

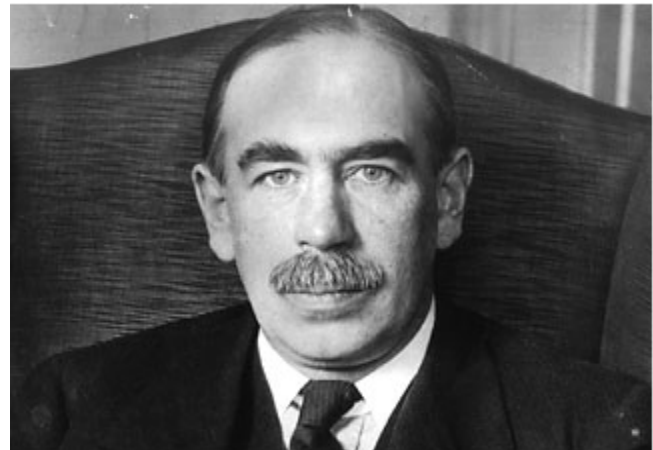


March 2, 2009

Dear Limited Partners:

We recently concluded our third year of operations at the Hayman Capital funds and are fortunate to have returned above-average results for our limited partners during a very tumultuous time. Hayman Capital Master, L.P. (the "Master Fund") has returned +340% net of all fees and expenses\* since its inception in February of 2006, while the S&P has returned -42.37%. For those of you who have not been with us since inception, the Master Fund's annual returns for 2006, 2007, 2008 and 2009 (year to date), were +20.27%, + 216.64%, +6.13% and +9.03%, respectively. These results are the product of many sleepless nights, intense governmental action, and countless discussions among our investment team with regard to our macro views. While it would be repetitive to revisit how we have arrived at this point in world history, later in this letter I will discuss at length one of the key factors that we believe will determine our future direction. Needless to say, we have focused on risk management by structuring our positions with the most asymmetric risk/reward scenarios possible. This communication may be the most important letter we have ever written.

*A "sound" banker, alas! is not one who foresees danger, and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way along with his fellows, so that no one can readily blame him. It is necessarily part of the business of a banker to maintain appearances, and to confess a conventional respectability, which is more than human. Life-long practices of this kind make them the most romantic and the least realistic of men.*



John Maynard Keynes, *Consequences to the Banks of a Collapse in Money Values* (1931)

John Maynard Keynes – Does he have it right?

## **The 38-Year Experiment**

As a nation and a world, we are coming to an important crossroad with the belief (whether it be forced or simply accepted) in "fiat" currency. The Old English Dictionary defines "fiat" as:

fiat. [a. Latin 'let it be done'; 'let there be made']

In short, fiat currency is money that exists because an authority, government or custom simply declares or forces it to be as such. The American Heritage dictionary defines fiat currency as "paper money declared legal tender, not backed by gold or silver." I think of fiat currency as being paper money with no intrinsic value which has been simply declared to be legal tender. Up to this point, it has been widely accepted that currency or money is worth the goods and services for which it is routinely exchanged. I hope this remains the case, but think that the odds are against it. In the past, I have stated my belief that there is not enough money in the world to soak up the tens of trillions of dollars of deleveraging that must occur over the next few years. This could not be truer than it is today. While I do not have a solution (and maybe it does not exist) to the problems facing us today, what I do know is that attempting to re-lever a massively over-leveraged system is clearly NOT the answer. The disintermediation of risk is one of the primary causes of the current problem and it is NOT the solution. Alan Greenspan said it best when he wrote *Gold and Economic Freedom* in 1966 (before he entered the Federal Reserve System; since then, he has been silent on the subject):

*The abandonment of the gold standard made it possible for the welfare statist to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which – through a complex series of steps – the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets. The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion.*

*In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.*

*This is the shabby secret of the welfare statist's tirades against gold. Deficit spending is simply a scheme for the "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights.*

- Alan Greenspan, *Gold and Economic Freedom*, 1966

The United States abandoned the gold standard on August 15, 1971, in an executive order signed by then-President Nixon. At that moment in history, the United States decided it would no longer redeem its paper dollars for gold. **It is an interesting point to ponder – the United States has been operating in a system of limitless credit creation for ONLY 38 years.** 38 years is not an extensive period of time when reflecting on world history. In the absence of our currency's mandatory convertibility into a precious metal (or more importantly, a finite resource), our own Federal Reserve Bank has been tasked with preventing inflation (or the devaluing of our fiat currency by printing too much of it). Generally, the United States has been creating credit and expanding its GDP and national debt load for the past 38 years. Interest rates have come down to zero and the old economic principle of diminishing marginal utility was just applied to the last incremental dollar of credit market debt. The proverbial inmates have been running the asylum. The only institution in the world that can LEGALLY counterfeit the U.S. Dollar is supposed to police the unruly debasement of our currency.

*Lenin was certainly right. **There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.** The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.*

-John Maynard Keynes

As a country, we now face running a \$1.5-\$2.0 trillion operating deficit in excess of roughly \$2.1 trillion of government revenue (if we are lucky). If the U.S. were a public company, not even Ken Lewis would consider purchasing us (at a premium no doubt). As an attachment to this letter, enclosed is the United States balance sheet and income statement. I encourage you to look through them in order to formulate your own opinion of entitlement spending and government receipts. Interestingly enough, after quizzing some of the great asset managers in the world, very few could even get close to guessing the government receipts number. I guess it just does not matter anymore.

To the best of our knowledge, there has only been 160,000 metric tons of gold EVER mined in the world. At \$950 per ounce, all of the gold in the world would be worth \$4.887 trillion dollars. On the other hand, we estimate that there is roughly \$60 trillion of fiat money (including currencies, deposits, savings, money markets and CDs) in the world. Given the fact that world governments are caught with so much credit market leverage and losses, we believe that they will – in true Keynesian color – attempt to print their way out of this mess. If this occurs, you have to ask yourself: How many of people do you think it will take to begin to question the value of paper currency when it is being debased in an attempt to save world governments? If a small fraction of them stop believing, where will they go to preserve their wealth? My guess is the U.S. dollar and precious metals.

## **The Bad News? The Rest of the World Looks Worse**

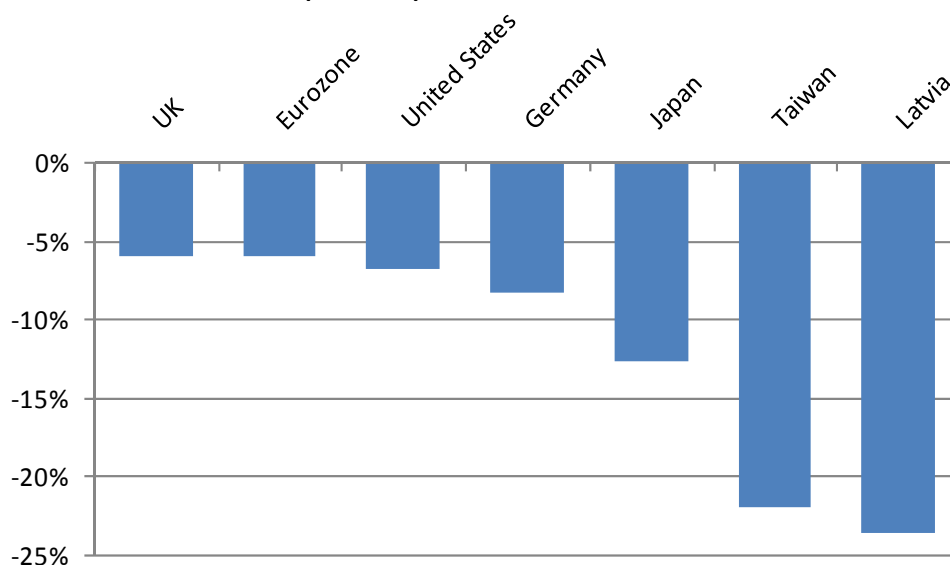
The silver lining in our research is that the U.S. is one of the least levered countries in the world! Just saying that puts a bit of fear into me, but it is true. The U.S. is less levered and less exposed to radical economic deterioration than Western Europe. It is also far less dependent than East Asia on worldwide trade that is a byproduct of the net aggregate demand that previously emanated from the U.S. and other parts of the developed world. East Asia is quickly catching up to Central and Eastern Europe as the most afflicted region of the global economy.

Of course, an observer would not be expected to know this based on the forecasts and predictions made by global economic and financial bodies such as the IMF. According to their January World Economic Outlook Update, the world economy will grow this year by almost 0.5% despite three of the four top economies in the world recording negative seasonally adjusted, annualized growth in Q4 2008 of between -6.2% and -12.7%. However, this is the same body that entered into bailout agreements with Hungary, Ukraine and Latvia with GDP assumptions varying between -1% and -2% for 2009, only to watch Hungary and Latvia post -12% and -23.6% annualized declines, respectively, in Q4 2008 GDP, while the Ukraine scraped by with a mild -20% GDP contraction year-over-year in January 2009.

Surprisingly, considering the catalyst for the current crisis came from the U.S., and the majority of worldwide economic opinion has been devoted to the admittedly sizeable problems facing the U.S. economy, the **scorecard so far reflects a relatively mild downturn compared to the rest of the world.**

A comparison of reported 4<sup>th</sup> quarter annualized GDP declines is instructive. Shown below, representatives from Western Europe, East Asia and Emerging Europe are all currently contracting faster than the U.S.

**Annualized GDP Growth (Q4 2008)**



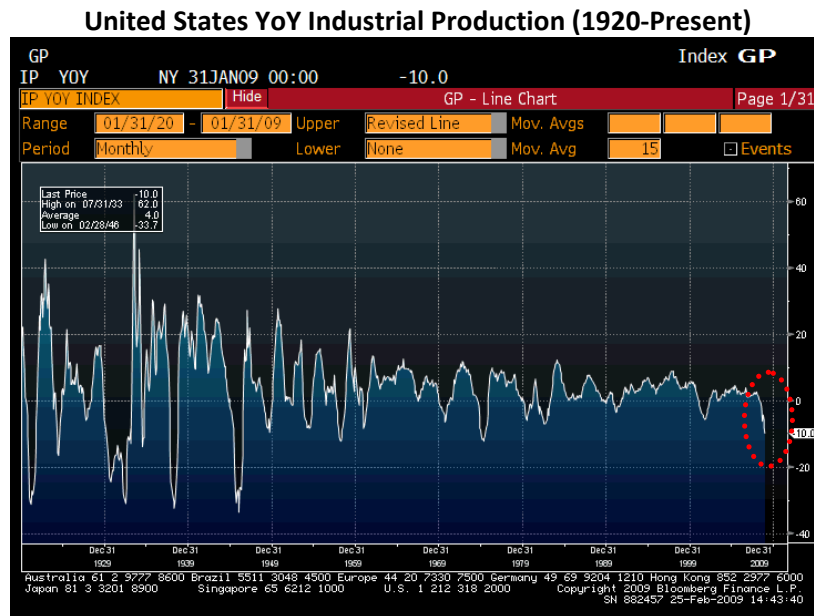
Source: Bloomberg, respective Ministries of Finance.

### **Western Europe**

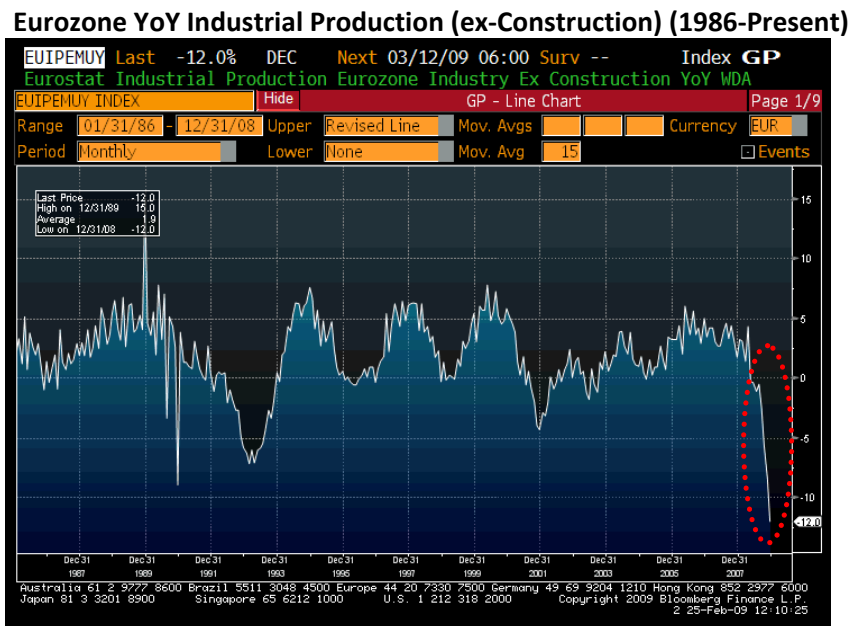
As the home of the world's most grossly overleveraged banking systems and the bearer of over \$4.9 trillion (USD) of exposure to the developing and emerging markets, Western Europe is deteriorating even faster than the U.S.

While the U.S. is experiencing a decline in industrial production, it is no worse so far than 1975 and significantly less than that during the Great Depression (which is a side effect of no longer being the

repository of the world's marginal industrial capacity – a title we have handed over to the trade surplus nations of East Asia and Europe) :



Industrial production across the entire Eurozone is declining at its fastest rate on record:



The massive drop off in world trade and the recession of global aggregate demand is hitting the export powerhouses of Europe in particular. Both Sweden and Germany have seen drops in industrial production that dwarf the U.S. in both absolute and historical terms. Sweden is faring worse than during its crisis of the early 90's, and Germany is already worse than even the challenging period of reunification:

### Sweden YoY Industrial Production (1991 – Present)



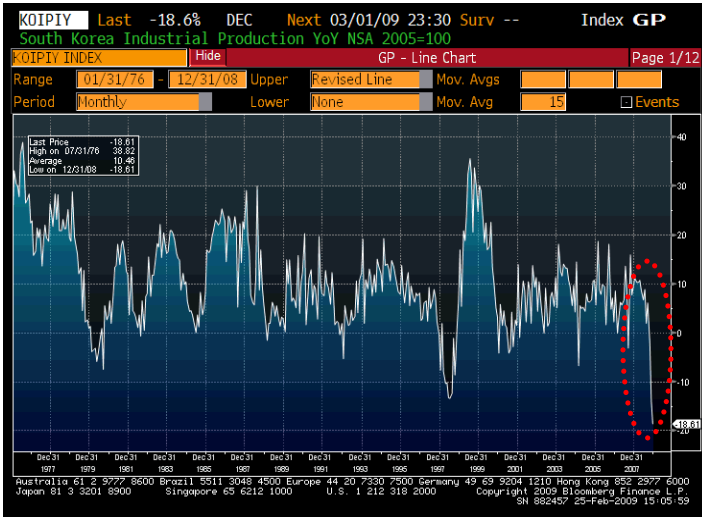
### Germany YoY Industrial Production (1992 – Present)



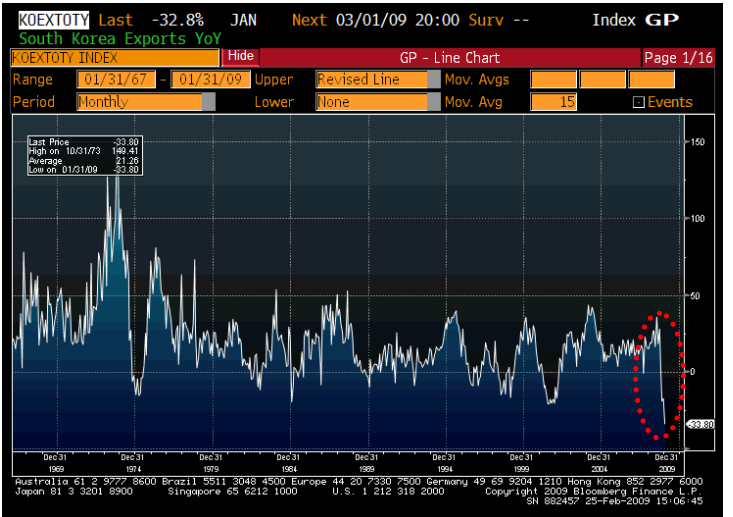
### East Asia

Meanwhile in East Asia the consumer strike from the U.S. and other net aggregate demand economies has had a devastating impact on industrial production and exports. In South Korea, industrial production and exports are declining more rapidly than during the “Asian financial crisis”:

### South Korea YoY Industrial Production (1976 – Present)

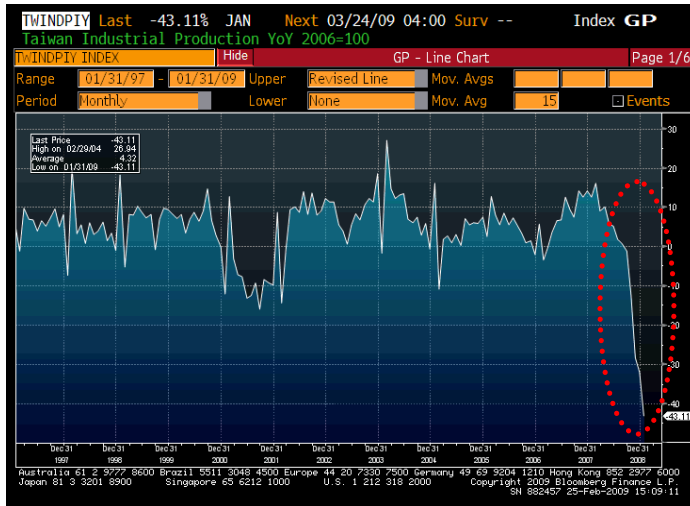


### South Korea YoY Exports (1967 – Present)



The story is the same in Taiwan:

### Taiwan YoY Industrial Production (1997 – Present)

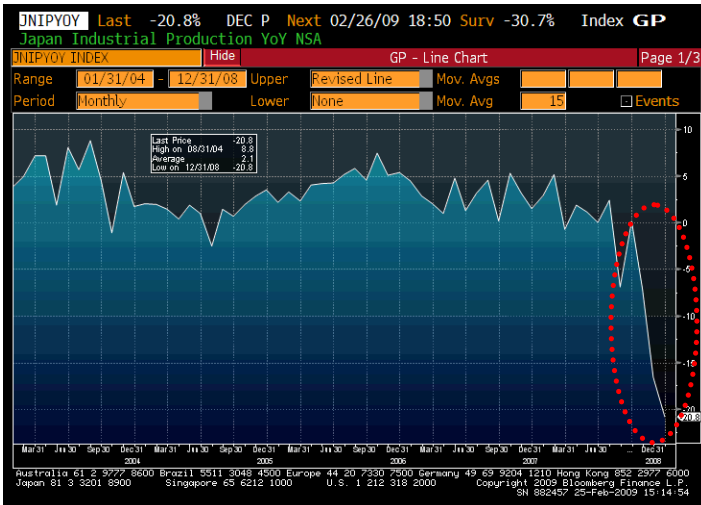


### Taiwan YoY Exports (1994 – Present)

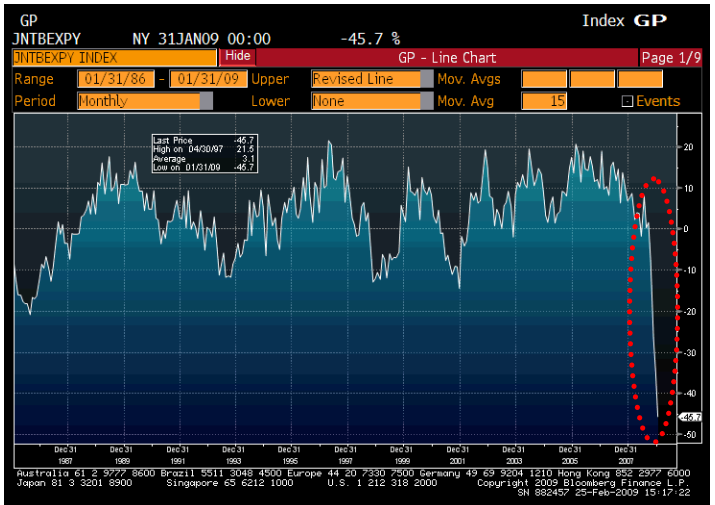


And in the world's second largest economy (and currently most indebted sovereign nation), a zombified Japan is starting to convulse as industrial production growth hit an all time low of -20.8% year-over-year in December 2008, and exports are currently falling off a cliff:

### Japan YoY Industrial Production (2004 – Present)



### Japan YoY Exports (1986 – Present)



## China Can't Handle the TRUTH

The only glimmer of hope in the global economy at present is potential for a massive Chinese stimulus package to jumpstart the slowing Chinese economy and renew its previously insatiable demand for commodities as well as developing a new source for aggregate demand among Chinese consumers. Even assuming that it would be possible for the Chinese economy (accounting for a mere 7% of world

GDP) to expand its domestic consumption to replace an annualized -28% Q4 decline in U.S. retail spending, there is no sign that its even heading in the right direction.

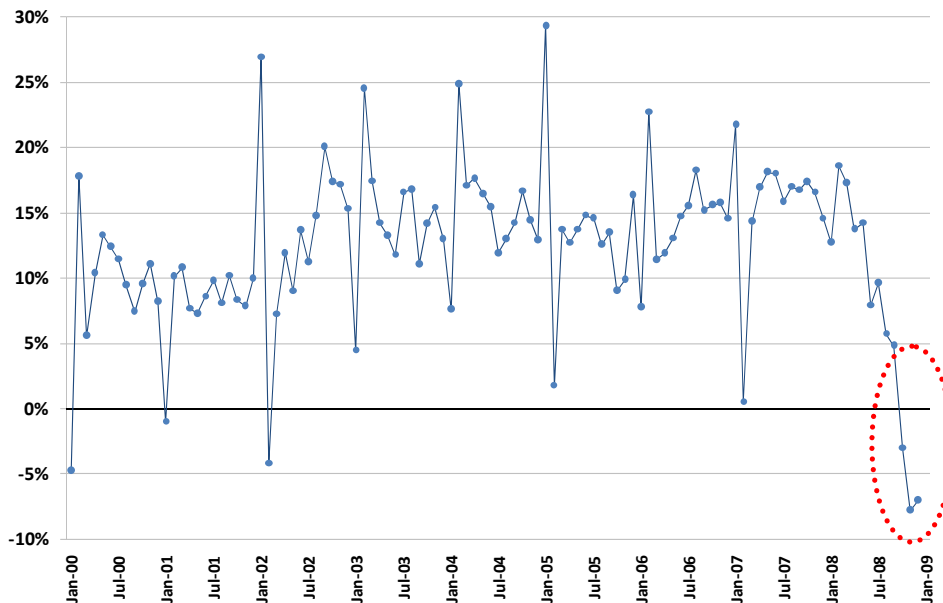
In January, China reported a -17.5% drop in exports and a -43.1% drop in imports year-over-year. By themselves, the data points individually reflect a remarkable decline in trade volume that is only partially explained by the seasonal factors, but together they reflect that internal demand for external goods and services is declining as the import/export gap expands rather than shrinks.

**China YoY Exports (1995 – Present)**

**China YoY Imports (1995 – Present)**



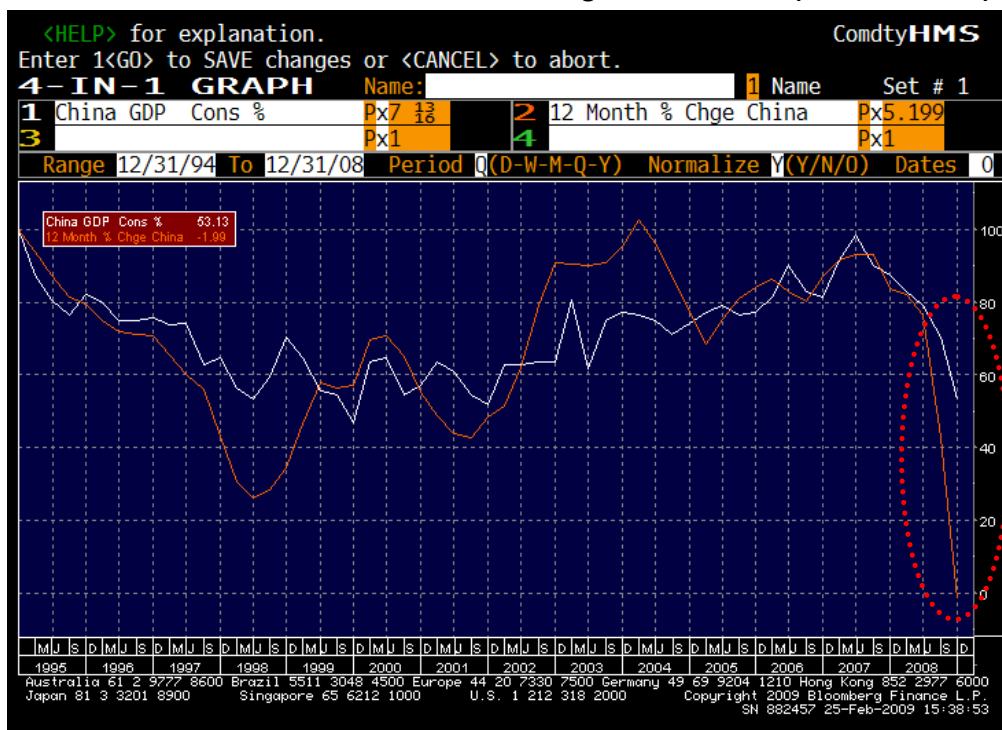
**Monthly Chinese Power Output - YOY % Increase/(Decrease)**



Source: Bloomberg.

The future of China's growth looks grim considering what happens when you chart the OECD China Leading Indicators 12 Month % Change index with previous Chinese GDP growth:

## China YoY GDP versus OECD 12-Month Leading Indicator Index (1995 – Present)



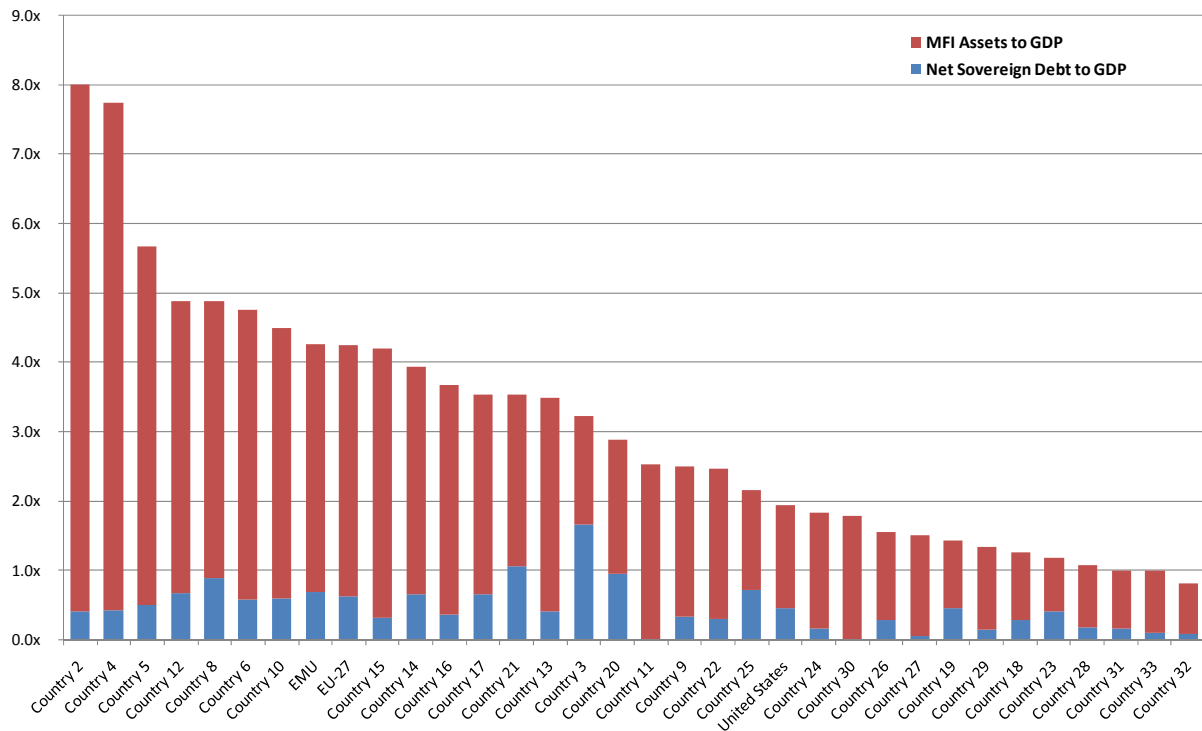
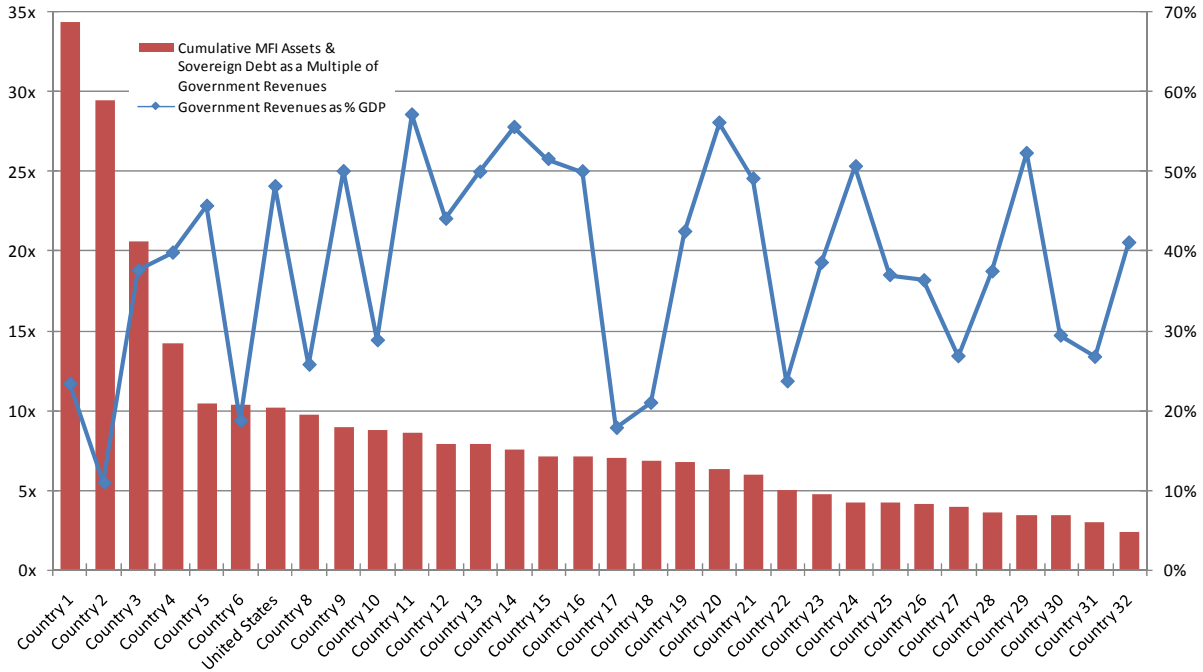
## Just How Big is the Global Debt Tidal Wave?

*We're gonna need a bigger boat* – Chief Brody, *Jaws*, 1975

We have spent the good part of 6 months combing through the rest of the world's sovereign balance sheets and income statements in order to understand just how much leverage we are really working with. The results of our study are nothing short of shocking! It is now clear to me why we are where we are today. The crux of the problem was not subprime or Alt-A mortgage loans, nor was it this bank or that bank. It was the problem at the highest of the order. Governments of countries around the world allowed their banking systems to grow unchecked. The limitless credit creation afforded by fractional reserve banking and fiat currencies has grown into a massive and, in some cases, untenable liability for the host country. When Iceland failed, it prompted us to look deeper into how and why a sovereign government could get to the brink of disaster and then jump in. Others dismissed Iceland as a small fishing village of 300,000 people and a \$19 billion GDP. When we looked inside Iceland, it helped build the basis for our current understanding for the rest of the world. Iceland was broken as a country due to their government allowing a handful of banks to grow to over \$200 billion of loans. Remember, the country's gross output was just \$19 billion, and the government's income is just a fraction of GDP. Iceland had let its banking system grow to over 10X the size of the entire country's output!

When we examine the size of various countries' existing sovereign debt burdens and their Monetary Financial Institution ("MFI") assets relative to government receipts and GDP, the results are staggering and frightening. To provide a sense of scale, consider this: combined MFI assets of the EU-27, the U.S.,

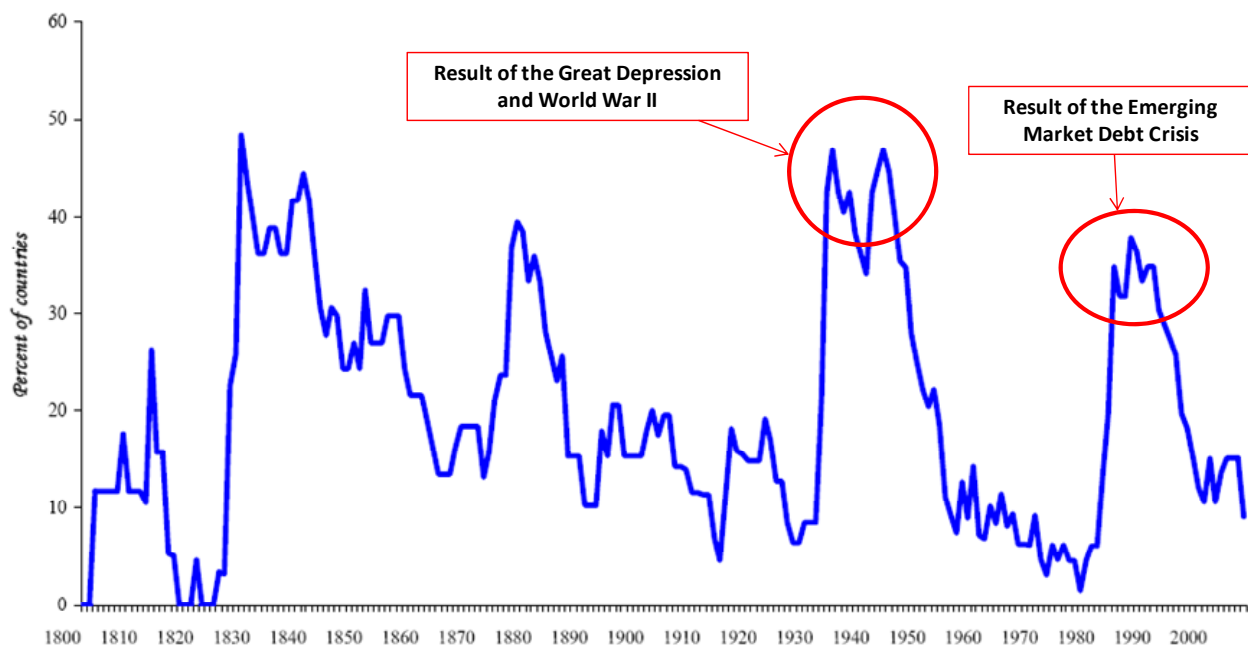
and Japan total \$86 trillion (USD). While the names have been disguised to protect the guilty, the following sample captures countries of Europe and Asia, as well as the U.S.:



Source: IMF, European Commission, respective Ministries of Finance, and Hayman Advisors, L.P.'s estimates.  
 Source: IMF, European Commission, respective Ministries of Finance, and Hayman estimates.

I consider Professor Kenneth Rogoff (Thomas D Cabot Professor of Public Policy, Department of Economics, Harvard University) to be one of the world's foremost experts on sovereign balance sheets and the history of sovereign defaults. He worked with Geithner at the IMF, Ben Bernanke at Princeton, and even introduced Larry Summers to his wife. He has written many papers on the subject, and I found *This Time is Different: A Panoramic View of Eight Centuries of Financial Crises* (April 2008) (see [http://www.economics.harvard.edu/faculty/rogooff/files/This\\_Time\\_Is\\_Different.pdf](http://www.economics.harvard.edu/faculty/rogooff/files/This_Time_Is_Different.pdf)) to be one of the best pieces of work on the subject of governments getting in over their heads and the inevitable consequences that follow. What Professor Rogoff concludes is that capital mobility and substantial foreign investment are two of the primary determinants to the conditions that typically precede sovereign default. In prior works, such as "Debt Intolerance" (2003), he tries to understand the threshold levels of debt that are "sustainable" for many emerging economies. When we applied the recent results of our work to the conclusions drawn by Rogoff, the result was something that none of us have ever imagined could happen. **Our work suggested that there could be a "cluster" of government defaults over the next three years (or possibly sooner).** Do you know what percentage of the world's sovereign governments defaulted in the year 1934? Remember, the brevity of financial memory is remarkable.

### Percent of Countries in Default on or Restructuring their Sovereign External Debt (1800-2006)



Source: Carmen M. Reinhart and Kenneth S. Rogoff. *This Time is Different: A Panoramic View of Eight Centuries of Financial Crises*. April 16, 2008.

Rogoff states that:

*We find that **serial default is a nearly universal phenomenon[.]** Major default episodes are typically spaced some years (or decades) apart, creating an illusion that "this time is different" among policymakers and investors. A recent example of the "this time is different" syndrome is the false belief that domestic debt is a novel feature of the modern financial landscape. We also confirm that crises frequently emanate from the financial centers with transmission through interest rate shocks and commodity price collapses. Thus, the recent US sub-prime financial crisis is hardly unique. Our data also*

*documents other crises that often accompany default: including inflation, exchange rate crashes, banking crises, and currency debasements.*

I recently had the opportunity and privilege to meet and discuss with Professor Rogoff our work, and after careful consideration and review, he was very complimentary of our research and intrigued by the consideration our analysis gives to contingent liabilities arising from MFI assets.

## **Competitive Devaluation - Don't Get Rope-A-Doped!**

As a result of the world's banking systems being multiples of the host country's GDP and many multiples of government receipts, the countries have only a few ways through this. What we have witnessed over the past few months is that governments around the world have decided to maintain the structural stability of their banking systems in order to preserve the trust of their people. Basically, governments around the world have to save their banks even if it means bringing the sovereign into an untenable position. The most likely path that the world's Keynesians will adopt is the money printing press. Even our own Ben Bernanke has exhibited his love for his printing press. In his now infamous 2002 "Helicopter" speech, Mr. Bernanke stated:

*Indeed, under a fiat (that is, paper) money system, a government (in practice, the central bank in cooperation with other agencies) should always be able to generate increased nominal spending and inflation, even when the short-term nominal interest rate is at zero [...] What has this got to do with monetary policy? Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a **printing press** (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes **at essentially no cost**. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation." (emphasis added)*

Now, the thing that scares me the most about that speech is the fact that Mr. Bernanke says "at essentially no cost." When I look back into history, almost every experiment with fiat currency has ended poorly. Actually, the thing that disturbs me the most is Bernanke's academic comfort in the fact that his printing press has enough ink. His Keynesian ideology works best in a vacuum outside of the real world. **The fact that he thinks stealing money from the savers in his economy and confiscating it through the hidden tax of inflation/currency debasement should scare everyone.**

We are about to enter a time in which all of the world's central banks will break out the ink and start printing to attempt to cover up their mistakes. If you are following stocks or bonds (like in 1923 Germany or Argentina in 2001), you are likely to get rope-a-doped because you are not watching the government steal your hard-earned savings with their printing presses. It is time to defend yourselves from this insidious crime against the financially prudent.

A passage from *The Creature from Jekyll Island* by Edward Griffin:

*Indeed, our founding fathers intended to prohibit the Federal Government from issuing 'bills of credit,' consider this... The first draft of the Constitution was copied in large measure from the Articles of Confederation. When it was taken up for consideration by the delegates, therefore, it contained the old provision that had caused so much chaos. It stated: "the legislature of the United States shall have the power to borrow money and emit bills of credit." But, after a lively discussion on the matter, the offending provision was voted to be removed from the Constitution by an overwhelming margin. Voicing the sentiment of the majority of the delegates, Alexander Hamilton said: "to emit an unfunded paper as the sign of value ought not to continue a formal part of the Constitution, nor ever hereafter to be employed; being, in its nature, repugnant with abuses and liable to be made the engine of imposition and fraud.*

At the time, George Washington stated, "We may become a great commercial and flourishing nation. But, if in the pursuit of the means we should unfortunately stumble again on unfunded paper money or any similar species of fraud, we shall assuredly give a fatal stab to our national credit in its infancy."

If the Federal Reserve begins to purchase large quantities of newly-issued Treasury bonds – the electronic equivalent of the printing press – we better hold on to our wallets! The good news for the United States is the fact that, as a percent of GDP, it will not have to print nearly as much as many parts of the rest of the world.

What worries me the most about our analysis is the fact that the U.S. will have to issue \$2.35 trillion new Treasuries this year, and collectively, Europe will have to issue even more. Today, China and Japan own 65% of the foreign ownership of U.S. Treasuries. Have you seen what is happening to China and Japan lately? It does not seem possible that there is anywhere near enough money in the world to buy that many Treasuries.

To be clear, we believe that the U.S. (and in fact, the world) is in an ongoing debt deflationary spiral that will likely continue for some time (possibly years). The rampant printing of currencies around the globe is not, in our opinion, likely to be immediately "inflationary" (in the common understanding of the term) as leverage comes out of the private sector and asset values continue to decline. The greater concern is the potential inflationary time bomb that grows as governments continue to borrow, print and "stimulate." What happens to inflation when the velocity of money goes from zero to 100?

Given all of the above, we are very confident in two predictions:

1. The U.S. is in relatively better shape than the rest of the world, and the dollar will be a safer currency than virtually any other (and yes, that includes the Yen).
2. Uncertainty and fear are rampant. Confidence in governmental and central bank leadership (are the two really that separate?) is plummeting worldwide. As a result, we believe people will look to "old-fashioned" stores of value – those which represented money long before green pieces of paper backed by a promise existed. Indeed, investors have already begun moving into precious metals. We expect this will continue.

## **Bank Debt – Still Too Early**

We have spent a considerable amount of time analyzing the bank debt markets and looking for investment opportunities. While this asset class has performed well since its lows in the 4th quarter 2008, we believe that now is not the time to enter this space. We are concerned about investments in this arena for a number of reasons:

- S&P predicts that approximately 23% of all speculative-grade, non-financial issuers will default in this cycle. We believe this prediction drastically underestimates the severity of the problem and the actual number will likely approach 50%. Imagine a world where HALF of these investments file bankruptcy. To add insult to injury, we believe recoveries will be well below historical norms, as evidenced by recent bankruptcy filings.
- Many of the more liquid names are core positions in Collateralized Loan Obligations (“CLOs”), which are levered pools of levered bank loans used to “disperse” risk and generate “safe” returns from not-so-safe assets (we seen this movie before, haven’t we?). We believe that the rating agencies will downgrade as much as 40% of all non-investment grade credits to “CCC” status. This point is extremely important. Such a downgrade would trigger a failure of over-collateralization tests which are key covenants in virtually all CLOs and potentially trigger Events of Default in many of these pools. The unintended and dangerous consequence of these defaults would be an evaporation of the CLO bid from the market accompanied by a glut of supply, thus driving down the price.
- There are virtually no reasonably priced DIP lenders (depending on whose side you are on), which is forcing existing loans to be impaired beyond historic norms (see the Lyondell discussion below).
- Most marginal borrowers continue to play chicken with their lenders, and many agent banks (lead lenders in a syndication process) are simply punting the losses down the road for a better day, which further weakens the collateral.
- The posture in Washington is to save or create four million jobs. Consequently, we think most bankruptcy judges will be overly sympathetic to borrowers and push for going concerns rather than liquidations (which could actually make more sense in certain situations).
- The “sum-of-the-parts” analysis commonly used in liquidation scenarios tend to be overly optimistic with regard to current bank debt pricing. With no credit available to finance these businesses as going concerns out of bankruptcy, the bank debt price must ultimately reflect what a 100% equity purchaser would be willing to pay – a number much lower than historical norms (see Tribune discussion below). The returns required by investors will only continue to increase in the medium-term.
- The typical CLO can only hold defaulted collateral for a period of 2 to 3 years. Unfortunately, we believe this is simply not enough time for the economy to find its way out of the proverbial woods, and CLOs will be forced to sell illiquid re-organized equity into a challenging market.

Below we discuss two recent bankruptcy cases that illustrate the current dangers of the bank debt market.

## **Lyondell – From \$21 Billion to Bankrupt in 385 Days**

Lyondell Chemical Company, a manufacturer of intermediate chemicals, was acquired by Basell AF S.C.A. on December 20, 2007, for \$20.9 billion including assumed debt. The bulk of the purchase price was financed with the combination of \$9.1 billion in syndicated bank loans, a \$7.9 billion loan from Basell AF S.C.A., and \$800 million of assumed outstanding unsecured bonds. This implies 85% debt/capital, with bank loans making up nearly 44% of the total cap structure. During 2008, Lyondell's operations suffered with the economic downturn (the damage, of course, was amplified by excessive leverage) culminating in bankruptcy filing on January 8, 2009. Think about that for a moment: it took only a year for a \$21 billion leveraged acquisition to proceed from purchase to bankruptcy. Over the same time period, the bid price for the Lyondell syndicated bank loans declined 57% from \$1.00 to \$0.43. Lyondell's weak cash flow outlook required significant DIP financing to facilitate the restructuring process. The tight capital market conditions forced Lyondell to accept an onerous "roll-up" DIP structure (LIBOR + 1000 with a 3% LIBOR floor – a MINIMUM 13% floating rate) that will transfer a substantial portion of the economics from pre-petition creditors (pre-bankruptcy lenders) to the DIP lenders. This puts the pre-bankruptcy bank lenders in a very unfavorable position – under a "roll-up" DIP, original lenders must throw good money after bad by putting additional capital into the new DIP facility to protect their original bad loan. Accordingly, trading in the senior secured bank loans bifurcated into two classes: (i) "Stub," where original lenders did not agree to re-up; and (ii) "Roll-up," where original lenders threw good money after bad, desperately clawing for an enhanced recovery. As of February 23, 2009, the bid prices for the "stub" and "roll-up" bank loans are \$0.245 and \$0.570, respectively. Based upon our experience, most Wall Street firms assume 60% recovery rates to be the "norm."

## **Tribune – Beware the Allure of "Trophy" Assets**

Tribune Company is a media conglomerate consisting of newspapers, television stations, and ownership interests in the Chicago Cubs, Wrigley Field, SportsNet, and The Food Network. In December 2007, Sam Zell acquired Tribune Company in a \$14 billion leveraged transaction financed employing \$8.7 billion of senior secured bank loans, \$1.6 billion in unsecured bridge loans, and the assumption of unsecured outstanding bonds. Tribune Company intended to quickly repay debt with free cash flow and proceeds from an asset sale program; however, the company failed to deliver on its commitments as advertising revenues and the capital markets evaporated throughout 2008. In December 2008, Tribune was unable to meet a debt payment and was forced to seek bankruptcy protection. Over this time period, the price for Tribune bank debt steadily declined from \$0.92 in April 2008 to \$0.56 in May 2008 to \$0.42 in December 2008 to \$0.26 today. Investors in the bank loans were enticed all the way down by the supposed break-up value of certain "trophy" assets. Unfortunately for those investors, the market value for such assets is shriveling due to potential buyers' inability to secure financing, as well as deteriorating asset quality and cash flows. Inflated offer prices, as in Mark Cuban's offer for the Chicago Cubs and Scripps' offer for the Food Network, quickly unraveled as investors realized that prices for even high-quality assets are under pressure and deals are increasingly difficult to close.

We believe that ongoing deterioration in the economic and capital market fundamentals will drive further reductions in asset values as well as delay the realization of recoveries from those asset sales. While some buyers of bank debt will argue that they are "getting paid to wait" (at LIBOR + 250, they are not getting paid much), we believe that waiting patiently without putting capital at undue risk is the prudent strategy to generate more attractive risk-adjusted returns.

## **U.S. Mortgages - Not Quite Time Yet**

Many investors have decided that now is the time to buy U.S. mortgage whole loans as well as mortgage securities. While there will be significant opportunity in this space one day, the time has not quite arrived. There are limited examples of bonds that we have purchased in the portfolio to date, but the circumstances surrounding their purchase were more of immediate distress sales, and therefore the price was right regardless of the timing. We use a draconian model on our assumptions for delinquencies, roll rates and defaults. People tend to forget that while many of these pools are geographically diverse, they typically have a particular "slice" of the socio-economic spectrum that is not really diverse in each pool. Historically, job losses have been the key problem for mortgages and mortgage bonds. To date, the majority of delinquencies and defaults have been caused by firms that made loans to people that could not immediately make a mortgage payment. When the unemployment rate hits 10-12% and the jobless rate approaches 20% in the U.S., mortgage prices will take another step lower due to the next wave of defaults.

## **Mark-to-Market Accounting - Don't Ask...Don't Tell - Really?!?!**

In the past year, there has been a lot of debate about mark-to-market accounting and its affect on the balance sheets of financial institutions. The critics of mark-to-market, who want it suspended or done away with, have stated that due to the current credit crunch and lack of liquidity in the marketplace, certain assets are being marked at artificially low values. This is commonly referred to as the "liquidity discount," or said another way, the portion of the total discount due to factors other than projected loss of principal due to credit risk or the current interest rate environment. The alternative to mark-to-market is either to let companies keep securities on their books at cost or use mark-to-model where the companies that own the securities use management's best estimates on future cash flows to determine the value of the securities. Try to name one management team to date that has overestimated losses.

Critics of mark-to-market seem to overlook that the market prices used to determine fair value reflect where an actual buyer and seller have agreed to transact in an orderly fashion. The SEC and the FASB have issued guidance stating that distressed asset sales and illiquid or irrational markets do not have to be used to determine the fair value of a company's assets. In cases where a liquid market does not exist, there is already a built-in mechanism for companies to value their assets based on some degree of judgment, but using as much market data as possible and with disclosure on management's estimates. If anything, we should be pushing for a more robust version of mark-to-market that eliminates the ability of companies to shift assets that they don't wish to mark-to-market into the illiquid buckets, or so-called "Level 2 and 3" assets. Level 2 and 3 assets are those in which companies have the ability to value assets at levels other than market by using clearly prices or quoted prices for similar assets. Take Lehman Brothers for example, as of May 31, 2008, they had total assets of \$639.4 billion, total liabilities of \$613.2 billion and total stockholders' equity (including preferred stock) equal to \$26.3 billion. Lehman's total Level 2 and 3 assets as of this same date were a combined \$203.2 billion. It seems very unlikely that the Level 2 and 3 assets were really worth anywhere near \$203.2 billion on May 31<sup>st</sup>, given that approximately 3 months later not only did all of the equity value (\$26.3 billion) get wiped out, but the senior noteholders lost \$0.91375 as well. Just imagine how much larger the problem would be if assets held on the books at market value were artificially inflated in value in the same manner as Level 2 and 3 assets.

If you look at reasons why the market is pricing most assets below par, it is not due to liquidity or the credit crunch. The simple fact remains that until the broader macroeconomic conditions improve, credit losses and defaults will continue to increase. Looking back on the past two years worth of trading data, the market has not been punitive enough in its assumptions. It was not long ago that the same people blaming mark-to-market accounting for not reflecting true asset value would have said it was impossible for a AAA-rated bond to have principal loss even though many were trading at steep discounts. In the market today, that outcome is widely determined to be inevitable. While we are certain that mark-to-market accounting is not perfect and it will overvalue some assets and undervalue others, it is very clear that the market has been ahead of the curve through this cycle and continues to be the best estimate of ultimate value. Moody's claims that none of their AAA-rated bonds have ever taken a capital loss. What they fail to mention is that they downgrade AAA securities to lower ratings before capital losses occur.

It is worth pointing out that we mark the Master Fund's investments to market every day, and we report performance based on those marks to you, our limited partners, every month. We do not manipulate the pricing of our investments, nor do we have any desire to do so. Would you invest with us if our returns were based on our own assumptions of what we thought something should be worth rather than where the positions could be sold to a willing buyer?

## **Credit Default Swaps - They are NOT the Villain in the Room**

With all of the discussion lately in regard to CDS, I think it is time to offer an easy solution to fixing the problem for good. We are an active participant in this marketplace and would like to share our thoughts with you on the subject. CDS is an enigmatic term used to baffle even those who invest with them in their portfolios. When anyone uses the term "swap," I am sure it turns off 99% of the people reading or listening. Credit Default Swaps are simply **bond options**. There is a reference obligation (the bond), a finite time frame, and consideration exchanged between parties (well sometimes...and this is the problem that needs fixing). We don't hear about the equities option marketplace as being "disruptive" or "systemic." We don't hear about the futures options marketplace causing depressions or market meltdowns. Why do you think that is? The answer is so easy that I can't believe it is not talked about more. The players in the CDS marketplace play with different rules. If you are a seller of open-ended risk (i.e. the person selling the insurance against default), you have been able to do so with ZERO INITIAL COLLATERAL REQUIRED if you were a dealer or say a huge insurance company with a pristine credit rating (AIG). So, the returns and the leverage were infinite to these players as long as the contract never moved against them. They would simply collect premiums without ever posting collateral or putting money up for the risk they were taking. The Wall Street firms like Bear Stearns, Lehman, and AIG all took complete advantage of this and levered themselves more than ever. If there were to be a rule in the future that REQUIRING ALL PARTICIPANTS to play by the same collateral rules, the market would shrink significantly and there will not likely be another systemic issue surrounding them. If all players had to play by the same rules, this marketplace would have NEVER grown to the size it is today, and AIG wouldn't have cost the U.S. Taxpayer close to \$200 BILLION so far. This is an EASY FIX. We are also proponents of making the 88% of CDS contracts that are standardized be exchange-traded with prices listed on the screen. The link below leads to the DTCC's summary of CDS market composition: [http://www.dtcc.com/products/consent.php?id=tiwd/products/derivserv/data\\_table\\_i.php](http://www.dtcc.com/products/consent.php?id=tiwd/products/derivserv/data_table_i.php)

I am sure I will upset Wall Street firms and insurance companies and all of the other participants that like the old system of posting no collateral and having the marketplace opaque so they could fleece the unwary participants. It is time to have an “Adult Skate” only from now on.

Even the “Sage of Omaha,” Warren Buffet, wrote in his 2008 letter to his shareholders:

*At yearend we had written \$4 billion of contracts covering 42 corporations, for which we receive annual premiums of \$93 million. This is the only derivatives business we write that has any counterparty risk; the party that buys the contract from us must be **good** for the quarterly premiums it will owe us over the five years. We are **unlikely to expand** this business to any extent because most **buyers of this protection now insist that the seller post collateral, and we will not enter into such an arrangement.** (emphasis added).*

## **To Our Investors and Friends:**

Many of you are aware of the Joint Statement released on February 25<sup>th</sup> (a whole 4 days and 11% ago in the financials) by the FDIC, Treasury, Federal Reserve, OCC, and the OTS. In it, they assured us that “currently, the major U.S. banking institutions have capital in excess of the amounts required to be considered well-capitalized.” I guess we are “all good” again. What is all of this talk about nationalization if the banks are well capitalized? Why did the Federal Reserve and Congress agree to backstop, inject or guarantee close to \$9 trillion of support if they are all “well-capitalized”?

Consider this: if the Tier 1 risk-based capital requirements for U.S. banks is 6%, then the de-facto amount of balance sheet leverage is approximately 16x, at best. If you were investing using 16x leverage coming into 2007-2009, how out-of-business are you? The answer is COMPLETELY. The majority of our banking system is INSOLVENT, and that is the problem. With the repeal of the Glass-Steagall Act (which was originally put into place in 1933) in 1999, depository institutions were given the ability to speculate and infinitely lever their balance sheets through derivatives. Congress allowed major U.S. money center banks to get too levered. WE NEED TO SEPARATE COMMERCIAL BANKS FROM INVESTMENT BANKS. In the future, our depository institutions should not be able to speculate in the uber-levered derivatives markets. They should be good old-fashioned banks (back to the basics). When, and if that ever happens, the next question should be: how much leverage is prudent at these banks? Is 16x leverage prudent? We think the 36-page list of 679 now government-owned companies (e.g. banks) suggests otherwise.

Once you have a deep understanding of how the U.S. and world banking systems work, it gives you a sense of how bad things really are and may become. So far, the Federal Reserve and the Treasury's “best and brightest” have decided that the best way to get through this is to add more leverage to an over-levered economy. The TALF program is attempting to re-start the securitization market. Wait a minute! Did we not just get here through the disintermediation of risk? Shouldn't institutions that are actually making loans be required to keep some or all of those loans on their balance sheets? It looks like we are trying to head right back to where we just came from. **The problem is that they have already taken all of the “suckers” money in the securitization marketplace.** Re-levering will not work, in my opinion. We need to let the weak fail and the strong survive. Bernanke needs to take some cues from Von Mises and the Austrians.

For your wealth, you must think about the enormity of this problem around the world, and what the likely governmental responses will be. I believe they only have two paths to walk down eventually. One is to print money in an attempt to paper over their losses (pardon the pun). This path can only lead to massive debasement of the fiat currency in our wallets and bank accounts, which is akin to them stealing it from savers. The second path is to move all of the “bad” private assets to the government or public balance sheets and then default on their sovereign debt. The world needs a “do-over” and this would be the cleanest way to rebuilding the world's financial system. As much as I would like to think there is another path to salvation that does not include enormous pain, there is just no other way when you look at all of the numbers.

As some of you are aware, the Hayman franchise expanded in 2008 to be comprehensively positioned to protect and create wealth during the global economic meltdown. Specifically, we created a municipal bond fund as a relatively safe place to store capital and earn a healthy single-digit, tax-free return. We also created a residential real estate private equity fund focusing on distressed investments and DIP financings. There will be a time to own real estate, and we believe that there will be phenomenal opportunities to buy in cheaply as the market continues to be flooded with over levered and distressed residential projects. We are carefully and patiently combing the national real estate market so we are prepared to act when these opportunities arise. The fund targets returns in the high teens to low twenties with little to no leverage. To date, we have executed one DIP financing and bid on over \$1 billion worth of distressed transactions. Given the direction in which the global economy is headed and the looming worldwide fiat currency debasement, we are confident that at some point, real estate will prove to be a very valuable asset class.

For those of you that have not known me for more than a couple of years, throughout my life I have been a very optimistic person. I do not have any need or, for that matter, desire to remain negative about the world. As a fiduciary, I must gather and assimilate the data that I seek. I must then (with my team) formulate an opinion with regard to that data as well as hundreds of other social, political and game-theory inputs in order to develop our thesis to first protect and second, earn good risk-based returns on your capital. There will be a time to get bullish (my guess is many years from now), and at our investor dinner on April 1st, I will describe one such bullish investment we will be making in 2009.

Regards,

J. Kyle Bass

Managing Partner  
Hayman Advisors, L.P.

*\*This letter contains information about prior investments made by Hayman Capital Master Fund, LP (the “Fund”). Prior investment returns are not necessarily indicative of future success. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance reported herein. Neither Hayman Advisors, L.P. (the Advisor), the Fund, nor any of their affiliates guarantee the performance of any investment or any particular rate of return. Unaudited figures are based on estimates and may be subject to material change. The information contained herein is current as of the date hereof, but may become outdated or subsequently may change.*

*Net results reflect the deduction of operational expenses, management fees and incentive allocations (estimated when applicable), but do not include side pocket investments (if any). Net results reflect investor returns for an investment made at the Fund's inception without any subsequent contributions or withdrawals. Actual investor results may vary due to, among other things, the timing of contributions or withdrawals and feeder level expenses. Performance information for 2006 is from the Fund's inception on February 14, 2006 through December 31, 2006.*

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United States Federal Government Balance Sheet (Not Seasonally Adjusted)

Source: Federal Reserve Levels Report

											2008				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Q3	98-00 CAGR	00-03 CAGR	03-08 CAGR	07-08 Growth
<b>Total Financial Assets</b>	\$ 445.5	\$ 560.4	\$ 513.7	\$ 607.2	\$ 599.0	\$ 629.7	\$ 609.5	\$ 614.6	\$ 624.9	\$ 659.0	\$ 1,009.8	7.4%	7.0%	10.5%	76.7%
Gold, SDRs and Official Foreign Exchange	\$ 51.0	\$ 44.4	\$ 41.0	\$ 43.1	\$ 51.1	\$ 55.1	\$ 54.5	\$ 35.3	\$ 34.5	\$ 36.3	\$ 44.6	-10.3%	10.4%	-4.4%	31.6%
Checkable Deposits and Currency	\$ 23.2	\$ 87.9	\$ 24.3	\$ 66.9	\$ 47.5	\$ 54.1	\$ 21.9	\$ 36.8	\$ 32.9	\$ 56.5	\$ 365.1	2.3%	30.6%	49.5%	1103.6%
Time and Savings Deposits	\$ 4.7	\$ 5.4	\$ 6.3	\$ 10.5	\$ 27.6	\$ 2.4	\$ 2.4	\$ 1.4	\$ 1.7	\$ 2.8	\$ 2.9	15.8%	-27.5%	4.1%	4.8%
Credit Market Instruments	\$ 221.6	\$ 261.0	\$ 272.7	\$ 271.1	\$ 276.0	\$ 273.7	\$ 275.9	\$ 275.0	\$ 281.2	\$ 287.6	\$ 298.5	10.9%	0.1%	1.8%	5.1%
Agency and GSE-Backed Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Other Loans & Advances	\$ 139.3	\$ 132.4	\$ 128.8	\$ 122.8	\$ 119.2	\$ 117.5	\$ 114.4	\$ 107.4	\$ 108.0	\$ 105.8	\$ 107.0	-3.8%	-3.0%	-2.0%	1.5%
Mortgages	\$ 44.9	\$ 77.7	\$ 76.9	\$ 75.8	\$ 76.3	\$ 73.8	\$ 75.4	\$ 77.8	\$ 81.5	\$ 83.4	\$ 84.6	30.9%	-1.4%	2.9%	1.9%
Consumer Credit (Student Loans)	\$ 37.4	\$ 50.9	\$ 67.0	\$ 72.5	\$ 80.5	\$ 82.4	\$ 86.1	\$ 89.8	\$ 91.7	\$ 98.4	\$ 106.9	33.8%	7.1%	5.6%	11.7%
Trade Receivables	\$ 22.3	\$ 22.9	\$ 28.1	\$ 35.5	\$ 32.2	\$ 51.3	\$ 61.8	\$ 70.9	\$ 71.3	\$ 71.5	\$ 71.4	12.3%	22.2%	7.2%	-0.2%
Taxes Receivable	\$ 21.4	\$ 38.5	\$ 42.4	\$ 79.8	\$ 64.3	\$ 91.4	\$ 90.7	\$ 94.3	\$ 101.5	\$ 101.5	\$ 105.0	40.8%	29.2%	3.0%	4.6%
Miscellaneous Assets	\$ 101.3	\$ 100.3	\$ 98.9	\$ 100.3	\$ 100.3	\$ 101.7	\$ 102.3	\$ 100.9	\$ 101.8	\$ 102.8	\$ 122.3	-1.2%	0.9%	4.0%	26.1%
<b>Total Liabilities</b>	\$ 4,529.4	\$ 4,503.8	\$ 4,264.7	\$ 4,294.0	\$ 4,583.9	\$ 5,096.6	\$ 5,533.4	\$ 5,919.1	\$ 6,167.9	\$ 6,567.4	\$ 7,252.7	-3.0%	6.1%	7.7%	14.1%
SDR Certificates	\$ 9.2	\$ 6.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	-51.1%	0.0%	0.0%	0.0%
Treasury Currency	\$ 19.9	\$ 20.9	\$ 23.2	\$ 24.5	\$ 25.5	\$ 26.0	\$ 26.7	\$ 27.5	\$ 28.1	\$ 28.7	\$ 28.1	8.0%	3.9%	1.6%	-2.8%
Credit Market Instruments	\$ 3,752.1	\$ 3,680.9	\$ 3,385.1	\$ 3,379.5	\$ 3,637.1	\$ 4,033.1	\$ 4,395.0	\$ 4,701.8	\$ 4,885.3	\$ 5,122.3	\$ 5,800.7	-5.0%	6.0%	8.0%	18.0%
Savings Bonds	\$ 186.6	\$ 186.4	\$ 184.8	\$ 190.3	\$ 194.9	\$ 203.8	\$ 204.4	\$ 205.1	\$ 202.4	\$ 196.4	\$ 194.2	-0.5%	3.3%	-1.0%	-1.5%
Other Treasury Securities	\$ 3,537.0	\$ 3,466.2	\$ 3,173.0	\$ 3,162.4	\$ 3,414.9	\$ 3,804.4	\$ 4,166.3	\$ 4,472.9	\$ 4,659.4	\$ 4,902.8	\$ 5,583.4	-5.3%	6.2%	8.4%	18.9%
Budget Agency Securities	\$ 28.5	\$ 28.3	\$ 27.3	\$ 26.8	\$ 27.3	\$ 24.9	\$ 24.3	\$ 23.8	\$ 23.5	\$ 23.1	\$ 23.1	-2.1%	-3.0%	-1.6%	0.0%
Multi-Family Residential Mortgages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Trade Payables	\$ 65.0	\$ 70.2	\$ 74.6	\$ 78.0	\$ 78.8	\$ 151.2	\$ 166.3	\$ 198.8	\$ 205.7	\$ 288.4	\$ 248.0	7.1%	26.6%	11.0%	-18.2%
Insurance Reserves	\$ 33.6	\$ 35.0	\$ 36.4	\$ 37.8	\$ 39.4	\$ 40.5	\$ 41.6	\$ 42.7	\$ 44.2	\$ 45.4	\$ 45.7	4.1%	3.6%	2.6%	0.9%
Miscellaneous Liabilities	\$ 649.6	\$ 690.6	\$ 743.2	\$ 772.0	\$ 800.9	\$ 843.6	\$ 901.6	\$ 946.1	\$ 1,002.4	\$ 1,080.4	\$ 1,128.0	7.0%	4.3%	6.3%	5.9%
Nonmarketable Securities held by Pension Plans	\$ 642.9	\$ 684.0	\$ 736.8	\$ 765.8	\$ 790.3	\$ 815.0	\$ 855.9	\$ 882.9	\$ 918.7	\$ 952.0	\$ 962.3	7.1%	3.4%	3.6%	1.4%
Other	\$ 6.7	\$ 6.6	\$ 6.4	\$ 6.2	\$ 10.6	\$ 28.6	\$ 45.7	\$ 63.2	\$ 83.7	\$ 128.4	\$ 165.7	-2.3%	64.7%	44.8%	40.5%
<b>Capital Deficit</b>	\$ 4,083.9	\$ 3,943.4	\$ 3,751.0	\$ 3,686.8	\$ 3,984.9	\$ 4,466.9	\$ 4,923.9	\$ 5,304.5	\$ 5,543.0	\$ 5,908.4	\$ 6,242.9	-4.2%	6.0%	7.3%	7.6%

United States Federal Government Balance Sheet (Not Seasonally Adjusted)

Source: Federal Reserve Levels Report

	2008														
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Q3	98-00 Change	00-03 Change	03-08 Change	07-08 Change
<b>% of Total Financial Assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Gold, SDRs and Official Foreign Exchange	11.4%	7.9%	8.0%	7.1%	8.5%	8.8%	8.9%	5.7%	5.5%	5.5%	4.4%	-3.5%	0.8%	-4.3%	-1.1%
Checkable Deposits and Currency	5.2%	15.7%	4.7%	11.0%	7.9%	8.6%	3.6%	6.0%	5.3%	8.6%	36.2%	-0.5%	3.9%	27.6%	27.6%
Time and Savings Deposits	1.1%	1.0%	1.2%	1.7%	4.6%	0.4%	0.4%	0.2%	0.3%	0.4%	0.3%	0.2%	-0.3%	-0.1%	-0.1%
Credit Market Instruments	49.7%	46.6%	53.1%	44.6%	46.1%	43.5%	45.3%	44.7%	45.0%	43.6%	29.6%	3.3%	-9.6%	-13.9%	-14.1%
Agency and GSE-Backed Securities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Loans & Advances	31.3%	23.6%	25.1%	20.2%	19.9%	18.7%	18.8%	17.5%	17.3%	16.1%	10.6%	-6.2%	-6.4%	-8.1%	-5.5%
Mortgages	10.1%	13.9%	15.0%	12.5%	12.7%	11.7%	12.4%	12.7%	13.0%	12.7%	8.4%	4.9%	-3.2%	-3.3%	-4.3%
Consumer Credit (Student Loans)	8.4%	9.1%	13.0%	11.9%	13.4%	13.1%	14.1%	14.6%	14.7%	14.9%	10.6%	4.6%	0.0%	-2.5%	-4.3%
Trade Receivables	5.0%	4.1%	5.5%	5.8%	5.4%	8.1%	10.1%	11.5%	11.4%	10.8%	7.1%	0.5%	2.7%	-1.1%	-3.8%
Taxes Receivable	4.8%	6.9%	8.3%	13.1%	10.7%	14.5%	14.9%	15.3%	16.2%	15.4%	10.4%	3.5%	6.3%	-4.1%	-5.0%
Miscellaneous Assets	22.7%	17.9%	19.3%	16.5%	16.7%	16.2%	16.8%	16.4%	16.3%	15.6%	12.1%	-3.5%	-3.1%	-4.0%	-3.5%
<b>% of Total Liabilities</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
SDR Certificates	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.0%
Treasury Currency	0.4%	0.5%	0.5%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.1%	0.0%	-0.1%	0.0%
Credit Market Instruments	82.8%	81.7%	79.4%	78.7%	79.3%	79.1%	79.4%	79.4%	79.2%	78.0%	80.0%	-3.5%	-0.2%	0.8%	2.0%
Savings Bonds	4.1%	4.1%	4.3%	4.4%	4.3%	4.0%	3.7%	3.5%	3.3%	3.0%	2.7%	0.2%	-0.3%	-1.3%	-0.3%
Other Treasury Securities	78.1%	77.0%	74.4%	73.6%	74.5%	74.6%	75.3%	75.6%	75.5%	74.7%	77.0%	-3.7%	0.2%	2.3%	2.3%
Budget Agency Securities	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.3%	0.0%	-0.2%	-0.2%	0.0%
Multi-Family Residential Mortgages	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Trade Payables	1.4%	1.6%	1.7%	1.8%	1.7%	3.0%	3.0%	3.4%	3.3%	4.4%	3.4%	0.3%	1.2%	0.5%	-1.0%
Insurance Reserves	0.7%	0.8%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	0.7%	0.7%	0.6%	0.1%	-0.1%	-0.2%	-0.1%
Miscellaneous Liabilities	14.3%	15.3%	17.4%	18.0%	17.5%	16.6%	16.3%	16.0%	16.3%	16.5%	15.6%	3.1%	-0.9%	-1.0%	-0.9%
Nonmarketable Securities held by Pension Plans	14.2%	15.2%	17.3%	17.8%	17.2%	16.0%	15.5%	14.9%	14.9%	14.5%	13.3%	3.1%	-1.3%	-2.7%	-1.2%
Other	0.1%	0.1%	0.2%	0.1%	0.2%	0.6%	0.8%	1.1%	1.4%	2.0%	2.3%	0.0%	0.4%	1.7%	0.3%

United States Federal Government Income Statement and Change in Accounts (Nominal)

Source: Federal Reserve Flow of Funds Report

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-00 CAGR	00-03 CAGR	03-08 CAGR	07-08 Growth
											Q3				
Personal Current Taxes	\$ 825.8	\$ 893.0	\$ 999.1	\$ 994.5	\$ 830.5	\$ 774.5	\$ 797.4	\$ 930.7	\$ 1,049.9	\$ 1,167.3	\$ 1,141.6	10.0%	-8.1%	8.1%	-2.2%
Taxes on Production and Imports	\$ 81.1	\$ 83.9	\$ 87.8	\$ 85.8	\$ 87.3	\$ 89.7	\$ 94.6	\$ 99.2	\$ 98.0	\$ 97.7	\$ 95.2	4.0%	0.7%	1.2%	-2.6%
Taxes on Corporate Income	\$ 204.3	\$ 212.9	\$ 219.4	\$ 164.7	\$ 150.5	\$ 197.8	\$ 250.3	\$ 341.0	\$ 388.9	\$ 365.4	\$ 315.9	3.6%	-3.4%	9.8%	-13.5%
Taxes on ROW	\$ 5.7	\$ 5.9	\$ 7.3	\$ 7.1	\$ 7.3	\$ 8.9	\$ 10.0	\$ 12.1	\$ 13.4	\$ 14.0	\$ 14.9	13.2%	6.8%	10.9%	6.4%
Contributions for Govt. Social Insurance	\$ 613.8	\$ 651.7	\$ 691.7	\$ 717.5	\$ 734.3	\$ 758.9	\$ 805.2	\$ 850.0	\$ 902.4	\$ 942.3	\$ 974.8	6.2%	3.1%	5.1%	3.4%
Income Receipts on Assets	\$ 21.5	\$ 21.5	\$ 25.2	\$ 24.9	\$ 20.2	\$ 22.9	\$ 23.8	\$ 24.0	\$ 25.7	\$ 29.2	\$ 32.4	8.3%	-3.1%	7.2%	11.0%
Current Transfer Receipts	\$ 21.6	\$ 22.7	\$ 25.7	\$ 27.1	\$ 24.8	\$ 25.0	\$ 28.8	\$ 15.0	\$ 35.7	\$ 37.5	\$ 22.4	9.1%	-0.9%	-2.2%	-40.3%
Current Surplus of Government Ent.	\$ 0.1	\$ (0.4)	\$ (2.3)	\$ (5.5)	\$ (1.6)	\$ 2.3	\$ (1.2)	\$ (5.0)	\$ (3.6)	\$ (2.2)	\$ (0.1)		-200.0%	-153.4%	-95.5%
<b>Current Receipts, NIPA Basis</b>	<b>\$ 1,773.9</b>	<b>\$ 1,891.2</b>	<b>\$ 2,053.9</b>	<b>\$ 2,016.1</b>	<b>\$ 1,853.3</b>	<b>\$ 1,880.0</b>	<b>\$ 2,008.9</b>	<b>\$ 2,267.0</b>	<b>\$ 2,510.4</b>	<b>\$ 2,651.2</b>	<b>\$ 2,597.1</b>	<b>7.6%</b>	<b>-2.9%</b>	<b>6.7%</b>	<b>-2.0%</b>
Consumption Expenditures	\$ 454.6	\$ 475.1	\$ 499.3	\$ 531.9	\$ 591.5	\$ 662.7	\$ 723.7	\$ 766.3	\$ 811.8	\$ 856.1	\$ 954.1	4.8%	9.9%	7.6%	11.4%
Government Social Benefits	\$ 719.2	\$ 738.0	\$ 772.5	\$ 841.4	\$ 919.6	\$ 966.5	\$ 1,015.3	\$ 1,081.6	\$ 1,180.4	\$ 1,254.2	\$ 1,376.2	3.6%	7.8%	7.3%	9.7%
Other Current Transfer Payments	\$ 227.4	\$ 248.0	\$ 265.6	\$ 290.0	\$ 323.4	\$ 362.2	\$ 375.2	\$ 396.5	\$ 387.7	\$ 412.5	\$ 419.1	8.1%	10.9%	3.0%	1.6%
Interest Payments	\$ 298.9	\$ 282.7	\$ 283.3	\$ 258.6	\$ 229.1	\$ 212.9	\$ 221.0	\$ 255.4	\$ 282.3	\$ 312.6	\$ 342.6	-2.6%	-9.1%	10.0%	9.6%
Subsidies	\$ 35.0	\$ 43.8	\$ 43.8	\$ 47.6	\$ 37.5	\$ 47.8	\$ 44.2	\$ 58.9	\$ 49.4	\$ 45.2	\$ 48.3	11.9%	3.0%	0.2%	6.9%
-Wage Accruals less Disbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
<b>Current Expenditures, NIPA Basis</b>	<b>\$ 1,735.1</b>	<b>\$ 1,787.6</b>	<b>\$ 1,864.5</b>	<b>\$ 1,969.5</b>	<b>\$ 2,101.1</b>	<b>\$ 2,252.1</b>	<b>\$ 2,379.4</b>	<b>\$ 2,558.7</b>	<b>\$ 2,711.6</b>	<b>\$ 2,880.6</b>	<b>\$ 3,140.3</b>	<b>3.7%</b>	<b>6.5%</b>	<b>6.9%</b>	<b>9.0%</b>
<b>Net Federal Government Saving, NIPA Basis</b>	<b>\$ 38.8</b>	<b>\$ 103.6</b>	<b>\$ 189.4</b>	<b>\$ 46.6</b>	<b>\$ (247.8)</b>	<b>\$ (372.1)</b>	<b>\$ (370.5)</b>	<b>\$ (291.7)</b>	<b>\$ (201.2)</b>	<b>\$ (229.4)</b>	<b>\$ (543.2)</b>	<b>120.9%</b>	<b>-225.2%</b>	<b>7.9%</b>	<b>136.8%</b>
+ Consumption of Fixed Capital	\$ 82.8	\$ 84.8	\$ 87.2	\$ 88.2	\$ 88.9	\$ 90.4	\$ 94.0	\$ 99.1	\$ 105.6	\$ 111.8	\$ 119.3	2.6%	1.2%	5.7%	6.7%
- Insurance and Pension Reserves	\$ 4.4	\$ 3.8	\$ 1.8	\$ 3.3	\$ (1.7)	\$ (0.6)	\$ -	\$ 0.7	\$ 0.1	\$ 0.1	\$ (1.7)	-36.0%	-169.3%	23.2%	-1800.0%
+ Net Capital Transfers	\$ (3.6)	\$ (7.4)	\$ (8.1)	\$ (12.9)	\$ (23.1)	\$ (40.4)	\$ (38.4)	\$ (42.2)	\$ (42.4)	\$ (56.0)	\$ (65.4)	50.0%	70.9%	10.1%	16.8%
<b>= Gross Saving and Net Capital Transfers</b>	<b>\$ 113.6</b>	<b>\$ 177.2</b>	<b>\$ 266.7</b>	<b>\$ 118.6</b>	<b>\$ (180.3)</b>	<b>\$ (321.5)</b>	<b>\$ (314.9)</b>	<b>\$ (235.5)</b>	<b>\$ (138.1)</b>	<b>\$ (173.7)</b>	<b>\$ (487.6)</b>	<b>53.2%</b>	<b>-206.4%</b>	<b>8.7%</b>	<b>180.7%</b>

**United States Federal Government Income Statement and Change in Accounts (Nominal)**

Source: Federal Reserve Flow of Funds Report

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q3	98-00 CAGR	00-03 CAGR	03-08 CAGR	07-08 Growth	
<b>Net Acquisitions of Financial Assets</b>																
Gold, SDRs and Official Foreign Exchange	\$ 6.0	\$ (7.1)	\$ (0.6)	\$ 4.6	\$ 3.4	\$ (1.8)	\$ (3.1)	\$ (14.4)	\$ (2.7)	\$ (0.4)	\$ (1.3)			44.2%	-6.3%	225.0%
Checkable Deposits and Currency	\$ (16.7)	\$ 66.2	\$ (65.1)	\$ 41.1	\$ (17.1)	\$ 9.3	\$ (31.0)	\$ 12.2	\$ (2.7)	\$ 25.1	\$ 1,257.1	97.4%	-152.3%	166.8%	-4908.4%	
Time and Savings Deposits	\$ 1.3	\$ 0.7	\$ 1.0	\$ 4.2	\$ 17.1	\$ (25.2)	\$ -	\$ (1.0)	\$ 0.2	\$ 1.2	\$ 4.3	-12.3%	-393.2%	-170.2%	258.3%	
Credit Market Instruments	\$ 11.6	\$ 6.4	\$ 11.6	\$ 6.0	\$ 4.8	\$ (2.6)	\$ 2.3	\$ (0.9)	\$ 6.2	\$ 6.4	\$ 13.0	0.0%	-160.7%	-238.0%	103.1%	
Agency- and GSE-backed Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
Other Loans & Advances	\$ 3.4	\$ (7.1)	\$ (3.6)	\$ (6.0)	\$ (3.7)	\$ (2.0)	\$ (3.0)	\$ (7.0)	\$ 0.6	\$ (2.2)	\$ 12.2			-17.8%	-243.6%	-654.5%
Mortgages	\$ (0.8)	\$ (0.1)	\$ (0.9)	\$ (1.1)	\$ 0.5	\$ (2.5)	\$ 1.6	\$ 2.4	\$ 3.7	\$ 1.9	\$ (3.4)	6.1%	40.6%	6.3%	-278.9%	
Consumer Credit (Student Loans)	\$ 9.0	\$ 13.6	\$ 16.1	\$ 13.1	\$ 8.0	\$ 1.9	\$ 3.7	\$ 3.7	\$ 1.9	\$ 6.7	\$ 4.2	33.7%	-50.9%	17.2%	-37.3%	
Trade Receivables	\$ 1.5	\$ 4.6	\$ 5.3	\$ 7.3	\$ (3.3)	\$ 19.1	\$ 10.5	\$ 9.1	\$ 0.4	\$ 0.2	\$ 3.5	88.0%	53.3%	-28.8%	1650.0%	
Taxes Receivable	\$ (8.9)	\$ 1.6	\$ (21.5)	\$ (9.3)	\$ (2.3)	\$ 33.9	\$ 22.6	\$ 25.8	\$ (13.4)	\$ (29.4)	\$ 27.5	55.4%	-216.4%	-4.1%	-193.5%	
Miscellaneous Assets	\$ (3.5)	\$ (0.9)	\$ (1.4)	\$ 1.3	\$ -	\$ 1.4	\$ 0.6	\$ (1.4)	\$ 1.0	\$ 1.0	\$ 73.5	-36.8%	-200.0%	120.8%	7250.0%	
<b>Net Acquisitions of Financial Assets</b>	\$ (8.7)	\$ 71.5	\$ (70.7)	\$ 55.2	\$ 2.6	\$ 34.1	\$ 1.9	\$ 29.4	\$ (11.0)	\$ 4.1	\$ 1,377.6	185.1%	-178.4%	109.5%	33500.0%	
<b>Net Increase in Liabilities</b>																
SDR Certificates	\$ -	\$ (3.0)	\$ (4.0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			-100.0%		
Treasury Currency	\$ 0.6	\$ 1.0	\$ 2.4	\$ 1.3	\$ 1.0	\$ 0.6	\$ 0.7	\$ 0.8	\$ 0.6	\$ 0.7	\$ (1.2)	100.0%	-37.0%	-214.9%	-271.4%	
Credit Market Instruments	\$ (52.6)	\$ (71.2)	\$ (295.9)	\$ (5.6)	\$ 257.5	\$ 396.0	\$ 361.9	\$ 306.9	\$ 183.4	\$ 237.0	\$ 2,078.6	137.2%	-210.2%	39.3%	777.0%	
Savings Bonds	\$ 0.1	\$ (0.2)	\$ (1.7)	\$ 5.6	\$ 4.5	\$ 8.9	\$ 0.6	\$ 0.7	\$ (2.7)	\$ (6.0)	\$ (1.3)			-273.6%	-168.1%	-78.3%
Other Treasury Securities	\$ (54.7)	\$ (70.8)	\$ (293.2)	\$ (10.7)	\$ 252.5	\$ 389.5	\$ 361.9	\$ 306.6	\$ 186.4	\$ 243.4	\$ 2,081.6	131.5%	-209.9%	39.8%	755.2%	
Budget Agency Securities	\$ 2.0	\$ (0.2)	\$ (1.0)	\$ (0.5)	\$ 0.5	\$ (2.4)	\$ (0.6)	\$ (0.4)	\$ (0.3)	\$ (0.4)	\$ (1.7)			33.9%	-6.7%	325.0%
Multifamily Residential Mortgages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
Trade Payables	\$ (8.0)	\$ (0.4)	\$ 4.4	\$ 3.4	\$ 0.8	\$ 72.4	\$ 15.1	\$ 32.6	\$ 6.9	\$ 22.7	\$ (20.5)			154.3%	-177.7%	-190.3%
Insurance Reserves	\$ 1.3	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.6	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.5	\$ 1.2	\$ (0.4)	3.8%	-7.7%	-181.7%	-133.3%	
Miscellaneous Liabilities	\$ 34.1	\$ 38.2	\$ 22.9	\$ 59.3	\$ 28.7	\$ 40.3	\$ 59.2	\$ 62.8	\$ 62.1	\$ 77.6	\$ 105.4	-18.1%	20.7%	21.2%	35.8%	
Nonmarketable Securities	\$ 41.2	\$ 41.1	\$ 20.9	\$ 67.1	\$ 24.5	\$ 24.7	\$ 40.9	\$ 40.0	\$ 35.8	\$ 33.3	\$ 55.3	-28.8%	5.7%	17.5%	66.1%	
Other	\$ (7.1)	\$ (2.9)	\$ 2.0	\$ (7.8)	\$ 4.2	\$ 15.6	\$ 18.3	\$ 22.8	\$ 26.3	\$ 44.3	\$ 50.1			98.3%	26.3%	13.1%
<b>Net Increase in Liabilities</b>	\$ (24.6)	\$ (34.0)	\$ (268.8)	\$ 59.8	\$ 289.6	\$ 510.4	\$ 438.0	\$ 404.2	\$ 254.5	\$ 339.2	\$ 2,161.9	230.6%	-223.8%	33.5%	537.4%	
<b>Net Financial Investment</b>	\$ 15.9	\$ 105.5	\$ 198.1	\$ (4.6)	\$ (287.0)	\$ (476.3)	\$ (436.1)	\$ (374.8)	\$ (265.5)	\$ (335.1)	\$ (784.3)	253.0%	-234.0%	10.5%	134.0%	
Fixed Investment	\$ 75.8	\$ 80.8	\$ 79.5	\$ 81.0	\$ 88.1	\$ 93.7	\$ 101.9	\$ 109.2	\$ 120.3	\$ 123.2	\$ 143.6	2.4%	5.6%	8.9%	16.6%	
Nonproduced Financial Assets	\$ (5.7)	\$ (1.0)	\$ (0.3)	\$ (0.7)	\$ 0.3	\$ (0.2)	\$ -	\$ (0.5)	\$ (13.3)	\$ (1.3)	\$ (6.6)	-77.1%	-12.6%	101.2%	407.7%	
<b>Gross Investment</b>	\$ 86.0	\$ 185.3	\$ 277.3	\$ 75.7	\$ (198.6)	\$ (382.8)	\$ (334.2)	\$ (266.1)	\$ (158.5)	\$ (213.2)	\$ (647.3)	79.6%	-211.3%	11.1%	203.6%	
Discrepancy	\$ 27.6	\$ (8.1)	\$ (10.6)	\$ 42.9	\$ 18.3	\$ 61.4	\$ 19.2	\$ 30.6	\$ 20.6	\$ 39.6	\$ 159.6			-279.6%	21.1%	303.0%
<b>Change in Cash Balance</b>	\$ (12.8)	\$ 59.4	\$ (55.1)	\$ 50.9	\$ (1.6)	\$ (24.8)	\$ (3.1)	\$ 4.6	\$ (5.5)	\$ 27.5	\$ 1,260.1	107.5%	-23.4%	-319.4%	4482.2%	

**United States Federal Government Income Statement and Change in Accounts (Relative)**

Source: Federal Reserve Flow of Funds Report

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q3	98-00 Change	00-03 Change	03-08 Change	07-08 Change
<i>(% of Receipts)</i>															
Personal Current Taxes	46.6%	47.2%	48.6%	49.3%	44.8%	41.2%	39.7%	41.1%	41.8%	44.0%	44.0%	2.1%	-7.4%	2.8%	-0.1%
Taxes on Production and Imports	4.6%	4.4%	4.3%	4.3%	4.7%	4.8%	4.7%	4.4%	3.9%	3.7%	3.7%	-0.3%	0.5%	-1.1%	0.0%
Taxes on Corporate Income	11.5%	11.3%	10.7%	8.2%	8.1%	10.5%	12.5%	15.0%	15.5%	13.8%	12.2%	-0.8%	-0.2%	1.6%	-1.6%
Taxes on ROW	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.0%	0.1%	0.1%	0.0%
Contributions for Govt. Social Insurance	34.6%	34.5%	33.7%	35.6%	39.6%	40.4%	40.1%	37.5%	35.9%	35.5%	37.5%	-0.9%	6.7%	-2.8%	2.0%
Income Receipts on Assets	1.2%	1.1%	1.2%	1.2%	1.1%	1.2%	1.2%	1.1%	1.0%	1.1%	1.2%	0.0%	0.0%	0.0%	0.1%
Current Transfer Receipts	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.4%	0.7%	1.4%	1.4%	0.9%	0.0%	0.1%	-0.5%	-0.6%
Current Surplus of Government Ent.	0.0%	0.0%	-0.1%	-0.3%	-0.1%	0.1%	-0.1%	-0.2%	-0.1%	-0.1%	0.0%	-0.1%	0.2%	-0.1%	0.1%
<b>Current Receipts, NIPA Basis</b>	<b>\$ 1,773.9</b>	<b>\$ 1,891.2</b>	<b>\$ 2,053.9</b>	<b>\$ 2,016.1</b>	<b>\$ 1,853.3</b>	<b>\$ 1,880.0</b>	<b>\$ 2,008.9</b>	<b>\$ 2,267.0</b>	<b>\$ 2,510.4</b>	<b>\$ 2,651.2</b>	<b>\$ 2,597.1</b>				
<i>(% of Expenditures)</i>															
Consumption Expenditures	26.2%	26.6%	26.8%	27.0%	28.2%	29.4%	30.4%	29.9%	29.9%	29.7%	30.4%	0.6%	2.6%	1.0%	0.7%
Government Social Benefits	41.5%	41.3%	41.4%	42.7%	43.8%	42.9%	42.7%	42.3%	43.5%	43.5%	43.8%	0.0%	1.5%	0.9%	0.3%
Other Current Transfer Payments	13.1%	13.9%	14.2%	14.7%	15.4%	16.1%	15.8%	15.5%	14.3%	14.3%	13.3%	1.1%	1.8%	-2.7%	-1.0%
Interest Payments	17.2%	15.8%	15.2%	13.1%	10.9%	9.5%	9.3%	10.0%	10.4%	10.9%	10.9%	-2.0%	-5.7%	1.5%	0.1%
Subsidies	2.0%	2.5%	2.3%	2.4%	1.8%	2.1%	1.9%	2.3%	1.8%	1.6%	1.5%	0.3%	-0.2%	-0.6%	0.0%
-Wage Accruals less Disbursements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Current Expenditures, NIPA Basis</b>	<b>\$ 1,735.1</b>	<b>\$ 1,787.6</b>	<b>\$ 1,864.5</b>	<b>\$ 1,969.5</b>	<b>\$ 2,101.1</b>	<b>\$ 2,252.1</b>	<b>\$ 2,379.4</b>	<b>\$ 2,558.7</b>	<b>\$ 2,711.6</b>	<b>\$ 2,880.6</b>	<b>\$ 3,140.3</b>				
<b>Net Federal Government Saving, NIPA Basis</b>	<b>\$ 38.8</b>	<b>\$ 103.6</b>	<b>\$ 189.4</b>	<b>\$ 46.6</b>	<b>\$ (247.8)</b>	<b>\$ (372.1)</b>	<b>\$ (370.5)</b>	<b>\$ (291.7)</b>	<b>\$ (201.2)</b>	<b>\$ (229.4)</b>	<b>\$ (543.2)</b>				
+ Consumption of Fixed Capital	\$ 82.8	\$ 84.8	\$ 87.2	\$ 88.2	\$ 88.9	\$ 90.4	\$ 94.0	\$ 99.1	\$ 105.6	\$ 111.8	\$ 119.3				
- Insurance and Pension Reserves	\$ 4.4	\$ 3.8	\$ 1.8	\$ 3.3	\$ (1.7)	\$ (0.6)	\$ -	\$ 0.7	\$ 0.1	\$ 0.1	\$ (1.7)				
+ Net Capital Transfers	\$ (3.6)	\$ (7.4)	\$ (8.1)	\$ (12.9)	\$ (23.1)	\$ (40.4)	\$ (38.4)	\$ (42.2)	\$ (42.4)	\$ (56.0)	\$ (65.4)				
<b>= Gross Saving and Net Capital Transfers</b>	<b>\$ 113.6</b>	<b>\$ 177.2</b>	<b>\$ 266.7</b>	<b>\$ 118.6</b>	<b>\$ (180.3)</b>	<b>\$ (321.5)</b>	<b>\$ (314.9)</b>	<b>\$ (235.5)</b>	<b>\$ (138.1)</b>	<b>\$ (173.7)</b>	<b>\$ (487.6)</b>				

**United States Federal Government Income Statement and Change in Accounts (Relative)**

Source: Federal Reserve Flow of Funds Report

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-00 Change	00-03 Change	03-08 Change	07-08 Change
											Q3				
<b>% of Net Acquisitions of Financial Assets</b>															
Gold, SDRs and Official Foreign Exchange	-69.0%	-9.9%	0.8%	8.3%	130.8%	-5.3%	-163.2%	-49.0%	24.5%	-9.8%	-0.1%	69.8%	-6.1%	5.2%	9.7%
Checkable Deposits and Currency	192.0%	92.6%	92.1%	74.5%	-657.7%	27.3%	-1631.6%	41.5%	24.5%	612.2%	91.3%	-99.9%	-64.8%	64.0%	-520.9%
Time and Savings Deposits	-14.9%	1.0%	-1.4%	7.6%	657.7%	-73.9%	0.0%	-3.4%	-1.8%	29.3%	0.3%	13.5%	-72.5%	74.2%	-29.0%
Credit Market Instruments	-133.3%	9.0%	-16.4%	10.9%	184.6%	-7.6%	121.1%	-3.1%	-56.4%	156.1%	0.9%	116.9%	8.8%	8.6%	-155.2%
Agency- and GSE-backed Securities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Loans & Advances	-39.1%	-9.9%	5.1%	-10.9%	-142.3%	-5.9%	-157.9%	-23.8%	-5.5%	-53.7%	0.9%	44.2%	-11.0%	6.8%	54.5%
Mortgages	9.2%	-0.1%	1.3%	-2.0%	19.2%	-7.3%	84.2%	8.2%	-33.6%	46.3%	-0.2%	-7.9%	-8.6%	7.1%	-46.6%
Consumer Credit (Student Loans)	-103.4%	19.0%	-22.8%	23.7%	307.7%	5.6%	194.7%	12.6%	-17.3%	163.4%	0.3%	80.7%	28.3%	-5.3%	-163.1%
Trade Receivables	-17.2%	6.4%	-7.5%	13.2%	-126.9%	56.0%	552.6%	31.0%	-3.6%	4.9%	0.3%	9.7%	63.5%	-55.8%	-4.6%
Taxes Receivable	102.3%	2.2%	30.4%	-16.8%	-88.5%	99.4%	1189.5%	87.8%	121.8%	-717.1%	2.0%	-71.9%	69.0%	-97.4%	719.1%
Miscellaneous Assets	40.2%	-1.3%	2.0%	2.4%	0.0%	4.1%	31.6%	-4.8%	-9.1%	24.4%	5.3%	-38.2%	2.1%	1.2%	-19.1%
<b>Net Acquisitions of Financial Assets</b>	<b>\$ (8.7)</b>	<b>\$ 71.5</b>	<b>\$ (70.7)</b>	<b>\$ 55.2</b>	<b>\$ 2.6</b>	<b>\$ 34.1</b>	<b>\$ 1.9</b>	<b>\$ 29.4</b>	<b>\$ (11.0)</b>	<b>\$ 4.1</b>	<b>\$ 1,377.6</b>				
<b>% of Net Increase in Liabilities</b>															
SDR Certificates	0.0%	8.8%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	-1.5%	0.0%	0.0%
Treasury Currency	-2.4%	-2.9%	-0.9%	2.2%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%	-0.1%	1.5%	1.0%	-0.2%	-0.3%
Credit Market Instruments	213.8%	209.4%	110.1%	-9.4%	88.9%	77.6%	82.6%	75.9%	72.1%	69.9%	96.1%	-103.7%	-32.5%	18.6%	26.3%
Savings Bonds	-0.4%	0.6%	0.6%	9.4%	1.6%	1.7%	0.1%	0.2%	-1.1%	-1.8%	-0.1%	1.0%	1.1%	-1.8%	1.7%
Other Treasury Securities	222.4%	208.2%	109.1%	-17.9%	87.2%	76.3%	82.6%	75.9%	73.2%	71.8%	96.3%	-113.3%	-32.8%	20.0%	24.5%
Budget Agency Securities	-8.1%	0.6%	0.4%	-0.8%	0.2%	-0.5%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	8.5%	-0.8%	0.4%	0.0%
Multifamily Residential Mortgages	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Trade Payables	32.5%	1.2%	-1.6%	5.7%	0.3%	14.2%	3.4%	8.1%	2.7%	6.7%	-0.9%	-34.2%	15.8%	-15.1%	-7.6%
Insurance Reserves	-5.3%	-4.1%	-0.5%	2.3%	0.6%	0.2%	0.3%	0.3%	0.6%	0.4%	0.0%	4.8%	0.7%	-0.2%	-0.4%
Miscellaneous Liabilities	-138.6%	-112.4%	-8.5%	99.2%	9.9%	7.9%	13.5%	15.5%	24.4%	22.9%	4.9%	130.1%	16.4%	-3.0%	-18.0%
Nonmarketable Securities	-167.5%	-120.9%	-7.8%	112.2%	8.5%	4.8%	9.3%	9.9%	14.1%	9.8%	2.6%	159.7%	12.6%	-2.3%	-7.3%
Other	28.9%	8.5%	-0.7%	-13.0%	1.5%	3.1%	4.2%	5.6%	10.3%	13.1%	2.3%	-29.6%	3.8%	-0.7%	-10.7%
<b>Net Increase in Liabilities</b>	<b>\$ (24.6)</b>	<b>\$ (34.0)</b>	<b>\$ (268.8)</b>	<b>\$ 59.8</b>	<b>\$ 289.6</b>	<b>\$ 510.4</b>	<b>\$ 438.0</b>	<b>\$ 404.2</b>	<b>\$ 254.5</b>	<b>\$ 339.2</b>	<b>\$ 2,161.9</b>				
<b>Net Financial Investment</b>	<b>\$ 15.9</b>	<b>\$ 105.5</b>	<b>\$ 198.1</b>	<b>\$ (4.6)</b>	<b>\$ (287.0)</b>	<b>\$ (476.3)</b>	<b>\$ (436.1)</b>	<b>\$ (374.8)</b>	<b>\$ (265.5)</b>	<b>\$ (335.1)</b>	<b>\$ (784.3)</b>				
Fixed Investment	\$ 75.8	\$ 80.8	\$ 79.5	\$ 81.0	\$ 88.1	\$ 93.7	\$ 101.9	\$ 109.2	\$ 120.3	\$ 123.2	\$ 143.6				
Nonproduced Financial Assets	\$ (5.7)	\$ (1.0)	\$ (0.3)	\$ (0.7)	\$ 0.3	\$ (0.2)	\$ -	\$ (0.5)	\$ (13.3)	\$ (1.3)	\$ (6.6)				
<b>Gross Investment</b>	<b>\$ 86.0</b>	<b>\$ 185.3</b>	<b>\$ 277.3</b>	<b>\$ 75.7</b>	<b>\$ (198.6)</b>	<b>\$ (382.8)</b>	<b>\$ (334.2)</b>	<b>\$ (266.1)</b>	<b>\$ (158.5)</b>	<b>\$ (213.2)</b>	<b>\$ (647.3)</b>				
Discrepancy	\$ 27.6	\$ (8.1)	\$ (10.6)	\$ 42.9	\$ 18.3	\$ 61.4	\$ 19.2	\$ 30.6	\$ 20.6	\$ 39.6	\$ 159.6				
<b>Change in Cash Balance</b>	<b>\$ (12.8)</b>	<b>\$ 59.4</b>	<b>\$ (55.1)</b>	<b>\$ 50.9</b>	<b>\$ (1.6)</b>	<b>\$ (24.8)</b>	<b>\$ (3.1)</b>	<b>\$ 4.6</b>	<b>\$ (5.5)</b>	<b>\$ 27.5</b>	<b>\$ 1,260.1</b>				