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Navigating The Credit Crunch

An Interactive Discussion in Two Parts

GUIDES FOR
THE JOURNEY.®

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A Brief History of Events...

BEAR
STEARNS

Jun 2007: Bear Stearns Mortgage Hedge Fund Collapses

AMERICAN
Home Mortgage

Jul 2007: American Home Mortgage Files for Bankruptcy



Aug 2007: Fed Lends \$2 Billion to Banks to Ease Credit Woes

Sep 2007: Fed Cuts Rates by 50 Basis Points

Merrill Lynch

Oct 2007: Merrill Reports Loss on \$8.4 Billion Write Down

Morgan Stanley

Nov 2007: Morgan Stanley Takes \$3.7 Billion Hit

MBIA

Dec 2007: MBIA Sells \$1 Billion Stake; Sees Losses

Ambac

Dec 2007: Ambac and MBIA Outlook Lowered by S&P

citigroup

Jan 2008: Citi Writes Down \$18 Billion; Merrill Gets Infusion

Bank of America

Jan 2008: Bank of America Buys Countrywide

UBS

Feb 2008: UBS Confirms \$18.4 Billion Sub Prime Loss

The Meltdown Continues...

-  Mar 2008: JP Morgan and Fed Move to Rescue Bear Stearns
Mar 2008: Central Banks Inject \$200 Billion of Liquidity
-  April 2008: UBS Writes Down Another \$19 Billion
-  April 2008: Deutsche Bank to Write Down \$4 Billion
-  April 2008: MBIA Loses AAA Rating From Fitch
-  Apr 2008: Wachovia's Loss a Grim Sign for Banks
-  May 2008: UBS Falls After Saying More Mortgage Losses Possible
-  Jun 2008: Lehman Posts \$2.8 Billion Loss
-  Jun 2008: U.S. Treasury Says Write Downs May Total \$1.3 Trillion
-  Jul 2008: IndyMac Seized by U.S. Regulators
-  Jul 2008: Merrill Has \$5.7 Billion of Write Downs

The Empire Strikes Back...



April 2008: WaMu Raising \$7.0 Billion New Capital



April 2008: Funds Invest \$8.0 Billion in National City Bank



April 2008: Merrill Raises \$9.6 Billion in Debt, Preferred Stock



April 2008: RBS Aims to Raise \$24 Billion in New Capital



April 2008: Citigroup Sells \$3 Billion in Stock to Boost Capital



April 2008: HBOS Plans to Raise £4 Billion in Share Sale



April 2008: Citigroup Increases Stock Offering to \$4.5 Billion



May 2008: Fannie Mae to Raise \$6 Billion New Capital



June 2008: KeyCorp to Raise \$1.5 Billion, Cut Dividend 50%



June 2008: Fifth Third Falls on Plan to Raise \$2 Billion

In Spite of Best Efforts...



Sep 2008: U.S. Seizes Fannie, Freddie

LEHMAN BROTHERS

Sep 2008: Lehman Files Biggest Bankruptcy After Suitors Balk



Sep 2008: Bank of America to Acquire Merrill as Crisis Deepens



Sep 2008: U.S. Lends \$85 Billion to AIG; Takes 80% Stake



Sep 2008: WaMu Seized by US, Assets Sold to JP Morgan



Sep 2008: Citi Acquires Most of Wachovia; Not a Failure FDIC Says



Oct 2008: Wells Bids \$15 Billion for Wachovia; Scuffles with Citi

Oct 2008: UK Make Massive Rescue Plan for Banks

Oct 2008: Fed Will Lend Directly to Corporations

And What About the Muni Market?

STANDARD
& POOR'S

Dec 2007: S&P Downgrades ACA to CCC

Ambac

Dec 2007: MBIA and Ambac Get Negative Outlook

Feb 2008: Auction Market Seizes Up


Moody's Investors Service

Feb 2008: Moody's Cuts FGIC to A3

BEAR
STEARNS

Mar 2008: Bear Stearns Acquired By JP Morgan

FGIC

Mar 2008: S&P Cuts FGIC to Junk

MBIA

Apr 2008: MBIA Loses AAA Rating by Fitch

May 2008: Vallejo California Declares Bankruptcy

 UBS

May 2008: UBS Quits the Municipal Bond Market

Ambac

Jun 2008: MBIA and Ambac Lose AAA Ratings

Jul 2008: Jefferson County Faces Bankruptcy

LEHMAN BROTHERS

Sep 2008: Lehman Bankruptcy; Floods the VRDB Market

A Common Scenario...of Bondopoly



Summer 2007: Issue Auction Rate or Insured Liquidity VRDBs



*JAIL,
and the many ways to land in it,
makes Monopoly complex.*

Spring 2008: Convert/Refund/Restructure With Direct Pay LOC



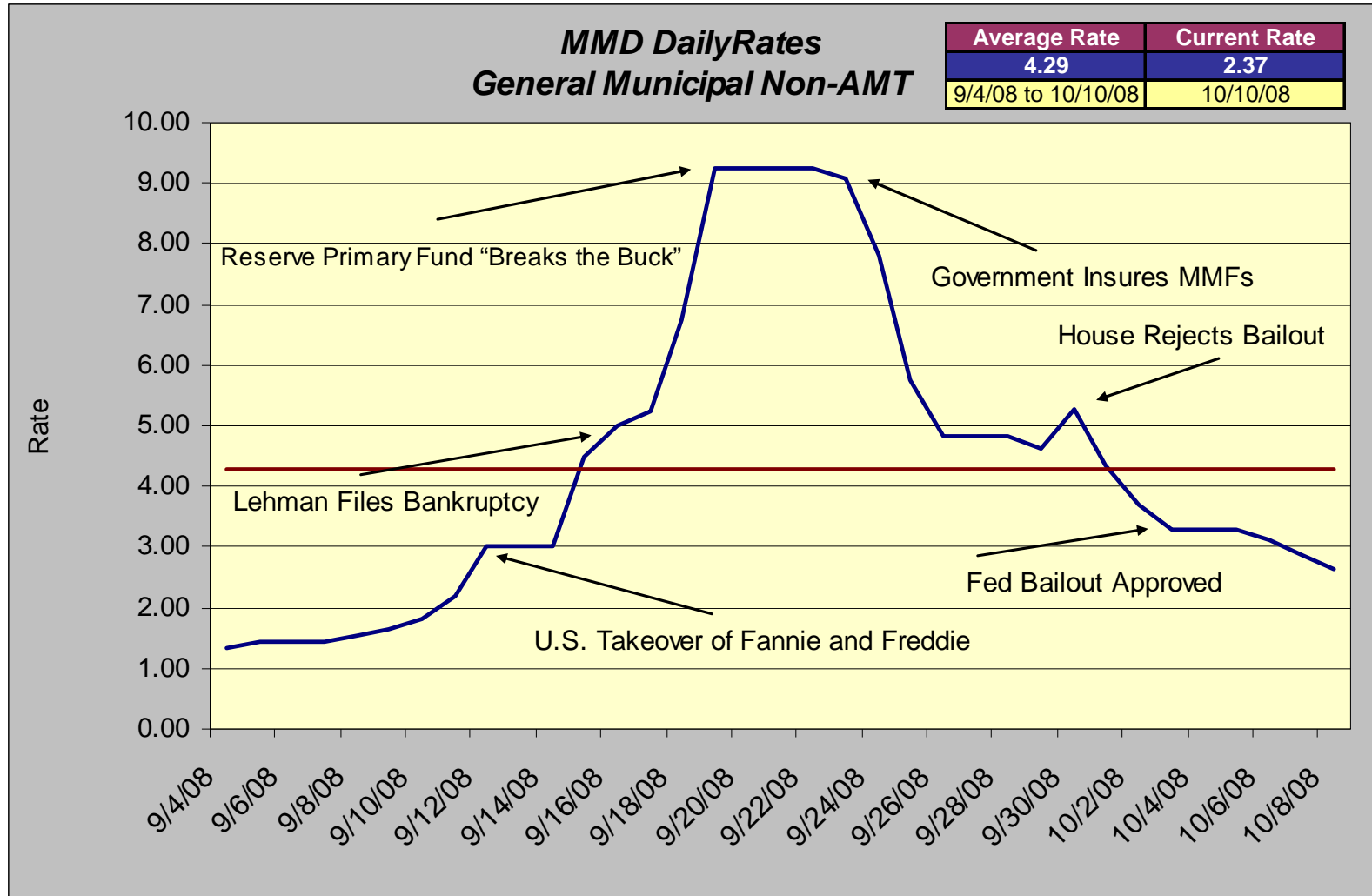
Fall 2008: Mass Money Fund Liquidations



Spring 2009: ??????



September and October Daily VRDB Rates



Don't Forget the Asset Side...

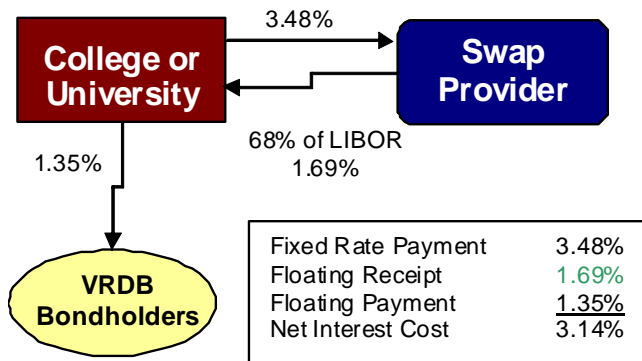
- ✓ Commonfund Restricts Redemptions
- ✓ Money Market Funds “Break the Buck”
- ✓ ARS Remain Illiquid
- ✓ Treasury Yields Near Zero%
- ✓ Banks Restrict Access to Credit and Liquidity
- ✓ Reserve Fund Investments Impacted by Provider Problems

Considerations in Developing a Strategy...

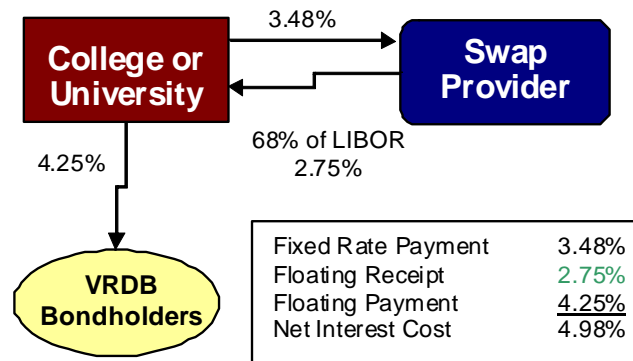
- ✓ Constantly Changing Credit Environment
- ✓ Uncertain Conditions in the Fixed Rate Market
- ✓ Existing Swaps May Muddy the Water
- ✓ Limited Availability of Bond Insurance
- ✓ Rating Agency Recalibrations Are Underway

Existing Swaps May Muddy the Water

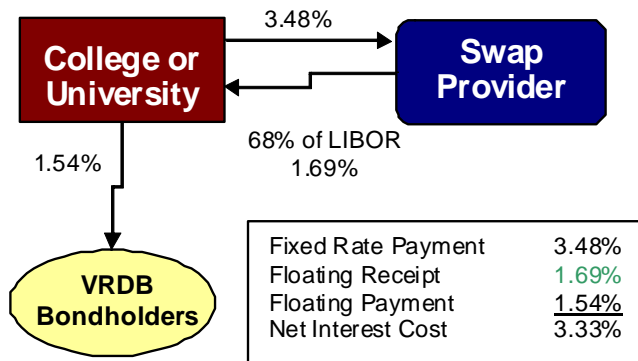
As of 9/4/08



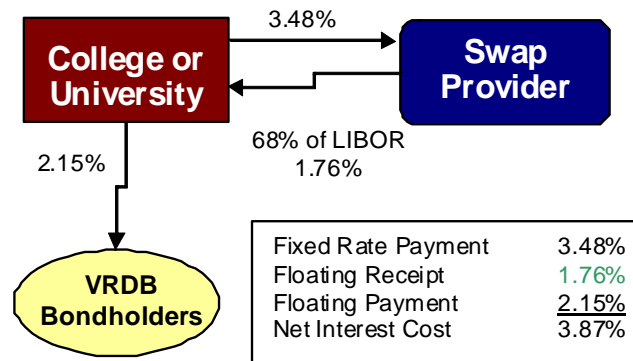
As of 10/2/08



From Inception to 9/11/08



From Inception

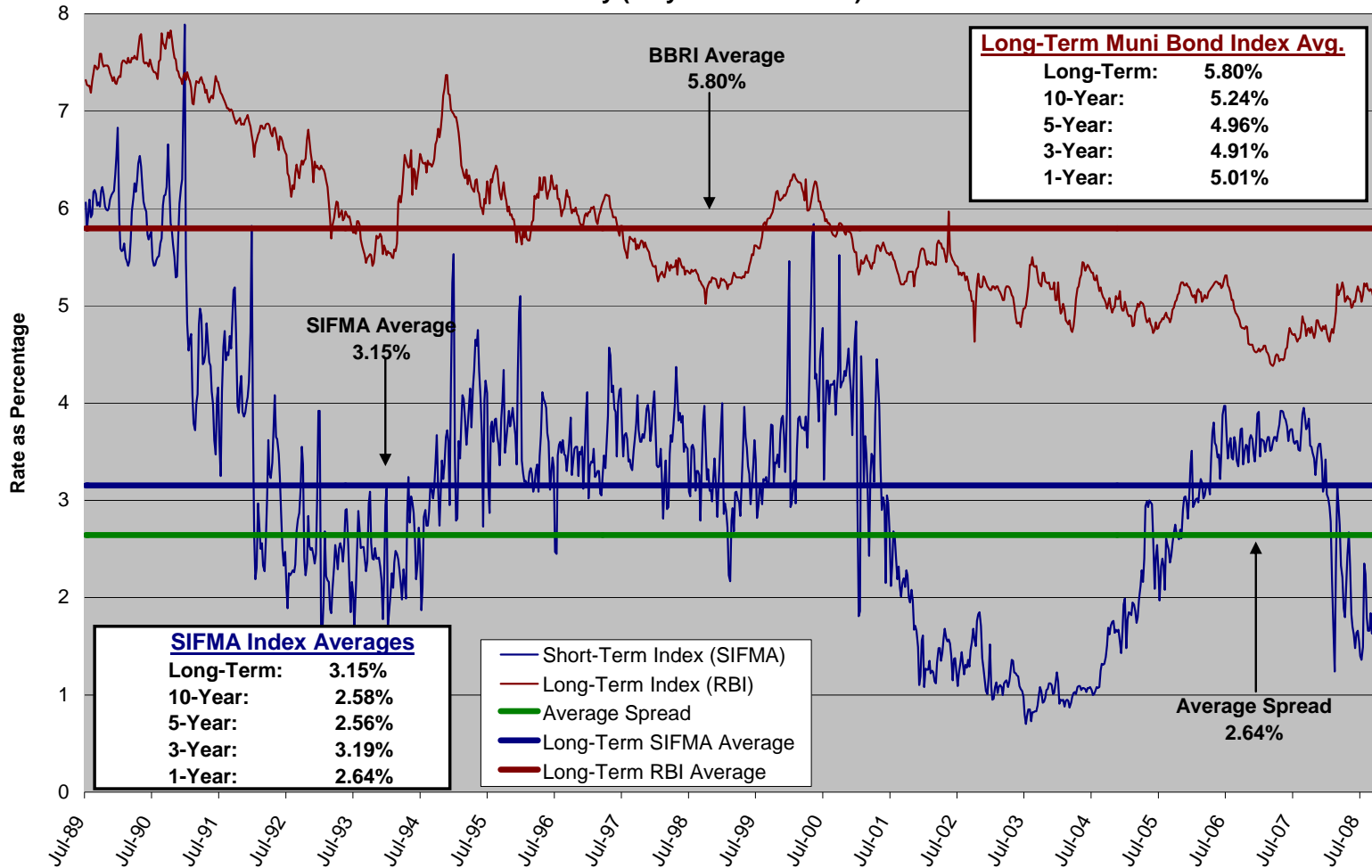


Strategies Moving Forward...

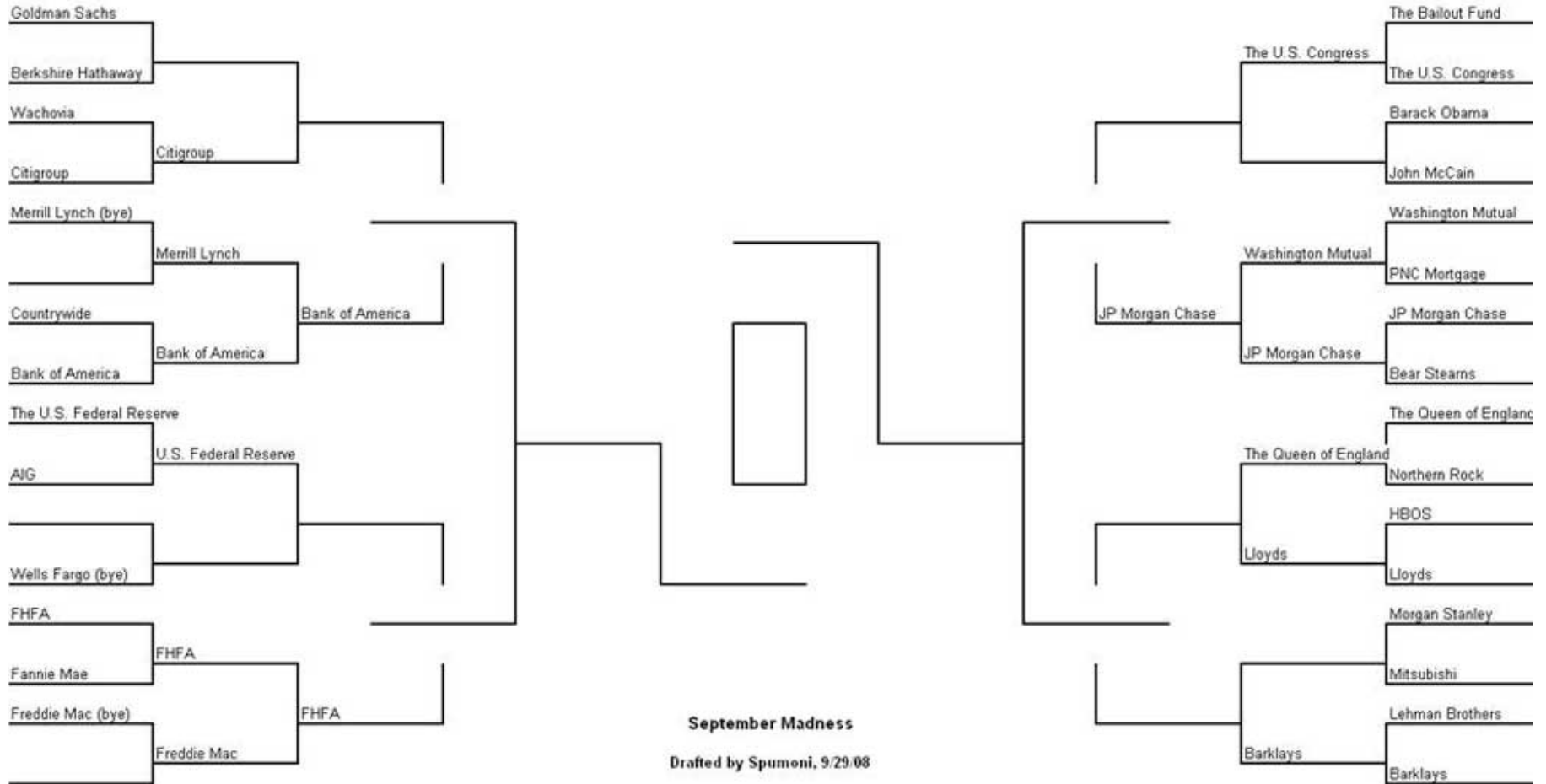
- ✓ Banks are Still Lending Credit
- ✓ Variable Rate Demand Bonds
- ✓ Intermediate Term Notes
- ✓ Commercial Paper
- ✓ Traditional Fixed Rate Bonds

Rate History

The SIFMA Variable Rate Index and The Bond Buyer 30 Revenue Bonds Index History (July 1989 - Present)



The Mating Dance...



What Would Franklin D. Roosevelt Say?

“This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself -- nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. “