

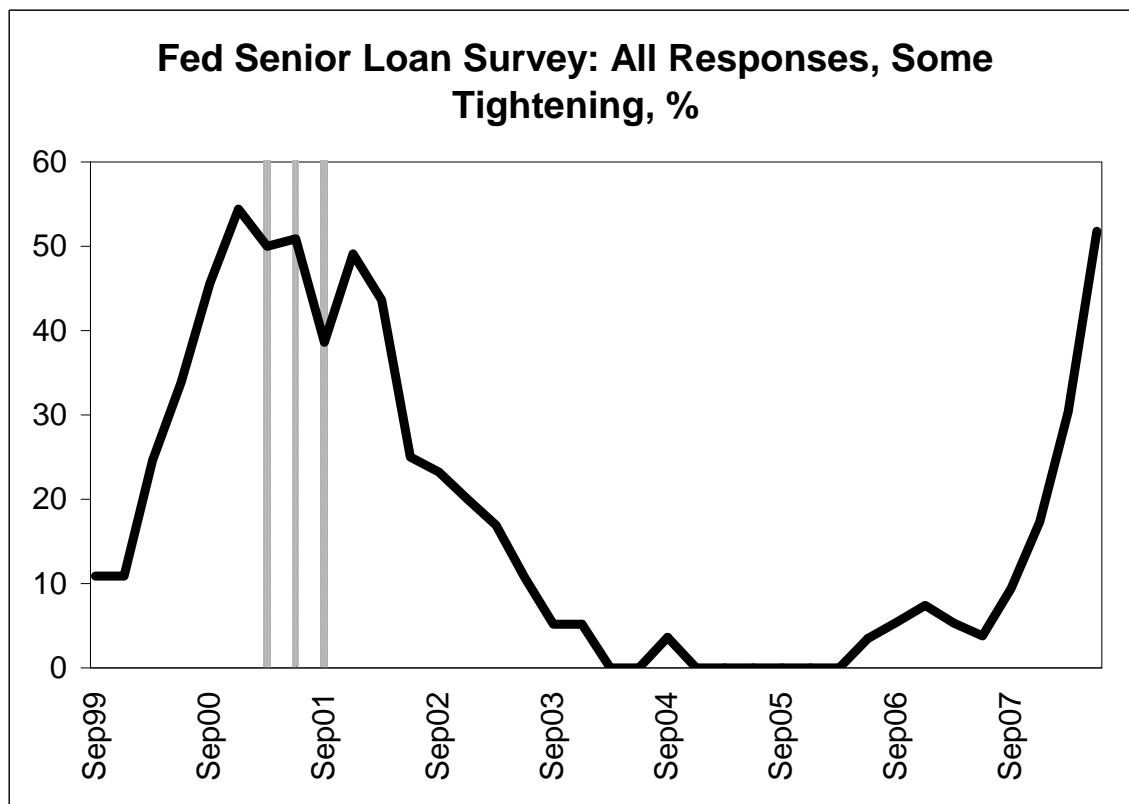
August 12, 2008

Michael T. Darda, *Chief Economist*, (203) 987-4045
mdarda@mkmpartners.com

Economics & Strategy

Lending Standards Tighten Further

The Fed's Senior Loan Office Survey for July showed an **across-the-board tightening of lending standards**. According to the Fed, "large net fractions of domestic institutions reported having tightening their lending standards and terms on all major loan categories over the previous three months." A casual observation of this data series shows that lending standards tended to peak slightly *ahead* of the business cycle in both 1990 and 2001 and began to ease *before* the economy turned back up. With standards still tightening across the vast swathe of loan categories, the second half of 2008 increasingly looks likely to be worse than the first half.

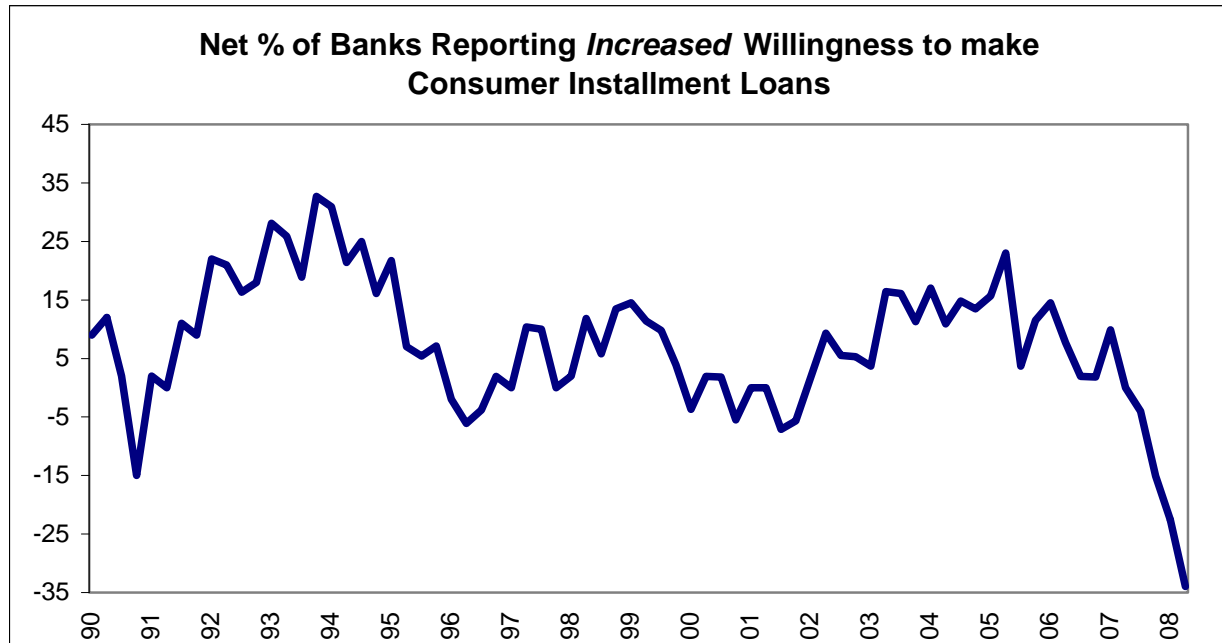


Source: Federal Reserve; Bloomberg

Headquarters: 1 Sound Shore Drive; Greenwich, CT 06830 (203) 861-9060
Member FINRA and SIPC. Additional information on all of our research calls is available upon request.

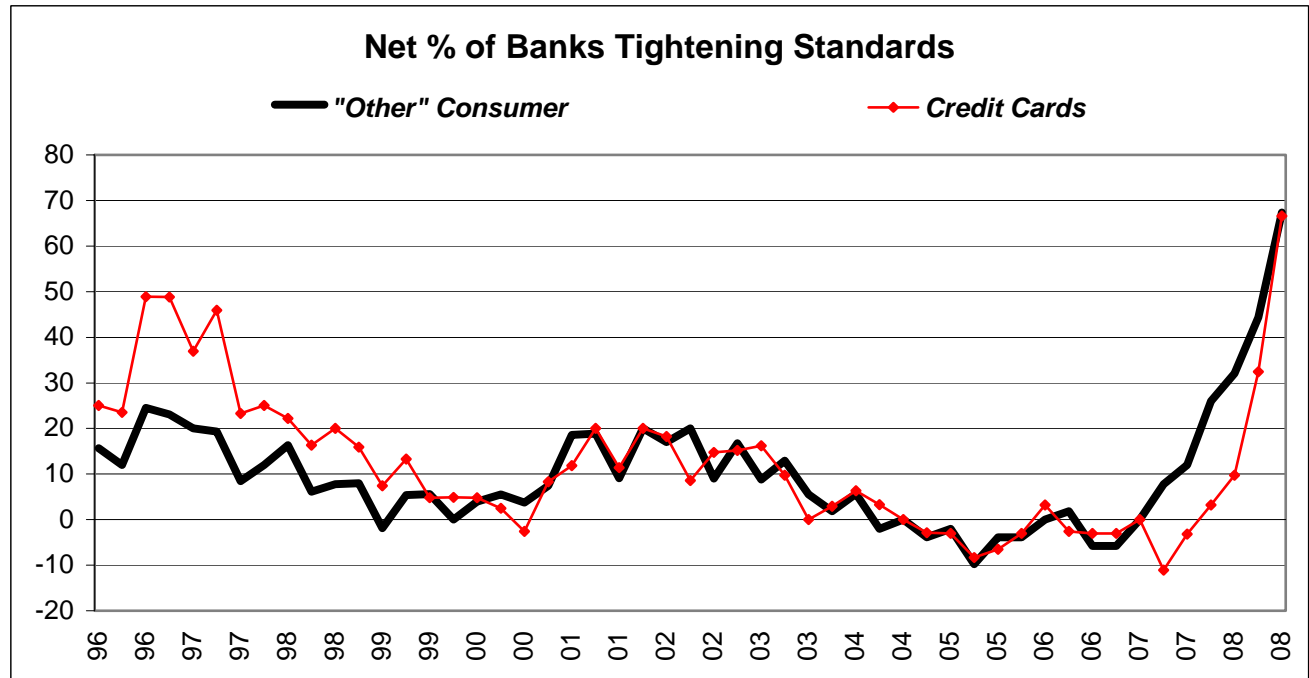
See last page for analyst certification and important disclosures.

Banks are backing away from consumer installment loans at a record pace. The Fed's July survey showed a record "low" for banks who said they were *more willing* to make consumer installment loans. This particular series extends back to 1990-1991 and is now well below the trough seen in that cycle (-15% vs. -34%) -- the last time consumer spending contracted in real terms.



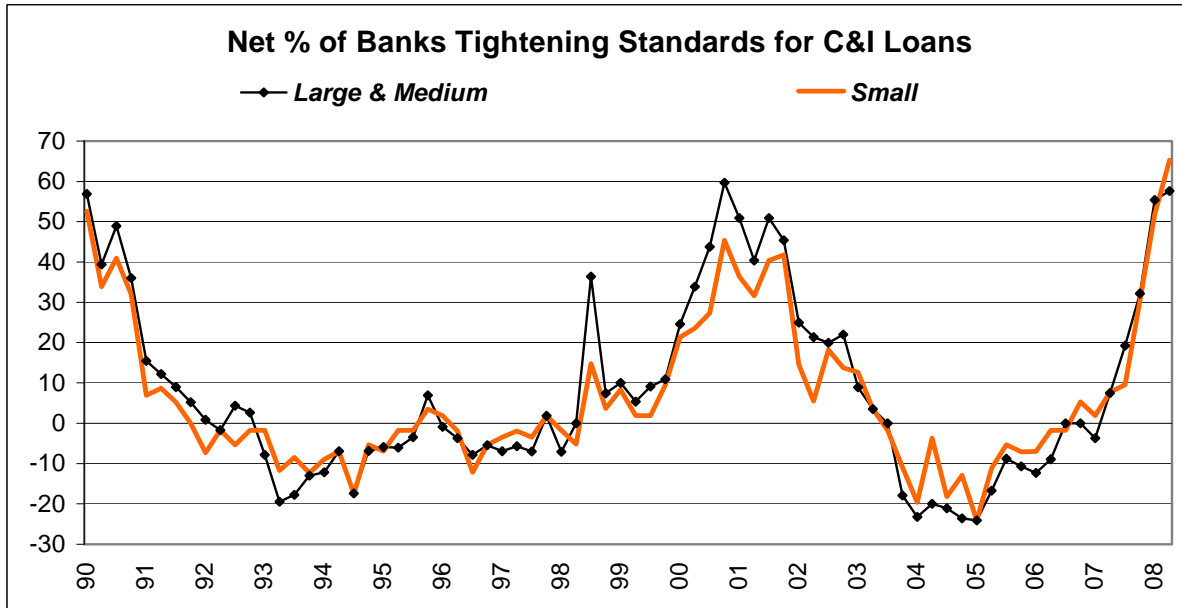
Source: Federal Reserve

Banks also appear to be turning the screws on credit cards. Lending standards for credit cards and "other" consumer loans have shot up by the widest margin on record (this series only goes back to 1996).



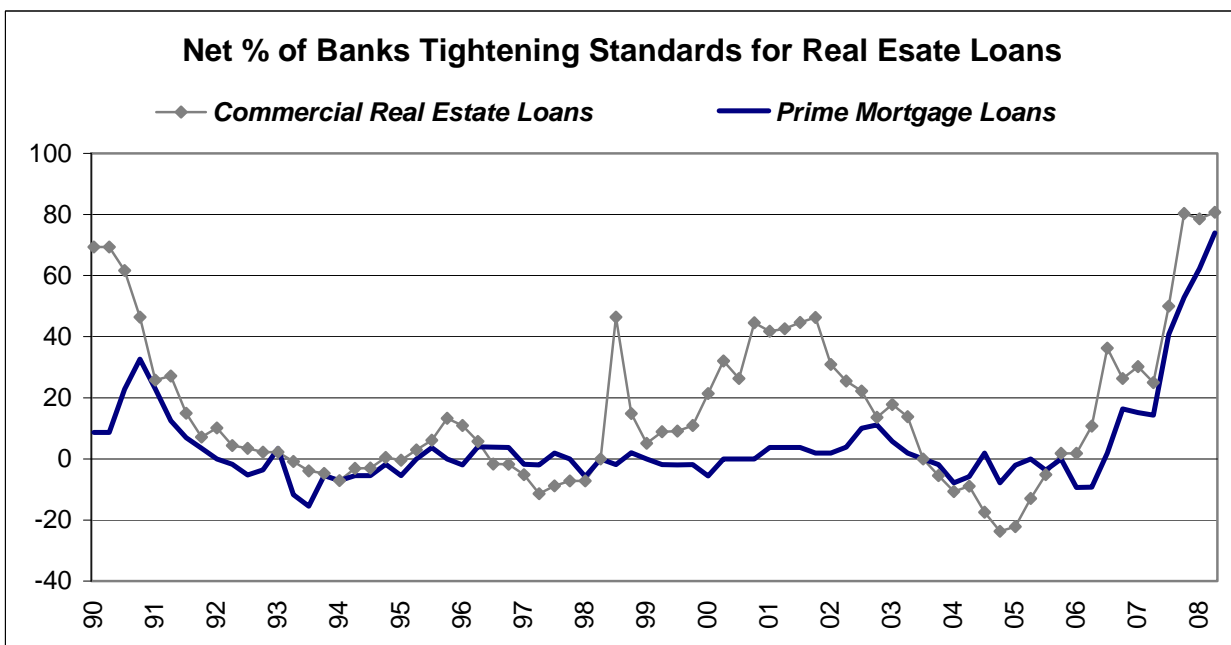
Source: Federal Reserve

Standards for commercial and industrial loans continue to tighten as well. New cycle highs were seen for lending standards on C&I loans for large & medium sized firms. A record proportion of banks (65.3%) tightened standards on small business loans. This tightening (and the parallel wideness of risk spreads) strongly suggests that economic conditions are likely to deteriorate further during the second half of 2008.



Source: Federal Reserve

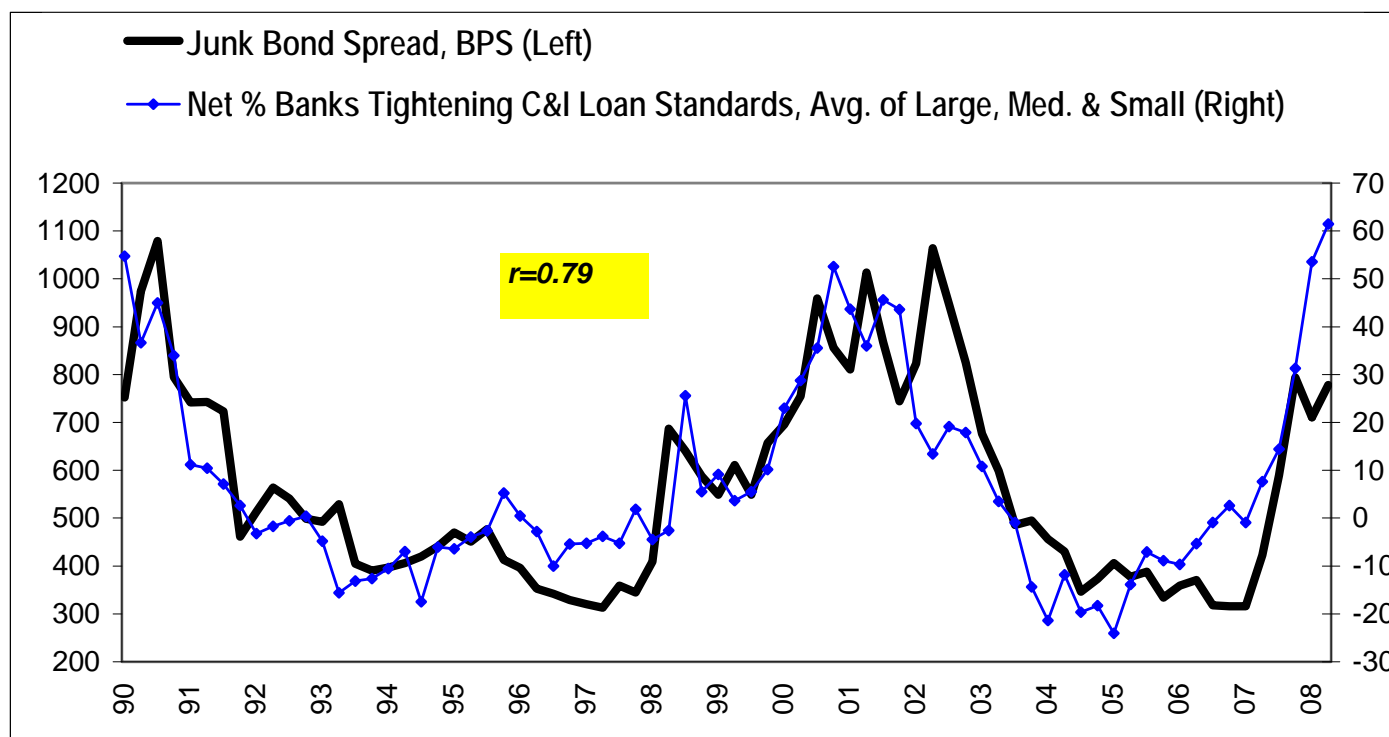
Lending standards are still tightening for both residential and commercial real estate. A record 80.7% of bank respondents indicated they tightening standards for commercial real estate loans; 74% of respondents said standards were raised for *prime* real estate loans, also a new record. This data suggests the resilience of the commercial real estate market could be coming to an abrupt end.



Source: Federal Reserve

Conclusion: The Fed's July Senior Loan Officer Survey showed that credit continues to tighten across a vast swathe of loan categories. According to the Fed, "the net fractions of banks that had tightened credit standards on consumer loans increased notably relative to the April survey." The report showed the net fraction of banks more willing to make consumer installment loans dropped to the lowest level on record -- a negative omen for the second half. At the same time, a record fraction of banks tightened credit for both prime mortgages and commercial real estate loans. This suggests it may be more likely that we see a rollover in the commercial real estate market before we see a recovery in the residential sector. Credit standards also continued to tightening for all categories of business loans -- a negative for the business sector going forward.

Investment Implications: The recent tightening in lending standards for all categories of commercial and industrial loans is typically associated with high yield spreads of 1000 bps or more. There is a close historical relationship between these two series that suggests caution going forward. While the retail sector is rallying on falling crude oil, thus far we're only talking about a fraction of a dollar decline per gallon at the gas pump. The potential drag on growth from a soft labor market, tight lending standards and more expensive capital is much more significant in our view.



Source: Bloomberg; MKM Partners

Important Disclosures

Regarding the use of instant messages (IMs) and e-mail with MKM Partners LLC, you consent to the following: IMs or e-mail sent from or received by MKM Partners employees are presumed to contain confidential or proprietary information and are intended only for the designated recipients(s). If you are not the designated recipient, please inform the sender that you received this e-mail or IM in error and do not use, copy or disseminate its contents. MKM Partners and its analysts may from time to time make informal technical, fundamental, and economic comments on IM and e-mail.

The Primary Analyst certifies that the views expressed in this research report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Primary Analyst also certifies that there has not been, is not, and will not be direct or indirect compensation from MKM Partners or these subject companies for expressing the specific recommendation(s) or view(s) in this report.

This report has been prepared by MKM Partners LLC. Its employees, officers, directors, individual shareholders, consultants, affiliates and/or their families (together "the Firm") do not have positions and deal as principal in transactions in securities referred to herein (or other instruments related thereto) including positions and transactions contrary to any recommendations contained herein. Its employees, officers, directors, individual shareholders, consultants, affiliates and/or their families (together "the Firm") do not have positions and deal as principal in transactions in securities referred to herein (or other instruments related thereto) including positions and transactions contrary to any recommendations contained herein held by the research analyst primarily responsible for preparing this research report or a member of the research analyst's household. The Firm has not engaged in transactions with issuers identified in the report. MKM Partners LLC does not make a market in the subject company(s). The subject company(s) is/are not currently, nor for the past twelve months have they been, clients of the Firm. The research analyst(s) does/do not serve as an officer, director, or advisory board member of this company, and receives no compensation from it.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained in this report may not be suitable for all investors. Although the information contained herein has been obtained from recognized services, issuer reports or communications, or other services and sources believed to be reliable, its accuracy or completeness cannot be guaranteed. Any opinions, estimates or projections expressed herein may assume some economic, industry and political considerations and constitute current opinions, at the time of issuance, which are subject to change. Any quoted price is as of the last trading session unless otherwise noted.

This information is being furnished to you for informational purposes only, and on the condition that it will not form a primary basis for any investment decision. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the legal, tax, and accounting considerations applicable to such investors and their own investment strategy. By virtue of this publication, neither the Firm nor any of its employees shall be responsible for any investment decision.

This communication may involve technical analysis. Technical analysis is a discipline that solely examines the past trading history of a security to arrive at anticipated market fluctuations. Technical analysis does not consider the fundamentals of an underlying security, and therefore offers an incomplete picture of the value or potential value of a security. A customer should not rely on technical analysis alone in making an investment decision, but should review all publicly available information regarding the security in question, including, but not limited to, the fundamentals of the underlying security and other information provided in any filings with the Securities and Exchange Commission (SEC). MKM Partners LLC has multiple analysts and from time to time their views may differ. We encourage readers to call with any questions.

Additional information on all of our research calls is available upon request.

Ratings for Stocks: As of May 7, 2007, the Firm revised its ratings, which comprise the following:

"Buy" Security is expected to appreciate 15% or more on an absolute basis over the next 12 months.

"Neutral" Security is not expected to significantly appreciate or depreciate in value over the next 12 months.

"Sell" Security is expected to depreciate 15% or more on an absolute basis over the next 12 months.

Distribution of Ratings for Reports Issued by MKM Partners LLC as of August 12, 2008:

Buy 47.5%; Neutral 50.0%; Sell 2.5%.

Risks: Investment risks associated with the achievement of revenue and earnings projections include, but are not limited to unforeseen macroeconomic and/or industry events that adversely impact demand for the subject company's products or services, product obsolescence, changes in investor sentiment regarding the specific company or industry, the company's ability to retain or recruit competent personnel, and market conditions. For a complete discussion of risk factors that could affect the market price of the company's shares, refer to the most recent 10-Q or 10-K filed with the SEC.