

GLOBAL FINANCIAL CRISIS 2008

- ***Background Information***
 - *Credit Crunch Comes Full Cycle*
- ***Implications on Financial Services Sector / Main Street and Information Services***



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Joachim C. Bartels
Founder and CEO of Intrepid Explorers, Inc.
jeijcb@attglobal.net; www.intrepidex.com

IMPLICATIONS OF THE CREDIT CRUNCH

- ***Huge Losses in the Financial System***
 - *40% of Taxable Profits (USA) lost for some Time*
- ***Crisis in Confidence & Credit Freeze***



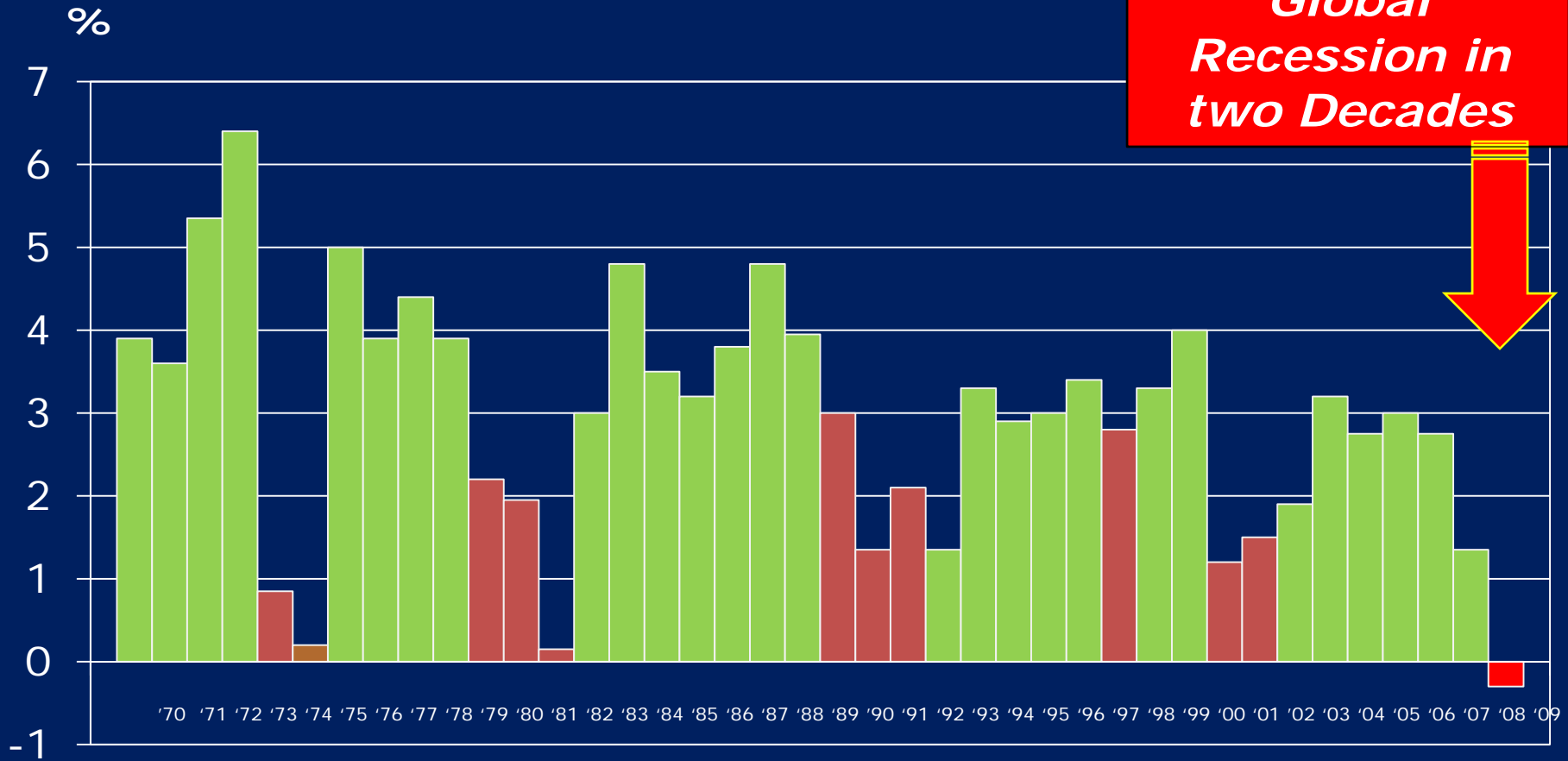
- ***No Credit for Main Street = Bankruptcies***
- ***No Credit for Consumers = Deep Cuts in Demand***



- ***Central Banks and Regulators:***
 - *Late Reaction: Ability to Manage the Crisis?*
- ***Information Industry:***
 - *Victim of Crisis*
 - *Inexperienced in Managing Crisis of such Magnitude*

Global GDP Cycles

*Most Severe
Global
Recession in
two Decades*



GDP Growth: Composite growth rates based on growth data from 31 advanced economies [USA, Japan, Canada, Western European nations * 2008-09 Forecast

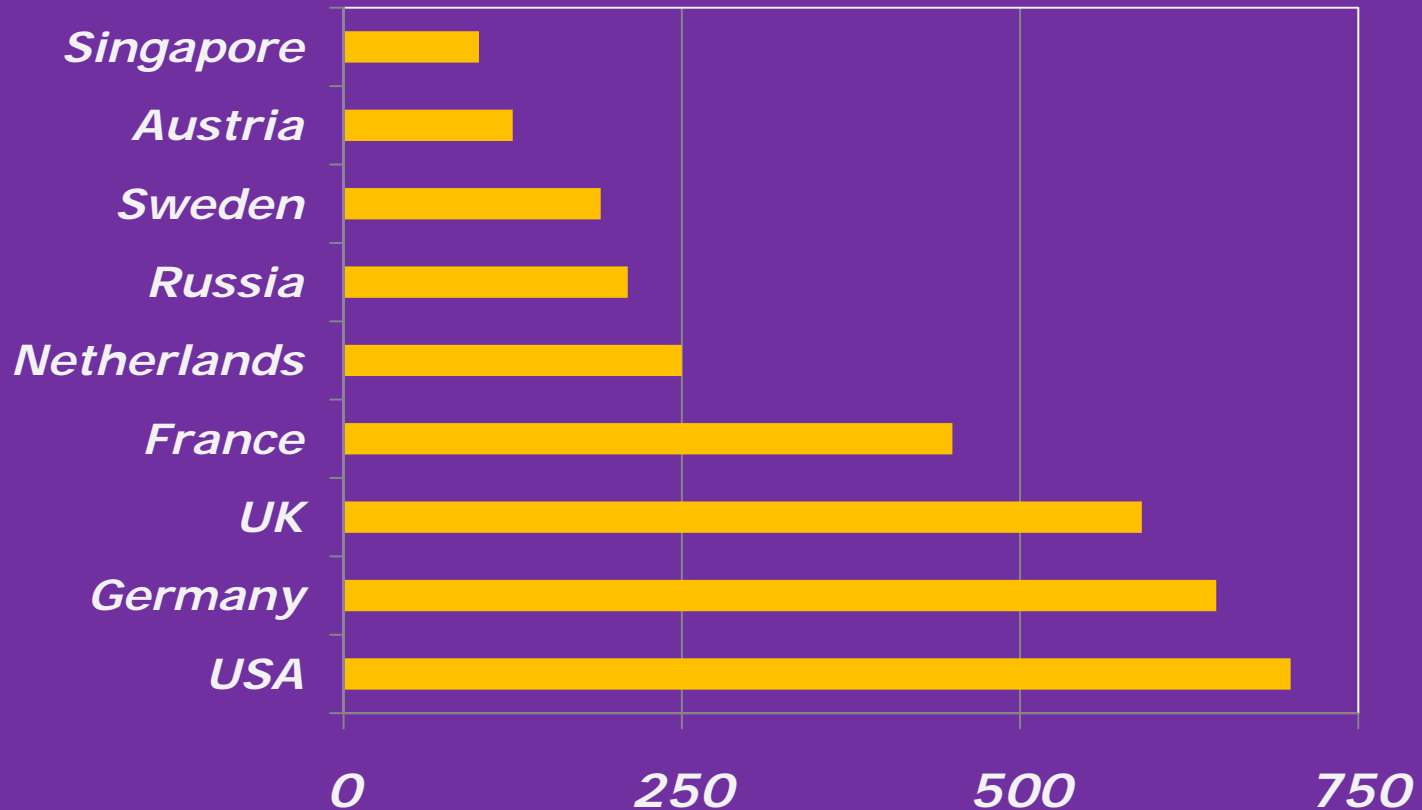
Defined by the IMF as recession years

Source: IMF The Wall Street Journal Nov. 07, 2008



The \$ 3,000± Billion Bailout

Amounts in US\$ Billion



Source: Financial Times

The \$ 3,000± Billion Bailout

- *Run on Northern Rock (UK)*
- *Bank Failures – Lehman Brothers*
- *Credit Crunch & Credit Freeze*
- *Huge Write-Down in Assets*



Why? What? Who?

*World
Bank*

*Central
Banks*

*Regul
ators*

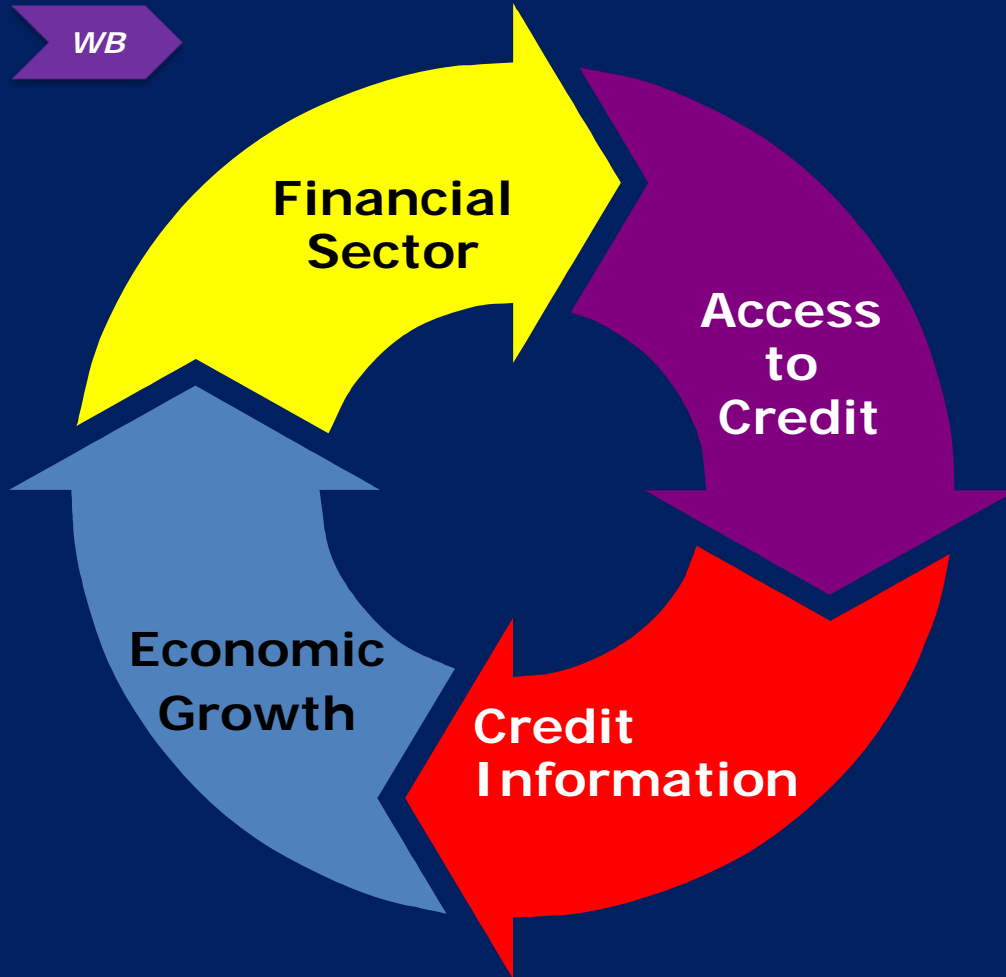
*Financial
Services*

*Rating
Agencies*

Investors

World Bank Philosophy

Credit is Key to Economic Growth



- STRONG POSITIVE LINKAGES BETWEEN FINANCIAL SECTOR AND ECONOMIC GROWTH*

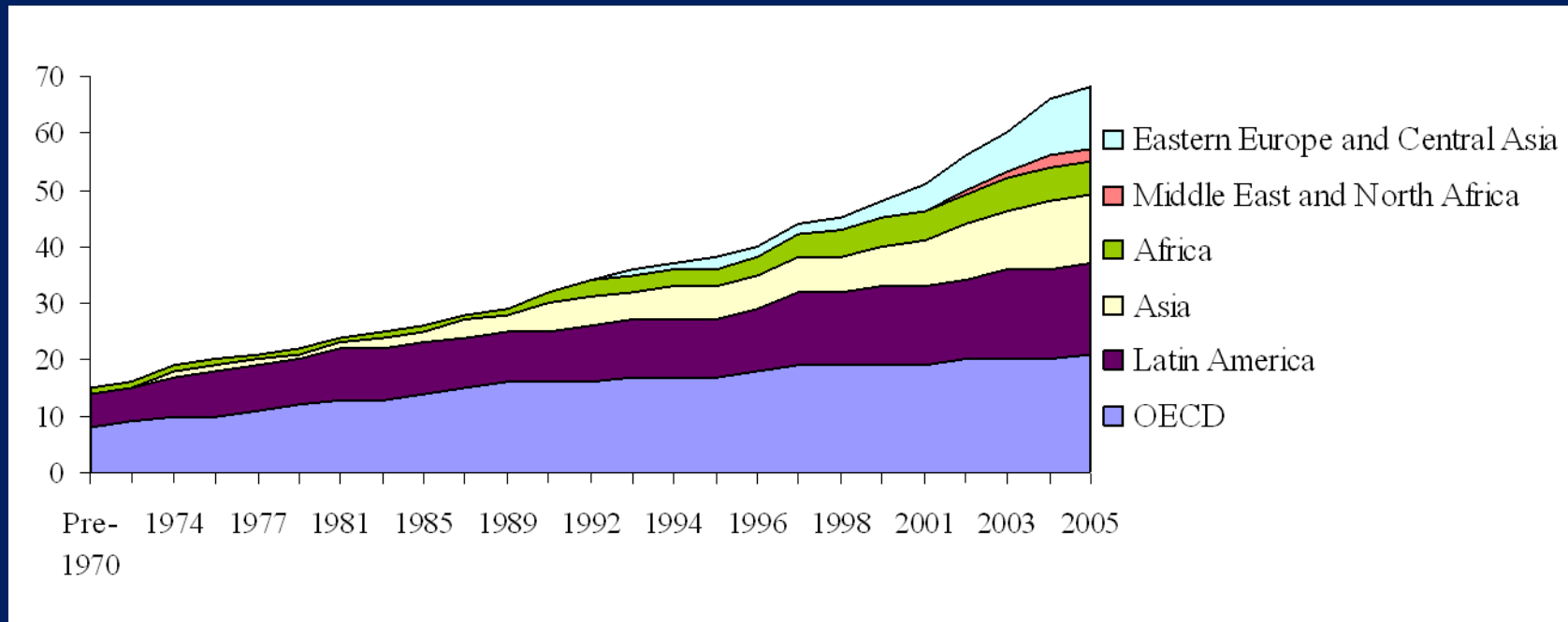
- A WELL-FUNCTIONING FINANCIAL SECTOR PROVIDES INDIVIDUALS, SMES AND COMPANIES WITH ACCESS TO CREDIT

- STRONG LINKAGE BETWEEN GREATER ACCESS TO CREDIT AND EXISTENCE OF INFORMATION COMPANIES

World Bank Initiatives



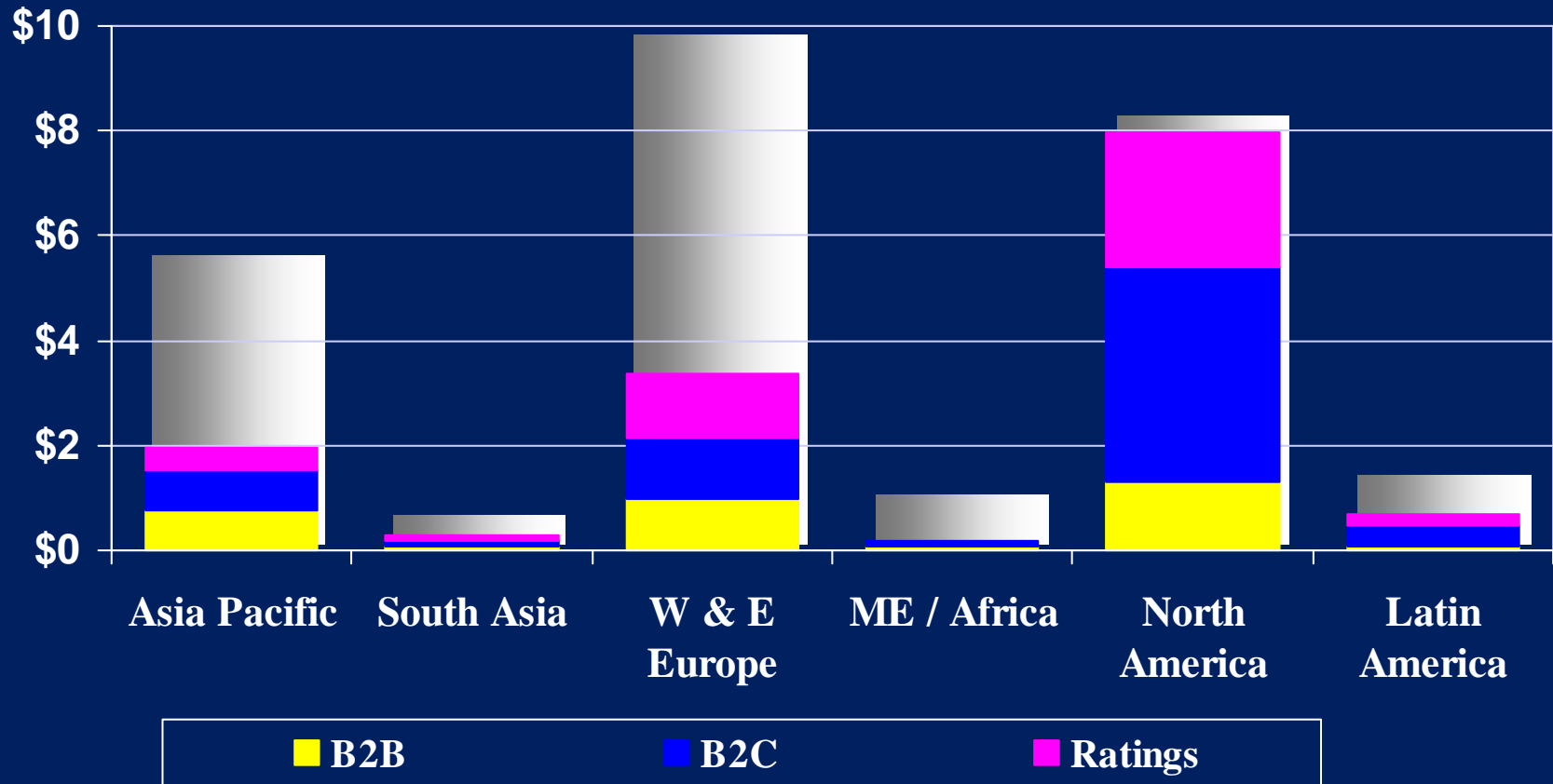
Building Credit Information Infrastructure for Financial Services



ASYMMETRIES IN INFORMATION

Projected Consumption Based on GDP – US\$ 25bn – 30bn
(Benchmark North America)

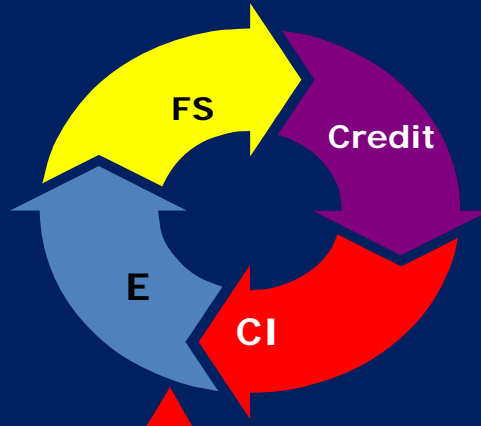
US\$ bn



Source: BIIA – World Bank Survey 2006



The World Bank



***Global Increase
in Credit Volume***

- Responsible Lending
- Prudent Risk Taking
- Loss Prevention
- Credit Systems

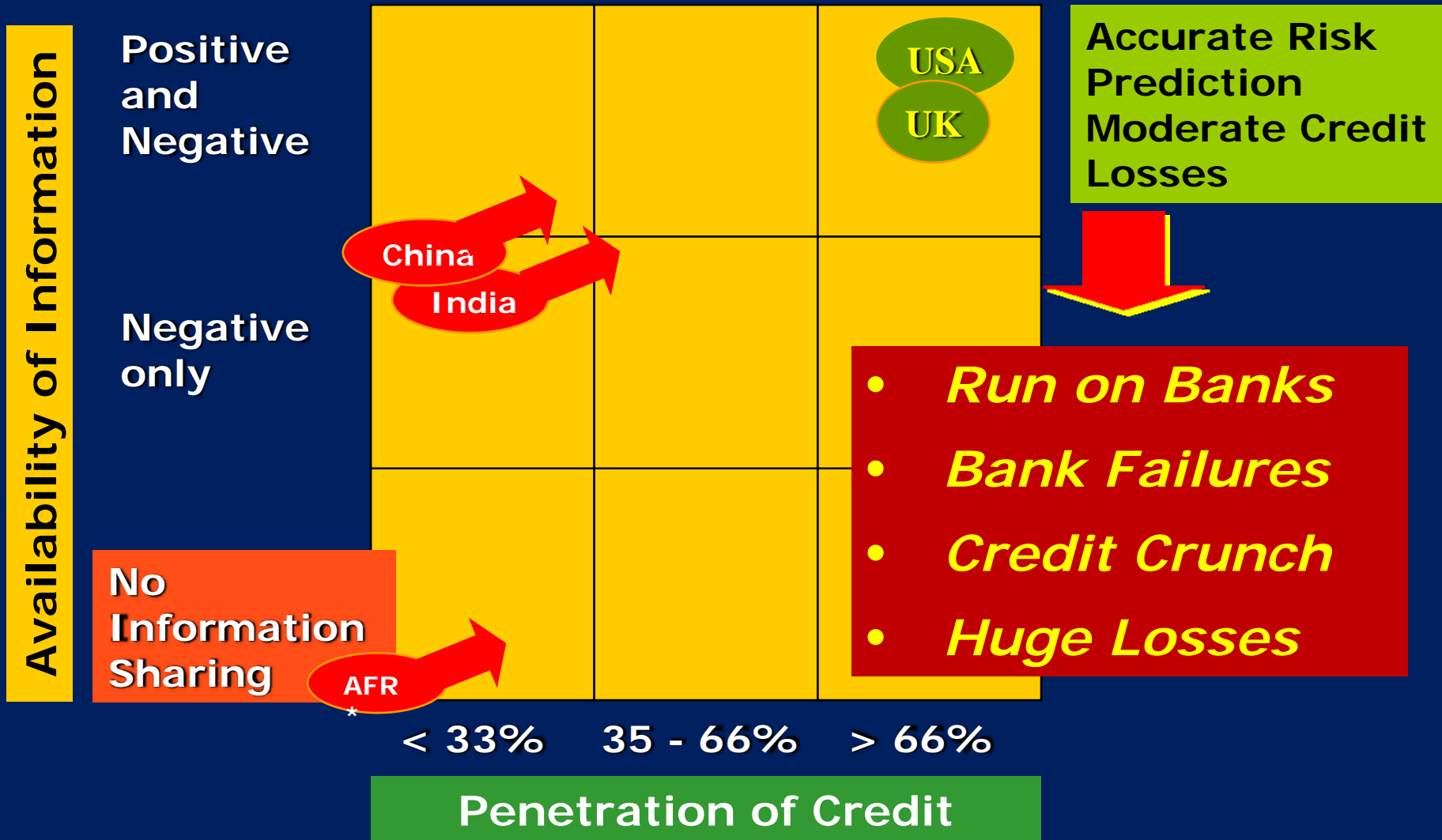
- Financial Literacy
- Information Pooling
- Full File Building
- Credit Scoring



Linkage: Credit Penetration and Information

Availability of Information				Accurate Risk Prediction Moderate Credit Losses
				High Credit Losses - Lack of Transparency
				High Risk No Transparency Subjectivity
	< 33%	35 - 66%	> 66%	
	Penetration of Credit			

INFORMATION AND CREDIT



*AFRICA: Excluding South Africa and North African Countries

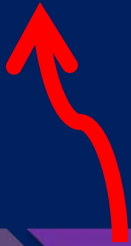
"Actors in Crime"

WB

FED

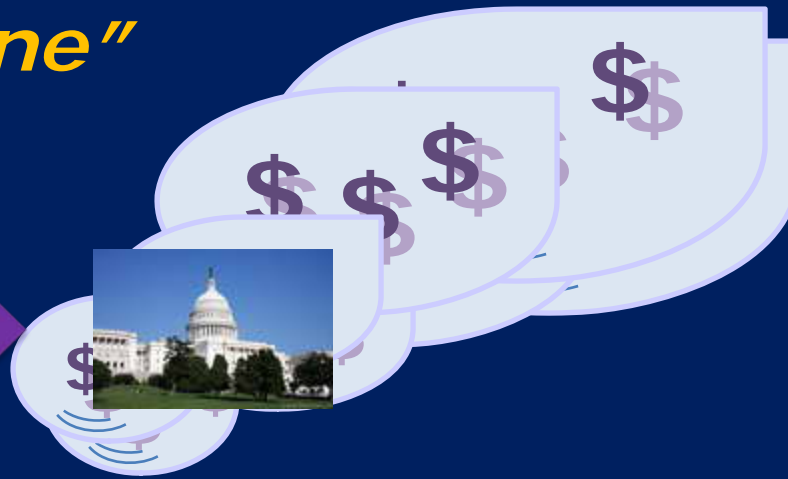


- *Too Much Easy Money ...
... Far too Long!*



"The Bubble Machine"

WB



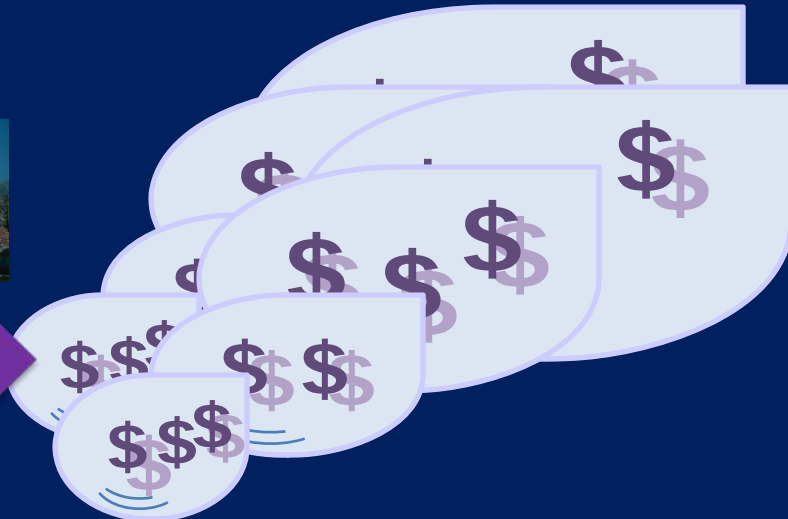
Fanny Mae
Freddie Mac

- 'Affordable' Home Ownership
- Quasi State Mortgage Subsidy

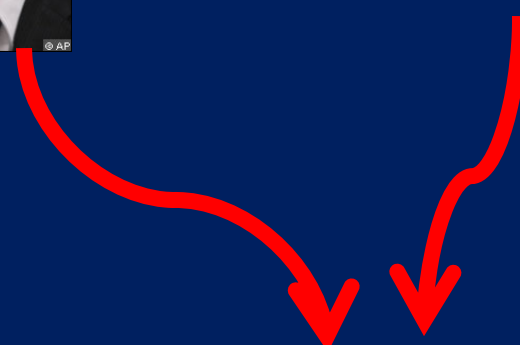


"The Bubble Machine"

WB → FED

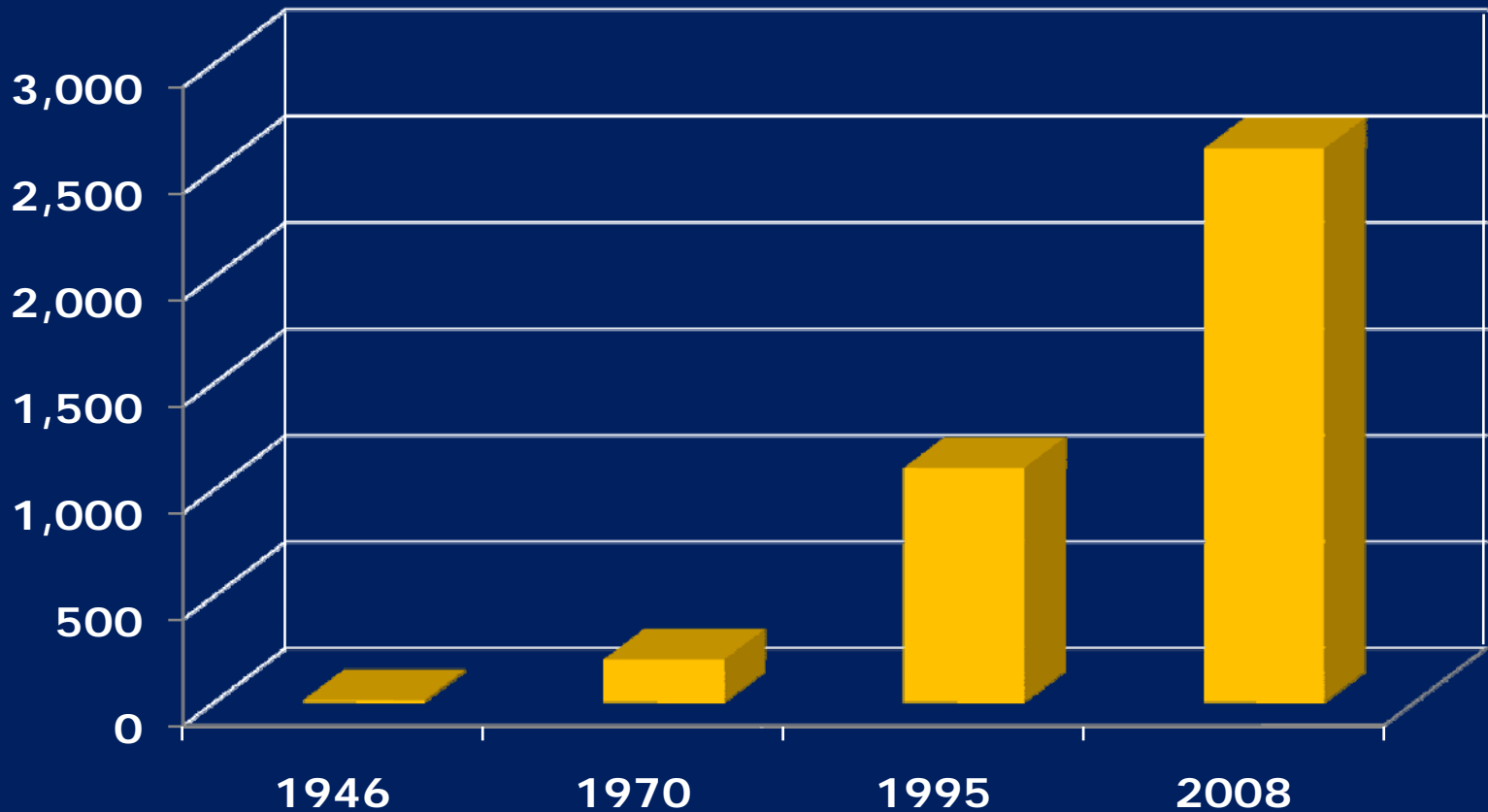


- Deregulation of Financial Services Sector



The \$ 2,500 Billion Bubble

Consumer Debt in the USA



The \$ 56,611 Billion Bubble

Global Credit Default Swaps

US\$ 56,611 Bn
First Half of
2008

Global GDP
Estimate
US\$ 62,054 bn
Source: IMF

US\$ 1,563 Bn
First Half of 2002

Source: Financial Times / ISDA

"Actors in Crime"



- **Innovation – Complex Products**
 - *CDCs / CDOs / ABS / MBS / ABCP etc*
- **Financial Modeling**
- **Highly Leveraged Debt Culture**
- **Technology**



"The Bubble Machine"



Hugo Dixon
Editor-in-Chief
Breakingviews.com



- *Excess Greed*
- *Irresponsible Lending*
- *Foolish Risk-Taking*
- *Skewed Incentives*
- *Ignorance and Incompetence*
 - *Investors (Complexity)*
 - *Traders and Bankers ignored History: Bubbles usually burst*
- *Weak Regulators*
 - *Underpaid*



Mortgage Origination

Credit Bureau

FICO SCORE

- Imperfect Information
- Incentives: Broker got paid after mortgage was generated
- Tendency: Overselling, misrepresentation or fraud

- Incentives: Mortgage fee paid up front
- Tendency: Sloppy risk assessment because mortgages were to be securitized and to be moved off balance sheet soon thereafter
- Information not verified

- Paid up front
- Information not verified
- "Rating Shopping"
- Risk reconfigured and resubmitted until highest rating (AAA) obtained

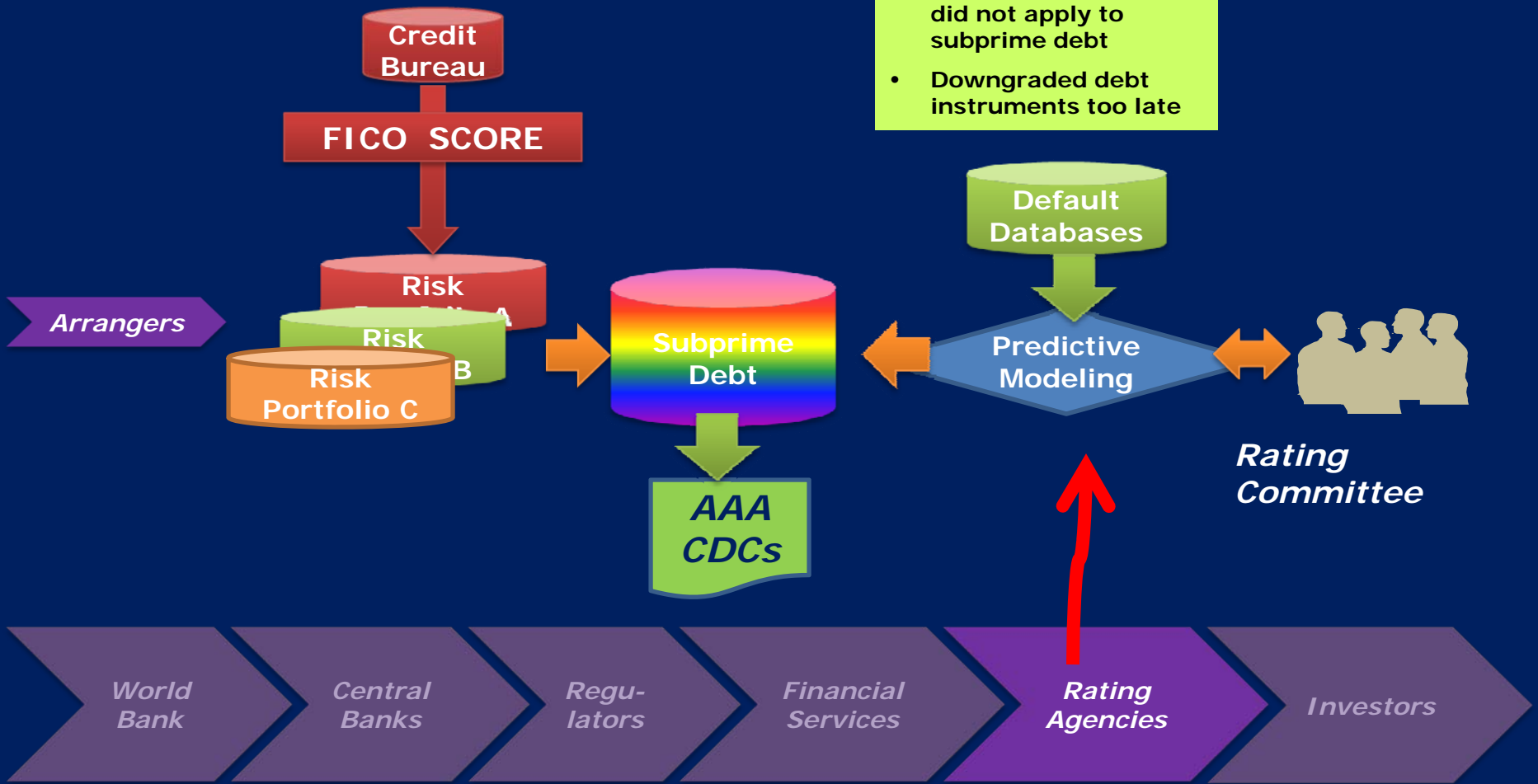
- Paid up front
- No Due Diligence on underlying information & assets



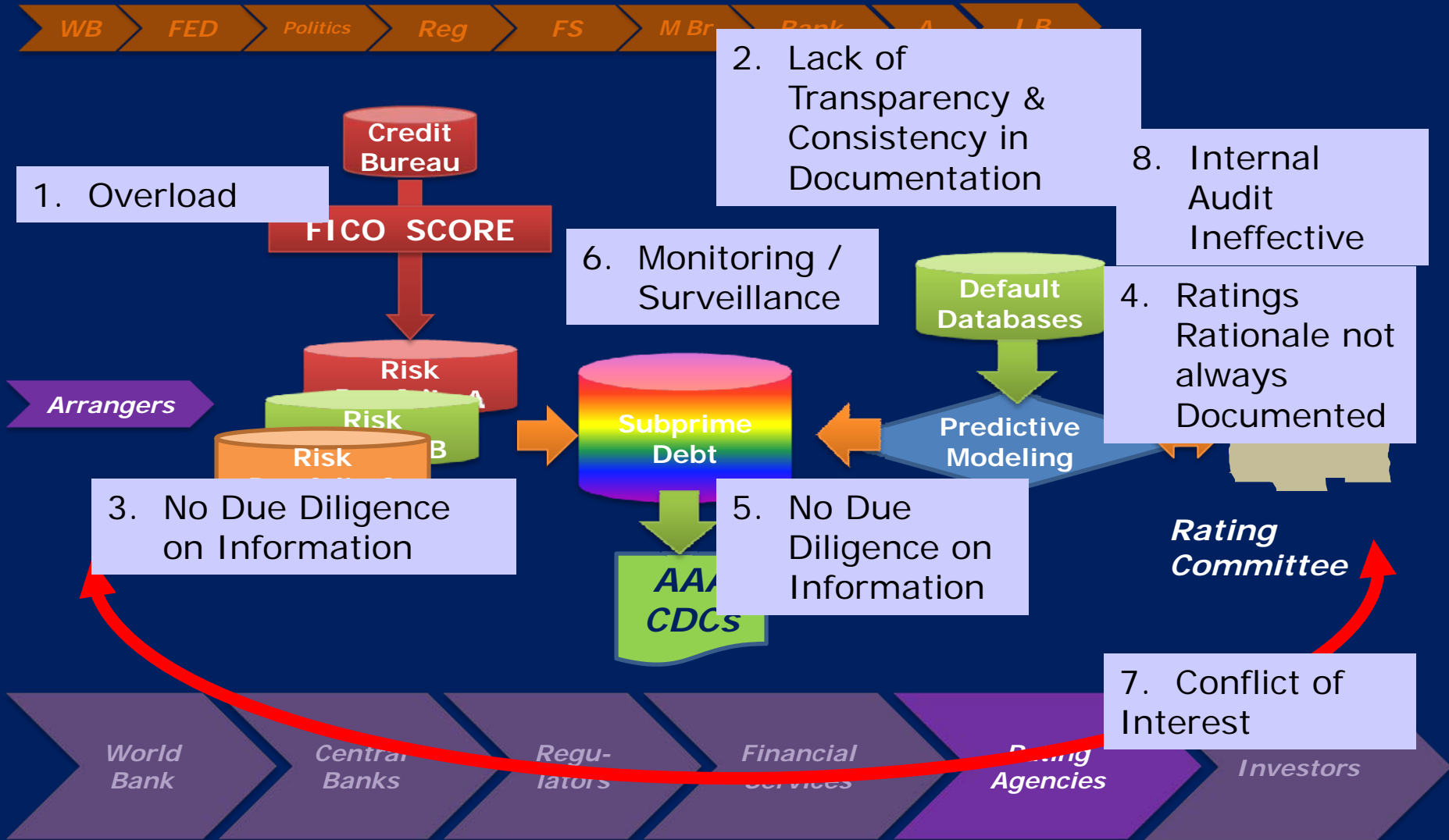
"Actors in Crime"

WB FED Politics Reg FS M Br Ban

- Information not verified
- Rating overload caused by excessive rating shopping
- Assumptions were based on historic default statistics and did not apply to subprime debt
- Downgraded debt instruments too late



SEC Review of Rating Agencies



Regulatory Actions

WB

FED

Politics

Reg

FS

M Br

Bank

A

I B

- SEC Recommendations Pending
 - Stricter Compliance / Tightening of Supervision / Audits
 - Due Diligence on Information
 - Documentation / Audit Trail
 - Transparency of Rating Models / Methods / Rationale
 - Stricter Internal Audits
 - Elimination of Conflict of Interest
 - Independence of Rating Organization

- European Commission (Nov. 2008)
 - No Advisory Services
 - No Ratings without Insufficient Information
 - Disclosure of Models / Methods and key Assumptions
 - Obligated to Publish an Annual Transparency Report
 - Internal Audit / Quality Review
 - Independent Directors (at least 3) – Single Term – no longer than 5 Years
 - IOSCO Code applies

World
Bank

Central
Banks

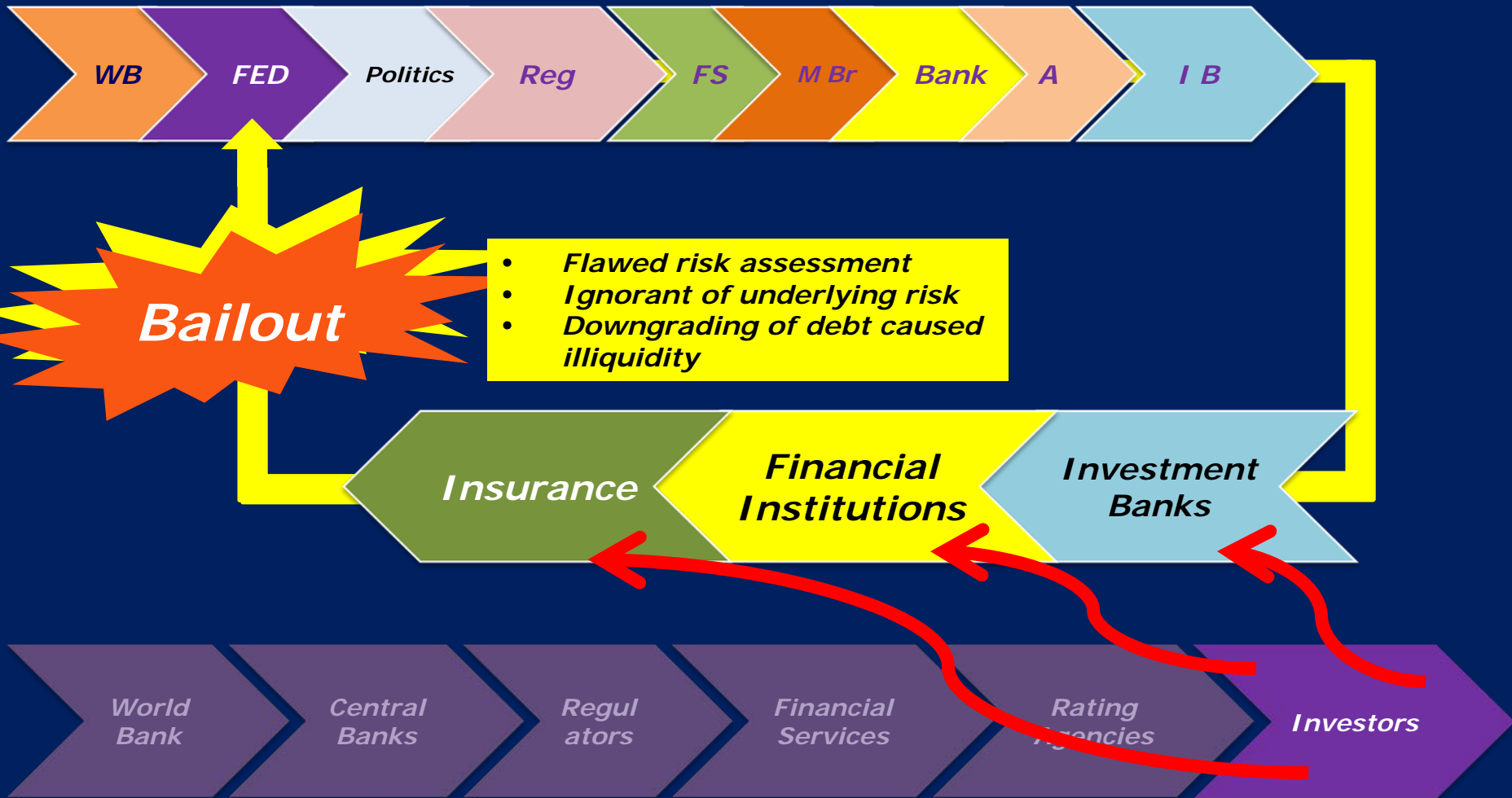
Regu-
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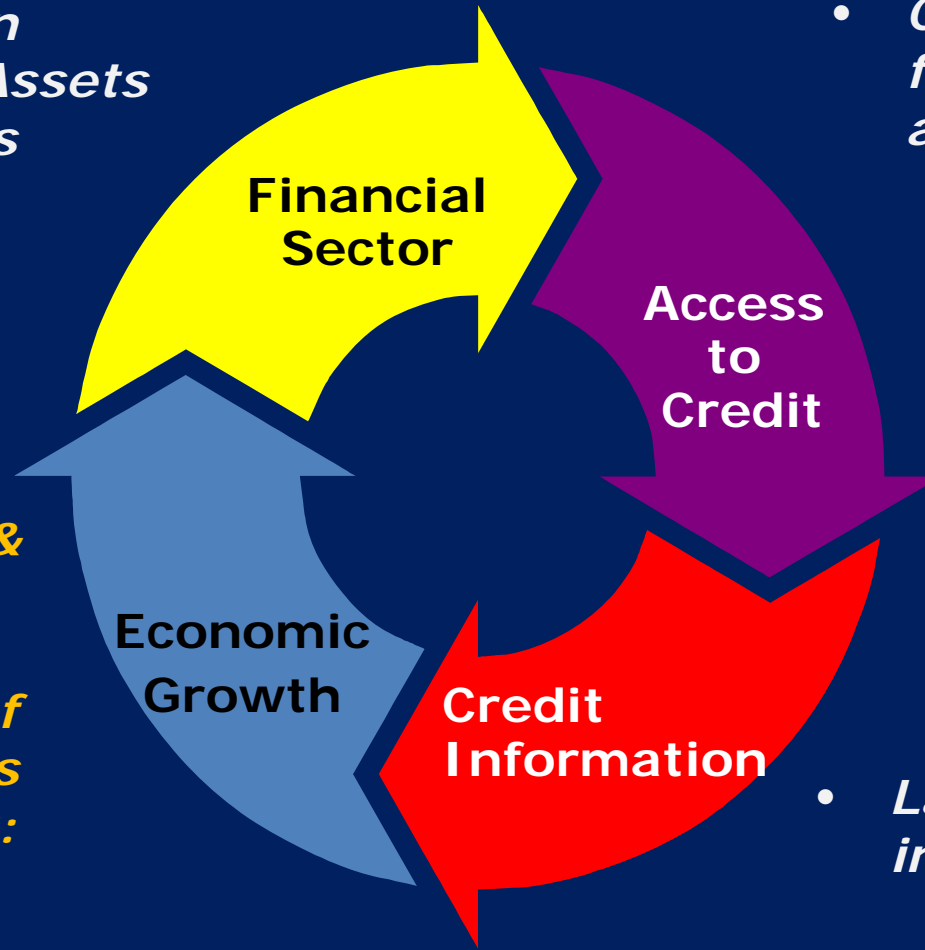
"Actors in Crime"



Current Situation (November 2008)

- *Crisis in Confidence*
- *Problems in Valuating Assets*
- *Regulations Pending*

- *Credit Freeze for Consumers and Businesses*

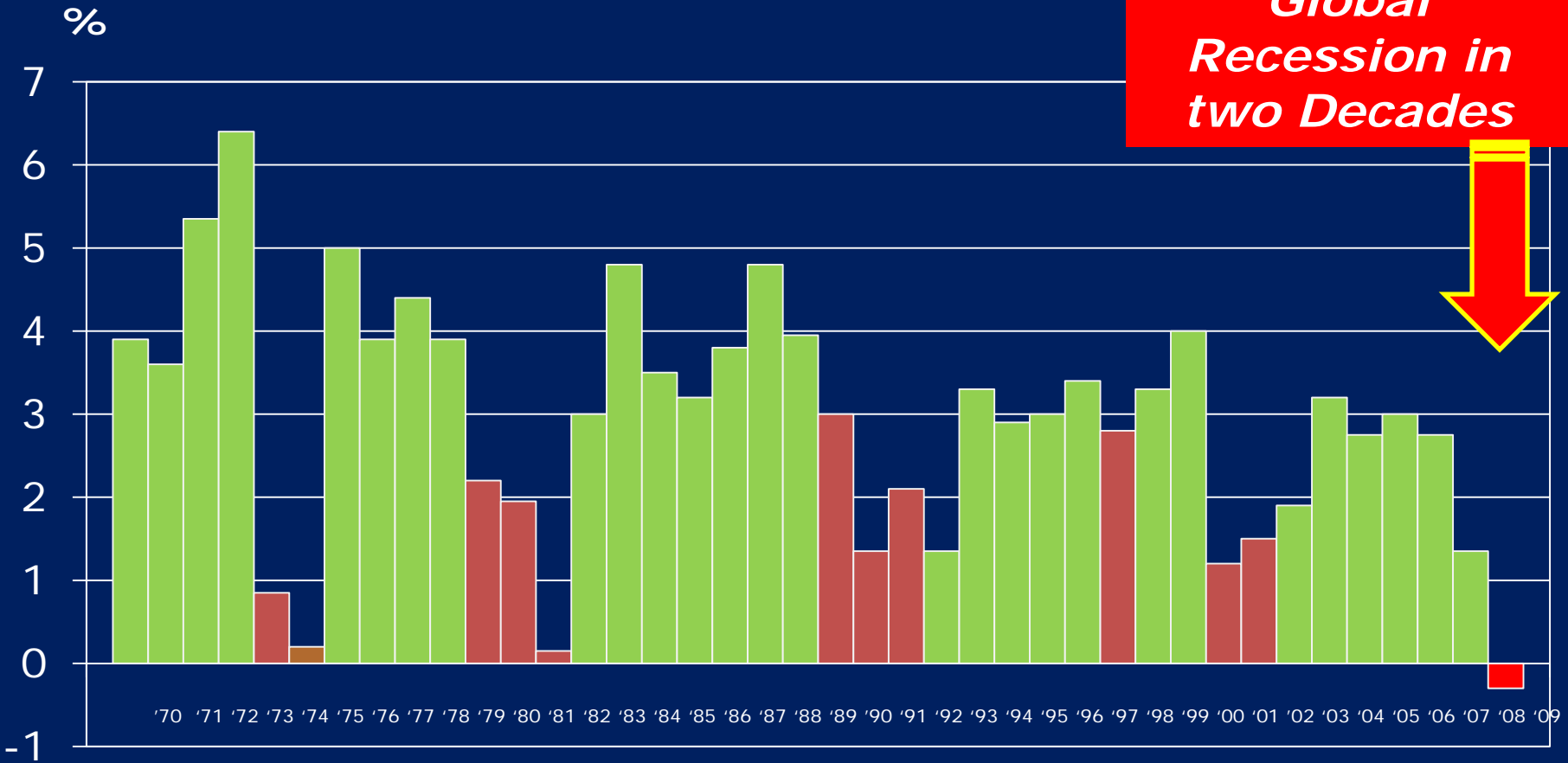


- *Consumers & Businesses Stop Buying*
- *High Level of Bankruptcies*
- *Government: Declining Revenues*

- *Lack of Trust in Information*

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Impact on the Information Industry (October 2008)

Share Price Movement Twelve Months up to October 31st 2008



Moody's = MCO
McGraw-Hill = MHP
D&B = DNB
Equifax = EFX
Experian = EXPN.L
Fair Isaac = FIC

2007 DEC 2008 FEB MAR APR MAY JUN JUL AUG SEP OCT

Charts: Yahoo Finance October 31st 2008



Major credit information providers experienced a sever erosion of shareholder value since the fall of 2007. Equities started to recover in September 2008, however the October financial meltdown gave shareholder value a further blow! IEI expects a prolonged crisis.



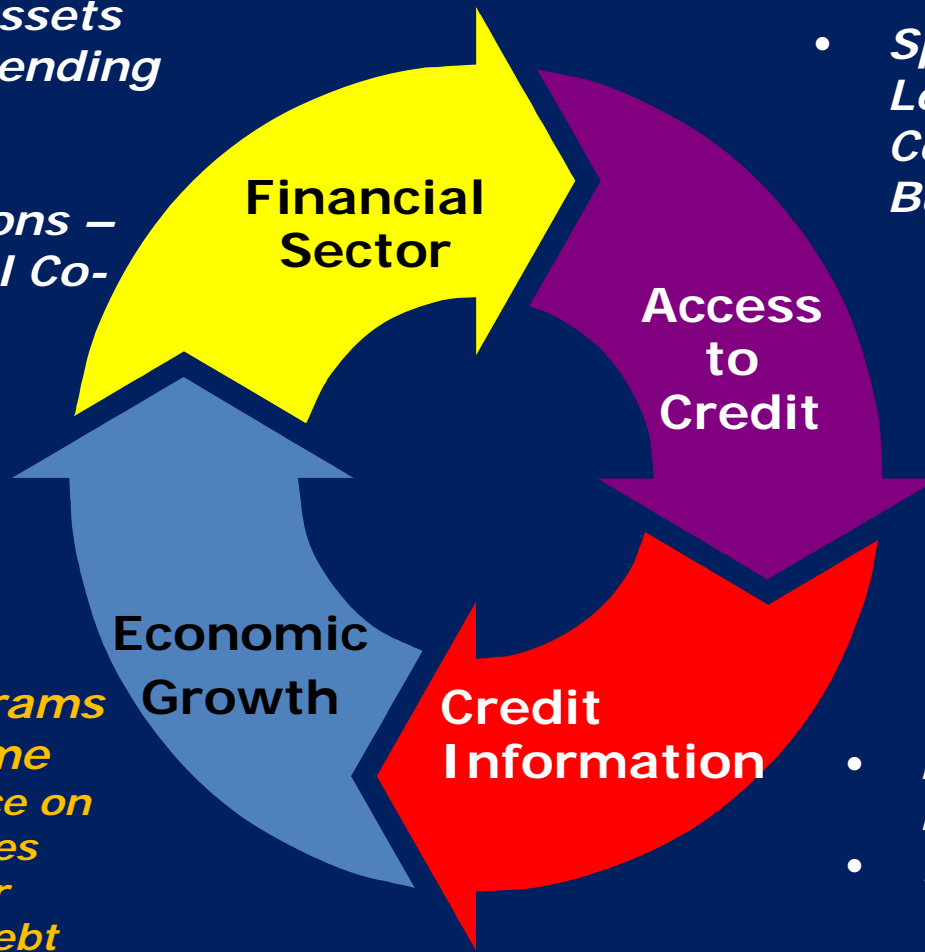
Impact on the Information Industry (October 2008)

- ***Rating Agencies:***
 - *Revenues for rating services down significantly (double digit)*
 - *Revenues for analytical services up, but only small part of total revenues*
 - *Rating agencies do not expect situation to improve before end of 2009*
- ***Consumer Credit Information:***
 - *Negative growth in consumer credit reporting and consumer marketing services*
 - *Monitoring services holding up*
 - *Overall situation: no organic growth*
 - *CEOs do not expect major improvement until end of 2009*
- ***Commercial Credit Reporting:***
 - *Still organic growth (single digit)*
 - *Sector less affected, but sales cycles are getting longer*

What Needs to Be Done? (November 2008)

- *Capital Infusion & Revaluating Assets*
- *Responsible Lending*
- *Better Risk Management*
- *New Regulations – Greater Global Coordination*

- *Temporary Stimulus Programs*
- *New Tax Regime*
 - *Less Reliance on Income Taxes*
 - *Penalties for Excessive Debt*



- *Speed up Lending for Consumers and Businesses*

- *New Transparent Rating Processes*
- *Improved Transparency in Lending / Full File Reporting*

GLOBAL FINANCIAL CRISIS 2008

Thank You

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