

Comments

Mortgage Lending

Now that FNMA and FHLMC are taxpayer owned, their cost of funds will be similar to that of the US Treasury. This is good news for mortgages where rates have already declined. Unfortunately, for those needing a nonconforming loan, there are fewer options and higher costs. More than 85% of the mortgages created today are conforming loans through FNMA, FHLMC, FHA and VA. The latter two become GNMA securities.

Not Since...

It was a first when Bear Stearns was bought by JP Morgan Chase with the help of the Federal Reserve and US Treasury.

The turmoil of last week, September 15 - 19, has been compared to the banking panic of 1907, also known as the "rich man's panic," the banking failures of 1930 and the flight to safety in 1941 during WWII. During the week, US T-Bill yields fell to 0.2% for the first time since 1941.

Lehman's failure forced some money markets to break the buck, a first. This was exacerbated by AIG's near failure and US rescue, also a first. AIG is the world's largest insurer, now a taxpayer owned company. The company insures deposits and provides annuities. Pictures of panic at their offices in Singapore and Hong Kong were on the internet. The current rescue plan includes money market insurance.

News

Lehman Brothers, a 158 year old firm, declared bankruptcy before the week began. At the same time, Merrill, Lynch sold itself to Bank of America. Now, only two of the big five remain with one in talks with Wachovia. This leaves Goldman Sachs as the last one standing.

The 12th bank failure this year took place on September 19th. Ameribank, a 102 year old bank in West Virginia, with branches in Ohio, was taken over by FDIC. They had \$115 million in assets.

Government

The Administration and Congress are at work crafting a resolution trust solution to the current crisis. The president is asking for \$700 billion. More will be needed.

Massive intervention by central banks of Europe, Japan and the US occurred on Wednesday and Thursday. Several hundred billion was needed to keep the system working. The basic problem is that banks refuse to lend one another money, even overnight.

Summary

Clearly, these are problems too big to let free-markets handle. In time we will know what this all means.

It makes doing business at the local level very difficult at best.

Be careful.



Leonard A. Magazine, Publisher

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