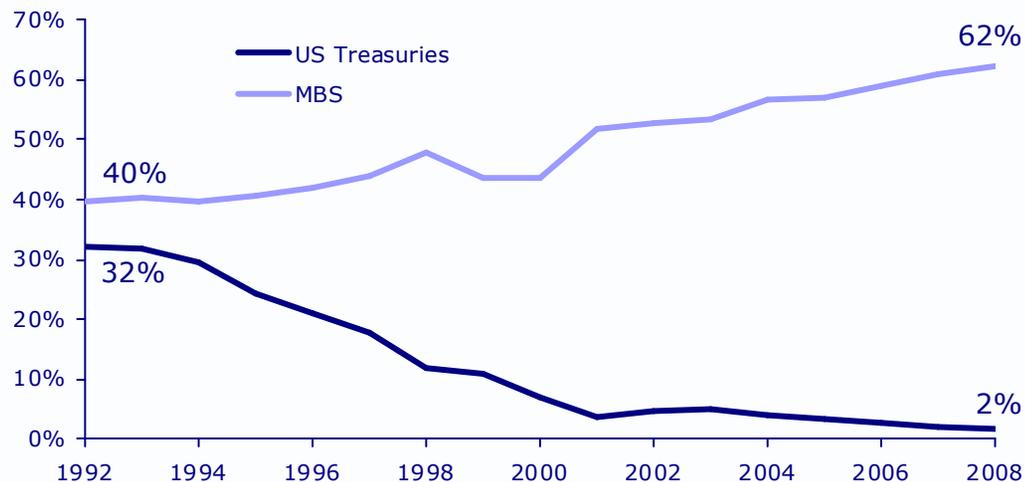
2) Higher Yielding Assets

Shift to higher-yielding, higher loss-rate consumer and commercial real estate loans

Loan Type	2008 % of Total	1992 % of Total	1984 % of Total	1974 % of Total	1942 % of Total
Residential Mortgage	19%	17%	12%	15%	17%
Home Equity	11%	6%	nil	nil	nil
C&I	21%	26%	37%	37%	41%
Core CRE	14%	13%	6%	9%	5%
Construction	8%	4%	5%	3%	nil
Credit Card	6%	7%	4%	2%	nil
Other Consumer	9%	12%	14%	18%	12%
Other	13%	15%	21%	16%	25%

Source: FDIC - All banks

Growth in securities holdings

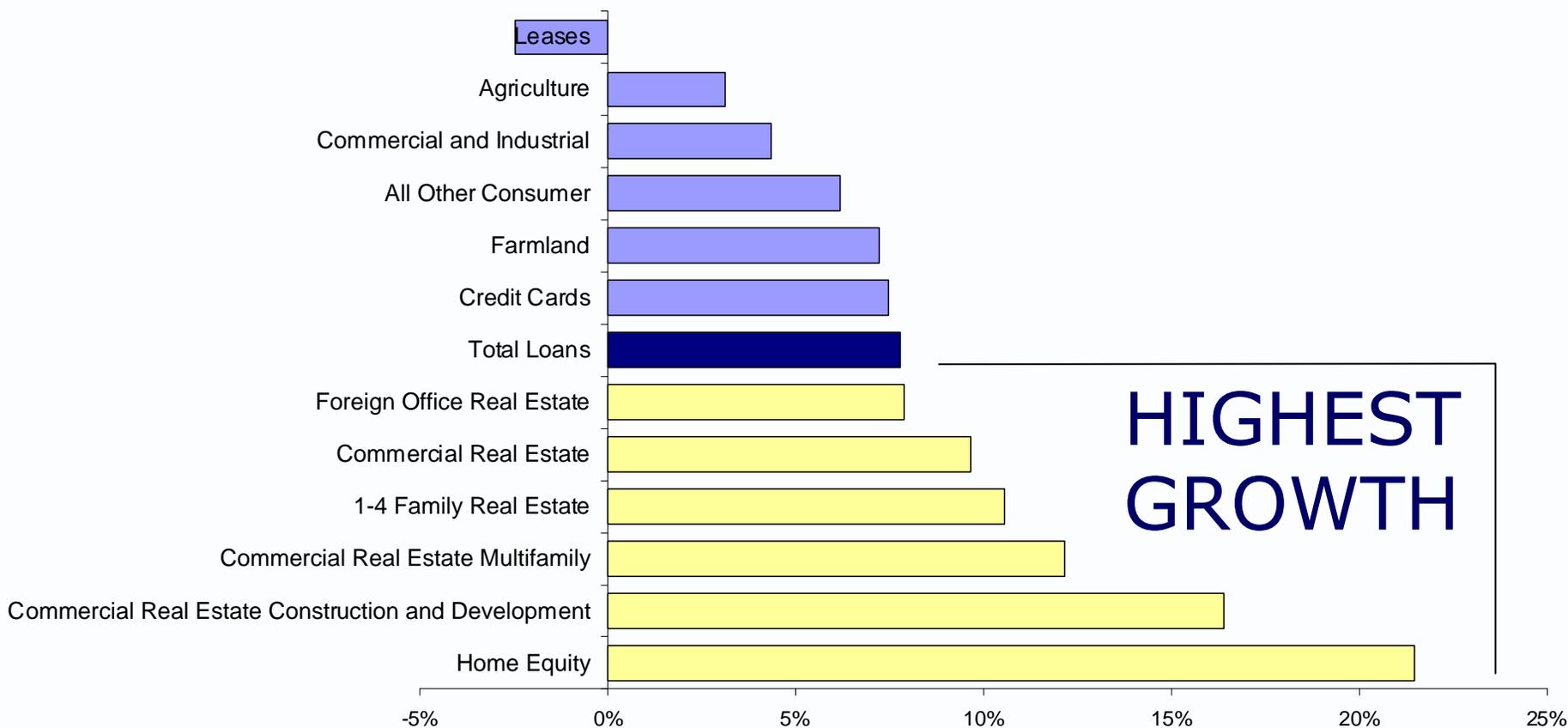


Source: FDIC - All banks

3) Concentration of Assets

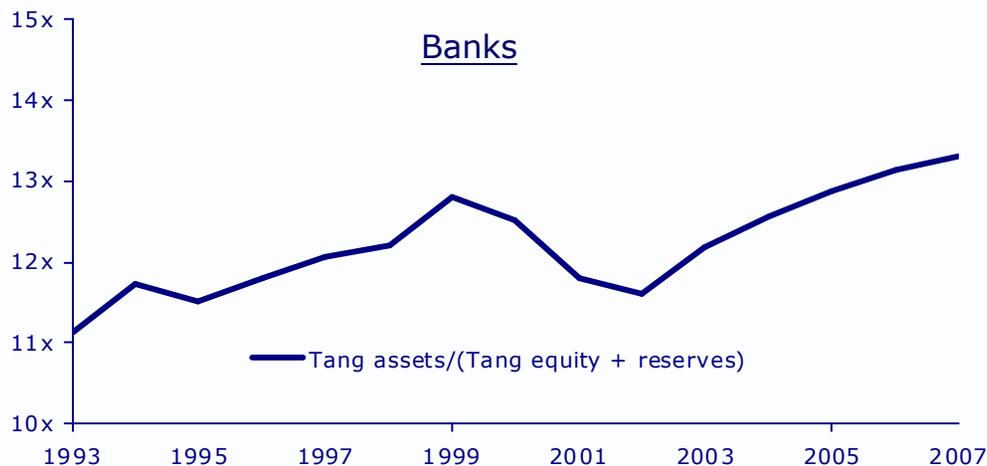
Real estate was the largest area of growth

Compound Annual Growth in Loans (2000s)

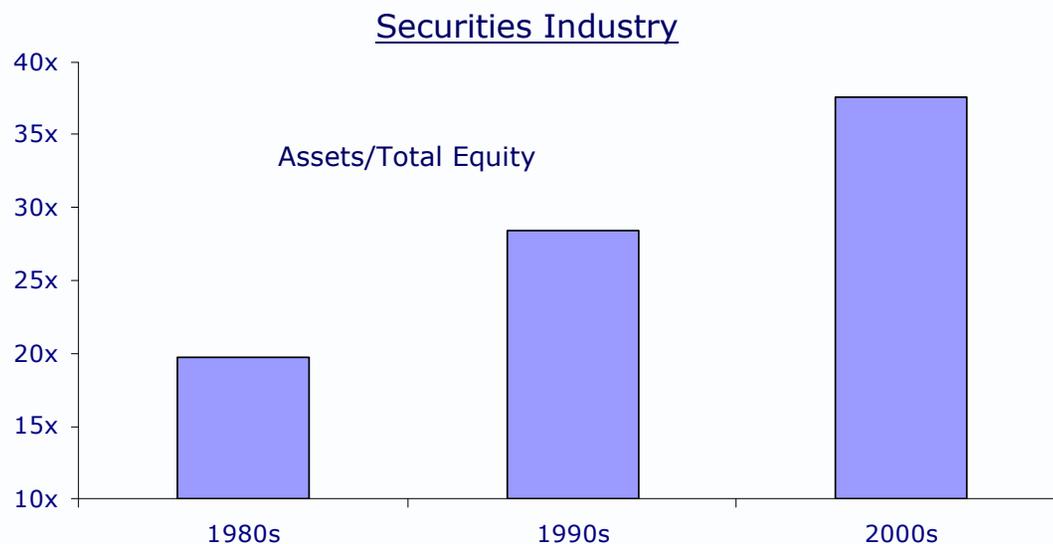


4) Balance Sheet Leverage

Leverage increased



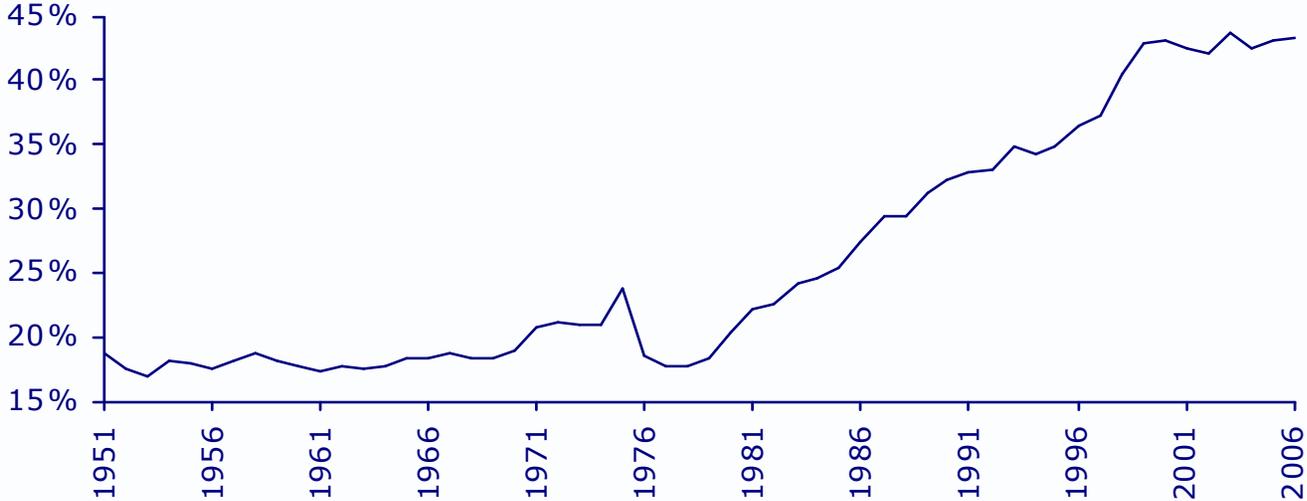
Source: FDIC - All Banks



5) More Exotic Securities

Fees are a larger percentage of revenues

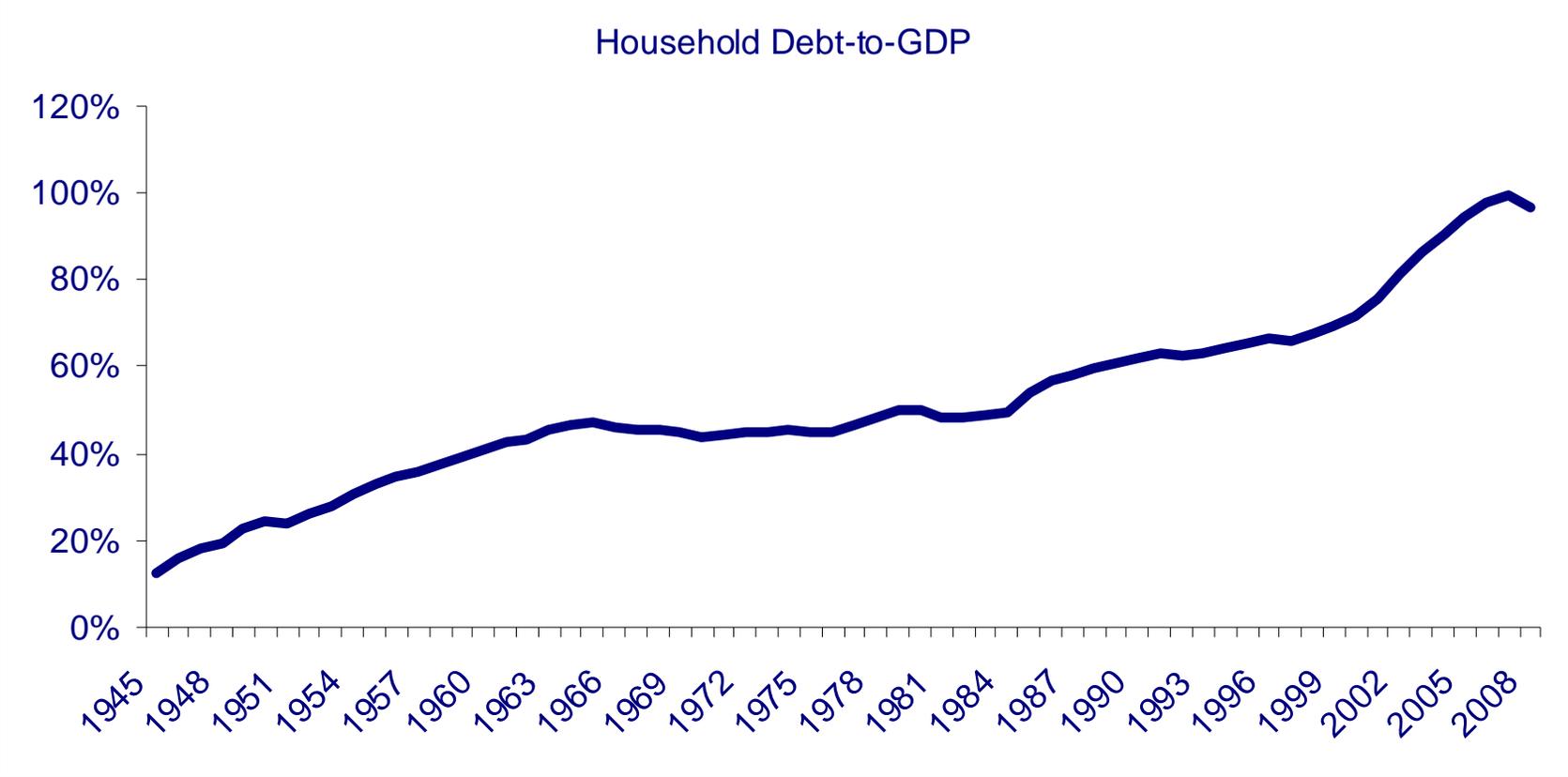
Fees as % of Revenues



Source: FDIC -All Banks

6) Consumer Debt - Highest in History

Household debt at record levels



Source: Federal Reserve, Bureau of Economic Analysis

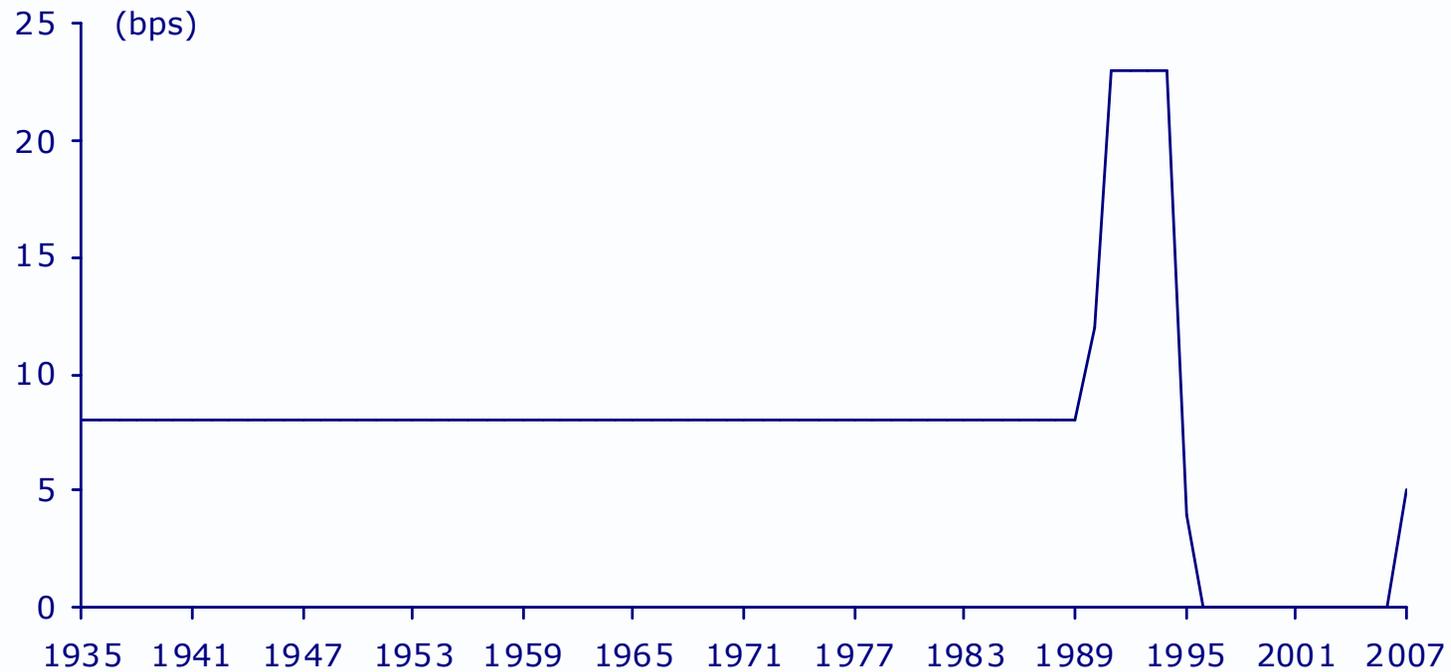
7) Accountants Aided

Reserves to Loans



8) Regulators Aided

Annual FDIC Insurance Fee

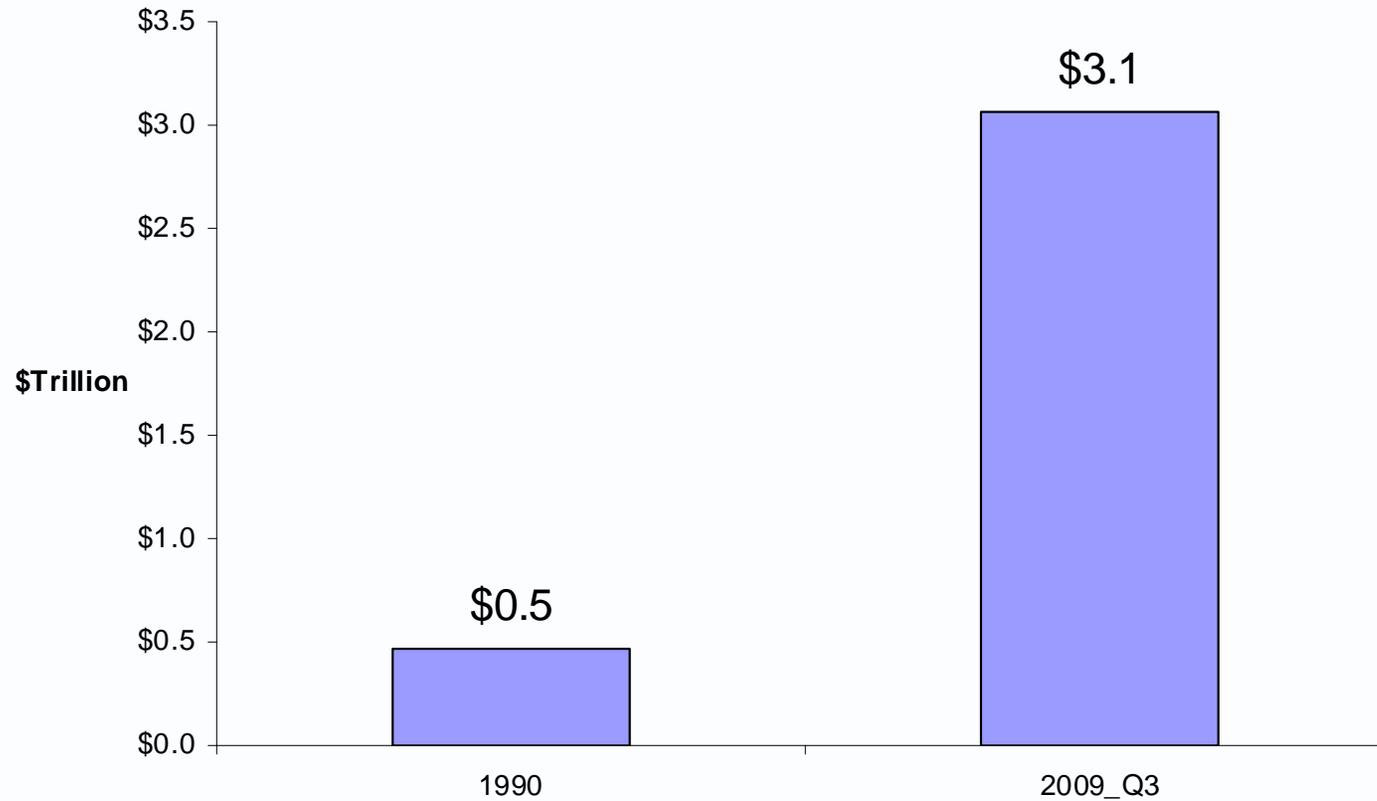


Note: Per \$100 of deposits

Source: FDIC

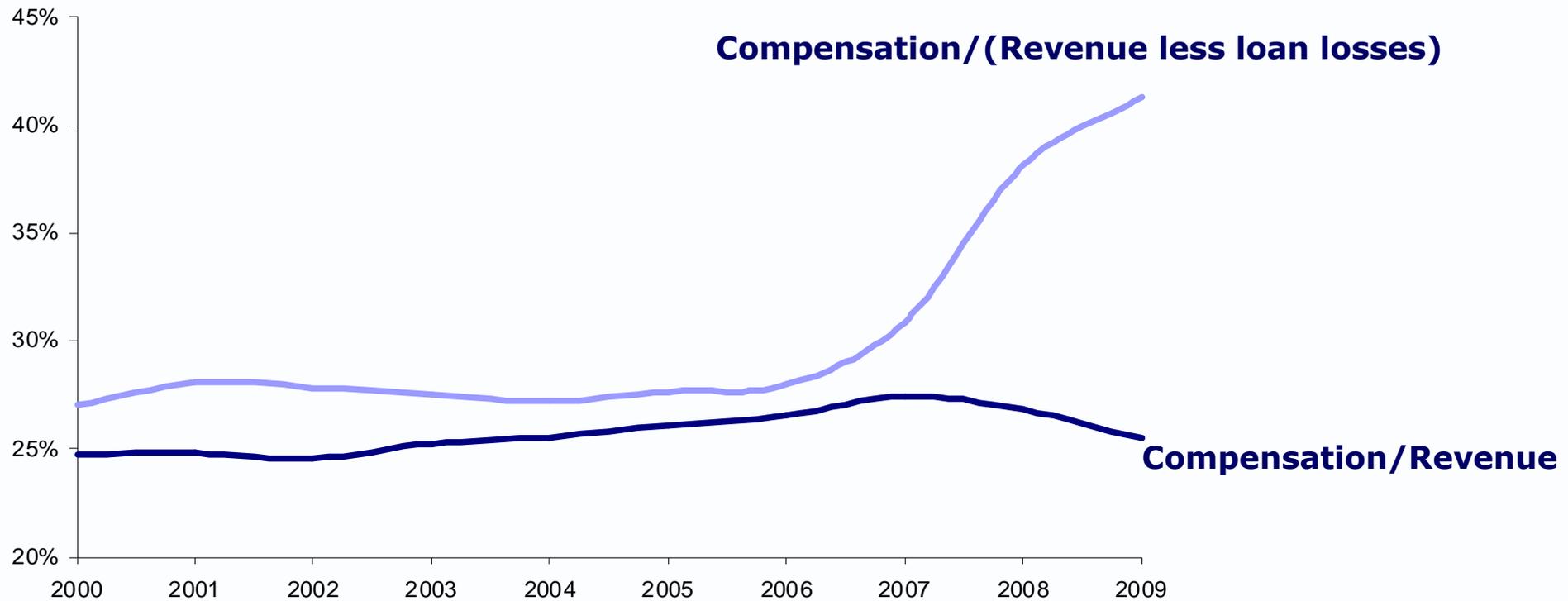
9) Government Facilitated

GSE debt increased over 6 times in 2 decades



Source: Federal Reserve, Flow of Funds

10) Incentives Misaligned



Note: Loan Losses = Provision for Loan Losses

Source: FDIC All Banks

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Industry on Steroids

- Performance enhanced by excessive...
 - Loan growth
 - Loan risk
 - Securities yields
 - Bank leverage
 - Consumer leverage
- Excesses conducted by...
 - Bankers
 - Accountants
 - Regulators
 - Government
 - Consumers
- Side effects ignored...
 - Little financial incentive to slow down
 - Ignored long-term risks

The Solution – Partly a function of “ABC”

- “A” for Accounting
- “B” for Bankruptcy
- “C” for Capital