



Recent headlines about the failure of IndyMac Bank and the stability of mortgage lending government enterprise corporations, Fannie Mae and FreddieMac, have understandably raised some concerns about the safety of assets issued by these types of institutions including CD's and mortgage-backed agency bonds. At Fischer & Hutchinson, we view the fixed income portion of our client's portfolio as the bedrock for stability in uncertain times. Therefore, we carefully consider a number of factors in making these types of investments. Unfortunately, as with all investing, there are still some risks.

The following is a brief explanation of our practices and the protections in place to mitigate and/or manage the type of risks you've been hearing about in the press today. We continue to closely monitor our clients' positions and would promptly contact our clients if we feel additional action is required, despite these provisions. Please feel free to call us if you have any questions. We encourage you to visit the Web Resources link on our website for additional information.

- Investors can rely on **FDIC** insurance for CDs and other deposit assets held in bank accounts, up to the limits for **each issuing institution** based on how the account is titled as listed in the following table:

| <b>Account Title</b>   | <b>Limit</b>                         |
|--|--------------------------------------|
| Individual, Trusts*, and/or Custodial                                    | \$100,000                            |
| JTWROS   | \$100,000 per name listed on account |
| IRAs   | \$250,000                            |
| *if certain conditions are met per owner for each qualifying beneficiary |                                      |

*It is important to note that the above limits apply per account and include the aggregate value of any CD's + accrued interest + any cash deposits being held in that*

*account. On the FDIC webpage (<http://www.fdic.gov/deposit/deposits/index.html>) there is a great video explaining FDIC insurance and how each type of account is insured.*

- Most of the cash generated in our clients' accounts is not held in FDIC insured bank accounts because of the lower interest rate, but rather in money market mutual funds (MMF's). Typically these MMF's are not FDIC insured but do fall under the Securities Investor Protection Corporation (SIPC) coverage as explained in our April 2008 Quarterly Commentary (click on Advisor's Comment to view). Strict guidelines are employed, however, to ensure their underlying short term debt instruments are of sufficient credit quality and short enough maturity such that there is a high probability that the value of your shares will be equal to the principal invested. Again, however, as with all "investments", there is some risk along with the higher returns and no explicit guarantees on the share value of the fund itself.
  
- Prior to purchasing CD's, we routinely run a check on the financial condition of the issuing bank as well as verify its FDIC coverage. The primary rating service we have used in the past has been IDC Financial Publishing. During this current crisis, we have also been cross checking their rating with another online service, BauerFinancial. Both services utilize quarterly reporting data from the issuing banks as required by the FDIC and Fed Reserve. The IDC ranking system gives institutions a score from 1-300, with 300 being the best score an institution can receive. IDC scores can fall into one of the following six categories:
  - Superior (200-300)
  - Excellent (165-199)
  - Average (125-164)
  - Below Average (75-124)
  - Lowest Ratios (2-74)
  - Rank of One (1)

For CD's with a maturity of 3 years or less, we have historically required an IDC rate of 145 or better. For CD's with a maturity > 3 years, 165 or better. Of course, since these ratings are only updated quarterly, there is no guarantee that a bank won't fail after issuing a CD.

- Fannie Mae and Freddie Mac are government enterprise corporations which have historically enjoyed an “implicit” rather than an “explicit” commitment from the US Federal government to back their bond obligations. With the dramatic increase in foreclosures and decline in the housing market, these institutions are being severely tested to meet their debt obligations. Action taken by the Bush administration during the past week, and proposals currently expected to be passed by the Congress, have gone a long way to strengthen the nature of this commitment by the Federal government. Fear in the marketplace has apparently subsided as a result, and as of this writing, the spread in yield for new issues of their bonds are now at roughly the same level as their “explicitly” guaranteed counterparts, Federal Home Loan Bank, Federal Farm Credit Bank, and Ginnie Mae.