The Syndicated Loan Market

- Who is the LSTA (and what is our focus)?
- Description of loan market (size, segments, lender constituency)
- Secondary market (and what it shows)
- Pressures in the loan market (and for borrowers)

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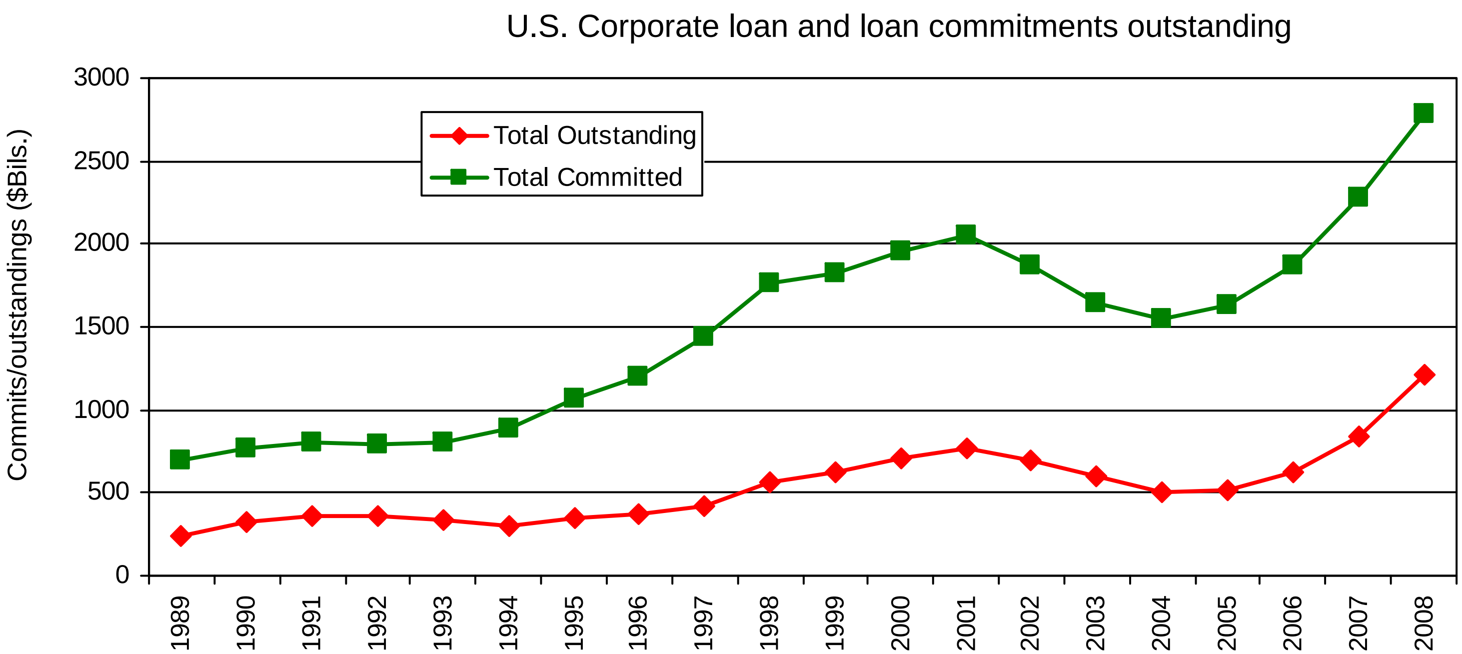
Who is the LSTA?

The Loan Syndications and Trading Association is the trade association for the floating rate corporate loan market. The LSTA promotes a fair, orderly, and efficient corporate loan market and provides leadership in advancing the interest of all market participants. The LSTA undertakes a wide variety of activities to foster the development of policies and market practices designed to promote just and equitable marketplace principles and to encourage cooperation and coordination with firms facilitating transactions in loans and related claims.

The LSTA seeks to enhance public understanding of the corporate loan market and to serve the public interest by encouraging adherence to high ethical standards by all market participants. The LSTA plays a pivotal role in monitoring and bringing consensus to this important asset class by acting as a forum for the analysis and discussion of issues and developments relating to the loan market and advocating the shared interests of its membership. The Association formulates policy through its Board of Directors after consensus is developed through the active involvement of individual officers and employees of Member firms.

The LSTA stands out among financial market trade associations because it represents all segments of the market it serves: primary sales; par/near par and distressed trading; and bank and non-bank portfolio management. The LSTA membership totals more than 280 institutions.

U.S. Corporate loan market is a vital source Of capital for American business



- According to government data, the U.S. syndicated loan market totals nearly $2.8 trillion of committed lines and outstanding loans
- It is a key source of financing for many large and middle market companies in the U.S.

Source: Shared National Credit Review

4 key U.S. large corporate loan market segments

Investment grade loan market

- Loans to companies rated >= BBB-/Baa3 AND with a relatively low LIBOR spread
- 2007 lending: $658 billion
- 2008 lending: $319 billion

Leveraged loan market

- Loans to companies rated < BBB-/Baa3 or unrated & with a high spread*
- Divided into bank (pro rata) and non-bank segments
- 2007 lending : $689 billion
- 2008 lending : $294 billion

Institutional loan market

- Leveraged loans with non-bank lenders (such as mutual funds, CLOs, insurance companies, hedge funds, etc)
- 2007 lending: $426 billion
- 2008 lending: $69.6 billion

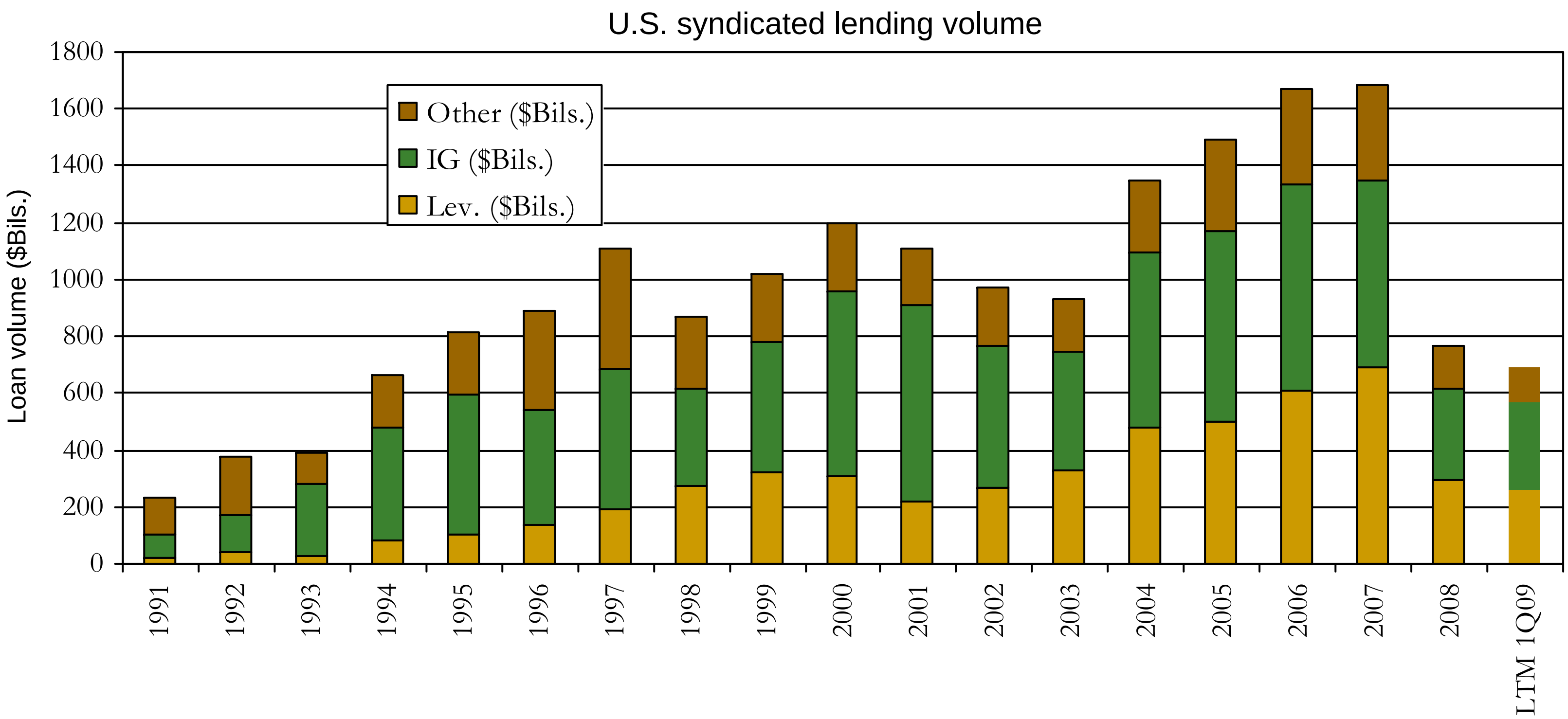
Secondary loan market

- Market in which loans trade following the close of primary syndication
- Most U.S. loan trading involves leveraged loans
- 2007 trading: $442 billion
- 2008 trading: $510 billion

*Traditionally LIB+150, increased to LIB+350 in 1Q09

Source: Reuters LPC for primary lending; LSTA for secondary trading

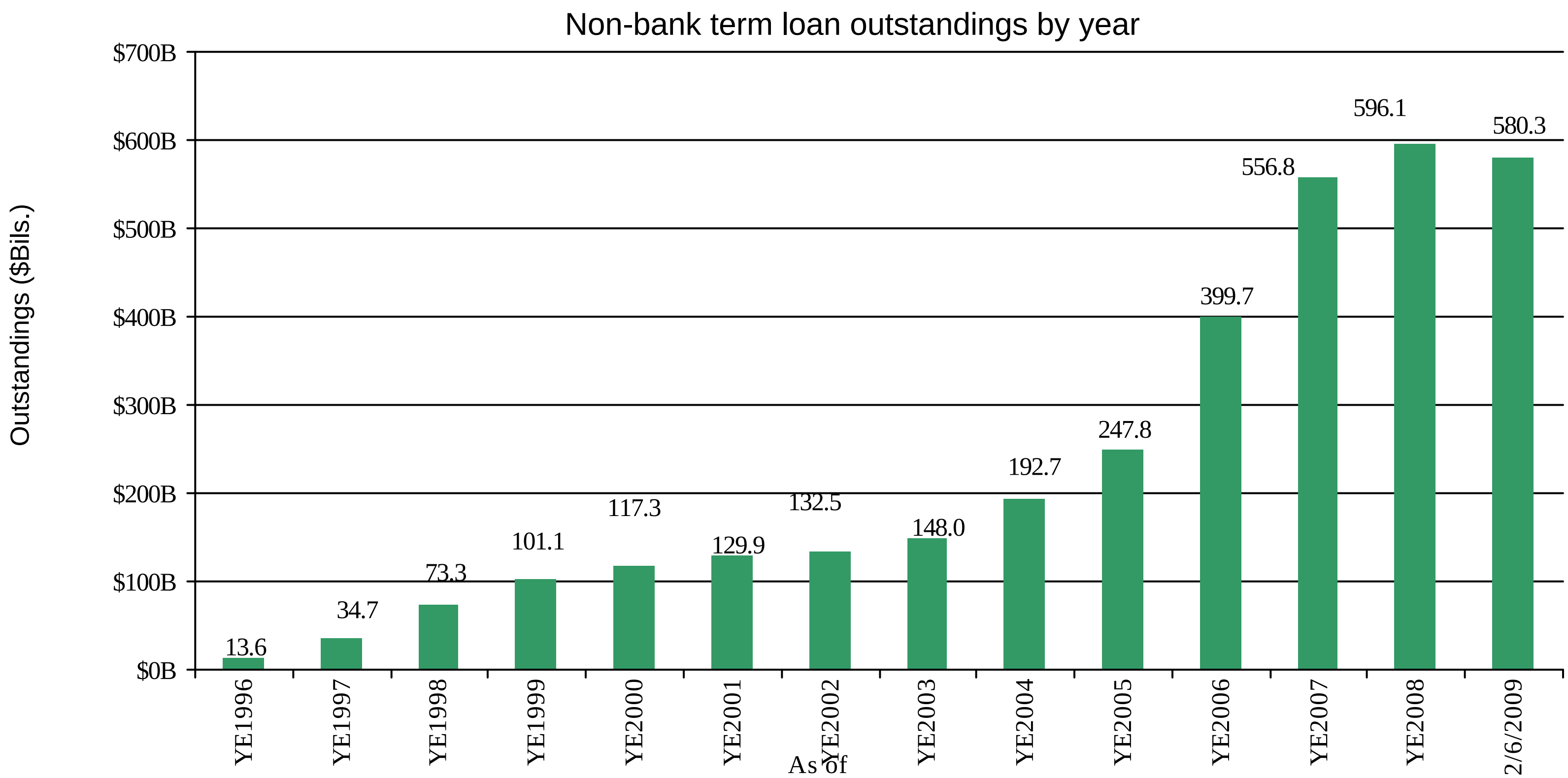
U.S. Syndicated loan volumes



- Overall primary loan volume is down materially
- At $764B, new loan volume in 2008 is at lowest level since 1994
- At $104B, 1Q09 loan issuance is down 41% from 1Q08

Source: Thomson Reuters LPC

Non-bank term loan outstandings

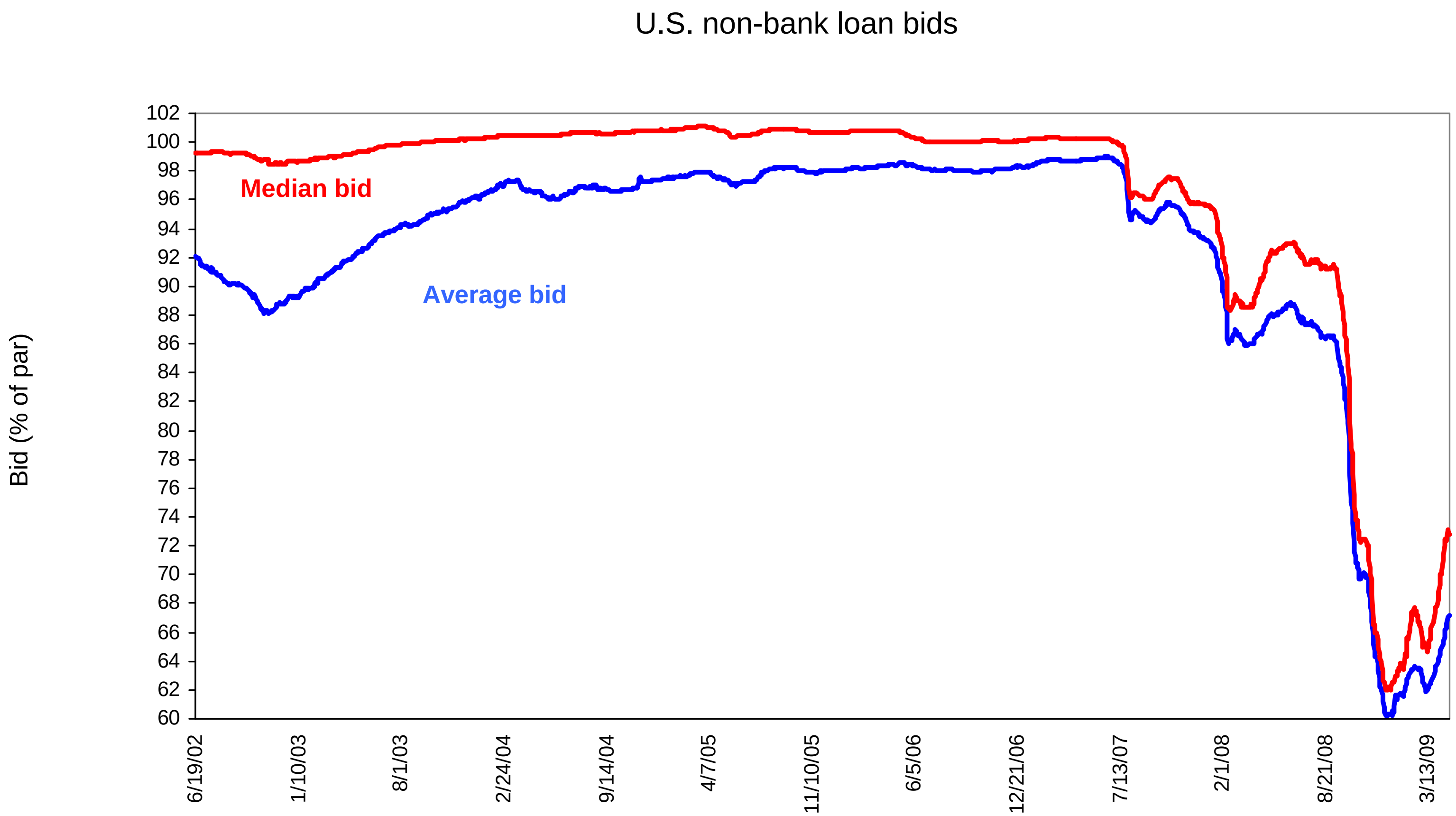


Source: S&P/LCD

Pressures on the secondary

- 2007: Supply-demand imbalance
- 2008: Deleveraging
- 2009: Credit?

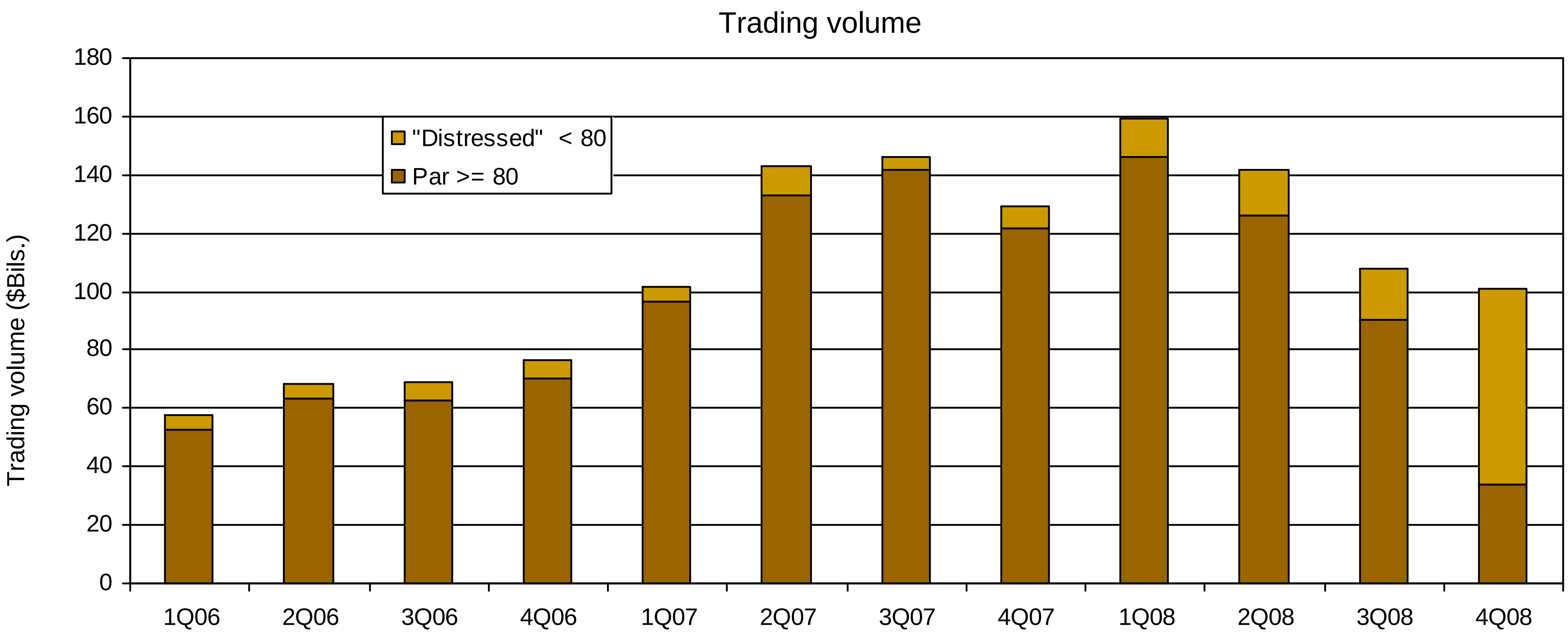
Dislocation: Loan prices decline sharply in 2008



- Loan prices come under considerable pressure in past 18 months
- This unusual behavior has impacted leveraged companies' ability to access financing

Source: LSTA/LPC MTM Pricing

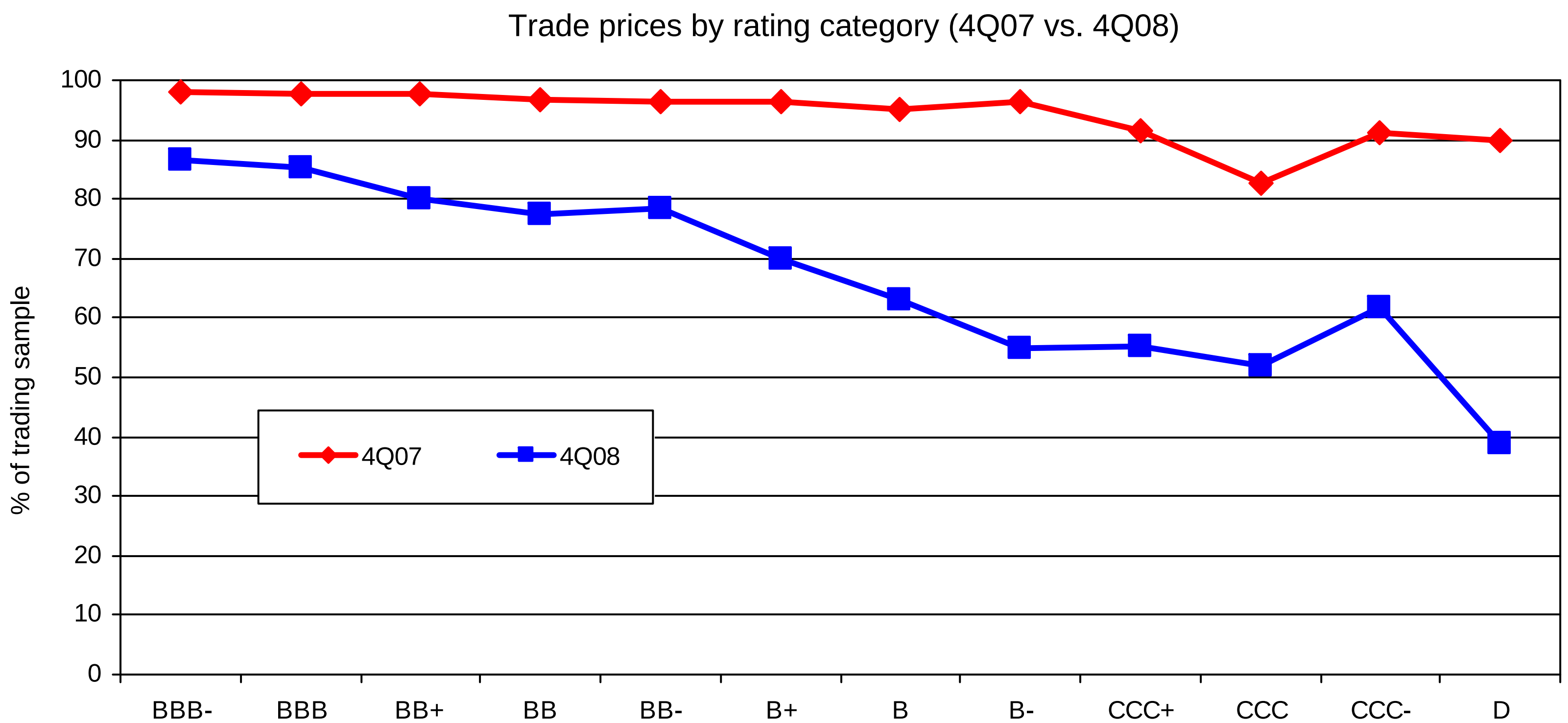
Loan trading activity high; more loans trade < 80



- Trading activity remained relatively robust in 4Q08
- More loans are trading < 80 cents on the dollar, which was typically considered “distressed”
- However, there is an increasing disconnect between price and credit quality

Source: LSTA trade data study

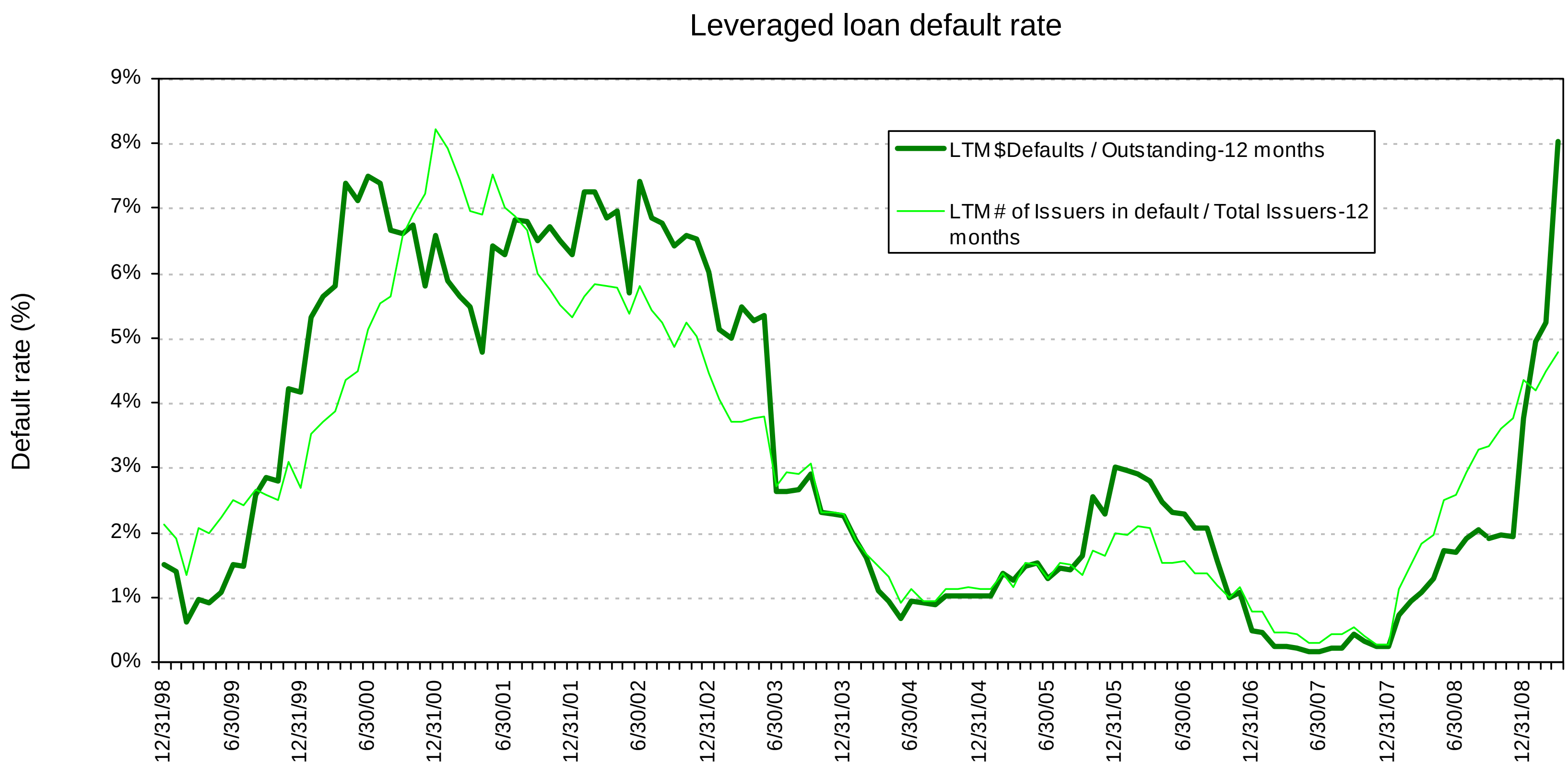
Prices have declined even for companies With high ratings and no downgrades



- Even higher rated companies are trading at levels previously considered distressed
- Typical trade price of BBB- names declined from 97.87 in 4Q07 to 85.15 in 4Q08
- Typical trade price of BB+ rated names declined from 97.7 in 4Q07 to 80.09 in 4Q08

Source: LSTA trade data study

Default rates are climbing



- Initially defaults were defined by small companies
- Defaults becoming materially larger
- “Shadow” default rate higher – above 9%
- Amendments are becoming more difficult
- Loss given default could worsen

Source: LSTA/LPC MTM Pricing, Standard & Poor’s LCD

Impact on borrowers

- Pressures
  - Deleveraging
  - Defaults
  - Consolidation
  - Liquidity
- Impact
  - New issue yields
  - Amendments
  - Refinancing cliff

Bank consolidation impacts liquidity

The Bank Universe Snapshot 1987-2008

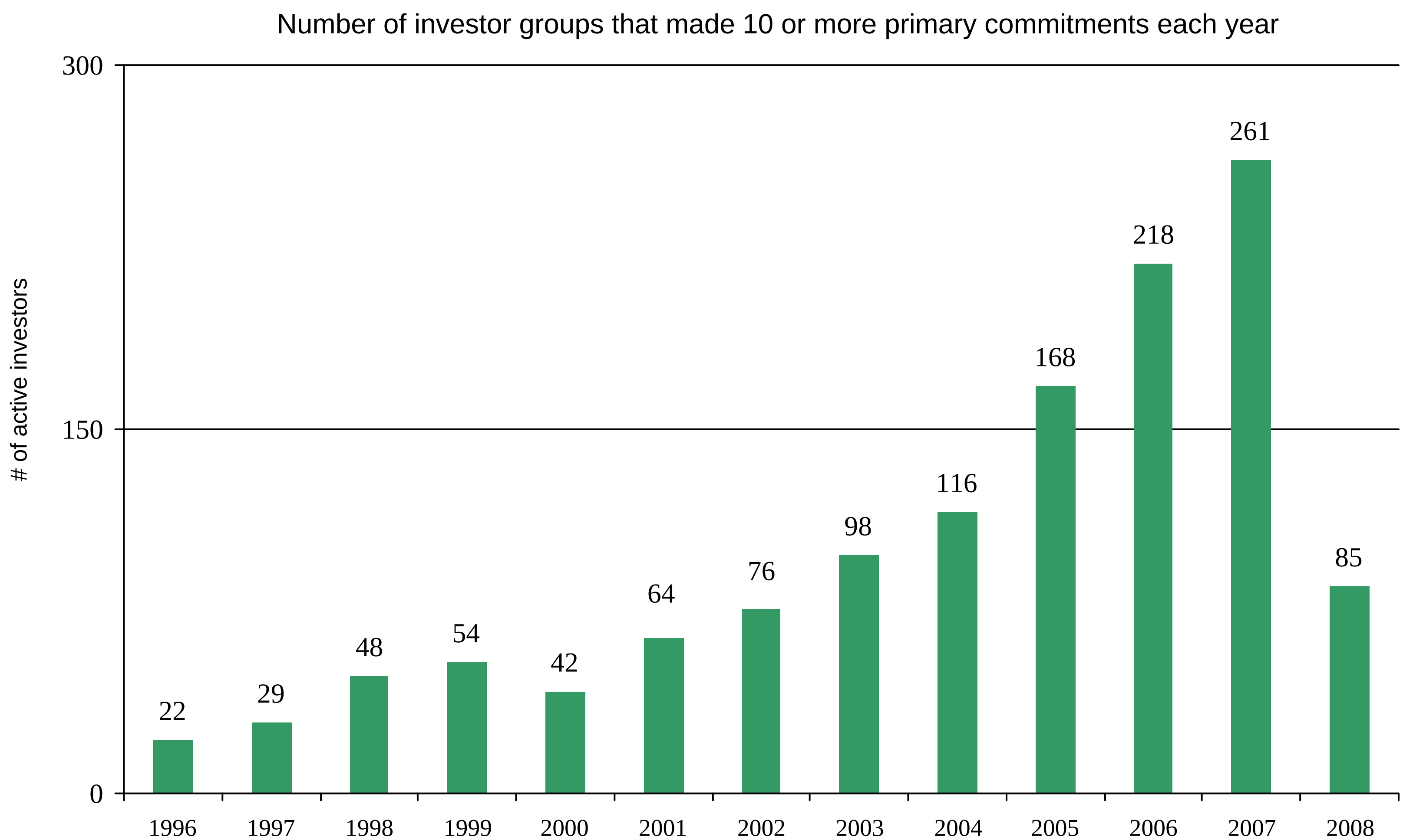
ABN Amro
American National Bank & Trust
AmSouth Bancorporation
Banco Antonveneta
Banco Real
Banco Santander SA
Bank of America
Bank of Boston
Bank of New England
Bank of Tokyo-Mitsubishi UFJ Ltd.
Bank One
Barclays Bank Plc
Barnett Bank
Bear Stearns & Co.
Boatmen's Bancshares Inc.
Capital One Financial Corp.
Central Fidelity Banks Inc.
Charter One Bank
Chase Manhattan Bank
Chemical Bank
Chevy Chase Bank
Citibank
Citizens and Southern National Bank
Citizens Financial Group
Congress Financial Corp.
Connecticut National Bank
Continental Bank
Corestates Bank
Credit Suisse Group
Deutsche Bank AG
Donaldson, Lufkin & Jenrette
First American Corp.
First Bank System
First Boston Corp.
First City Bancorporation
First National Bank of Chicago
First Pennsylvania Bank
First Union Corp.
Firstar Corp.
Fleet Bank
FleetBoston Financial Corp.
Fortis Bank
General Electric Capital Corp.
Goldman Sachs & Co.
Hamilton Bank
Hibernia Corp.
Integrity Bank
JP Morgan
KeyBank
LaSalle Bank
Lehman Bros.
Manufacturers Hanover Corp.
Maryland National Bank
Mercantile Bank
Meridian Bank
Merrill Lynch & Co.
Merrill Lynch Capital
Montgomery Securities
Morgan Keegan & Co Inc.
Morgan Stanley
National City Bank
Nationsbank
Natwest Bank
NBD Bank NA
NCNB
New Jersey National Bank
Norstar Bank
North Fork Bancorporation
OFFITBANK Holdings Inc.
Pacific Western Bank
People's Bank of Switzerland
Philadelphia National Bank
Pioneer Bancshares Inc.
PNC Bank
Primerica Financial Services Corp.
Regions Bank
Republic Security Financial Corp.
RIHT National Bank
Royal Bank of Scotland Plc
Salomon Smith Barney
Seattle-First National Bank
Security Pacific Bank
Shawmut Bank
Shearson Lehman Brothers
Signet Banking Corp.
Sovran Bank
Star Bank
Summit Bancorp
Suntrust Bank
Texas Commerce Bank
Travelers Group
UBS AG
Union Planters Bank
UnionBanCal Corp.
US National Bank of Oregon
US Bancorp
Wachovia Securities
Wells Fargo & Co.

Banco Santander SA
Bank of America
Bank of Tokyo-Mitsubishi UFJ Ltd.
Barclays Bank Plc
Capital One Financial Corp.
Citigroup Inc.
Credit Suisse
Deutsche Bank AG
First American Corp.
Fortis Bank
General Electric Capital Corp.
Goldman Sachs & Co.
JPMorgan Chase & Co.
KeyBank
Morgan Stanley
PNC Bank
Regions Bank
Royal Bank of Scotland Plc
Suntrust Bank
UBS AG
US Bancorp
Wells Fargo & Co.

THOMSON REUTERS

Over the last several years the lending community has observed much consolidation. Regardless of whether lenders came together in a bid to gain market access to new products or as a result of fallout from recent market dislocation, the lending universe has dramatically contracted. Above is a partial listing of bank consolidation over the last 21 years.

Buyside is less active in 2008 – and may contract in 2009

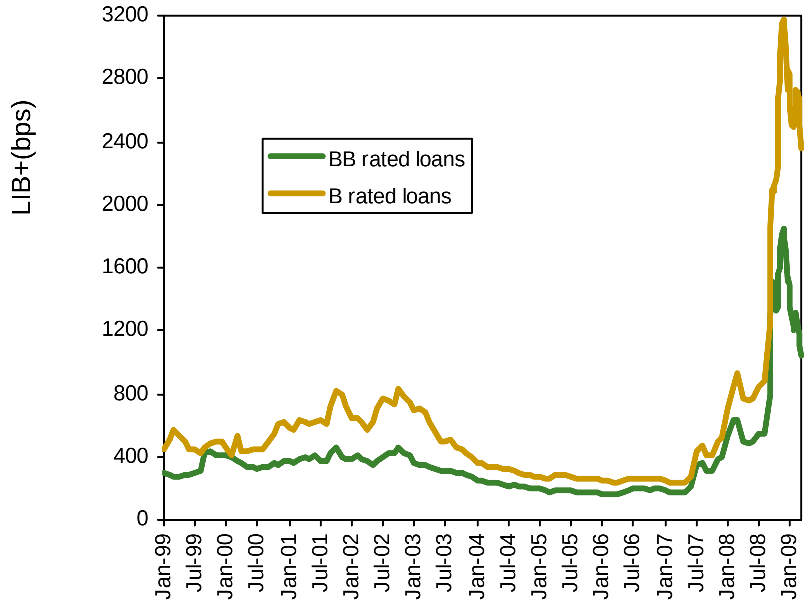


*With the slow down in deal number, for the latest period LCD uses $100M of estimated allocations as a cut-off

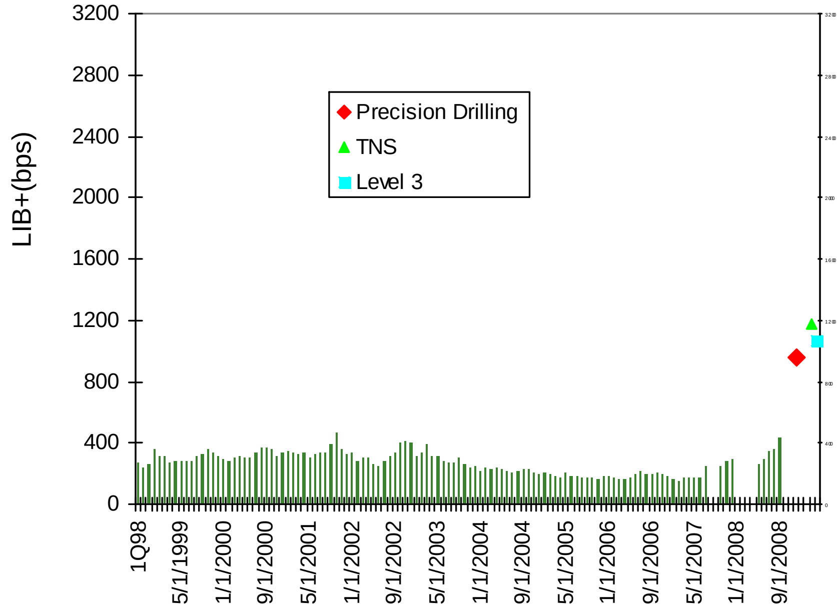
Source: Standard and Poor's LCD

Leveraged loan prices fall, secondary yields increase, Primary squeezed out

Secondary loan yield (yield to 3 years)



Primary yields (higher rated loans)

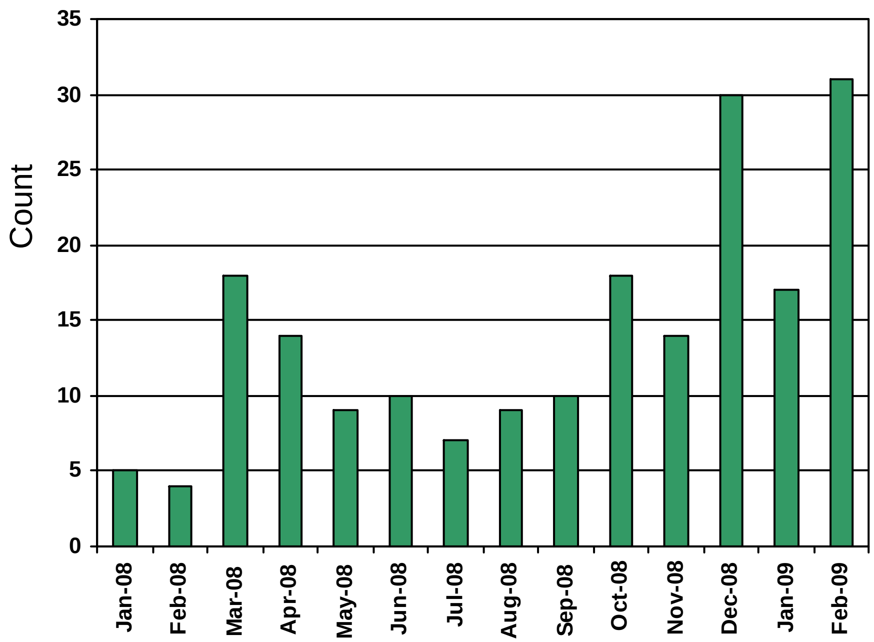


- Default rates have climbed, but currently are below peak of last cycle
- Loan prices well below last downturn
- Secondary spreads go into the thousands over LIBOR
- Primary market cannot compete

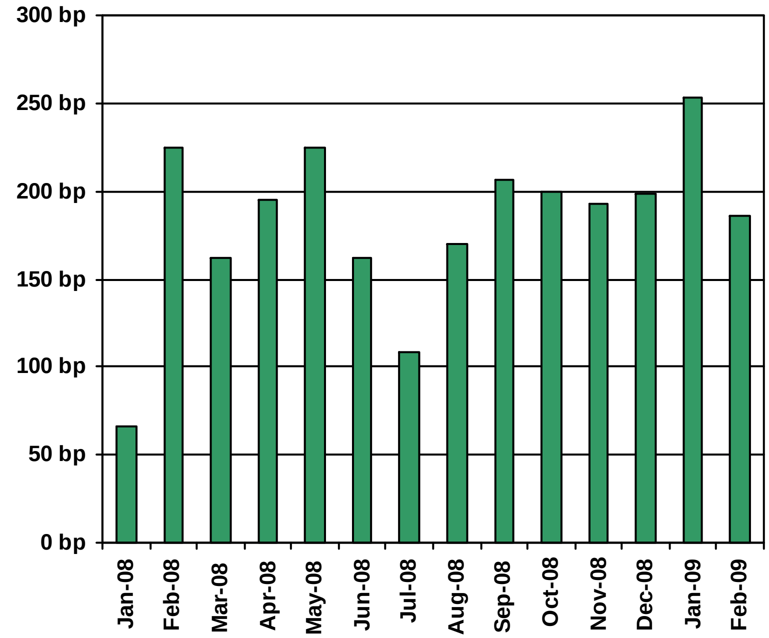
Source: LSTA/LPC MTM Pricing, Standard & Poor's LCD

Constraints: Companies need amendments And have to pay up

Count of amendments w/fees



Margin increase on amended loans

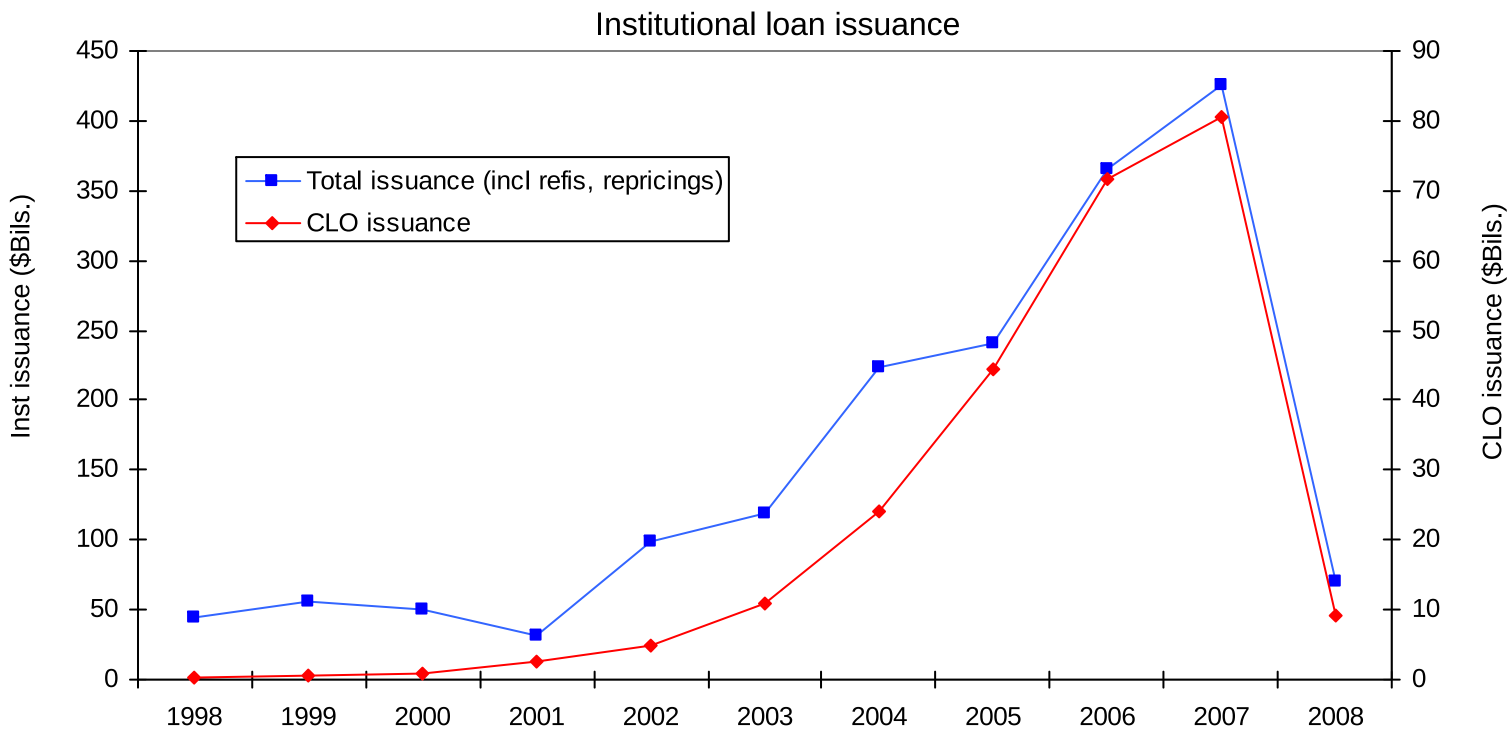


- As the economic environment weakens, more companies are seeking amendments or covenant waivers for their loans
- 48 covenant amendments tracked in Jan/Feb; annualizes to nearly 300 – and pace may quicken
- With low secondary prices, reduced lender liquidity and different lenders, amendments are more expensive

Source: S&P/LCD

* The data above comprises publicly available covenant amendment information tracked by a loan information company (S&P/LCD). It does not include information that has not been made public.

CLO issuance buoys institutional loan growth
Both markets stop in 2008

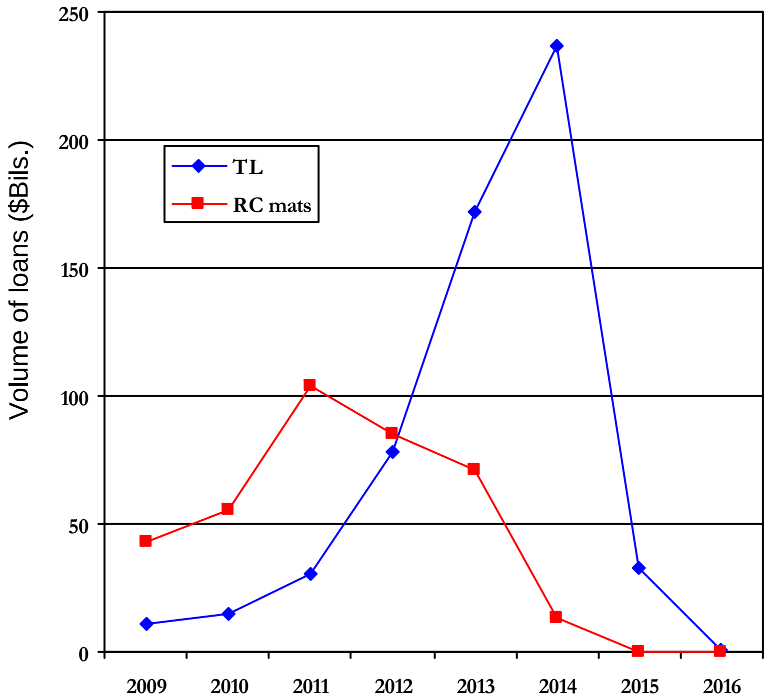


- Institutional market growth enabled by CLO growth
- Severe dislocation in CLOs and institutional loan market in 2008
- CLO issuance stops
- Ability to issue new loans ends
- This is not simply an institutional problem
- These loans need to be refinanced – and this is a Corporate America problem

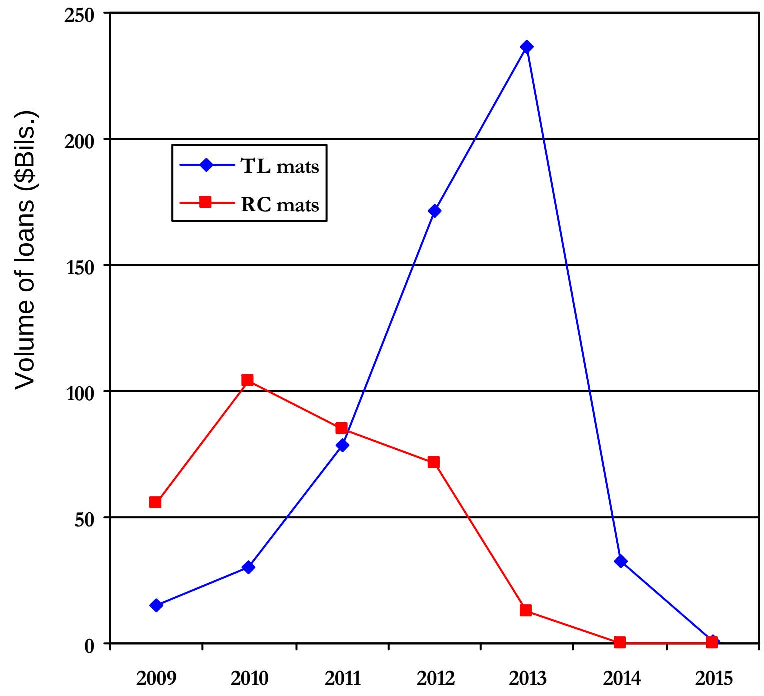
Source: Thomson Reuters LPC, Intex, Wachovia

The 2005-2007 bulge of leveraged loans will mature… And will need to be refinanced

Scheduled maturity profile



Expected refinancing profile



- Issuance boom from 2005-2007 will mature in 2011-2014
- However, loans will need to be refinanced a year earlier (2010-2013)
- Revolvers will create nearer term refinancing pressure

Source: LSTA,S&P/LCD, Intex, Wachovia

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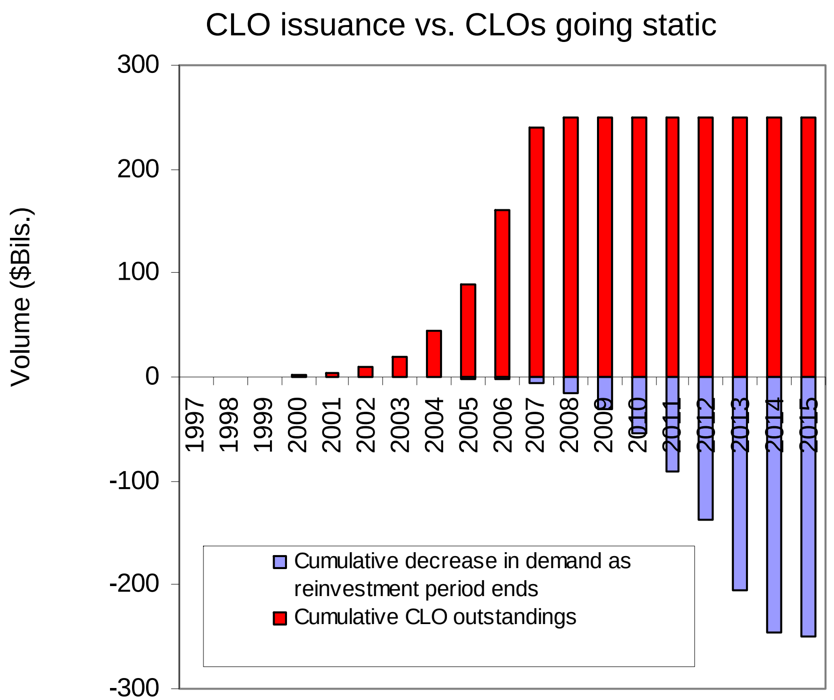
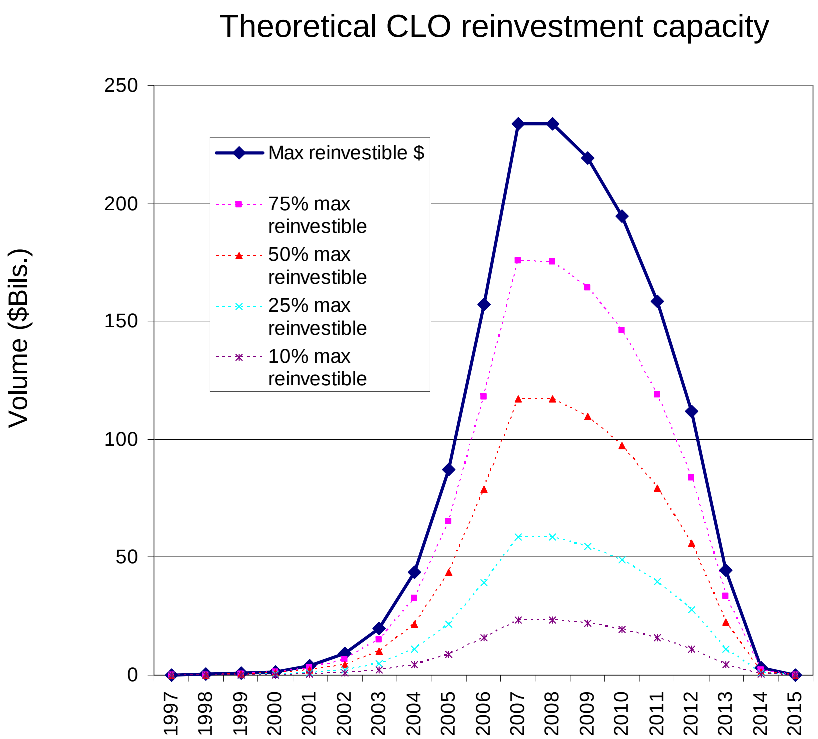
CLO reinvestment period will end, Reducing demand as loan maturities hit

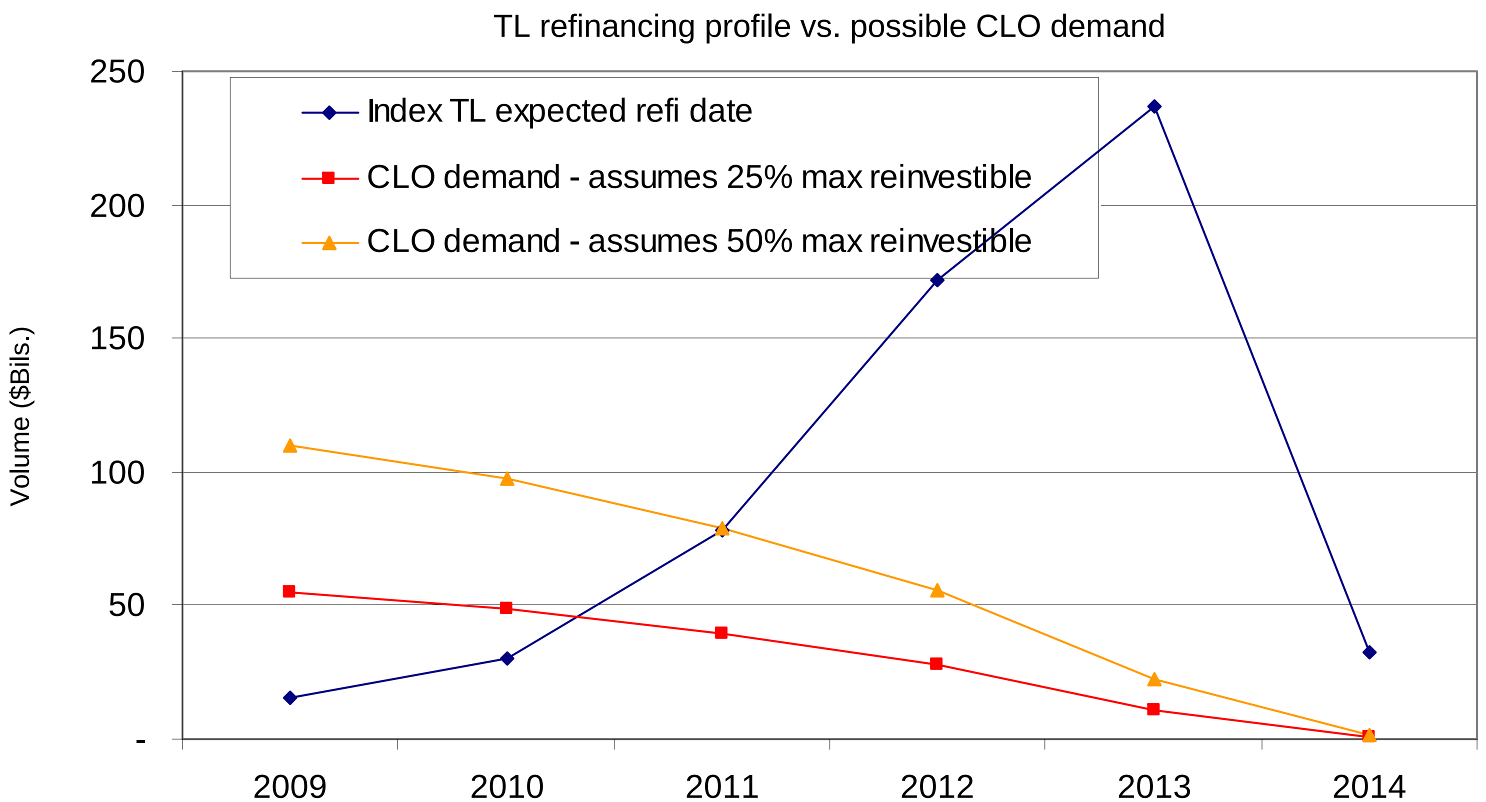




- CLO issuance peaked in 2007 (Outstandings in red)
- CLO reinvestment periods range 5-7 years (Blue reflects “frozen” amt of CLOs as reinvestment ends)
- As reinvestment periods end, CLOs will no longer be able to buy new loans
- In turn, “re-investible” dollars will decline
- Blue line reflects MAXIMUM “reinvestible” CLO dollars – eg, if all loans in CLOs are repaid
- In reality, reinvestible dollars will be much lower (dotted lines)

Source: LSTA,S&P/LCD, Intex, Wachovia

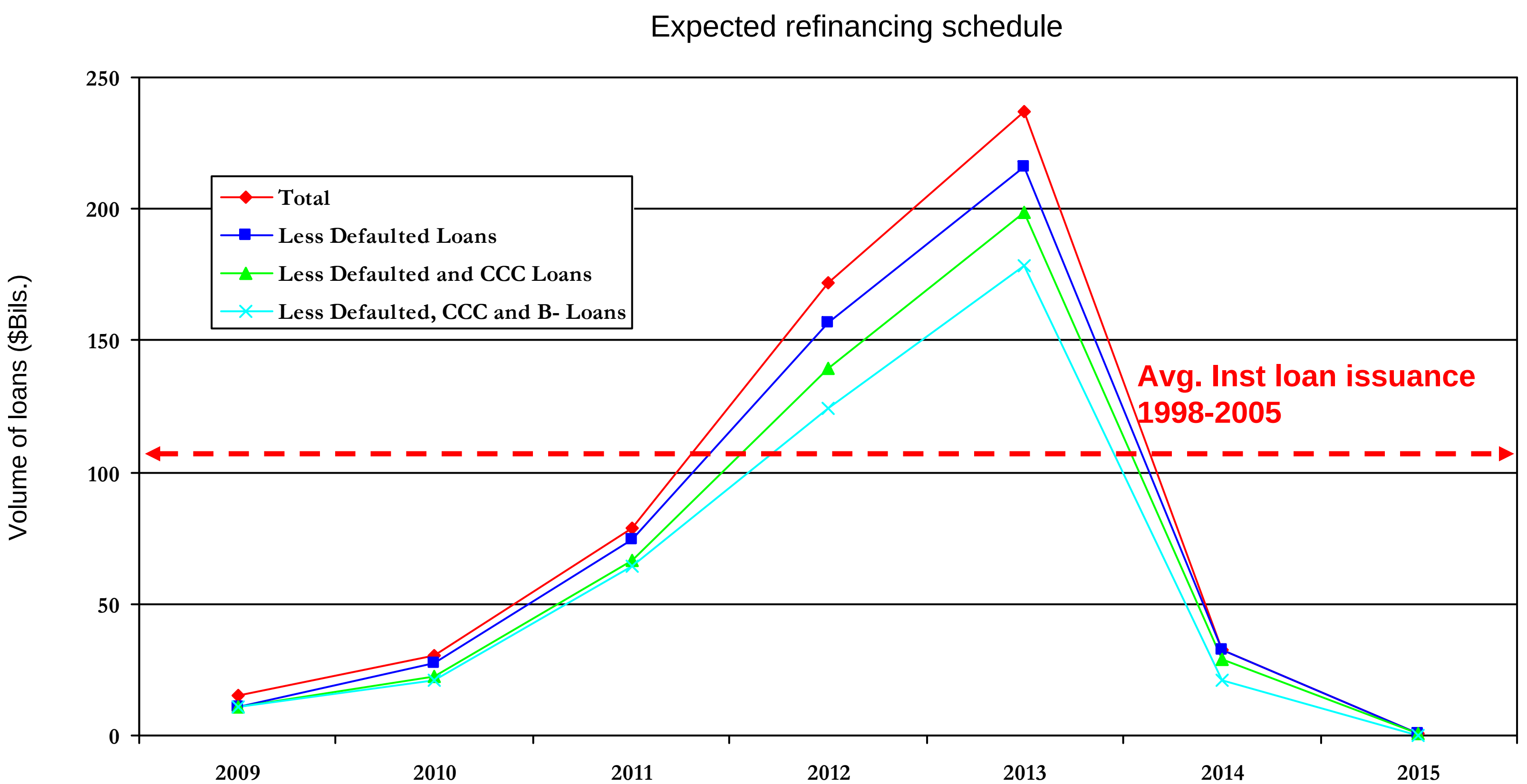
There may be a significant refinancing shortfall



- Starting in 2011, there will be a large volume of loans that must be refinanced
- Because CLOs will be entering the end of their reinvestment periods, they will not be able to refinance these maturing loans
- ***This is probably an unrealistic best case scenario***

Source: S&P/LCD, Wachovia Securities, LSTA

How to address refinancing cliff?



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