

GLOSSARY OF TERMS

A-C

American International Group (AIG)

AIG, the biggest insurance company in the US, was provided by the US Fed with an US\$85 billion loan in exchange for an 80 percent stake in the firm. Most of A.I.G.'s businesses were healthy, but its troubles grew from one unit that dealt in complex debt securities and derivatives, which threatened to drain the firm's cash quickly. As a result, major credit rating agencies downgraded AIG's debt ratings in mid-September 2008, worsening its financial health and resulting in a more than 60 percent tumble in the firm's shares as concerns grew that the firm lacked capital to withstand the cut to its rating. The company's potential write-offs were mounting and were estimated to reach about US\$60-70 billion. The Fed's US\$85 billion rescue package for AIG, in return for an 80 percent public stake in the firm, was intended to save it from bankruptcy following the collapse of US investment giant Lehman Brothers.

Bail-out

A bail-out, in economics and finance, is a fresh injection of liquidity given to a bankrupt or nearly bankrupt entity, such as a corporation or a bank, in order for it to meet its short-term obligations. Often bailouts are by governments, or by consortia of investors who demand control over the entity as the price for injecting funds.

Basel II

Basel II or the new Basel Capital Framework is a set of proposals issued by the Basel Committee on Banking Supervision to enhance global stability and risk management in the banking industry. The Framework is based on three mutually-reinforcing pillars that will allow banks and supervisors to evaluate the various risks that banks face: (i) minimum capital requirements, which refine the measurement framework set out in the 1988 Accord; (ii) supervisory review of an institution's capital adequacy and internal assessment process; and (iii) market discipline through effective disclosure to encourage safe and sound banking practices.

Basis point

One one-hundredth of one percentage point (1/100th of one percentage point). Changes in interest rates are measured in basis points. If the US Federal Reserve's target rate was 2 percent and it was cut by 50 basis points, the new rate would be 1.5 percent.

Bear market

In a bear market, prices are falling and investors, anticipating losses, tend to sell. This can create a self-sustaining downward spiral.

Bear Stearns

One of the top five investment banks in New York, Bear Stearns was one of the biggest casualties of the subprime crisis after it was taken over by its larger rival JP Morgan Chase for a fraction of its value. Founded in 1923, Bear Stearns' main business areas, based on 2006 net revenue distributions, were capital markets (equities, fixed income, investment banking; just under 80percent), wealth management (under 10percent) and global clearing services (12percent). Beginning in 2007, the company was badly damaged by the subprime mortgage crisis. In March 2008, the Federal Reserve Bank of New York provided an emergency loan to try to avert a sudden collapse of the company. The company could not be saved, however, and was sold to JPMorgan Chase for ten dollars per share, a price far below the 52 Week High of US\$133.20 per share traded before the crisis, although not as low as the two dollars per share originally agreed upon by Bear Stearns and JP Morgan Chase.

Bond

A debt security - or more simply an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. Banks and investors buy and trade bonds.

Bradford & Bingley

Bradford & Bingley, Britain's biggest mortgage lender, is nationalized. The British government took control of the bank's £50 billion mortgages and loans, while its savings operations and branches are sold to Spain's Santander in end-September 2008.

Bull market

A bull market is one in which prices are generally rising and investor confidence is high.

Business Process Outsourcing (BPO)

Defined as the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates, and manages the selected process or processes based on defined and measurable performance metrics. Usually, it is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace. BPO services are generally categorized into horizontal or vertical services. A horizontal BPO involves function centric outsourcing - the vendor specializes in carrying out particular functions across different industry domains. Examples of horizontal BPO are outsourcing in procurement, payroll processing, human resources, facilities management and similar functions. On the other hand, a vertical BPO focuses on providing various functional services in a limited number of industry domains. Healthcare, financial services, manufacturing and retail are examples of vertical BPO domains.¹

Capital

The wealth - cash or other assets - used to fuel the creation of more wealth. Within companies, often characterized as working capital or fixed capital.

Chapter 11

The term for bankruptcy protection in the US. It postpones a company's obligations to its creditors, giving it time to reorganize its debts or sell parts of the business, for example.

Collateralized Debt Obligations (CDO)

A collateralized debt obligation is a financial structure that groups individual loans, bonds, mortgages or other assets in a portfolio, which is pooled, sliced up and resold to investors. In theory, CDOs attract a stronger credit rating than individual assets due to the risk being more diversified. But as the performance of some assets has fallen, the values of many CDOs have also been reduced. Many CDOs failed and contributed to the credit crisis. Credit rating agencies have been accused of failing to account for the risks that many CDOs posed and mistakenly gave those AAA ratings, the highest classification.

Commercial paper

Short-term loans, issued primarily by corporations, which are typically used as working capital (such as making payroll) rather than investment in fixed assets (such as a new building). Historically, this is a lower-cost alternative to bank loans.

Credit

Is the money one borrows with a promise to pay in the future. A "line of credit" is permission from a bank to borrow money.

¹ Source: National Statistical Coordination Board (NSCB)

Credit crunch

It is a sudden reduction in the general availability of loans (or credit), or a sudden increase in the cost of obtaining loans from banks. There are a number of reasons why banks may suddenly increase the costs of borrowing or make borrowing more difficult. It may be due to an anticipated decline in value of the collateral used by the banks when issuing loans, or even an increased perception of risk regarding the solvency of other banks within the banking system. It may be due to a change in monetary conditions (for example, where the central bank suddenly and unexpectedly raises interest rates or reserve requirements) or even may be due to the central government imposing direct credit controls or instructing the banks not to engage in further lending activity.

Credit default swap (CDS)

Credit default swap is an agreement designed to transfer the credit exposure of fixed income products from seller to buyer. The buyer pays a periodic fee to the seller in return for a potential payment by the seller in the event of a default by the corporate or government issuer. The buyer is then assured of a credit protection whereas the seller guarantees the credit worthiness of the product. In essence, it is a form of insurance that promises payment to investors in mortgage securities and other bonds if the borrower defaults.

Credit Rating

Bonds are rated according to their safety from an investment standpoint - based on the ability of the company or government that has issued it to repay. Ratings range from AAA, the safest, down to D, a company that has already defaulted. Below is a table comparing the different symbols used by the three leading credit rating agencies and their interpretation.

S&P	Moody's	Fitch	Interpretation
Investment Grade			
AAA	Aaa	AAA	highest quality (with minimal credit risk)
AA+	Aa1	AA+	high quality (subject to very low credit risk)
AA	Aa2	AA	
AA-	Aa3	AA-	
A+	A1	A+	upper-medium grade (with low credit risk and strong payment capacity)
A	A2	A	
A-	A3	A-	
BBB+	Baa1,	BBB+	medium-grade (subject to moderate credit risk and with adequate payment capacity)
BBB	Baa2,	BBB	
BBB-	Baa3	BBB-	
Speculative Grade			
BB+	Ba1	BB+	less vulnerable to nonpayment (default) but with ongoing uncertainty (subject to substantial credit risk)
BB	Ba2	BB	
BB-	Ba3	BB-	
B+	B1	B+	more vulnerable to nonpayment (with high credit risk)
B	B2	B	
B-	B3	B-	
CCC+	Caa1	CCC+	currently vulnerable to default (subject to very high credit risk)
CCC	Caa2	CCC	
CCC-	Caa3	CCC-	
CC, C	Ca	C	highly speculative (likely in or very near default, with some prospect of recovery of principal or interest)
D	C	D	typically in bankruptcy or in default

References: S&P's Ratings Definition, Moody's Rating Symbols and Fitch's

Composite Index

Composite Index is a statistical measure of the overall market or sector performance that provides a useful benchmark against which to measure an investor's portfolio. It is a group of stocks, equities and indexes that are combined in a standardized method to aid various markets by providing measurement of price level changes to an entire stock market or sector.

D-G

Debt

The money that a company or individual owes a creditor (through the use of loans or bonds). Companies, banks and agencies depend on debt to finance their operations. As the credit markets have frozen up, companies have had trouble operating. Their inability to borrow money has contributed to the economic slowdown.

Debt Market

Debt market provides market participants the lending and borrowing of funds through debt instruments such as notes, bonds, bills, commercial papers, certificates, mortgages, or leases. Through the debt market, market participants can efficiently transfer ownership of debt obligations from one party to another.

Default

Failure to meet the terms of a credit agreement.

Derivatives

Derivatives are financial instruments that primarily derive its value from the performance of an underlying variable such as interest rates, FX rates, or financial instrument prices. The term *derivative* comes from how the price of these contracts is *derived* from the price of some underlying commodity, security or index. The term *derivative* is used to refer to the set of financial instruments that includes futures, forwards, options and swaps. Market participants enter into a derivatives transaction for several economic purposes such as hedging, managing capital or funding costs, and yield enhancement, among others. Derivatives can be used as insurance to limit the risk of a particular investment. For a growing number of banking organizations, derivatives activities are becoming a direct source of revenue through "market-making" functions, position-taking and risk-arbitrage. Credit default swaps are one form of derivative. So are stock futures

Emergency Economic Stabilization Act (EESA) of 2008

Commonly referred to as a bailout of the U.S. financial system, this law authorizes the US Treasury Secretary to spend up to US\$700 billion to purchase distressed assets,² especially mortgage-backed securities, and make capital injections into banks. The bailed-out banks are mostly U.S. or foreign banks, though the Federal Reserve extended help to American Express, whose bank-holding application it recently approved.³ The Act was proposed by Treasury Secretary Henry Paulson during the global financial crisis of 2008.

² Recently, however, the US government abandoned plans to buy toxic mortgage-related assets which have weighed down the balance sheets of troubled banks and Wall Street institutions. Treasury Secretary Henry Paulson announced on 13 November 2008 that he no longer believed that purchasing assets would be the most effective use of the administration's bail-out fund. Instead, Mr. Paulson intends to use the bail-out fund for further injections of capital into banks in return for equity. This program may also be broadened to include non-bank financial institutions.

³ On 10 November 2008, the Federal Reserve approved American Express' application to become a bank holding company. Until now, AmEx couldn't use the same tools as its rival credit-card companies to raise cash. Under the government's bailout plan, banks regulated by the Federal Reserve could rely on cheap funding from the Fed and from other efforts by the government to prop up the banking system. Also, these banks can compete for deposits from bank customers, another relatively cheap form of funding.

Emerging Markets Bond Index Plus (EMBI+)

Produced by JP Morgan, is considered as the most liquid US-dollar debt benchmark for emerging markets. Included in the EMBI+ are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities. To be considered an emerging market by EMBI+, a country must be rated Baa1/BBB+ or below by Moody's/S&P rating agencies. This criterion, along with the liquidity ranking rule, carves out a basket of liquid bonds, each capable of being bought and sold at short notice, and quoted daily by several market makers at relatively low bid/offer spreads.

EMBI+ Global Spread

Measures the extra yield demanded for holding developing nations' debt rather than US Treasury bonds.

EMBI+ Philippine Spread

Measures the extra yield demanded for holding Philippine bonds over US Treasury bonds.

Equity

A share of the ownership in a company, home or other asset. Companies issue shares of ownership through stock. With a home, equity equals its current market value minus the amount the borrower owes on the mortgage.

Equity market

Equity market, also known as Stock Market, is a private or public market for the trading of company stock and derivatives of company stock at an agreed price; both of these are securities listed on a stock exchange as well as those only traded privately. It is vital to the economy since it is a source of capital funding by companies and provides ownership share to investors. Stocks are securities that claim on the earnings and assets of a corporation.

European Central Bank (ECB)

The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and, thus, price stability in the euro area. The euro area comprises the 15 European Union countries that have introduced the euro since 1999.

Fair value accounting

Fair value, or mark-to-market, refers to an accounting practice of financial institutions to price assets held on their trading book according to current market values. The issue has proven to be controversial amidst the global financial crisis because it is believed to exacerbate the credit crunch by further depressing financial assets and making it harder for companies to access capital in market where funds have evaporated. In light of this, the U.S. Securities and Exchange Commission issued additional guidance to ease the impact of fair-value accounting. In particular, they agreed that banks in the United States need not use fire-sale prices when evaluating their hard-to-price assets. The US Financial Accounting Standards Board (FASB) may soon be expected to issue final guidance on the issue of fair value accounting amid the global financial crisis. Meanwhile, International Accounting Standards Board (IASB), which sets reporting rules used in over 100 countries (including the 27-nation European Union), voted on 13 October to align its fair value rule with steps taken in the United States. The IASB amended its IAS 39 standard to introduce the possibility for banks to reclassify assets so they no longer have to be marked to market. This amendment enables companies reporting according to International Financial Reporting Standards to use the reclassification amendments, if they so wish, from 1 July 2008.

Fannie Mae and Freddie Mac

Fannie Mae (also known as Federal National Mortgage Association) and Freddie Mac (also known as the Federal Home Loan Mortgage Corporation) are government sponsored enterprises of the United States federal government. They function as leading participants in the U.S. secondary mortgage market by purchasing and securitizing mortgages to facilitate liquidity

in the primary mortgage market and ensure that funds are consistently available to the institutions that do lend money directly to home buyers. On September 7, 2008, Fannie Mae and Freddie Mac were being placed into conservatorship of the Federal Housing Finance Agency (FHFA) to ensure the financial soundness of those two companies.

Federal Deposit Insurance Corporation (FDIC)

The Federal Deposit Insurance Corp., the US government agency that insures deposits in banks and thrifts. The FDIC has temporarily raised the maximum amount it will repay depositors from US\$100,000 to US\$250,000 in cases where bank or savings and loans fail (the amount was US\$100,000 before Congress passed the rescue plan in October 2008). If a customer has accounts at more than one bank, each account is now insured up to US\$250,000. For joint accounts in which both people have equal rights of withdrawal, the insured limit is US\$500,000. The higher limits are set to expire at the end of 2009.

Federal Reserve Bank

One of the 12 operating arms of the Federal Reserve System, located throughout the US that, together with their 25 branches, carry out various functions, including operating a nationwide payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies and serving as banker for the U.S. Treasury.

Federal Reserve System

The central bank of the United States, created by Congress and made up of a seven-member Board of Governors in Washington, D.C., 12 regional Federal Reserve Banks, and their 25 branches.

Forward Contract

A forward contract is an agreement between two parties to buy or sell an asset at a specified point of time in the future. The price of the underlying instrument, in whatever form, is paid before control of the instrument changes. This is one of the many forms of buy/sell orders where the time of trade is not the time where the securities themselves are exchanged. The forward price of such a contract is commonly contrasted with the spot price, which is the price at which the asset changes hands on the spot date. The difference between the spot and the forward price is the forward premium or forward discount, generally considered in the form of a profit or [loss] by the purchasing party. This process is used in financial operations to hedge risk, as a means of speculation, or to allow a party to take advantage of a quality of the underlying instrument which is time-sensitive.

Fortis

The European banking and insurance giant Fortis, Belgium's biggest financial services firm, is partly nationalized in late September to ensure its survival after the credit crunch hit Europe's banking sector. Fortis' share price had fallen sharply amid concerns about its debt, but it is seen as too big a European bank to be allowed to go under. Subsequently, Fortis received €11.2 billion from Belgium (€4.7 billion), the Netherlands (€4.0 billion) and Luxembourg (€2.5 billion) in exchange for a 49 percent stake in Fortis' banking division in their respective countries.

Futures

A futures contract is an agreement to buy or sell a commodity at a predetermined date and price. It could be used to hedge or to speculate on the price of the commodity.

Goldman Sachs

Goldman Sachs, one of the last two major investment banks in the US, changed its status to become a bank holding company in September. The change should enable the firm to raise more funds by opening commercial banks, which would then allow it to take deposits from investors. Morgan Stanley, the other New York-based investment firm, also converted into traditional bank holding companies. These moves followed Bear Stearns' purchase by JP Morgan in May and the

more recent takeover of Fannie Mae, Freddie Mac and AIG by the US Fed, acquisition of Merrill Lynch by Bank of America, and bankruptcy of Lehman Brothers in September.

Government sponsored enterprises (GSEs)

GSEs are a group of financial services corporations created by the United States Congress. Their function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent. The desired effect of the GSEs is to enhance the availability and reduce the cost of credit to the targeted borrowing sectors: agriculture, home finance and education.

Gross Domestic Product (GDP)

GDP refers to the value of all goods and services produced domestically. It is the sum of gross value added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the values of their outputs).

Gross National Product (GNP)

GNP is a measure of the country's output of final goods and services. It is equivalent to the Gross Domestic Product adjusted with the net factor income from the rest of the world. It refers to the aggregate earnings of the factors of production (nationals) plus indirect taxes (net) and capital consumption allowance.

H-K

HBOS PLC

HBOS PLC, UK's biggest mortgage lender that's the holding company for the Bank of Scotland, is taken over by Lloyds TSB in September 2008 in a £12 billion deal creating a banking giant holding close to one-third of the UK's savings and mortgage market. The deal follows a run on HBOS shares. In October, Lloyds TSB renegotiated the terms of its takeover, reducing the amount of Lloyds stock it will give HBOS shareholders. HBOS shareholders will now get 0.605 Lloyds shares for every HBOS share, against the original offer of 0.833.

Hedge Fund

Lightly regulated private investment funds that gather investments from wealthy private investors, pension funds, state retirement funds and others, and use sophisticated techniques to try to produce high returns, usually with high levels of debt to increase leverage. These tools, including investing in derivatives and short selling, are supposed to reduce risk. But when certain investment classes collapse, hedge funds can suffer devastating losses. The most famous was Long-Term Capital Management, a hedge fund whose failure required a US\$3.6 billion bailout from Wall Street banks in 1998.

Hedging

Making an investment to reduce the risk of price fluctuations to the value of an asset. For example, if you owned a stock and then sold a futures contract agreeing to sell your stock on a particular date at a set price. A fall in price would not harm you - but nor would you benefit from any rise.

Herding behavior

Herding behavior describes how individuals in a group can act together without planned direction. The term pertains to the behavior of animals in herds, flocks, and schools, and to human conduct during activities such as stock market bubbles and crashes, street demonstrations, sporting events, episodes of mob violence and even everyday decision making, judgment and opinion forming.

Independent National Mortgage Corporation (IndyMac)

IndyMac Bank, one of the biggest US bank engaged in mortgage lending, was closed by the Office of Thrift Supervision in July 2008. Its assets were seized by federal regulators after the mortgage lender succumbed to the pressures of tighter credit, tumbling home prices and rising foreclosures. The FDIC was named conservator.

International Accounting Standards Board (IASB)

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for-profit organization. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.

International Financial Reporting Standards (IFRS)

IFRS are standards and interpretations adopted by the IASB. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

Investment bank

Investment banks provide financial services for governments, companies or extremely rich individuals. They differ from commercial banks where you have your savings or your mortgage.

L-P

Lehman Brothers Holdings Inc

Battered by the mortgage-market downturn, Lehman files for bankruptcy-law protection in September 2008, closing its doors with more than US\$600 billion of debt -- the biggest bankruptcy in U.S. history. This developed after potential buyers abandoned talks to buy the U.S. securities firm and following the takeover of Fannie Mae, Freddie Mac and AIG by the US Fed.

Leverage

The use of borrowed money to invest or finance business operations. The more leveraged a company or investor is, the more risk they take on. Investment banks have traditionally used high levels of leverage. By contrast, federal regulations have limited the use of leverage by commercial banks. Highly leveraged institutions ran into trouble when mortgage-backed investments collapsed, leaving them unable to make their loan payments.

Leveraging

Leveraging, or gearing, means using debt to supplement investment. The more you borrow on top of the funds (or equity) you already have, the more highly leveraged you are. Leveraging can maximize both gains and losses. Deleveraging means reducing the amount you are borrowing.

Liquidity

A measure of how quickly an asset or investment can be converted into cash (either by selling or redeeming). The faster it can be sold, the more liquid it is. Having a bank account, for example, is

more liquid than owning a house. Banks were able to turn formerly illiquid investments, such as mortgages, into liquid ones by packaging them into securities.

Loan-to-deposit ratio

This refers to the amount of a bank's loans divided by the amount of its deposits at any given time. The higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits.

Market capitalization

Refers to the total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures.

Mark-to-Market

A form of accounting in which companies must value assets at their current price, reflective of what similar assets have been sold, rather than the purchase price or the higher price they might fetch later. Also called 'fair value.' As markets for investments such as mortgage-backed securities have evaporated, their market value has plummeted. Some bankers have argued that mark-to-market accounting is to blame for their write-downs and for falling confidence. Those who want to drop mark-to-market accounting say it created an insolvency crisis for banks. But those who favor this accounting approach say it reflects reality: If a company has made a rotten investment and no one wants to buy it, its' fair value should be low. . As part of the US\$700 billion bailout legislation, US Congress has authorized the SEC to suspend the mark-to-market accounting rule.

Merrill Lynch & Co., Inc

Hit hard by bad mortgage debt, Merrill Lynch, the Wall Street bank known as the "thundering herd", was bought by Bank of America for about US\$50 billion or about US\$29 per share in September 2008. This followed Bear Stearns' purchase by JP Morgan in May, the takeover of Fannie Mae, Freddie Mac and AIG by the US Fed in September, and, the bankruptcy of Lehman Brothers also in September.

Morgan Stanley

Morgan Stanley, one of the last two major investment banks in the US, changed its status to become a bank holding company in September. The change should enable the firm to raise more funds by opening commercial banks, which would allow it to take deposits from investors. Goldman Sachs, the other New York-based investment firm, also converted into traditional bank holding companies. These moves followed Bear Stearns' purchase by JP Morgan in May and the more recent takeover of Fannie Mae, Freddie Mac and AIG by the US Fed, acquisition of Merrill Lynch by Bank of America, and bankruptcy of Lehman Brothers in September.

Mortgage

A loan secured by property. The contract between the borrower and the lender gives the lender the right to take possession and resell the property if the borrower defaults. Mortgages are categorized in terms of their riskiness:

- **Prime mortgage:** A mortgage with the benchmark interest rate that banks charge their most creditworthy borrowers. The rate can be fixed or adjustable after a certain period.
- **Alternative-A mortgage (Alt-A):** A mortgage considered riskier than a prime loan but not as risky as a subprime loan. Alt-A covers a variety of mortgages, including those for borrowers with only small down payments or unstable incomes. Also included are mortgages that let borrowers pay only interest on the debt for a fixed period. Included, too, are mortgages in which borrowers can pay less than the full interest due, thereby boosting the principal balance they owe.

- **Subprime mortgage:** Mortgages used by borrowers with tarnished credit histories. These borrowers typically pose greater risk for lenders, so they are charged higher interest rates. Those rates can be fixed or adjustable after a certain period.

Mortgage-Backed Security

A bond or security backed by a pool of mortgages. These securities, which provide a cash flow based on the principal and interest payments of the underlying mortgages, were long seen as a relatively safe way to earn returns higher than Treasury rates. But mortgage defaults and foreclosures sharply raised their risk. As more investors refused to buy the securities, banks that had been selling them were stuck holding them. The plunge in the value of mortgage-backed securities has contributed to more than US\$300 billion in write downs by global banks and brokerages. Historically, most residential mortgage-backed securities were guaranteed by government-sponsored entities, such as Fannie Mae and Freddie Mac, and had to meet certain standards. But the share of mortgage-backed securities issued by private companies without such standards grew from about 20 percent of all mortgage-backed securities in 2001 to 56 percent in 2006, according to the Office of Federal Housing Enterprise Oversight, a regulator.

Nationalization

The act of bringing an industry or assets like land and property under state control.

Net factor income from abroad (NFIA)

NFIA refers to the net flow of property income to and from the rest of the world (net payments on income) plus the net flow of compensation of employees (net receipts on compensation). The NFIA is added to the GDP to come up with the GNP.

Nominal Effective Exchange Rates (NEER)

NEER refers to the weighted average exchange rate of the peso vis-a-vis a basket of currencies. An upward movement of the NEER indicates an appreciation while a downward movement indicates depreciation.

Non-performing assets (NPAs)

In the Philippine setting, NPAs refer to the sum of non-performing loans (NPL) and real and other properties owned and acquired (ROPOA). ROPOA are property items acquired by a bank in settlement of uncollected loans or past due accounts which were not paid upon its maturity. These properties were eventually acquired through proper proceedings such as foreclosure or *dacion en pago*.

Non-performing loans (NPLs)

As defined by the BSP, NPLs refer to past due loan accounts where the principal and/or interest is unpaid for thirty (30) days or more after due date (applicable to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments), including the outstanding balance of loans payable in monthly installments when three (3) or more installments are in arrears, the outstanding balance of loans payable daily, weekly or semi-monthly installments when the total amount of arrearages reaches ten percent (10percent) of the total loan receivable balance, restructured loans which do not meet the requirements to be treated as performing loans under existing rules and regulations, and all items in litigation. Effective September 2002, NPLs exclude loans classified as Loss in the latest BSP examination which are fully covered by allowance for probable losses and applicable to a bank with no unbooked valuation reserves and other capital adjustments required by the BSP (Circular No. 351).

Philippine Stock Exchange Index (PSEi)

The PSEi is a capitalization-weighted index composed of 30-stocks representative of the Industrial, Properties, Services, Holding Firms, Financial and Mining & Oil Sectors of the PSE. It serves as the barometer of stock price movements on the local bourse.

Real Effective Exchange Rate (REER)

REER is the weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation. The weights are determined by comparing the relative trade balances, in terms of one country's currency, with each other country within the index. Essentially it refers to the NEER adjusted for inflation differentials. An increase in REER denotes real appreciation while the opposite implies real depreciation. REER is a more comprehensive measure of external price competitiveness as it takes into account not only the nominal exchange rate movements but also the relative inflation rates among trading countries.

Recapitalization

To inject fresh money into a firm, thus reducing the debts of a company. For example, when a government intervenes to recapitalize a bank, it might give cash in exchange for some form of guarantee, such as a stake in the company. Taxpayers can then benefit if the bank recovers.

Recession

A period of negative economic growth. In most parts of the world a recession is technically defined as two consecutive quarters of negative economic growth - when real output falls. In the United States, a larger number of factors are taken into account, like job creation and manufacturing activity. However, this means that a US recession can usually only be defined when it is already over.

Retained earnings

Money not paid out as dividend and held awaiting investment in the company.

Risk aversion

A concept in economics, finance, and psychology related to the behavior of consumers and investors under uncertainty. Risk aversion is the reluctance of a person to accept a bargain with an uncertain payoff rather than another bargain with a more certain, but possibly lower, expected payoff. The inverse of a person's risk aversion is sometimes called their **risk tolerance**.

Securitization

Bundling together individual assets, such as mortgages, turning them into a security and selling stakes to investors. For example, taking the debt from a number of mortgages and combining them to make a financial product which can then be traded. Banks who buy these securities receive income when the original home-buyers make their mortgage payments.

Sovereign spreads

Represents the difference between bond yields issued on international markets by the country in question versus those offered by governments that might be considered risk-free government bonds (typically US Treasuries) of the corresponding duration.

Structured products

Structured products are investment instruments created to meet specific needs that cannot be met from the standardized financial instruments available in the markets. Structured products can be used as an alternative to a direct investment; as part of the asset allocation process to reduce risk exposure of a portfolio; or to utilize the current market trend.

Sub-prime mortgages

Home loans offered to people who have had financial problems or who have low or unpredictable incomes. These carry a higher risk to the lender and therefore tend to be offered at higher interest rates

Subprime Market

It is a system through which subprime lending is transacted. Lending is considered subprime if it involves borrowers characterized with low repayment capacity due to bad/lack of credit history, low income or poor debt to income ratios. Subprime loans carry higher interest rates than prime or market rates because of higher credit risk assumed by the lender. Subprime lending encompasses a variety of credit instruments, including subprime mortgages, subprime car loans, and subprime credit cards.

Swap

An exchange of securities between two parties. For example, if a firm in one country has a lower fixed interest rate and one in another country has a lower floating interest rate, an **interest rate swap** could be mutually beneficial.

Term Auction Facility (TAF)

TAF is a temporary program managed by the United States Federal Reserve designed to address elevated pressures in short-term funding markets. Under the program, the Fed auctions collateralized loans with terms of 28 and 84 days to depository institutions that are: (a) in generally sound financial condition; and, (b) are expected to remain so over the terms of TAF loans. Eligible collateral is the same as that accepted for discount window loans and includes a wide range of financial assets. The program was instituted in December 2007 in response to problems associated with the subprime mortgage crisis and was motivated by a desire to address a widening spread between interest rates on overnight and term (longer than overnight) interbank lending, indicating a retreat from risk-taking by banks. The action was in coordination with simultaneous and similar initiatives undertaken by the Bank of Canada, the Bank of England, the European Central Bank and the Swiss National Bank.

Tier 1 Capital

Tier 1 Capital is a core measurement of a bank's financial strength which consists of paid-up common stock, paid-up perpetual and non-cumulative preferred stock, common stock dividends distributable, perpetual and non-cumulative preferred stock dividends distributable, surplus and surplus reserves among others. Specifically it measures the capital adequacy of a bank which is expressed as ratio of a bank's core equity capital to its total risk-weighted assets.

Tier 2 Capital

Tier 2 Capital also describes the capital adequacy of a bank and includes items, as classified in the Basel I Accord, categorized as paid-up perpetual and cumulative preferred stock, perpetual and cumulative preferred stock dividends distributable, undisclosed reserves, appraisal increment reserves, deposit for common stock and perpetual and non-cumulative preferred stock subscription among others.

Toxic debts

Debts that are unlikely to be recovered from borrowers. Most lenders expect that some customers cannot repay; toxic debt describes a whole package of loans where it is now unlikely that it will be repaid.

Treasuries

Securities sold by the federal government to investors to fund its operations and to cover the interest costs of existing U.S. debt and pay off maturing securities. Because it carries the full backing of the government, Treasuries are viewed as the safest investment for those seeking income and preservation of capital. While Treasuries pay lower rates than most other debt securities of similar maturity, they have been the safe-haven choice for investors fearful that their other holdings could decrease in value. And since yields move inversely to prices, this increased demand has pushed up prices and push down yields in recent weeks. Securities that mature in one year or less are known as Treasury bills.

Troubled Asset Relief Program (TARP)

The Emergency Economic Stabilization Act of 2008 (enacted on 3 October 2008) established the "Troubled Asset Relief Program" (TARP) in an effort to restore liquidity and stability to the financial system of the United States. Under the Program, the Secretary of the Treasury, acting through a newly created Office of Financial Stability, is authorized to spend up to US\$700 billion to purchase distressed assets, especially mortgage-backed securities, from US banks. On 14 October 2008, the Treasury Department chose Bank of New York Mellon as the custodian of the US\$700 billion government rescue plan recently enacted by Congress. The New York-based bank immediately began the work of providing custodial, accounting, auction management and other infrastructure services needed to run the portfolio of complex assets the government intends to purchase under the TARP. The New York-based bank beat out 70 competitors, 10 of which met the government's eligibility requirements and minimum qualifications, for the three-year contract.

U-Z

Value of Production refers to the value of the target commodity produced or manufactured by the establishment, valued at producer's price. Producer's price refers to price of the commodity charged to the buyer, including all applicable duties and taxes which fall on the products when they leave the establishment (ex-plant price).

Volatility

Is the measure of the state of instability. In finance, volatility most frequently refers to the standard deviation of the continuously compounded returns of a financial instrument with a specific time horizon. It is often used to quantify the risk of the instrument over that time period. Volatility can be traded directly in today's markets through options and variance swaps.

Volume of Production refers to the quantity of the target commodity produced or manufactured by the establishment according to a specified unit of measure during the reference month.

Wachovia

The fourth-largest US bank, Wachovia is bought by its larger rival Citigroup in a rescue deal backed by the US authorities. Under the deal, Citigroup will absorb up to US\$42 billion of Wachovia losses.

Wall Street

It is the name for the financial district in lower Manhattan, New York City, and the street which was the first permanent home of the New York Stock Exchange. Wall Street is also shorthand for the "influential financial interests" of the American financial industry, which is centered in the New York City area. Several major U.S. stock and other exchanges, and many banks and brokerages remain headquartered on Wall Street and in the financial district, including the NYSE, NASDAQ, AMEX, NYMEX, and NYBOT.

Warrants

In finance, a warrant is a security that entitles the holder to buy stock of the company that issued it at a specified price, which is usually higher than the stock price at time of issue. Warrants are frequently attached to bonds or preferred stock as a sweetener, allowing the issuer to pay lower interest rates or dividends. They can be used to enhance the yield of the bond, and make them more attractive to potential buyers. Warrants can also be used in private equity deals. For instance, it was a common practice during the height of the dot-com bubble for a landlord of sought-after commercial real-estate to demand warrants from high-tech startups as part of the lease agreement. Frequently, these warrants are detachable, and can be sold independently of the bond or stock. Corporations issue warrants to enhance the future value of their stock to the people holding it.

Washington Mutual

Washington Mutual, the giant mortgage lender which had assets valued at US\$307 billion, was closed down by regulators and sold to JPMorgan Chase in the largest bank failure yet in the United States. This followed the conversion of Morgan Stanley and Goldman Sachs into bank holding companies in September.

Write-down

An accounting step a company makes when an asset or class of assets it holds falls in value. For example, the write-down of a company's value after a big fall in share prices is reflected in a reduction on the asset side of a company's balance sheet. As mortgage defaults and foreclosures have surged and the market for mortgage-backed securities has vanished, global banks and brokerages have written down more than US\$300 billion in assets

Sources: BBC news, Associated Press, Wikipedia, US Federal Reserve, OECD Glossary, and www.news-journalonline.com