

CME Alternative Investment Products

CME Housing Futures and Options

Opening Up New Opportunities



Based on the S&P/Case-Shiller Home Price Indexes

Global Leadership in the Financial Marketplace

CME is the largest and most diverse financial exchange in the world for trading futures and options – handling more than one billion contracts worth more than \$638 trillion in a single year. Founded in 1898, we serve the risk-management needs of customers around the globe by offering the widest range of benchmark financial products available on any exchange, traded via our CME Globex electronic trading platform and on our trading floors. Our innovative products cover major market segments including interest rates, equities, foreign exchange, commodities and alternative investment products.

CME Alternative Investment Products

Consistent with its history of innovation, CME is committed to developing alternative, non-traditional investment products to enable customers to better diversify and manage their risks. Accordingly, CME has created a new product group – CME Alternative Investment Products – which includes both futures and over-the-counter instruments. All CME Alternative Investment Products are cleared by CME Clearing. At present, this product group includes CME Economic Derivatives, CME Weather Derivatives and CME Housing futures and options.

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Overview of the U.S. Housing Industry

Second Largest Market in the United States

Homes are the primary financial asset of many Americans – and much more. They are the focus of a \$21.6 trillion industry and tens of thousands of businesses and jobs nationwide. The U.S. housing market is larger than the \$15 trillion equities market, and represents about one-third of the total value of major asset classes in the U.S.

Housing is a vital part of our economy – and an industry that faces risk on many fronts. The health of the housing industry is subject to changes in mortgage rates, increased costs in energy and resources such as oil and lumber, and a range of pressures from the economy overall.

Major Market, Uncertain Future

In the past two decades the U.S. housing market has experienced unprecedented growth. In the early 1980s, for example, the median home value in the U.S. was about \$60,000; by the end of 2004 it had grown to \$190,000. In just five years, from 1999 to 2004, housing values on the coasts more than doubled – with median increases of 148 percent in Santa Barbara, for example, and 114 percent in Jersey City.

Dramatic increases in housing prices were accompanied by declining mortgage rates. In the early 1980s mortgage rates approached 18 percent, but gradually decreased to under 6 percent by the early 2000s – lows that had not been seen since the 1960s and before.

In the face of today's high prices and recent increases in mortgage rates, there is much speculation about what lies ahead. But even if so-called regional housing bubbles do not burst, minor shifts in value and sales can result in substantial losses for entire sectors of the economy.

CME Housing Futures and Options

The First Tools for Managing Housing Risk

While other industries, such as agriculture and the financial markets, have access to a wide range of financial risk management tools, such tools have not been available to the housing industry – until now. CME is continuing its tradition of innovation with the creation of the first comprehensive products to hedge risk in real estate – CME Housing futures and options.

These products provide opportunities for protection in down markets, and extend to the housing industry the same financial tools that previous CME innovations have brought to agriculture and finance. By providing a means of hedging exposure to home prices, they can diffuse the potential impact of sustained declines in housing prices. In addition, they:

- » Create a new means of risk transfer to a broad range of investors
- » Have the potential for fostering stability in the housing industry
- » Provide an innovative way to participate in the real estate market without having to buy and sell properties

Based on the S&P/Case-Shiller (CS) Home Price Indexes, CME Housing futures and options are cash-settled to a weighted composite index of U.S. real estate prices, as well as to specific markets in 10 major U.S. cities*:

- | | |
|---------------|-------------------|
| » Boston | » Miami |
| » Chicago | » New York |
| » Denver | » San Diego |
| » Las Vegas | » San Francisco |
| » Los Angeles | » Washington D.C. |

* Specific counties available at cme.com/housing

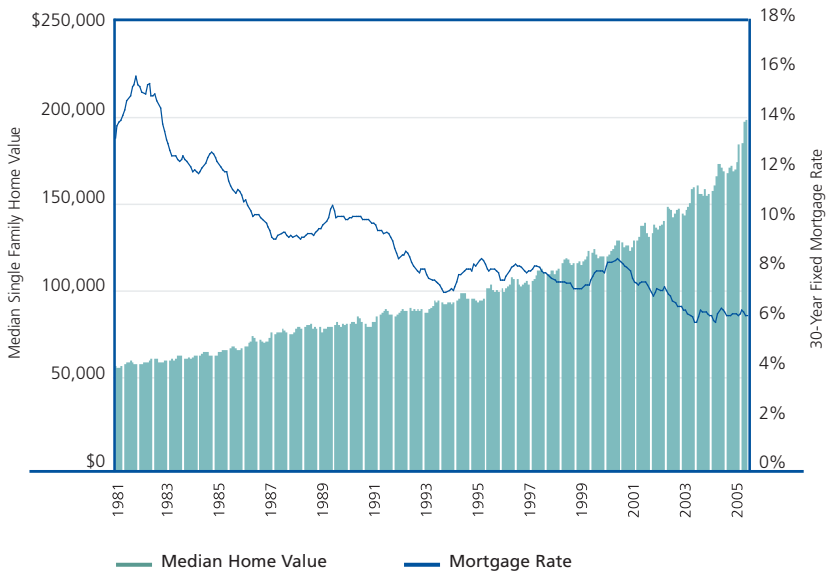
What Are Futures and Options?

Futures contracts are standardized, legally binding agreements to buy or sell a specific product in the future. The buyer and seller of a futures contract agree on price today for a product to be delivered or settled in cash at some date in the future. Each contract specifies the quality, quantity, and the time of delivery or payment and location.

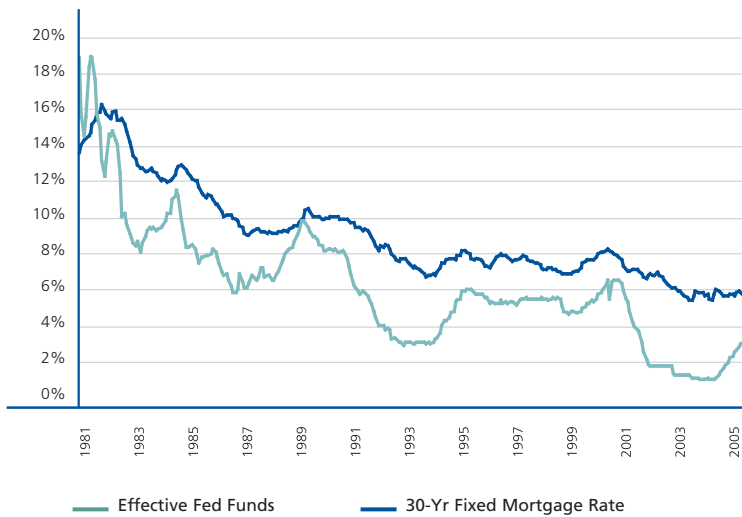
The value of a futures contract is derived from an underlying financial measure or market, such as equity index levels, currency exchange rates, interest rates or commodity prices – hence the term derivatives. As the value of the underlying measure or market changes, the value of the futures contract based on that market also changes. Institutions and individuals that face financial risk based on the movement of the underlying measure or market can buy or sell futures that will change in value to offset that financial risk. Such transactions are known as hedging. Institutions and individuals also buy and sell futures hoping to profit from price changes. These transactions are considered speculation.

CME also offers investors options on futures. Options can be thought of as insurance policies. The option buyer pays a price for the right – but not the obligation – to buy or sell a futures contract within a stated period of time at a predetermined price. The combination of options and futures, both risk-managing tools, can give market participants the leverage of futures and the more limited risk of options. Options provide the opportunity to limit losses while maintaining the possibility of profiting from favorable changes in the futures price.

Home Prices vs. Mortgage Rates



30-Yr. Mortgage Rates vs. Fed Funds

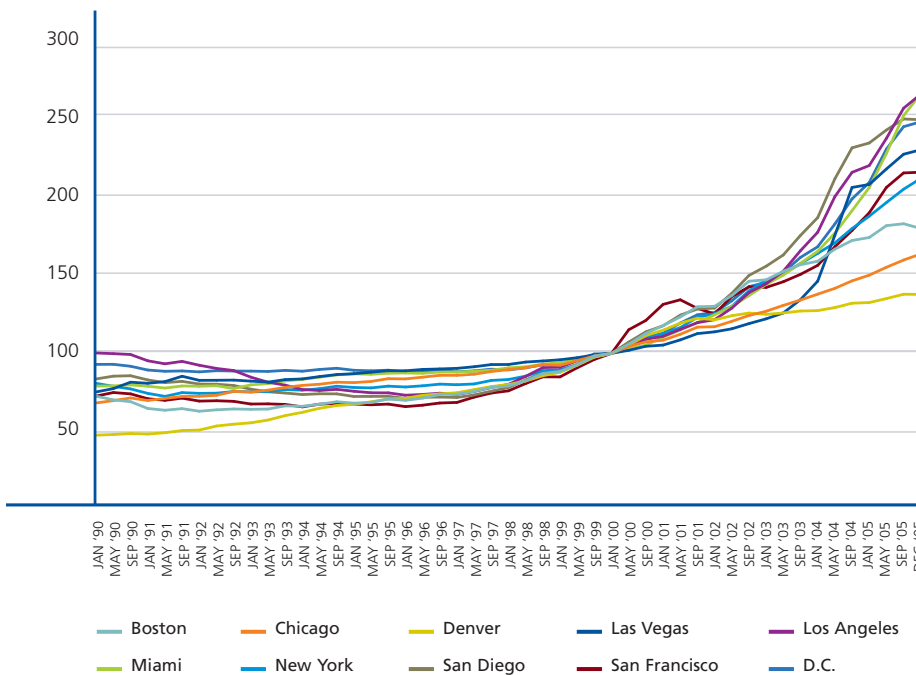


**The S&P/Case-Shiller Home Price Indexes:
Highly Regarded, Carefully Compiled**

Developed by Karl E. Case and Robert J. Shiller, the S&P/Case-Shiller Home Price Indexes are widely recognized as the most reliable and authoritative measures of residential housing price movements. CSW, the home price research company founded by Case, Shiller and Allan Weiss in 1991, now known as Fiserv CSW, Inc., collects data regarding transactions on residential properties. The indexes are based on recorded changes in home values, using a methodology called the repeat sales pricing technique. The indexes use a base value of 100.00 beginning with 2000 (the "base year").

Home price indexes are generated for geographic areas across the United States. Updates to the tradable indexes are released to the public on the last Tuesday of every month at 12:00 noon (CT). Uncompromised data quality, authoritative analytics and a proven track record are cornerstones of any successful index. With these components in place, the S&P/Case-Shiller Home Price Indexes are the gold standard benchmarks for the housing asset class.

S&P/Case-Shiller Home Price Indexes



Why Trade CME Housing Products?

New Opportunities for a Range of Participants

CME Housing futures offer a range of hedging opportunities for businesses whose profits or losses are related to any area of the housing industry: major developers, banks, mortgage lenders, home suppliers and others. They also provide unique access to the real estate markets for firms, hedge funds, commodity trading advisors (CTAs) and others interested in speculating on the volatility and fluctuations of housing prices, both locally and nationwide.

In addition, these innovative products offer:

- » Exposure to real estate values without direct ownership of properties
- » Lower transaction costs than incurred in buying and selling individual homes
- » Potential reductions overall in the costs associated with real estate transactions at both the institutional and retail levels
- » Opportunities for hedging that until now have not been possible
- » True portfolio diversification
- » Access to a unique asset class
- » A way to make trading real estate a liquid and short-term investment
- » A cushion to those whose profits would be affected by declining housing values
- » Opportunity to hedge and profit from a downturn in the housing market.

Unlike most real estate investments, which are based on expectations of increased value, CME Housing products enable investors and hedgers to benefit from lower housing prices. When trading futures, it is just as easy to go short – to sell first – as it is to go long – to buy first.

There is very little correlation between CME Housing futures and stocks, bonds or Real Estate Investment Trusts (REITs), although the returns can be similar. Housing had comparable returns but was least volatile and displayed a low correlation with the other three asset classes over the 10-year period from February 1995 to February 2005.

Performance of Asset Classes

(Feb 1995 - Feb 2005)

	Return	Volatility
Housing	8.00%	1.44%
Bonds	7.74%	2.25%
Stocks	8.66%	7.13%
REITs	6.61%	6.99%

Correlation of Various Asset Classes

	Housing	Bonds	Stocks	REITs
Housing	–			
Bonds	-0.169	–		
Stocks	-0.390	0.052	–	
REITs	-0.074	0.177	0.153	–

Who Trades CME Housing Products?

Tools for Hedging or Potential Profit

CME Housing products can be used by different types of customers with different goals and business objectives. Generally, customers whose profitability depends upon growth in real estate values – developers and builders, holders of mortgage portfolios, mortgage insurers, government-sponsored entities, mortgage issuers and agencies, and home supply or other housing-related businesses – can use CME Housing futures for hedging purposes, selling futures or buying options for protection against market decline. On the other side of the equation are institutions, hedge funds, Commodity Trading Advisors and other investment groups who will trade these products as a means of portfolio diversification and broad investment in real estate futures and options. For example:

- » Seeing opportunity in CME Housing futures, a hedge fund has developed a special proprietary model for analyzing the housing market. Using this model, the hedge fund buys and sells these futures depending upon market conditions, hoping to profit from fluctuations in the real estate market.
- » An investment group seeks portfolio diversification for its customers by investing in real estate. The group decides to take long CME Housing positions in coastal regions or in the composite index futures.
- » Major guarantors, developers, insurers and holders of residential mortgage portfolios who wish to directly hedge their exposure to severe default loss can do so by selling CME Housing futures. Holding futures positions can also make them eligible for more favorable capital treatment.

Pricing CME Housing Products

The Index and the Multiplier

Like CME stock index futures, the value of a CME Housing contract is determined by multiplying a product multiplier – in this case, \$250 – by the current index value of each contract. For example, if the current value of the S&P/Case-Shiller New York Home Price Index is 198.50, the value of that futures contract is $\$250 \times 198.50 = \$49,625$.

Futures traders are not required to put up the full value of a contract. A performance bond (a minimum deposit in each trader's futures account, the amount of which varies according to what is being traded) enables the trader to control a considerable amount of product for a fraction of its value. The performance bond required for CME Housing futures can be found on the CME Web site at www.cme.com/housing.

Explanation of Profit and Loss in Trading CME Housing Futures

Unlike stocks, which move in penny increments, futures contracts move in minimal increments called "ticks." The value of a tick is different for each futures product.

The tick value for a CME Housing futures contract is 0.10 index point. The value of a tick is therefore $\$250 \times .10 = \25.00 per contract. Thus:

- » A move of one tick, from a 198.50 index value to 198.60, equals \$25.00.
- » With this move, a long (buying) position would be credited \$25.00, and a short (selling) position, debited \$25.00.
- » A move of one entire S&P/Case-Shiller Home Price Index point – the equivalent of 10 ticks – would equal \$250.

CME Housing futures prices change continuously, and with each change, a customer holding a CME Housing futures contract either gains or loses, based on the original price at which the customer bought or sold the contract. Twice daily, every CME futures contract is "marked-to-market," meaning a closing price is determined for each contract and all traders' accounts are settled according to whether that account has gained or lost value. Each account must maintain a designated minimum level if that customer wishes to continue trading; customers whose losses result in the account being under the minimum must add additional performance before the next trading day begins. Daily marking-to-the-market is a unique feature of the futures industry, and a primary factor in the stability of the futures markets, in which losses are never allowed to accumulate.

By quantifying the economic risk of shifts in housing index prices, a customer can determine the appropriate number of contracts to buy or sell so as to create an offsetting position in these products. In this way, customers can hedge housing-price-related risk or take advantage of housing price fluctuations.

Please note: These examples do not include transaction fees (brokerage fees and other fees) which would need to be part of a complete analysis of trading these products.

CME Housing Futures and Options Contract Specifications

	Futures	Options on Futures
Contract Size	Each contract shall be valued at \$250 times the S&P/Case-Shiller Home Price Index; e.g., if the value of the index for Los Angeles was reported at 207.82, the contract value would equate to \$51,955 (= \$250 x 207.82)	One futures contract
Minimum Price Fluctuation	Minimum price fluctuation or "tick" shall be 0.10 index points (\$25.00)	Minimum price fluctuation or "tick" shall be 0.05 index points (\$12.50)
Trading Hours	Offered exclusively on the CME Globex electronic trading platform on Sundays – Thursdays, 5:00 p.m. – 2:00 p.m. (CT) the next day	Traded via open outcry in CME Eurodollar option pit Monday – Friday, 7:20 a.m. – 2:00 p.m. (CT)
Contract Months	February quarterly cycle of February, May, August and November	February quarterly cycle of February, May, August and November
Final Settlement Date	Trading in expiring contract ceases at 12:00 noon (CT) on last Tuesday of contract month	Trading in expiring contract ceases at 12:00 noon (CT) on last Tuesday of contract month
Cash Settlement	Cash settlement based on reported value of S&P/Case-Shiller Home Price Indexes for the cities of Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco, Washington, DC and an index that represents a weighted composite of the individual cities	Exercised into the associated futures contract
Strike Prices	NA	At 1 point intervals above and below prevailing market price

Electronic Trading Around the Clock, Around the World

As a leader in electronically traded derivatives products, CME enables customers to access the widest array of benchmark futures and options contracts available on any exchange, via our CME Globex electronic trading platform. Trading on CME Globex is available on a single platform, virtually 24 hours a day – more hours than any other exchange in the world. Our customers can access the CME Globex trading platform through connections in countries around the world, as well as through telecommunications hubs – located in London, Amsterdam, Dublin, Frankfurt, Gibraltar, Milan, Paris and Singapore – that provide reduced connectivity costs, increased accessibility, and fast, efficient trading of CME products. CME Globex is the world's foremost electronic trading platform with more than 975 direct network connections around the world and customers in more than 70 countries.

The platform's open architecture enables customers to access CME Globex using their own proprietary trading applications or the systems provided by futures brokers and independent software vendors, as well as a CME-provided trading application. In conjunction with the security of CME Clearing guarantee, the CME Globex trading platform offers speed of execution, transparency, anonymity and market integrity. Traders are able to see the top prices and other data right on their screen and transactions are executed in less than a second. The advanced capabilities of the CME Globex platform allow traders to execute all of the traditional (outright) transactions in futures as well as a variety of spread trades, including highly complex options spreads.

Fully Integrated Clearing

At CME, we operate our own clearing house that matches and settles all trades and guarantees the creditworthiness of every transaction that takes place in our markets. Our integrated clearing function ensures the safety and soundness of our markets and helps differentiate us from our competitors.

With CME Clearing serving as counterparty to every trade – e.g., in the clearing process it becomes the buyer to each seller of a futures contract and the seller to each buyer – the risk of default is virtually eliminated. Performance bond (collateral) deposits are required at each level in the clearing process – customer to broker, broker to clearing firm, clearing firm to clearing house. The performance bond is a good-faith deposit that represents the minimum amount of protection against potential losses.

CME Clearing handles approximately 90 percent of all futures and options contracts traded in the U.S. In 2005, it cleared an average of 1.3 million contracts per day, and more than one billion contracts overall. That same year, CME Clearing moved an average of more than \$1.4 billion in settlement payments each day and managed \$45.8 billion in collateral deposits, including \$3.2 billion in deposits for non-CME products.

Getting Started Trading CME Housing Products

Today's greater need for risk management and hedging tools has required investors to become increasingly sophisticated about futures and options on futures products. With customers around the world; a diverse product line; deep, liquid markets; and strategic alliances with other exchanges, CME is truly a global marketplace. Why not make it yours?

For additional information about CME Housing products, please visit our Web site at www.cme.com/housing. You will be able to access other materials that can answer your questions or help you to begin trading these products. Additionally, if you would like to talk to a CME representative, please call our Customer Service Line, 1-800-331-3332. Outside the U.S., please call 312-930-2316.

All traders of CME products must have an account with a National Futures Association (NFA) registered broker, Futures Commission Merchant (FCM), or Introducing Broker (IB). Traders who wish to trade CME Housing futures need access to the CME Globex electronic trading platform. Customers who do not have access to a personal computer can have their brokers execute trades on CME Globex on their behalf. To place orders and receive market data directly via your computer, customers can select from a variety of certified CME Globex trading applications.

These trading applications include CME-certified front-ends provided by most FCMs and IBs to their customers, as well as those provided by Independent Software Vendors (ISVs). In addition, CME provides a CME Globex-only trading application, CME Globex Trader. Before choosing either CME Globex Trader or a third-party trading application, please make sure that your broker is able to support that front-end.

More information about these trading applications, as well as links to solutions provided by FCMs, IBs and ISVs is available on the CME Web site at www.cme.com (in the CME Globex eTrading section).

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it's possible to lose more than the amount of money you've deposited for a futures position. Therefore, you should only use funds that you can afford to lose without affecting your lifestyle. And only a portion of those funds should be devoted to any one trade because you can't expect to profit on every trade.

All references to options in this brochure refer to options on futures.

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All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME rules. Current CME rules should be consulted in all cases concerning contract specifications



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