The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Finance Round-Up: October 9th 2007

Posted by Stoneleigh on October 9, 2007 - 7:59pm in The Oil Drum: Canada
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Tags: asset-backed commercial paper, credit crunch, debt, derivatives, foreclosure, housing market, liquidity, litigation, writedowns [list all tags]

With frozen ABCP (asset-backed commercial paper) apparently about to spawn a litigation nightmare in Canada, huge bank writedowns in the US and Europe, bank closures, a lack of interbank lending, large-scale ARM readjustments, exploding credit card debt, a growing surge in foreclosures, and homebuilders further depressing real estate prices by selling off their inventory for whatever they can get, one could be forgiven for wondering why global stock markets seem so unconcerned.

Some aggressive speculators - cushioned by the moral hazard of central bank liquidity injections - may be prepared to throw caution to the wind in overextending the trend, but others are waiting in the wings, well placed, through bets in the derivatives market, to profit from its eventual reversal. In a market at the peak of a mania, where rampant speculation drives volatility for short-term gain, arguably the best place to be is out of the game.

Credit crisis puts law firms in conflict pickle

> Contingent liability is a fancy phrase that means that money is being set aside to pay potential damages. Such contingencies do not mean that National Bank would actually be on the hook to pay lawsuit damages or settlements, but rather that, at this juncture, it may be worried enough to set aside some of its profit as a kind of insurance to cover the risk.
>
> Legal contingent liabilities are rare for Canada's banks for the simple reason that the country's handful of chartered banks are so big that lawsuit costs seldom rank as a material financial event. It took seismic events, such as the collapse of Enron Corp. and the U.S. mutual fund trading scandal, to prompt some of the country's banks, most notably Canadian Imperial Bank of Commerce, to set aside hundreds of millions of dollars a few years ago to cover potential legal liabilities.
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> The fact that National Bank appears to be contemplating a reserve sends a chilling signal that one of the country's most active sellers of non-bank-issued asset-backed commercial paper fears it may become embroiled in a high-stakes legal slugfest with corporate clients who are now stuck with a share of the more than $30-billion of troubled short-term notes.
>
> Normally the prospect of such a lawsuit rush would excite the hearts of the country's litigation warriors. But there is no litigation fairy in the asset-backed commercial paper (ABCP) crisis. Instead, the credit turmoil is shaping into a Hydra-headed monster for major law firms because so many of their clients have become entangled in the credit nightmare.

[HSBC warns of hot money exodus from Britain under 'siege']

> HSBC, Britain's biggest bank, has warned that Britain faces a stark "de-rating" by investors in coming months as growth slows and funds begin to lose confidence in the country's economic management, triggering a mass exodus of "hot money" from the City....
>
> ....David Bloom, HSBC's head of currency research, said signs that the Bank of England's monetary framework was "starting to fray at the edges" had begun to unsettle investors, tarnishing the City's reputation. Both the Northern Rock debacle and the decision by the Monetary Policy Committee to overrule the Governor in setting interest rates have inflicted damage.
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> "If further problems beset either the Bank of England or policymakers in the UK, the situation could turn from mildly negative to a lot more serious," he said.

[Northern Rock borrows £2.9bn more]

> Northern Rock borrowed another £2.9bn last week from the Bank of England, it emerged Thursday as financiers close to Chris Flowers, the former Goldman Sachs banker, indicated his buy-out group was stepping up efforts to bid for the stricken bank.
>
> Three weeks after Northern Rock went to the Bank for support, it owes nearly £11bn - equal to 45 per cent of its deposit base at the end of June.
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> One banking analyst said he was surprised Northern Rock had reached this level of borrowing from the Bank so quickly.
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> Analysts estimated Northern Rock had £14bn of short-term and medium-term notes that needed to be refinanced in the second half of the year.
>
> It is possible that up to £2bn of retail savings deposits have also left the bank in the past three weeks.

[Britain is second biggest consumer in the world]

> Britain ranks behind only the United States as the world's biggest consumer of natural materials and goods, according to a new report.
>
> Despite an increasing political focus on tackling climate change and greener living, the UK is rated joint second in the table with France, a leading thinktank, the New Economics Foundation (NEF), says.
> It has calculated that if everyone in the world wanted to live like people in the UK, three more planets like Earth would be needed to sustain the current population. Consumption rates in the US would require five more Earths.

Credit squeeze pushes ECB to peg rates

> Although the ECB would not let up in the battle against inflation, significant changes in the wording of Mr Trichet's statement hinted strongly that the central bank saw little case for further rises in borrowing costs. Before the credit squeeze, the ECB had been planning to raise interest rates last month.
>
> The Bank of England left rates on hold at 5.75 per cent, opting to take more time to assess the implications of the credit squeeze for growth and inflation. Its decision to stay its hand had been expected, as had that of the ECB.
>
> As the central banks made their move, Alistair Darling, UK chancellor, told the Financial Times in an interview that Britain was heading for an economic slowdown after being buffeted by the global credit squeeze.

ECB pledges indefinite liquidity boosts

> The European Central Bank pledged on Monday that it would inject extra liquidity into money markets for as long as is necessary in order to stabilise short-term interest rates.
>
> The move suggested that the ECB had accepted its work in attempting to ease financial market tensions was far from completed.
>
> "The ECB continues to closely monitor liquidity conditions," it said in a statement ahead of its latest weekly refinancing operation, and would aim to reduce "volatility" in short term rates around its 4 per cent main policy interest rate.
>
> With three-month euro Libor – the average interbank rate offered in London for the single currency for the next three months – trading at 4.767 per cent, close to the six year high of 4.795 per cent recorded last week, market participants backed the ECB stance.

EU plans market reforms to avert crisis

> European nations are to draw up radical proposals to improve transparency in financial markets and to change the way credit rating agencies operate in an attempt to prevent any recurrence of the financial turmoil arising from the credit squeeze.
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> A roadmap of reforms was being drawn up by eurozone finance ministers last night including fuller public disclosure of activities involving special investment vehicles set up by banks.
>
> The finance ministers, meeting on Sunday night in Luxembourg, were poised to call for a close examination of the role of credit rating agencies, especially in relation to structured finance instruments, conflicts of interest, transparency of rating methods and delays in reassessing ratings.

> The drive comes as some members of the Group of Seven leading nations prepare to launch joint action to avoid future market turmoil at their autumn meeting this month.
>
> The most radical step being considered by the G7 would be to force rating agencies to split their rating business from their consulting activities, a person close to the G7 told FT Deutschland, the Financial Times' sister paper. This was intended to prevent any potential conflicts of interest.
>
> Other options include forcing agencies to provide ratings not only for creditworthiness but also for liquidity risks and limiting the use that public institutions such as central banks or governments make of ratings.

Expect More Lawsuits Over Subprime Losses

> In *Time To Break Up The Credit Rating Cartel* I noted that the Teamsters Union was suing Moody's over credit ratings.
>
> In response, my friend Heinz pinged me with this idea: "European banks, are likely preparing their suits as we speak. They would be fools not to try to sue, so they will most definitely sue. that way they can get at least some of their money back. Also, it's practically a certainty from a socioeconomic standpoint as well - both that they will sue and that they will actually win those suits, or at least win settlements."

Big Traders Dive Into Dark Pools

> It's not easy being a big player in the stock market. Trading huge quantities of stock on traditional exchanges has become ever more challenging, costly, and potentially disruptive. And if other players see your moves, they can disrupt your trades. That's led to the emergence in recent years of alternative trading systems known as dark pools. And their growth could have significant implications for big stock exchanges—and individual investors.
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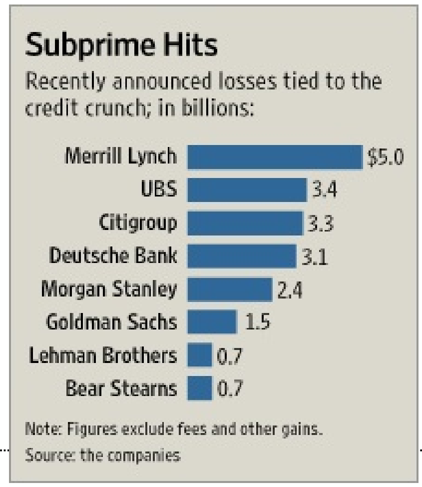
> Dark pools sound like something from Greek mythology or a sci-fi epic, but in stock-market speak they are private trading networks that big brokerages such as Lehman Brothers (LEH) and Merrill Lynch (MER) have developed primarily for the internal matching of orders between buyers and sellers who are clients of the same brokers. But dark pools have developed links among Wall Street firms as well, so that orders can be matched across different brokerages. Indeed, some firms are teaming to launch new dark pools such as BIDS Trading.
>
> Alternative trading systems, or ATSs, have gained an increasing share of equity trading in the past few years. In addition to dark pools, ATSs include crossing networks, such as independently owned Liquidnet and Pipeline, that match orders for execution without having to first route them to an exchange or market center where they could be viewed publicly. Besides enabling investors to execute an order without affecting the public price quote, crossing networks match orders at a specified price, typically the midpoint of the bid and ask prices on stocks at the point in time of the trade. Electronic communications networks (ECNs), which trade stocks and currencies, are another type

of ATS.

The initial proliferation of ATSs stemmed from policy changes by the U.S. Securities & Exchange Commission that were designed to encourage competitive pricing. More recently, the motivation for using them has been the quantities of stock being traded and the ability to keep these transactions hidden—and anonymous. Dark pools also make it easier to trade small- or mid-cap stocks, which are often lower-profile companies that, because they're less liquid, are harder to trade publicly.

[Merrill's $5 Billion Bath Bares Deeper Divide]

Merrill Lynch & Co.'s announcement Friday that it would take a $5.5 billion hit to third-quarter earnings is exposing the weak oversight exercised by top Merrill executives as it became a big force in the mortgage-securities business.



Wall Street has been reeling from the recent credit crunch tied to questionable home mortgages, with several companies taking multibillion-dollar write-downs. But Merrill is taking the biggest charge and is the only major U.S. firm so far that has said it will report a loss for the third quarter.

[A Big Loss at Merrill Stirs Unease]

“While market conditions were extremely difficult and the degree of sustained dislocation unprecedented, we are disappointed in our performance in structured finance and mortgages,” Mr. O’Neal said in a statement. “We can do a better job of managing this risk, as we have done with other asset classes.”....

....Two ratings agencies, Moody’s and Fitch, quickly downgraded Merrill’s long-term debt outlook to negative from stable. Moody’s said the write-down, which had been forecast at about $4 billion, exceeded expectations. “As a result, Moody’s assessment of the quality of risk management at Merrill Lynch has diminished.”

[BofA looks at $1B in mortgage write-down]

Bank of America Corp. may be the next big U.S. bank to suffer consequences from the subprime mortgage crisis.

According to analysts at Sanford Bernstein, Charlotte-based BofA is looking at a $1 billion write-down of mortgage securities and leveraged loans when it reports its third-quarter earnings next week....

> ....BofA has been out of the subprime loan business for years. But the Financial Times reports the bulk of its markdowns will come from leveraged loan commitments the bank had intended to syndicate, but on which it would take a loss if they were sold now.
>
> BofA won't be alone in writing down losses. Last week, Citigroup Inc. warned its third-quarter earnings would fall 60 percent from a year ago. And Merrill Lynch & Co. has warned it will write down almost $5.5 billion and report a loss when third-quarter results are announced.
>
> So far, at least nine major banks have warned they will take write-downs, charges or set aside funds to the tune of $20 billion related to the subprime and credit markets.

[JPMorgan, Bank of America May Write Down Buyout Loans]

> JPMorgan Chase & Co. and Bank of America Corp., the biggest arrangers of U.S. leveraged loans, may have combined markdowns of $3 billion in the third quarter, according to analysts at Sanford C. Bernstein & Co.
>
> JPMorgan may have to write down holdings by about $2 billion, and Bank of America's markdown may be about $1 billion, Bernstein analysts Howard Mason and Michael Howard wrote in a note to investors today.
>
> Rising subprime mortgage defaults in the U.S. have rocked credit markets in the past three months, leaving banks with losses on home loans and about $370 billion in unfunded buyout financing. New York-based JPMorgan and Charlotte, North Carolina-based Bank of America shared 30 percent of the U.S. finance market this year, according to data compiled by Bloomberg.
>
> Third-quarter earnings ``for large banks will be dominated by the writedowns in leveraged lending and the loan warehouses," the Bernstein analysts wrote.

[WaMu Woes Could Crack Countrywide]

> Observers are saying that Countrywide, the nation's largest independent lender, is likely to fare even worse than WaMu in the third quarter, as a result of the significant deterioration in the housing market and the seize-up of secondary markets for mortgage-backed securities over the summer.
>
> "Countrywide is going to have some significant losses," says Joe Capone, a managing member of Smart Financial Partners, a hedge fund focused on financial services equities. "There all sort of severance costs, marked-to-market issues, credit losses -- they've got everything."
>
> Early Friday, WaMu warned that third-quarter profit is expected to fall by 75% from a year ago. WaMu attributed the steep decline to a $975 million provision expense for loan losses from subprime mortgages and home equity loans, plus $410 million in other losses tied to mortgages and bond holdings.

Bank writedowns? It's hardly a surprise

> Seasoned bank investors shouldn't be shocked by the writedowns. In spite of their size, generally capable management, attentive regulatory oversight and sophisticated risk management, big banks are remarkably fragile beasts. This is especially true of big domestic banks with big international ambitions, like UBS.
>
> UBS is a retail banking and wealth management powerhouse, with growing and relatively stable profits from those businesses. That's the good news. The bad news is that it's hard for UBS (or any other bank, like Royal Bank of Canada) to expand in those areas beyond their home market. HSBC is one of the few banks to have pulled it off.
>
> But size is everything for banks. They have to find growth somewhere. Management egos demand it; so do shareholders who like some daring mixed with their dividends. So they expand their investment banking and trading businesses outside of the domestic market.
>
> When it works, it works beautifully. UBS has made fortunes from its global investment banking business and now has twice as many employees outside of Switzerland as within. Then - kaboom! - along comes a financial catastrophe like the subprime mortgage meltdown or a credit crunch. Or a wrong bet on a commodity trade - Bank of Montreal took a recent beating on natural gas. Or cowboyish behaviour mixed with arrogance. CIBC comes to mind. A few years ago, it retreated from the United States after taking huge writeoffs in its investment banking business and testing the patience of the U.S. Department of Justice and the Securities and Exchange Commission.

Big banks about to lower the boom

> The belief "the worst is over" in the crisis that panicked the financial markets in August and still hasn't let go of its death grip on the debt markets is the best hope that Wall Street's investment banks have of getting out of this mess with their skins intact.
>
> But don't you believe it. There's not a chance the worst is over, and Wall Street knows it. Wall Street knows the big investment banks that reported in mid-September aren't out of the woods. They all took relatively tiny write-offs -- $700 million on the fixed-income portfolio at Bear Stearns, for example -- on the damaged goods in their portfolios, and if they can't trade their way out of this mess, they've got more big losses to write off in the quarters ahead.
>
> Will news be worse than bad? Wall Street is afraid that the big banks still to report in mid-October could drop a bomb on the markets. Bank of America, JPMorgan Chase, Wachovia, Washington Mutual and Wells Fargo all report Oct. 17, 18 or 19.
>
> The fear is that because these banks held on to more of the mortgages, credit card debt and buyout loans they packaged than the big investment houses did, they'll have more to write off.

Ellington Funds Suspend Redemptions

Ellington Capital Management is suspending redemptions in two of its funds due to the lack of liquidity in mortgage-backed and asset-backed instruments.

The New York Post cited a letter to investors saying the debt markets have been so volatile lately it is impossible to assign a fair value to the funds' portfolios. Ellington said the suspension was not a response to losses or investor withdrawals.

Subprime Woes At Cerberus

General Motors took some flak when it sold a 51% stake of General Motors Acceptance Corp. (GM), then the carmaker's most profitable unit, to Cerberus Capital Management and others in late 2006. Most figured the private equity firm got a good deal from the beleaguered carmaker, paying $7.4 billion for the auto and mortgage lender. That investment isn't doing so well now that GMAC's mortgage business, ResCap, is losing money. Owing to that drag, GMAC reported a $12 million loss for the first half of the year, compared with profits of $1.3 billion in the same period of 2006.

ResCap had once been the gem of the finance company, with earnings growing much faster than in auto lending; home financing accounted for 48% of GMAC's profits in 2005, up from 20% five years earlier. But the subprime woes have spread to ResCap--and perhaps more so than to other lenders. It hasn't posted a profit since the third quarter of 2006, months before problems surfaced at other subprime players. That has left Cerberus and GMAC's other investors scrambling to shore up the business.

Mortgage Mistakes Help Tank NetBank

Alpharetta, GA-based NetBank Inc., the first online bank to tank, in part, because of mortgage market missteps, is also the first federally-insured thrift to go because of mortgage issues.

NetBank is also the largest federally-insured bank to go under since the Savings and Loan Crisis cost the nation as much as $500 billion beginning decades ago.

The event raises red flags for consumers of the now bankrupt institution, many of them mortgage holders. Former NetBank customers are likely to be bombarded with misleading spam and phishing -- fraudulent emailed attempts to gain sensitive, private information by masquerading as a legitimate company.

On Friday, Sept. 28, 2007, the government shut down NetBank Inc., an online bank with $2.5 billion in assets and $2.3 billion in deposits because of excessive mortgage defaults among other problems. Based in the Atlanta suburb of Alpharetta, and operating exclusively online, NetBank has filed for bankruptcy protection.

Federal regulator, the U.S. Treasury's Office of Thrift Supervision (OTS) named the Federal Deposit Insurance Corporation (FDIC) as receiver.

[Ohio regulators close Miami Valley Bank]

> The Ohio Superintendent of Financial Institutions' closure of Miami Valley, which had $86.7 million in total assets and $76 million in total deposits, marks the third FDIC-insured bank to fail this year.
>
> The state regulator found that the bank is in an unsafe and unsound condition to stay in business and that it's insolvent, with liabilities in excess of its assets.

[Problems For Banks, Problems For You?]

> Returning to the theme of protecting oneself, it is absolutely imperative to not exceed the FDIC limits at any bank.
>
> With that in mind, pay particular attention to what Prof. Zucchi has to say in regards to BKUNA and what Minyan Peter is saying about bank balance sheets. To that I would like to add a note of caution about banks offering above market rates on CDs. There is a reason for those above market rates. That reason is called "risk"....
>
> ....Anyone above the FDIC limit on NetBank can kiss it all goodbye.

[Job cuts on cards at New York banks]

> Wyss believes that Wall Street could be on course to cut as many jobs as were lost after the terrorist attacks of 2001. He also thinks cuts won't be restricted to New York, as banks are likely to want to shed jobs in all the world's big financial centres, including London.
>
> The loss of such highly paid jobs will have a knock-on effect on the wider economy, as high-net-worth spending on items such as houses and cars is likely to decrease, while income tax revenues will also fall.
>
> 'The effect on the broader economy will be outsized in places like New York and London,' Wyss added. 'Financial services employees are a sizeable portion of the workforce in such locations.'
> Analysts estimate that 40,000 jobs could be lost in New York alone.

[Goldman Record Year Shows New Wall Street in Shakeout]

> Somewhere in the wreckage of securities backed by subprime mortgages and the resulting seizure in the credit markets, is a new paradigm on Wall Street where Goldman Sachs Group Inc., increasingly perceived as the world's biggest hedge fund, will report record earnings for 2007.

While Goldman, the largest securities firm by market value, insists that it caters to the needs of clients and has never been anything but customer-driven, New York-based Goldman also is considered No. 1 in proprietary trading and manages more hedge funds than anyone except JPMorgan Chase & Co.

And like Paulson & Co., Harbinger Capital Partners and Hayman Advisors LP, which are posting their highest returns when so many conventional financial institutions are reeling from subprime investments, Goldman profits substantially from allowing its traders to use the firm's capital to speculate on whether the price of assets will fall or rise....

....``You've only seen the first round in the deterioration of the mortgage area,'' said James Melcher, president of Balestra Capital, a New York-based hedge fund with about $270 million of assets. ``The second round is just starting, and it's going to be worse.''

Balestra Capital's fund rose about 130 percent this year through September, according to a letter sent to investors. The fund used so-called ABX indexes to benefit from the increase in home-loan delinquencies. ABX indexes allow investors to buy into derivatives called credit-default swaps on multiple securities. Bearish investors have used ABX bets to wager against the health of mortgage lenders to people with bad credit histories.

[Rise of the giant fund sparks fears of a global shockwave]

Asset bubbles, excessive lending, market distortions and bank failures are all highlighted as possible consequences of the increasingly large and influential financial players that have emerged in recent years. McKinsey's New Power Brokers report is the result of six months' research by the consultancy and analyses "how oil, Asia, hedge funds and private equity are shaping global capital markets".

Author Diana Farrell says that "for all of their benefits, the rise of the power brokers also poses new risks to the global financial system".

Ms Farrell, director of McKinsey's economics research arm, said real estate values in developed countries had increased by $30,000bn (£14,679bn) between 2000 and 2005, far outstripping economic growth. This partly reflected property purchases by petrodollar investors but was also a side-effect of lower interest rates caused by investment in government securities – especially in the US – by Middle Eastern and Asian investors.

"Another concern is that the government connections of Asian central banks and petrodollar sovereign wealth funds may introduce an element of political considerations in their investments," says Ms Farrell.

"This could lower economic value creation and distort the signals that allow financial markets to function efficiently." The size and leverage of hedge funds, and their increasingly illiquid investments, threatened contagion in times of financial crisis, says the report. The dramatic growth in high-yield debt, and looser lending covenants to meet demand from private equity groups, have also increased credit risk.

The Credit Conundrum: The New Loan Shark is the Fed

> I think the Fed is afraid of deflation and their actions point toward this. When prices start correcting downward, the tools they have will be largely impotent. Some sellers wouldn't be able to sell even if prices went down 5 or 10 percent. If they have no access to credit or funds, then they are stuck. That is the reason many went with these exotic loans in the first place. They didn't have the funds to begin with! And buyers are being more cautious by force and their own merit. The force part comes from the fact that there is very little exotic mortgages fueling the current market. The velocity of selling slows down when you have to check documents and verify that prospective buyers' stated income reflects reality. Things move much quicker when you can mold numbers via stuntman loans. For all other things, you have the Fed.

The Road to Perdition

> The Yank and the Brit could not be less prepared or more poorly positioned. They already live beyond their means. They can expect no wage gains. Their costs are rising. And with three billion Asians hard on their heels, they can't expect a breather – prices will continue to rise; wages will not.
>
> What's worse, the street value of their most cherished asset – their houses – is going down. Already, house prices in America are down 3.5%, according to the latest Case/Shiller report; futures indexes traded on the Case/Shiller numbers imply further declines through the year 2010. In merry old England, meanwhile, prices fell in September for the first time in nine months…with much more to come. The English have even more debt than Americans…and are more vulnerable to a fall in housing prices.
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> How did they get into such a tight spot? Who is to blame?
>
> "What are you looking at me for?" Mr. Greenspan seemed to say last week. As to the charges – that he was spotted at the scene of the crime – the former Fed chief pleaded ignorance and impotence:
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> "It's really not something which central banks any longer have control over," said Mr. Greenspan to the BBC, "…we have never really successfully been able to forecast significant turning points in the economy."

Do central bankers still matter?

> as Bank of Canada Governor David Dodge prepares to cede the mantle to Mark Carney, a top Finance Department official, it's worth asking the question: Do central banks and central bankers still matter?
>
> At its most basic, monetary policy is about maintaining confidence in the value of money. And you do that by keeping prices stable.

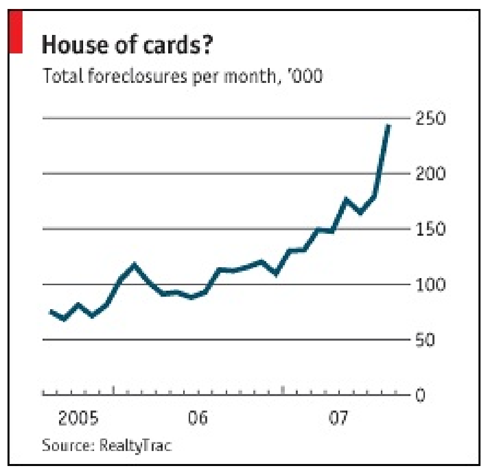
Banks do that by moving short-term interest rates - usually via the rate commercial banks charge each other for overnight loans - to produce a rate of economic growth that keeps inflation in check.

But those tools haven't been working very well of late. During the past two months, financial markets have been badly misbehaving.

Short-term credit markets have shrivelled up, in spite of swift and decisive action by central banks around the world to inject liquidity. The commercial paper market remains dysfunctional and banks have shown no inclination to extend mortgage credit.

The Fed's surprise, 50-basis-point rate cut on Sept. 18 sent global stock markets into a frenzy. But it hasn't done the one thing that current Fed chairman Ben Bernanke wanted - lower longer term rates. Rates on 10-year Treasuries have instead gone up, as have mortgage rates.

[The hammer drops](#)
[America's houses are being repossessed at a record rate. What comes next?](#)



At first sight, Maple Heights, just outside Cleveland, looks much like any other ageing suburb in the industrial mid-west: a patchwork of small colonial-style houses built after the second world war, with leafy streets and mown lawns. Up close, it is a community in collapse.

Every twelfth house stands empty, repossessed after its owner defaulted on a mortgage. There are no boarded windows (a local ordinance forbids them) and the city council cuts the grass around vacant homes. But the cracked panes, crumbling paint and rotting porches are hard to hide. Countless more homes sport “For Sale” signs as the remaining owners try to flee to better areas. With so many houses vacant, the property tax base has crumbled. Since 2003, the local government has laid off 35% of its staff.

As America's housing bust grows ever deeper, the big question is how far Maple Heights is a harbinger of things to come. Nationally, people are defaulting on mortgages at a faster pace than at any point in recent decades. According to the Mortgage Bankers Association, some 5% of all mortgages are delinquent and the share rises to almost 15% for “subprime” mortgages—those lent to people with shaky credit histories. In the second quarter of 2007, almost 3% of subprime loans entered foreclosure (the process of default and repossession). RealtyTrac, a company that tracks foreclosures, reckons up to 1.5m households will enter the process this year (see chart), double last year's figure. And with some 2.5m adjustable-rate mortgages resetting to higher rates before the end of 2008, everyone knows there is much worse to come.

[The Slow Motion Recession](#)

Hundreds of thousands of homes are going to come back onto the market in the form of foreclosures over the next year. Those of us who live in Texas have seen this movie before.

It was in the late '80s and early '90s when oil prices collapsed and the S&L crisis hit. There was blood in the streets. Can you say Texas Chainsaw Massacre? Large banks that had made loans to oil businesses and real estate developers saw their collateral evaporate. But they had to keep up their required reserve margins. Since they could not get money from the bankrupt creditors, they called loans in from the creditors who had money, even though it put many of these good businesses into severe crisis. I had more than one friend who thought he had a solid business watch it go under as his banking relationship and his access to capital seemingly vanished overnight....

....It was worse in Houston, the center of the oil industry. Homes were selling on the courthouse step for less than you could get in rent in just a year. People literally bought them with credit cards. What we went through was unthinkable just a few years earlier....

....You cannot take 10-15% of the potential home buyers out of the market (due to no subprime availability) and not expect prices to fall. Additionally, you cannot triple the supply of homes without expecting prices to fall. We only had a four-month supply of homes for sale in 2005. It is now at ten months and on its way to at least 12. Shilling thinks it goes to a 14-month supply.

When you both slash the number of available buyers and triple the supply, to think we can get by with a simple 10% price adjustment that will correct within less than a year is not credible.

[S&L ghosts hover over housing]

Lately I've been getting that déjà vu feeling.

If you lived in Texas through the savings-and-loan debacle of the late 1980s, you probably have been, too.

If you didn't, listen up. What happened to houses in Texas back then may be the template for what happens across the country as the housing bubble pops today....

....The Texas template tells us we could be in for a 14 percent to 25 percent decline in home values and an eight- to 14-year wait for recovery.

That's real history. It's not hyperventilation from the Chicken Little chorus.

[The American Dream turns into a debtor's nightmare]

The victims "thought they saw the promise of the American Dream, and instead they ended up with a nightmare," Arusha said. "I think they were seen as easy targets for predatory lenders who could sell them a bill of goods without giving them disclosures in a language they understand."

[Boom and bust in a neighborhood built on easy credit]

Not long ago, builders were raising home prices here thousands of dollars week after week. Families pitched tents in front of sales offices and waited for Saturday morning lotteries to win the right to buy. Buyers – including more than a few speculators – gambled with loans whose risks were obscured by euphoria.

This is the tale of how America's real estate boom came to a seemingly ordinary subdivision called the Villages at Queen Creek, where the whipsaw of easy credit has led to some extraordinary times. They were the best of times, for a while. The empty homes, though, raise serious doubts about what comes next.

As the nation confronts skyrocketing foreclosures, and policymakers try to contain a symptomatic credit crunch, what is happening here and in scores of similar neighborhoods is worth considering.

[Housing: That Sinking Feeling]

For the first time, big builders are offering massive, often six-figure, price cuts in overbuilt developments nationwide, giving the industry a kind of shock treatment designed to move inventory off the books fast. It remains to be seen whether these radical measures will revive the market or deepen the slump, but it's certainly having an impact on the local communities. On Sept. 14, Hovnanian Enterprises Inc. (HOV) kicked off a 72-hour Deal of the Century, in which it slashed prices by as much as $100,000 in 19 states....

....For homeowners who jumped in at the height of the boom, the discounts aren't so good. In Quayside Court, a quiet cul-de-sac in Huntington, many residents who bought last year suddenly own homes worth a whole lot less--making it hard for anyone who has to refinance, sell, or borrow against the equity. "When we first moved here [in the summer of 2006], the housing market was incredible," says Tammy Elder, a mother of three. "Unfortunately we bought a house that was overpriced, and we don't know if we'll ever break even."

[Homebuilders Liquidate Assets as Threat to Survival Spurs Sales]

When D.R. Horton Inc., the second- biggest U.S. homebuilder, couldn't sell the one-bedroom condominium in San Diego it listed for $349,800, the property was auctioned as a last resort for 37 percent less.

D.R. Horton, with annual revenue of about $11 billion, and Hovnanian Enterprises Inc. now face the worst choice in the worst residential real estate slump since the 1930s. They're selling homes at any price they can get.

``It's desperation time and some companies may not make it,'' said Alex Barron, an industry analyst at Agency Trading Group Inc. in Wayzata, Minnesota. ``At this point in the housing cycle, if you have too much debt, it's hard to get out from under it.''

Homebuilder profits depend on the cost of land, said John Burns, president of John Burns Real Estate Consulting in Irvine, California. Companies can still make money building on land purchased before the 2005 peak of the five-year U.S. housing boom, though price declines of as little as 10 percent might wipe out those profits, he said.

``They are all losing money,'' Burns said. ``They'll talk in terms of gross margin and it sounds like they made money, but they actually lost money because they didn't make their costs.''

[For home builders, the worst is to come]

Builders soberly predict even lower prices as millions of homes sit empty and would-be buyers (who must meet tighter mortgage qualifications) bide their time.

Citigroup sparked a sharp rally in the home-building industry this week by upgrading the group in a 54-page report titled "The Dark Before the Dawn." A few of the most beaten-down companies in the sector saw shares advance as much as 8% in a couple of days, while most rose at least 3%.

Not bad, yet you just have to wonder what Citigroup analysts and the avid buyers were smoking. Because a more sober title for a report on the prospects for residential real estate would have been "It's Always Darkest Before It Goes Pitch Black." Or perhaps "Dawn of the Dead."
The home-building industry, after all, is all about building homes. And that is a big, big problem in a country that has way too many of them. The stats vary by region, but the national inventory of homes is at an all-time high, with an eight-month supply. One in 7 1/2 houses is actually vacant. Prices are tumbling. And there is little relief on the horizon, even from the Federal Reserve.

[Consumer Borrowing Up Sharply in August]

Consumers have boosted their borrowing at the fastest pace in three months, turning increasingly to their credit cards to replace home equity loans as a source of ready cash.

The Federal Reserve reported that consumer credit rose at an annual rate of 5.9 percent in August, the biggest increase since a 7.9 percent jump in May.

The increase was led by an 8.1 percent leap in revolving credit, the category that includes credit card loans. Consumers have been using their credit cards more to finance purchases now that home equity lines of credit are becoming harder to obtain.

[U.S. credit card pitches surge]

Mr. Oliver is not alone in receiving offers of credit cards after being turned down by conventional lenders.

One of the seemingly curious fall-outs from the still reverberating subprime mortgage crisis -- where credit to ordinary homeowners, even those with top credit ratings, seemed to dry up overnight -- is that credit card issuers have stepped up their efforts to convince already pressed American consumers to buy using even higher-priced credit.

Mintel International Group, a Chicago-based consumer, media and market research firm, said in a recent survey that direct mail credit card offers to subprime customers in the United States soared 41% in the first six months of this year compared to the same period in 2006.

London-based HSBC Holdings more than doubled its subprime credit card offers during the period, followed by Washington Mutual with a 35% increase and Capital One Financial with 18%. A subprime household is one with a low credit score of around 600 compared to the best possible rating is 850.

Debt Slave Act of 2005 Revisited

When the Fed, Congress, the FDIC, Countrywide Financial (CFC), consumer advocacy groups, and banks like Citigroup (C), Bank of America (BAC) and Wells Fargo (WFC) are all acting to prevent "something" from happening, the logical conclusion is because it is in the best interest of the lenders for that "something" not to happen. The "something" in this case is foreclosure.

Sooner or later, those on the edge are going to realize that what everyone the above collective group wants (debt slavery), just might not be in their best interest. As more and more legislation is enacted (and silly ideas proposed) to prevent foreclosures, the greater the likelihood that people find a way around the measures.

The Forgotten Art of Making Ends Meet

Americans are going to rediscover the quaint, almost forgotten art of making ends meet. Until recently, ends remained total strangers to each other. They didn't have to meet because there was so much credit available on such forgiving terms. Thanks largely to "Easy" Al Greenspan down at the Fed, they could always stretch one end of their budget - the spending end. "Just put it on the credit card, honey...we'll extend the equity line if we need to."

But now the equity line is snapping back and hitting them in the face. The big hump in mortgage resets has just begun...September was a big one. October is even bigger. And then, right up through the spring of 2008, millions of people are going to have to face significantly larger mortgage payments.

Ryder Blames "Freight Recession" on Housing Spillover

The housing recession has now spawned off a "freight recession". It can't be too much longer before prefixes like "freight" and "housing" are removed from the R word to be replaced by the dreaded "consumer-led" prefix....

....**Key Changes in Psychology**

- There is reduced demand for junk
- There is reduced need to transport junk
- There is no need to build more stores that sell junk

The third point above is extremely important. Once Wal-Mart, Lowe's, Target, Home Depot, Starbucks, and Best Buy, as well as restaurants like Applebee's and Pizza Hut, etc., stop store expansion because of over capacity and falling demand, there is going to be no driver for jobs.

Without jobs, consumer discretionary spending is going to take a big hit, and foreclosures are destined to rise yet again.

Weak dollar prompts record foreign buyouts of U.S. companies

European, Asian and Canadian companies are taking advantage of the weaker dollar to buy their U.S. counterparts at a record pace, increasing investment in the United States but also raising fears about a potential loss of jobs and autonomy.

"We could be looking at the world's largest tag sale if we continue to see declines in the dollar," said Donald Klepper-Smith, chief economist at DataCore Partners.

In the latest large deal aided by a weak dollar, Commerce Bancorp, which is based in Cherry Hill, New Jersey, agreed Tuesday to be acquired by Toronto-Dominion Bank of Canada in a cash-and-shares deal valued at $8.5 billion.

Nationally, the value of purchases of companies by non-U.S. buyers so far this year totaled $257.4 billion - more than in any full year since 2000, the height of the technology boom, according to Thomson Financial, a research firm in New York.

The buyouts are sparking anxiety in the United States, though their impact is complex. Foreign owners typically use acquisitions as an entry into the U.S. market and thus may be more willing than American buyers to invest in their new holdings, some economists say. But the risk is that they might also be quicker to cut back or consolidate U.S. operations when times get tough.

Chinese bank in landmark US investment

China Minsheng Banking Corp is set to become the first mainland institution to invest in a US bank after striking a deal to acquire 9.9 per cent of San Francisco-based UCBH Holdings for more than $200m.

The deal marks the first overseas investment by Minsheng and is expected to herald a string of similar deals over the next few months as cash-rich Chinese companies seek to expand their global footprint.

Treasury claims power to seize gold and silver -- and everything else

The Treasury Department's assertions came in a letter dated August 12 and written by Sean M. Thornton, chief counsel for the department's Office of Foreign Assets Control, who replied to questions GATA posed to the department in January. It took GATA six months and a little prodding to get answers from the Treasury, but the Treasury's reply, when it came, was remarkably comprehensive and candid.

The government's authority to interfere with the ownership of gold, silver, and mining shares arises, Thornton wrote, from the Trading With the Enemy Act, which became law in 1917 during World War I and applies during declared wars, and from 1977's International Emergency Economic Powers Act, which can be applied without declared wars.

While the Trading With the Enemy Act authorizes the government to interfere with the ownership of gold and silver particularly, it also applies to all forms of currency and all securities. So the Treasury official stressed that it could be applied not just to shares of gold and silver mining companies but to the shares of all companies in which there is a foreign ownership interest. Further, there is no requirement in the law that the targets of the government's interference must have some connection to the declared enemies of the United States, or, really, some connection to foreign ownership. Anything that can be construed as a financial instrument, no matter how innocently it has been used, is subject to seizure under the Trading With the Enemy Act and the International Emergency Economic Powers Act.

Having just gone through a controversy about a Supreme Court decision about government's power of eminent domain, most Americans may be surprised to learn that the Trading With the Enemy Act and the International Emergency Economic Powers Act could expropriate them instantly and far more broadly without any of the due process extended to parties in eminent domain cases. All that is needed is a presidential proclamation of an emergency of some kind -- and of course Americans lately have been living in a state of perpetual emergency.

Bush Says Interrogation Methods Aren’t Torture

President Bush, reacting to a Congressional uproar over the disclosure of secret Justice Department legal opinions permitting the harsh interrogation of terrorism suspects, defended the methods on Friday, declaring, “This government does not torture people.”....

....In two separate legal opinions written in 2005, the Justice Department authorized the C.I.A. to barrage terror suspects with a combination of painful physical and psychological tactics, including head-slapping, simulated drowning and frigid temperatures.

The memorandums were written just months after a Justice Department opinion in December 2004 declared torture "abhorrent."

Iraq Seeks Blackwater Ouster

Iraqi authorities want the U.S. government to sever all contracts in Iraq with Blackwater USA within six months and pay $8 million in compensation to each of the families of 17 people killed when the firm's guards sprayed a traffic circle with heavy machine gun fire last month.

The demands - part of an Iraqi government report examined by The Associated Press - also called on U.S. authorities to hand over the Blackwater security agents involved in the Sept. 16 shootings to face possible trial in Iraqi courts.

The tone of the Iraqi report appears to signal further strains between the government of Prime Minister Nouri al-Maliki and the White House over the deaths in Nisoor Square - which have prompted a series of U.S. and Iraqi probes and raised questions over the use of private security contractors to guard U.S. diplomats and other officials.

Vigilant Shield 2008: Terrorism, Air Defences, and the Domestic Deployment of the US Military

Vigilant Shield 2008 builds a scenario of a domestic disaster in the US (terrorist attack or natural disaster). It posits the domestic use of the US military including a special role for the US Air Force.

Hypothetically, a terrorist event could trigger the massive deployment of the US military as part of a national emergency. If a terrorist incident were to occur and Iran were to be blamed for the attacks, the military could also be used to shunt anti-war opposition within the US.

A precedent for the domestic use of the US military within US cities was established in New Orleans during Hurricane Katrina.

Vigilant Shield 2008 is said to be designed to deal with a terrorist or natural disaster scenario in the United States. Yet, the deployment of the US forces in the upcoming US military-security exercise, organised by Homeland Security and the Pentagon, resembles a war-time air scenario over North America and the Pacific rather than an anti-terrorist drill. **Canadian territory is also involved through NORAD** and so is Guam in the Pacific Ocean.

Regional nuclear war could trigger mass starvation

A nuclear war between India and Pakistan could cause one billion people to starve to death around the world, and hundreds of millions more to die from disease and conflicts over food.

That is the horrifying scenario being presented in London today by a US medical expert, Ira Helfand. A conference at the Royal Society of Medicine will also hear new evidence of the severe damage that such a war could inflict on the ozone layer.

"A limited nuclear war taking place far away poses a threat that should concern everyone on the planet," Helfand told New Scientist. This was not scare mongering, he adds: "It is appropriate, given the data, to be frightened."

Helfand is an emergency-room doctor in Northampton, Massachusetts, US, and a co-founder of the US anti-nuclear group, Physicians for Social Responsibility. In his study he attempted to map out the global consequences of India and Pakistan exploding 100 Hiroshima-sized nuclear warheads.