IT IS NO WONDER WE ARE SCREWING THIS UP

by Steve Brown

Before we can party like we work in the Minerals Management Service this weekend, we have to get some things off our chests that have been driving us crazy. We would normally dump on our family and friends, but they just don't understand. As a result, we turn to our financially astute readership. Our issue is the media and their reporting of the financial crisis.

Some of it has been just plain loony, like the assertion from a popular newspaper stating "The week capitalism failed" in response to the demise of Lehman, Fannie and Freddie over the past 7 days. We believe the market didn't fail, because it was never allowed to work. The reality is that in America the market is free to move around until people start losing money. Fannie and Freddie enjoyed below market funding levels (because of a Gov't guarantee) for so long, it covered up a lot of bad things. It was the Gov't, not the market that set capital levels for the GSEs that proved inadequate. The GSEs long ago should have been made more transparent, including a requirement to mark their loans to market and then left alone. Had that occurred, the market would have forced self-correction a long time ago. The same goes for Lehman in terms of transparency. The current Lehman situation is more ironic, as for the past several weeks, would be suitors have been sitting on the sidelines waiting to try to craft a similar deal that JPMorgan got with Bear Stearns from the Treasury. Where will this subsidized sale madness stop? Fueled by media coverage, politicians are coming up with every solution except the true free market solution Ã¢Â€" failure.

Another point of press confusion is over housing. Media keeps referring to cheaper housing as a harbinger of stronger sales, because it makes housing affordable. If housing prices are falling, then it is either because supply is increasing or demand is falling. Economically, this is a shift down of the demand curve, not a move along it. Simply put - falling housing prices point to weaker sales.

We have heard the same argument in the press for raw material prices in that falling prices will boost the economy. Again, the media has the cause and effect wrong. If the price of oil falls, it is because the demand is weak and lower prices are the result. If all the economy needed was lower oil prices to cure itself, the free market would never have let prices fall as low as they have.

The gas holiday that some of the Presidential candidates are supporting is another economic joke, as it will do little except increase demand to the point of higher prices (making us more reliant on gas, not less). The stupefying proposed Foreclosure Prevention Act of 2008 is just plain irrational. It is limiting an already slow foreclosure process and creating more systemic risk for the economy, not less. Just to make sure we have this straight - in order to help Fannie and Freddie, the Treasury and the FHFA will "expand housing affordability and availability." The fine print says they will increase mortgage availability AND lower pricing (guarantee fees to be exact). Call us crazy, but if Secretary Paulson thought the business model was flawed before, dropping pricing and increasing volume is probably going in the wrong direction. It is odd that the press is worried about protecting the taxpayer on one hand, but also worried about protecting home buyers on the other. In a period of deteriorating credit, these are largely mutually exclusive economic goals.

Before the press complains about the failing of capitalism it needs to get its economic thinking clear. It can't trumpet the failing of the free market, when capitalism hasn't been given a true chance to work. Our point to all this bad economic education is that it is no wonder we are in the mess that we are in.

BANK NEWS

More Pain

A new RealtyTrac report shows foreclosure filings reached another new record in August, jumping 27% from the same period last year and 12% more than the prior month. Meanwhile, bank seizures into REO more than doubled over last year, defaults climbed 10% and auctions increased 7%. By state, NV came in #1 in foreclosures for the 20th consecutive month (1 in 91 homes in default), followed by CA (1 in 130) and AZ (1 in 182).

Housing Overhang

The latest data finds there are 3.9mm unsold homes on the market (the most since 1982) and an 11.1 month supply at the current sales pace. That compares to a more normalized rate of about 6 months signaling conditions have stabilized.

HMDA

The FFIEC released the 2007 HMDA data that will act as a basis for origination policy. While home lending fell 25% from 2006, loans to Hispanics were down 49% and loans to African-Americans fell 35%.