Change and Decay in All Around I See

The Decline of Western Capitalism is a Fascinating Spectacle. Make some popcorn and follow along here!

Deep Background & Setup:

A lot of the basis for the current Crisis was laid long ago, and there were many warning shots across the bow. If you're not a conneiseur of financial failure and treachery, you might not be aware of these things. I'll catch you up on the high points.

Monday	3/28/94	**Derivative Surprise!** With exquisite timing**, Matt starts at Hercules International Management in Minneapolis.** We're on the 20th floor of the Piper Jaffray Bldg and share space with Piper Capital Management (PCM). **In the next ten days**, PCM would misprice a major fund which was tanking due to a huge concentration of derivatives, resulting in major losses to investors, a loss of several billion dollars under managament, many lawsuits, fines and SEC actions. I was oblivious, having to deal with my new position, find the bathroom, etc., but it was an uncanny bit of timing! The SEC rulings are all online and make interesting reading, for me anyway. The point? Leverage, one-way bets, pricing problems and not understanding derivative risks can get you in trouble. It's nothing new.
Tuesday	12/6/94	**Derivative Surprise!**: Orange County, California, declares bankruptcy! Treasurer Robert Citron has made great returns. The way you do this is take big risks. Everybody squinted real hard and didn't look too closely, but when interest rates went the wrong way, his big reverse-repo and inverse-floater derivative positions tanked. His bankers needed more collateral, there was a run on the fund by municipalities, and it went belly-up. The loss? About $1.6 Billion. The point? Derivative losses, excess risk and bank runs are nothing new.
Sunday	2/26/95	**Derivative Surprise!**: Barings declared insolvent. This one was pretty straightforward, bad futures trades well-hidden by a 27-year-old trader (Nick Leeson) in Singapore. Poor internal controls allowed this to go on until he lost $1.4 Billion and cratered Barings. They had been around since 1762 and financed the Napoleonic Wars and the Louisiana Purchase. Britain's House of Lords report recommended that "Management teams have a duty to understand fully the businesses they manage." This shouldn't be a tough standard, but it will remain surprisingly uncommon in future years.
Wednesday	8/9/95	**Ahhh, Bubble Number 1 Starts! Netscape goes public.** Expected to issue at $12, comes at $28 and trades up to $75 before closing at $58. This kicks off the dot com bubble that would end in March 2000. Also twisted attitude that it's good for a company's shares to zoom up on day one. To an old hand like me, looks like the underwriters left some money on the table. They are working for the issuer, after all.
Thursday	12/5/96	**Alan Greenspan's Irrational Exuberance speech.** Relevant bits: "How do we know when irrational exuberance has unduly escalated asset values which then become the subject of unexpected and prolonged contractions as they have in Japan over the past decade. And how do we factor that assessment into monetary policy? **We as central bankers need not be concerned if a collapsing financial asset bubble does not threaten to impair the real economy,** its production, jobs, and price stability. Indeed, the sharp stock market break of 1987 had few negative consequences for the economy. But we should not underestimate or become complacent about the complexity of the interactions of asset markets and the economy."

Tuesday	6/2/98	**Remember Orange County and its big derivative losses?** Merril Lynch today agreed to pay the OC $400 Million because, well, just because they're nice guys who "acted properly and professionally in our relationship with Orange County" and not because they misled their client into inappropriate and overly risky investments with inadequate disclosure or anything.
Wednesday	9/23/98	**Alan Greenspan** before the Senate Budget Committee declared the successful creation of "a very efficient and very effective global economic financial system" with derivatives under careful control of banks.
Monday	9/28/98	**Derivative Surprise!:** Boy genious John Meriwether's **Long Term Capital Management,** a highly-leveraged hedge fund with Nobel Memorial Prize in Economics winners on staff, tanked. They lost $4.6 billion in about three weeks and a rescue was put together by the New York Federal Reserve. Why not allowed to fail? Too much risk to the financial system. Some industry officials said that Federal Reserve Bank of New York involvement in the rescue, however benign, would encourage large financial institutions to assume more risk, in the belief that the Federal Reserve would intervene on their behalf in the event of trouble. Say it ain't so! Surely we've learned our lesson!
Friday	10/2/98	**Wagging Our Fingers:** In response to the Asian financial crunch, the Working Group on Strengthening Financial Systems issues its report. Quoting, "Bank owners (holders of bank equity) should not be bailed out. They should lose their investments when banks are given public support, or their investment should be diluted through sales of equity (or some convertible instrument) to a government agency, which is then in a position to benefit and recover cots if the institution’s conditions improves....the extension of guarantees should be strictly limited, possibly by class of institution, instrument and agent; Guarantees should always be given in ways to reduce moral hazard risk. i.e. providing an upside risk to the guarantor....However, preserving the stability of the financial and payments system does not require protecting individual banks, their managers or their equity owners from the risk of failure." We've got to teach these Third World countries how to run their financial systems so they can be more like us.
Friday	11/13/98	**My Hero Dept:** In a talk to the Committee for the Federal Regulation of Securities whose text you can still read on the CFTC site, CFTC Chairperson Brooksley Born reflects on the LTCM debacle and the **need for regulation of OTC derivatives**. Smart woman, this. She identifies the issues as Lack of Transparency, Excessive Leverage, Insufficient Prudential (Internal) Controls, and the need for a Coordinated International Approach. She wraps it up, "The LTCM episode not only has demonstrated the potential risks posed by the OTC derivatives market for the domestic and global economy, but also has highlighted the importance of the safeguards in place for exchange-traded futures and options." Sadly, so-called Wise Men Alan Greenspan, Robert Rubin and Larry Summers align against attempts by a mere woman to impose regulation on the derivative markets.
Wednesday	12/1/99	**Second Chances Dept:** Boy genius John Meriwether, last seen imperiling the worldwide financial system as his Long Term Capital Management hedge fund collapsed, gives it another try, opening JWM Partners LLC. This guys is real secretive, no photos allowed, etc., so it is to my everlasting regret that I didn't attend a sales meeting here in the Twin Cities he held looking for institutional investors. I did for many years have the offering circular on this fund, but can no longer find it. Expertise like Meriwether's doesn't come cheap; it's the usual hedge fund fees, 2% of assets and 20% of gains to the manager. It's a sweet deal. For the manager.

Thursday	2/10/00	**Alan Greenspan testifies** about how there's no need for regulation of OTC derivatives: "In the case of financial OTC derivatives transactions between professional counterparties, the working group has agreed that such regulation is unnecessary and that such transactions should be excluded from coverage of the act....With respect to fraud and other unfair practices, the professional counterparties that use OTC derivatives simply do not require the protections that CEA provides for retail investors. If professional counterparties are victimized, they can obtain redress under the laws applicable to contracts generally. "
Friday	3/10/00	**Pop! Peak of the dot com era**, with the NASDAQ Composite Indes trading at an intraday high of 5132.52. A classic technology-inspired boom (prior ones include railways, automobiles, radio, electricity, transistors, computers). There were 17 dotcom ads in the Super Bowl in January at $2 million for 30 seconds; there'll be three in January 2001. Monday the NASDAQ will open down 4%; by the 15th it'll be down 9%, and it goes on from there. By October 2002 there will $5 trillion of market value wiped out. Does this matter? A lot of speculative frenzy will end up shifting to housing. I won't chart the decline of the dotcoms event by event, but this date is relevant.
Friday	12/15/00	It worked Alan! **Commodity Futures Modernization Act**, sposnsored by **Phil Gramm** and **Richard Lugar**, and written with the help of industry lobbyists, assures that neither the CFTC or SEC would be allowed to regulate the swaps market. It was the last day of a lame duck session before Christmas, a 260 page addition to an 11,000 page budget bill. According to Gramm, this **"protects institutions from overregulation".** This is the same Mr. Gramm who in 2008 called the U.S. a "nation of whiners", is a leading econonic advisor to John McCain and may become Treasury Secretary in a McCain/Palin administration. Swaps, meanwhile, would grow to $62 trillion notional value (yes, that's with a "tr") as compared to U.S. GDP of about $15 trillion. In retrospect: "According to Michael Greenberger, former director of the CFTC's division of trading and markets, unregulated swaps were at "the heart of the subprime meltdown. **I happen to think Gramm did not know what he was doing**. I don't think a member in Congress had read the 262-page bill or had thought of the cataclysm it would cause."
Sunday	1/21/01	**President Bush inaugurated**. Outstanding national debt: $ 5,711,817,746,476. Can he get it to $10 Trillion by the time he leaves office? The race is on!
Thursday	1/25/01	**Alan Greenspan** is worried about the **Surplus**, and what'll happen if the National Debt goes to zero and the government begins accumulating private assets: "I believe, as I have noted in the past, that the **federal government should eschew private asset accumulation** because it would be exceptionally **difficult to insulate the government's investment decisions from political pressures.** Thus, over time, having the federal government hold significant amounts of private assets would risk sub-optimal performance by our capital markets, diminished economic efficiency, and lower overall standards of living than would be achieved otherwise." He later endoreses President Bush's tax cuts, which will help avoid those pesky surpluses and debt paydowns.

Wednesday	7/18/01	**Derivative Surprise!**: **American Express announces writedowns of $826 million** on Collateralized Debt Obligations (CDOs). This brings AMEX's CDO writedowns to about $1 Billion so far this year. **Bonus local angle**: these investments were made by Minneapolis-based American Express Financial Advisors. **Double bonus local angle**: the increase in allocation to CDOs was directed by Lorraine Hart, who used to work right here at MSI Insurance on the fifth floor, where Matt is! AMEX announces plans to cut 7,000 jobs.
Thursday	8/9/01	**Bye Bye to the 30-Year Bond!** We've had three years of budget surpluses, been paying down the debt, and now we have a Harvard MBA in charge! He's a prudent fiscal conservative. Compassionate, too! No need to borrow lots of money to fund the govermnet any more! The national debt stands at $5.7 Trillion.
Tuesday	9/11/01	**Terrorist attack** on United States hit New York City, Washington DC and a field in Pennsylvania. Approximately 3,000 dead including the 19 hijackers who did this for under $500,000 armed with boxcutters. How we react to this will have consequences lasting generations. Let's get it right. Please.
Tuesday	12/4/01	**Enron files for bankruptcy, the largest-ever in the U.S. at this point.** Funny, they got into trouble with unregulated derivative and off-balance-sheet enterprises. Hmmm, seems Ken "Kenny Boy" Lay and his wife donated over $400K, mostly to Republicans, since 1997, including to Phil Gramm and his wife, who was on Enron's Board and was a former Commodity Futures Trading Commission (CFTC) head. That's one of the agencies barred from regulating derivatives.
Sunday	9/15/02	**War drums are beating and a bit of candor costs someone his job.** Lawrence Lindsey, an economic advisor to President Bush, estimates that a war in Iraq could cost $100-$200 billion. **Honesty doesn't pay**; he leaves to pursue other interests in December. Secretary of Defense Rumsfeld calls estimate "baloney". Well, Rumsfeld was right, that's waaay too low!
Friday	2/21/03	There's a lot of hand-wringing now about how nobody could have anticipated the problems derivatives would cause. Bullshit. Here's Warren Buffet in the **2002 Berkshire Hathaway annual report**: "Charlie and I are of one mind in how we feel about derivatives and the trading activities that go with them: We view them as time bombs, both for the parties that deal in them and the economic system....The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear....In our view, however, **derivatives are financial weapons of mass destruction**, carrying dangers that, while now latent, are potentially lethal." Of course, to the geniuses of Wall Street, Buffet is some codgy old fart in Omaha who doesn't get modern finance.
Thursday	3/20/03	Speaking of unfunded $700 Billion mistakes rushed through Congress in a hurry, **we invade Iraq**. Initial estimates of the cost are $50-60 billion; Democrats say $93 Billion, not including reconstruction; only one guy is close, William Nordhaus of Yale who said in December 2002 it would be $1.9 Trillion. Armed Forces do magnificient job of rolling up Iraqi Army who are defeated by May 1.
Friday	6/20/03	**Banking regulators** hold a press conference where they announce an initiative to "reduce the regulatory burden on banks." Four of the regulators carry scissors to attach the symbolic 9,000 pages of purported regulations; one has a chainsaw. Funny, industry trade associations are at this press conference, but no consumer advocates.

Monday	12/8/03	**Steal from the Young, Give to the Old:** President Bush signs into law the Medicare Prescription Drug, Improvement and Modernization Act, the largest overhaul of Medicare in its 38-year history. Many irregularities in voting on this, including outright bribes. In the true spirit of free market capitalism, the government is prohibitied from negotiating for cheaper prices with drug companies! Think that was inserted by a consumer lobbyist? I'm guessing not. Also, the cost is vastly underestimated and the Chief Actuary of Medicare is threatened with termination by the Medicare Administrator if he revealed the actual cost. The estimate? Pubicly, $534 million. In early 2005, this was revised to $1.2 Trillion.
Monday	2/23/04	**A Blessing**: Federal Reserve Chairman Alan Greenspan said Monday that Americans' preference for long-term, fixed-rate mortgages means many are paying more than necessary for their homes and suggested American consumers might benefit if lenders provided greater mortgage product alternatives to the traditional fixed-rate mortgage. Hey, genius, interest rates have been coming down for the last 22 years, why didn't you tell us this in 1982? Wouldn't it be smart to lock in historically low fixed rates at this point? Aren't adjustable rates more likely to adjust up than down at this point? Sheesh.
Wednesday	4/28/04	**Securities and Exchange Commission** decides to change the net capital rule for large brokerage houses, allowing them to release reserves held against fluctuations in the value of the portfolios. This frees up money to flow to the parent companies toa llow them to invest in mortgage-backed securities, credit default derivativies, etc. In return, the SEC gets the ability to review the parent companies rather than just the regulated broker/dealers. Seven people are assigned to this, and their warnings widely ignored as the use of debt at the brokers increases dramatically. Nothing bad can come of that, right? **My Hero Dept:** In the 55-minute meeting that decided this, the lone dissenter was **Leonard Bole**, a computer consultant from Valparaiso, Indiana, who sent in a two-page letter saying this was a really really bad idea. He said the computer models used by the firms could not anticipate moments of severe market turbulence. Ding ding ding ding! Of course, he's some nobody from some stupid flyover state, so he is ignored and his letter not even acknowleged by the SEC.
Tuesday	11/2/04	President Bush re-elected. He wins the popular vote this time around, garnering more votes for President than anyone since, well, Al Gore. (**$10 Trillion Man Watch**: $ 7,429,582,471,118)
Monday	12/6/04	**State regulators knew what was going on and tried to regulate it.** The finance industry complained: Surprised and frustrated by the success of consumer groups in lobbying for state predatory-lending laws, the business community is turning to Congress, seeking a federal law that would override state standards. "There is a detriment to consumers by not having a national standard. ... In some states, the protections that have been implemented are so stringent that they are driving business out of the market," says Rep. Paul Kanjorski, D-Pa., working with Rep. Robert Ney, R-Ohio, on a bill. House Democrats are coalescing around a separate bill. They worry that Republicans, who often champion states' rights, will weaken state laws to help business.

Friday	2/11/05	**Words from a Wise Man: Paul Volcker** speaking at the Stanford Institute for Economic Policy Research, "Under the placid surface, at least the way I see it, there are really disturbing trends: huge imbalances, disequilibria, risks – call them what you will. Altogether the circumstances seem to me as dangerous and intractable as any I can remember, and I can remember quite a lot." And, "We are buying a lot of housing at rising prices, but home ownership has become a vehicle for borrowing as much as a source of financial security." And, ""I come now to the heart of the problem, as a Nation we are consuming and investing, that is spending, about 6% more than we are producing. What holds it all together? - High consumption - high leverage - government deficits - What holds it all together is a really massive and growing flow of capital from abroad. A flow of capital that today runs to more than $2 Billion per day."
Wednesday	8/3/05	**Securites and Exchange Commissioner Christopher Cox sworn in.** He's a big deregulatory guy, and pretty much neuters the Commission which is a real pity as the big boys in investment banking are busy acting like a bunch of horny sailors on shore leave. There was a time when the SEC was widely respected and even feared (I've been subject to an SEC audit, so I know whereof I speak) but now it's easy for those with money to influence the Commission. The invisible hand of the free markets will keep things efficient and safe, or so the theory goes.
Thursday	2/9/06	**Er, um, Hello to the 30-Year Bond.** Yeah, about those budget surpluses? Well, we have this war that's critically important that we fight but not important that we pay for, so we, um, need to borrow some money long again. What? Our national debt? Oh. It's $8.2 Trillion. Yes, that's right, it was $5.7 Trillion when we retired the 30-Year. Thank goodness we have fiscal conservatives in charge, no telling what those surplus-creatin' Democrats might have been up to!
Tuesday	5/16/06	**Top O' The Market To You!** "The mortgage market is going to be a great market in this country for a long time. We've got population growth. We've got people who are always going to want to live in homes that they own. It's going to be a great market.", or so says Wachovia CEO Ken Thompson, justifying his $25 Billion purchase of mortgage broker Golden West Financial. Wachovia will find itself at the wrong end of two barrels when it gets married to Citibank or perhaps Wells Fargo a little over two years from now.
Thursday	7/6/06	**That's One Way to Stay Out of Prison:** Enron crook Ken Lay croaks while on vacation in Snowmass, Colorado. His sentencing on his conviction of 10 counts of securities fraud and related charges was to be in October. He probably would have got 20-30 years in prison. Because he hadn't exhausted his appeals, his conviction was abated, meaning it was like it never happened. Civil suits can continue, but can't sue for punitive damages against a stiff. He was cremated and the ashes scattered in a secret location in the mountains. *Or so they say* (<--conspiracy theory alert!)
Sunday	11/19/06	**Top O' The Market To You!** Sam Zell, real estate billionaire, agrees to sell his **Equity Office Properties** to private investor group **Blackstone** for $36 Billion in the largest leveraged buyout, so far. The NY Times on 11/20: "Private equity firms are vying to hold the crown of having led the biggest buyout in history, and, with this deal, Blackstone will be able to do so at least for now." Yeah, congratulations to you, genius. By the end of September 2008, when I put this together, comparable REITs are down 2/3rds. **My Hero Dept:** Sam doesn't care, of course. His check cleared. Well done, Mr. Zell!

2007 Highlights		(not complete yet)
Friday	3/23/07	**Whistlin' Past the Graveyard:** Regulators note that in recent years not one of the banks they regulate has failed or come close to failing because of subprime lending. OCC head John Dugan: "National banks tend to be more heavily regulated and their underwriting standards tend to be more conservative. It's not surprising to me that these industry problems we've seen have been in these specialist lenders, not federally regulated banks." Wouldn't want to overregulate: "If you overregulate, you won't get innovation," says the Fed's Ms. Bies. "A lot of the people who got subprime mortgages today would never have gotten those mortgages 15 years ago." That's a good thing, right? Right? To be fair, OCC regulation of nationally-chartered banks kept subprime problems in them relatively small; it is the mortgage broker/securitization channel that has the most egregious abuses. Keep that in mind next time rescues are proposed. **Early Warning:** Separately, Timothy Geithner of the New York Fed makes a prescient speech: "The dramatic growth in the volume of over-the-counter derivatives and the growth in the number and size of leveraged funds inevitably complicate the resolution of the failure of a large financial institution that is active in these markets. The sheer number of financial contracts that would have to be unraveled in the context of a default, the challenge that a former colleague of mine likes to refer to as "unscrambling the eggs," could exacerbate and prolong uncertainty, and complicate the process of resolution."
Wednesday	3/28/07	**May I Quote You? Fed Chairman Ben Bernanke:** "At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained." **Special Bonus! Treasurty Secretary Henry Paulson:** "...from the standpoint of the overall economy, my bottom line is we're watching it closely but it appears to be contained."
Monday	5/7/07	**May I Quote You? Federal Reserve Chairman Ben Bernanke:** "...we believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system."
Monday	7/2/07	**May I Quote You?:** Dick Fuld, CEO of Lehman Bros., in interview with the Financial Times: "Do we have some stuff on the books that would be tough to get rid of? Yes," he said, referring to commercial and residential mortgage assets. "Am I worried about it? No. If you have some repricing of these things will we lose some money? Yes. Is it going to kill us? Of course not." To be fair, I'm not sure of the exact date of this quote.
Sunday	8/12/07	**May I Quote You?: Washington Mutual chief executive Kerry Killinger : "**The mother lode of this company is performing awfully well with record growth numbers coming out of the second quarter. The home-loans business had a challenging first half of the year, but I note that the losses in the second quarter were dramatically less than the first quarter and we think we're on track to get that unit back to profitability before the end of the year even in these challenging conditions." WaMu shares were $35 that day; they are now (9/25/08) at $1.69.
Tuesday	10/9/07	**Dow Jones 30 Industrials hits its all-time record high**, closing at 14,164.53.

Thursday	11/8/07	**Unintended Consequences Dept:** from Bloomberg, "Washington Mutual, Bank of America, JPMorgan Chase and Citigroup spent $25 million in 2004 and 2005 lobbying for a legislative agenda that included changes in bankruptcy laws to protect credit card profits. The banks are still paying for that decision. The surge in foreclosures has cut the value of securities backed by mortgages and led to more than $40 billion of writedowns for U.S. financial institutions. It also reached to the top echelons of the financial services industry." It used to be in bankruptcy you'd get out from under credit card debt. Now you can't. Can't get blood from a turnip, so some people are defaulting on the house so they can still pay the credit cards. Ho ho. Couldn't happen to a nicer bunch of folks.
Wednesday	12/5/07	**May I Quote You on That? AIG Insurance Chief Martin Sullivan:** "Because this business is carefully underwritten and structured with very high attachment points to the multiples of expected losses, we believe the probability that it will sustain an economic loss is close to zero." Hmmm, just about 9 months later AIG would be suckling up to the Feds for an $85 Billion bailout. So much for those sophisticated models.

2008 Major Developments (not yet done)

Monday	1/7/08	**This Guy's Been Right Too Often**: Nouriel Roubini, quoted in the Daily Telegraph: "Financial losses and defaults are spreading from sub-prime to near-prime and prime mortgages, to commercial real estate loans, to auto loans, credit cards and student loans, and sharply rising default rates on corporate bonds. A severe systemic financial crisis cannot be ruled out. This will be a much worse recession than the mild ones in 1990-91 and 2001," he said.
Tuesday	2/12/08	**Bad Lending Dept.:** On the Credit Slips blog, an account of a bankruptcy filing where the woman had a nice enough income of $85,000 a year and total credit card debt of $175,862.27 on 25 cards from 12 lenders. Bank of American alone had 9 cards and nearly $81,000 of this. OK, we can shake our heads at the both the lender and borrower foolishness here, but remember, these receivables have been securitized and sold on to others including possibly your retirement accounts. A big part of the problem we are running into is too much easy credit, and this is an example of it.
Tuesday	3/11/08	"We have a good deal of comfort about the capital cushions at these firms at the moment." says **Christopher Cox**, Chairman (and Eviscerator) of the Securities and Exchange Commission. So how's that deregulation working out, Slick?
Wednesday	3/12/08	**May I Quote You on That? Bear Stearns** CEO Alan Schwartz: "Bear Stearns' balance sheet, liquidity, and capital remain strong."
Sunday	3/16/08	**Crystal Ball Dept.**: Henry Paulson on FOX news, when asked if any other Wall Street firms were in danger: "I've got great confidence in our financial market, our financial institutions. Our markets are resilient. They're flexible. Our institutions, our banks and investment banks, are strong." Chris Wallace asks, "But isn't the result of this that U.S. taxpayers might end up holding billions of dollars in bad mortgage securities?" Paulson: "I'm not going to speculate about the outcome of this specific situation. You're going to have to wait and see." Well, to be fair, he *didn't* say no.

Monday	3/17/08	**Bear Stearns takeover.** JP Morgan agrees to buy Bears for $2 a share. It ended 2007 at $88.25 a share, closed Friday at $30. They were too entangled to fail, or something. The U.S. Government is guaranteeing $29 Billion of securities so that JP Morgan doesn't take a loss. In the next week or two it develops that JP Morgan could be on the hook guaranteeing Bear's trades even if the deal is voted down. Oops. The bid is raised to $10 a share. Still, it's the first of the major broker/dealers to go belly up.
Monday	4/7/08	**No Shit Sherlock Dept**: FDIC Chairwoman Sheila Bair gives a talk: "We do need more intervention. It probably will cost some money." One of my favorite quotes of the whole Crisis, by some unknown wag: "By money I mean your money and by some I mean a shitload."
Friday	5/30/08	A local angle on **Bank Failure Friday**! This time it's the ironically named First Integrity Bank of Staples, Minnesota. It's a small one, only going to cost the FDIC maybe $3 million. The bank's in a small northern Minnesota town, the bad loans were for Florida real estate. The WSJ did a nice article on this bank closing.
Thursday	6/5/08	**No Shit Sherlock Dept:** FDIC head Sheila Bair says "There is also the possibility that future failures could include institutions of greater size than we have seen in the recent past". Ya think?
Thursday	7/10/08	John McCain's top economic advisor **Phil Gramm** on the economy: "We have sort of become a nation of whiners," he said. "You just hear this constant whining, complaining about a loss of competitiveness, America in decline" despite a major export boom that is the primary reason that growth continues in the economy." Mr. Gramm had extensive connections to Enron and wrote the legislation that kept toxic derivatives, source of many of today's troubles, from being regulated.
Friday	7/11	**Bank Failure Friday!** IndyMac Bank closed by the Office of Thrift Supervision. Got ourselves a big one here! $32 Billion in assets, $19 Billion in deposits and an estimated loss of $4 to $8 Billion.
Friday	7/18	**President Bush:** "Wall Street got drunk and now it's got a hangover. The question is: How long will it sober up and not try to do all these fancy financial instruments?" OK, so sentence structure isn't his strong suit. I think he means how long will it take to sober up.
Monday	7/21	Treasury Secretary **Henry Paulson**: "Our banking system is a safe and sound one." Whew, glad to know that!
Monday	7/28	**Price Discovery:** Merrill Lynch today sold Collateralized Debt Obligations with a face value of $30.6 Billion for 22 cents on the dollar, and that was 75% financed with non-recourse loans, so it could be as bad as 5.5 cents on the dollar. This for 2005 vintage, which ought to be better than the '06 and '07 vintages. Some poor bloody Aussies had to go along for the ride (National Australia Bank's $830 million writedown) and Merrill raised another $8.5 billion in equity. Some of this debt is utter sewage. John Thain had said on May 5 that MER wouldn't need to raise any more capital.
Wednesday	7/30	**Sign O' The Times:** About 200 Bennigan's and Steak and Ale restaurants are closing, squeezed by higher food and fuel costs and reduced consumer spending on casual dining. I've never been in a Bennigans but had fond memories of Steak and Ale. Oh well.

Recent Weeks **Turds and Fans**

Saturday	8/23	**Bank Failure Friday**! This week's winner: Columbian Bank & Trust of Topeka, KS. Bad Construction & Development loans took 'em down. It's a small loss, a $735 million bank and a $5 million charge to the FDIC, but there will be more where this came from.
Tuesday	8/26	Who calls the shots in the U.S. now? Consider: "A failure of U.S. mortgage finance companies Fannie Mae and Freddie Mac could be a catastrophe for the global financial system", said Yu Yongding, a former adviser to China's central bank. "If the U.S. government allows Fannie and Freddie to fail and international investors are not compensated adequately, **the consequences will be catastrophic**," Yu said in e-mailed answers to questions yesterday. ``If it is not the end of the world, it is the end of the current international financial system." Translation: What do you mean, implicit guarantee, Kemosabe?
Wednesday	8/27	**Clear Thinking Dept**: ""People are saying the reason prices are falling are because of all of the foreclosures, but the foreclosures are happening because the prices are falling. They've got it backwards. **The prices are falling because they're too freakin' high**." -Chris Thornberg, Beacon Economics on San Diego house prices. Meanwhile, FDIC raises expected cost of IndyMac failure to $8.9 Billion from previous $4 - 8 Billion estimate. Ouch. In other news, Bloomberg reports that today's sale of $3 billion of [Freddie Mac and Fannie Mae] debt went well, which investors took as a sign that a GSE crisis is not imminent.
Thursday	8/28	Bank of China reducing Freddie Mac/Fannie Mae investments. Foreigners getting nervous, spread of F-F paper over Treasuries now 1.23% versus 0.55% a year ago.
Friday	8/29	Presumptive GOP nominee John Sydney McCain III selects Alaska Governor **Sarah Palin** as his running mate. After a stunned silence, the World says, "Who?". Less than two years as governor of a state a quarter the size of the Twin Cities, eight years mayor of a town of 6,000, had never even been out of the country until last year. But, she's married, mother of five, plus she has kind of a cool naughty librarian look and John likes his babes. Wow. **Bank Failure Friday**: Integrity Bank, Alpharetta, Georgia. They had $1.1 billion in total assets, expected to cost FDIC $250-350 million. Losses of 25% of assets? What were the regulators doing for the last couple of years, critiquing the wallpaper and coffee machines?
Sunday	8/31	**Friends in High Places Dept**: The NYNEX Oil Futures had a trading session today to allow traders to deal with Hurricane Gustav and its threat to the coast. I have never heard of this kind of special session before. Normally when things are disrupted, markets close.
Monday	9/1	**Matt's birthday**. Markets calm. Oh, it's Labor Day, that's why.

Tuesday	9/2	Apparently there's been some **Drilling going on in Alaska**; Sarah Palin's 17-year-old daughter Bristol is knocked up by a high school hockey stud named Levi Johnston! Guess that abstinence education didn't work on those long cold Alaska nights, eh? Levi is a self-described ass kickin' redneck (at least until they pull down his Facebook page) who, perhaps to his surprise, intends to marry young Miss Palin. Oh well, it wouldn't be the first Vice President's daughter to have a baby out of wedlock. There's Mary Cheney, for one. **President Bush** addresses the GOP Convention by remote video. To everyone's relief, there was a Hurricane by the Gulf Coast so he could beg off and go look at that instead of show up in Saint Paul and hang around all awkwardly. Not to worry or anything, but shares in the S&P 500 have climbed to an average 25.8X reported profits. The last time that happened in 2001, the S&P 500 fell 38%. Remember, past performance is no guide to future returns.
Wednesday	9/3	Chrysler sales off 34% from year-ago. Ford off 27%, GM off 20%, Toyota off 9.4%, Honda off 7.3%. GMAC Residential Lending closes all retail offices, lays off 5,000 employees. **Levi Johnston** shows up with the Palins in Saint Paul for the GOP Convention sporting a new haircut (darn, liked the mullet!), new suit, new shoes. Weirdly, the conservative evangelical wing of the GOP thinks this is just the greatest thing. GOP Vice Presidential selection **Sarah Palin files her 2007 tax return**. She and separatist husband Todd (7 year member of Alaska Independence Party) don't check the Presidential Campaign Fund box even though that's how Mr. McCain is paying for his campaign. She also reads her speech to the Republican National Convention.
Thursday	9/4	A quiet day. We can use one of these.
Friday	9/5	**Bank Failure Friday**: Silver State Bank, Henderson, Nevada. Assets of $2.0 billion, expected cost to FDIC: $550 million. The 11th failure this year. Interestingly, John McCain's son Andrew was on the Board of Directors until late July. Perhaps involvement in failing Western financial institutions runs in the family. Unemployment rate up to 6.1%, home foreclosures and delinquencies hit record highs. Goldman Sachs downgrades Merrill Lynch to "Sell". Pots and kettles. *(**$10 Trillion Man Watch**: $ 9,669,798,894,469)*
Saturday	9/6	**Economic Literacy Dept**: "Saturday in Colorado Springs, Colo., Alaska Gov. Sarah Palin said, 'The fact is that Fannie Mae and Freddie Mac have gotten too big and too expensive to the taxpayers. The McCain-Palin administration will make them smaller and smarter and more effective for homeowners who need help.' Ummm, no, Ms. Palin, they didn't cost the taxpayers a dime until the Current Administration took them over! OK, maybe a lot of people didn't know that, but they aren't running for freakin' VP of the USA, either.

Sunday	9/7	Formal announcement of **Freddie Mac/Fannie Mae nationalization**, er, conservatorship. I like how Fannie and Freddie are supposed to continue growing until Mr. Bush is out of office, then contract. Kick the can down the road. This is in essence a full faith and credit of the government guarantee, for whatever that's worth these days. Dividends on the preferred are suspended: Ouch, these shares are held by hundreds of banks and count as capital. Writeoffs coming! Also noteworthy, though buried, is the lending facility for the Federal Home Loan Banks, who can bring crappy collateral to the Fed to borrow against. What kind of crappy collateral might they have? Well, Countrywide borrowed $50+ Billion from them earlier this year before it's Levi Johnston-like marriage to Bank of America. Want to know why these announcements happen on Sunday? It's to keep our Asian lenders happy, the timing has to do with their Monday market open. Remember who is calling the shots.
Monday	9/8	Treasury Secretary Henry Paulsen gives a **nice gifty to Fannie and Freddie**: IRS issue Notice 2008-76, which allows the former GSEs to carry forward their (very significant) net operating losses for up to 20 years. Regular civilians like you and I have severe restrictions on using NOLs going forward upon a change of control. Nice to have friends in high places. If the taxpayers are bailing these bastards out, why are we exempting them from paying taxes?!? Meanwhile, former Fed Governor William Poole estimates cost to taxpayers of Fannie/Freddie bailout at $300 Billion.
Wednesday	9/10	**Unintended Consequences Department**: The whacking of the Fannie/Freddie preferred shares has made all bank preferreds suspect. Banks need to raise, oh, a few hundred billion in capital. The Fannie/Freddie "rescue" just made that harder.
Thursday	9/11	Lehman end "imminent". Goldman Sachs not interested. 7th Anniversary of 9/11/2001 attacks.
Friday	9/12	Federal officials and Hank Paulsen jawbone investors to rescue Lehman Bros. Foreclosure fallout: GOP in Macomb County, Michigan to use list of foreclosed homes to challenge voter eligibility. And here I thought we lived in a democracy! *(**$10 Trillion Man Watch:** $ 9,683,319,152,145)*
Saturday	9/13	Federal officials and Lehman Bros. executives meeting to discuss rescue alternatives. **Lehman hires bankruptcy attorneys**. I bet they charge extra on weekends. CEO of British Airways predicts 30 *more* airlines will go bust this year.
Sunday	9/14	**Bank of American buys 94-year-old Merrill Lynch** for $29 a share. Hurricane Ike (Houston) forces shutdown of 20% of U.S. refineries. AIG turns down private investor offer as "too expensive", asks Fed for help. Fed expands securities eligible as collateral at its special lending facilities to include equities; this used to be only sparkling-clean Treasuries from depository banks, now it's any old swill from nearly anyone. Intense meetings held in New York to determine how possible Lehman filing would affect Credit Default Swaps.
Monday	9/15	GOP Candidate John McCain: "Our economy, I think still -- the fundamentals of our economy are strong." **Lehman Bros. files for bankruptcy.** Dow off 400 pts. Rules suspended prohibiting deposit account funds (bank accounts) from funding investment banking operations. This was basically the whole point of most post-Depression bank regulation. IBs now can put FDIC-insured accounts at risk. Meanwhile, **Washington Mutual downgraded to junk.** You just now noticed?

Tuesday	9/16	GOP Candidate John McCain III: "Well, the economy's in crisis". OK then. Federal Reserve Bank of New York to lend $85 Billion to **AIG Insurance** to keep it from going belly up. We could end up owning 79.9% of AIG. I did the math for you; that's 7.3 shares for every man woman and child in the country. One wonders what last weekend's private investor terms were, and why we couldn't get those? Overnight London interbank rates (LIBOR) double. Reserve Primary Fund, **a money market fund, "breaks the buck"**, the first time for a MMF since 1994. They stop redemptions. Fund worth $0.97 per share due to losses on Lehman Bros. **Russian market down 17%**, authorities halt trading. Actual Institutional Investor email dated today: "Lehman Tops in Fixed Income". Actual **Treasury Secretary quote**: "The American people can remain confident in the "soundness and resilience in the American financial system." **Foot in Mouth Disease Dept**.: Ex Hewlett-Packard CEO , until late today a senior economic advisor for John Sydney McCain III, says that Sarah Palin is not qualified to run a major company. Oh, but that's not what she's running for! Oh, and, John and Barack aren't qualified either! This from a woman whom Hewlett-Packard gave a $21 million golden parachute to just go away and leave them alone. Funny, not much is heard from Carly in the next few weeks.
Wednesday	9/17	**Russian market** crashing some more, trading stopped again. **Don't those Commies know better than to intervene in free markets?** Meanwhile, the FDIC, OCC, OTS and Fed proposed rules to allow banks and S&Ls to count Goodwill towards capital. Goodwill is how much you overpaid for acquisitions. It has no independent value. This is to help banks make up for the $36 billion hit from their holdings of Freddie/Fannie preferred that got impaired. Cough cough, I can hardly see the mirrors for the smoke. Meanwhile, Washington Mutual, the biggest of the walking dead S&Ls, is looking for a buyer. Good luck with that.
Thursday	9/18	**Sign of Panic**: 90 day T-Bills traded at a two basis point yield. Translated: You give Uncle Sammy $100.00 now, he'll give you $100.02 back at Christmas. This is lowest yield since the 1940s. Fed Chairman Ben Bernanke: "We have lost control," said Hale, quoting Bernanke. "We cannot stabilize the dollar. We cannot control commodity prices."
Friday	9/19	**Government's going to step in and rescue us**! It'll be $700 Billion package! Here's our President, who emerged to give a pep talk: "Our system of free enterprise rests on the conviction that the federal government should **interfere** in the marketplace only when necessary. Given the precarious state of today's financial markets -- and their vital importance to the daily lives of the American people -- government intervention is not only warranted, it is essential." When did he turn Socialist? Oh well, he's got a Harvard MBA and he's on the case, so we're ok now! Market euphoria, Dow up 400 pts! SEC bans short selling of financial stocks. It's unpatriotic or something. Also gotta protect Goldman Sachs. Where do you think Treasury Secretary Paulsen came from? *(**$10 Trillion Man Watch**: $9,727,009,619,894)* Oh, almost forgot, it's **Bank Failure Friday**! This time it's Ameribank, Inc. of Northfork, WV. This is a cheapy, only $113 million in assets and a $42 million cost to the FDIC.

Saturday	9/20	Some dawning realization that the proposal involves some **dictatorial powers**. Read Section 8: "Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency." But don't worry, the last $700 Trillion mistake (Iraq War) was brought to you by these guys, also in an urgent hurry. Speaking of dictatorial powers, **Vladimir's not happy**: "We all need to think about changing the architecture of international finances and diversifying risks. The whole world economy cannot depend on one money-printing machine," Putin said.
Sunday	9/21	Fed announces that **Morgan Stanley and Goldman Sachs are to become regular banks**. Independent investment banks disappearing entirely. Also, foreign investors want Cash for Trash for themselves, too. Yeah, that sounds good; I'll pay taxes as will my offspring and probably theirs, to bail out some foreigners! Meanwhile, **Hugo is having fun**: ""I nationalize strategic companies and get criticized, but when Bush does it, it's OK," Chavez said on weekly television program, "Bush is turning socialist. How are you, comrade Bush?" Of course, he can afford to be jovial, he's got oil.
Monday	9/22	**Some resistance to Cash for Trash** bailout plan. Realization that this will vastly increase deficit and national debt and may not solve anything. Flight to quality, market down 372 pts., dollar weakens, oil up a record $25 a barrel in a day. You know, clobbering the dollar is going to raise oil prices. Don't make me explain those linkages to you, Hank and Ben. Oh, meanwhile, that well-thought-out clobbering of the preferred stock in the Fannie/Freddie nationalization is going to hurt. About a third of the country's banks hold the preferred and the writedowns will impair the average bank's core capital by 11% according to the ABA. This affects hundreds of banks. When the action was planned, it was estimated that this would affect about a dozen banks. These are the same people wanting a $700B blank check. **Speed Dating**: The Governor of Alaska goes to UN to meet some world leaders, maybe out afterwards for tacos or sushi to bolster foreign policy experience.
Tuesday	9/23	**No Shit, Sherlock Dept**: Bernanke testifies that if bill not passed, there'll be a recession. I got news for ya, genius: there's going to be a recession no matter what. He also says "I believe that under the Treasury program, auctions and other mechanisms could be devised that will give the market good information on what the hold-to-maturity price is for a large class of mortgage-related assets. If the Treasury bids for and then buys assets at a price close to the hold-to-maturity price, there will be substantial benefits." What's that mean? **We are going to overpay!** Financial institutions can already sell this stuff at market price, but it would cripple them. They want more than market price, and it's our money they want to have buy it. I am not interested, thank you. Meanwhile, in other news, **McCain campaign** bans reporters from covering Ms. Palin meeting foreign leaders at UN. Camera is ok! The campaign has become known as the No Talk Express for its fear of reporters. **The Oracle Speaks**: Berkshire Hathaway to invest $5 Billion in Goldman Sachs preferred stock!

Wednesday	9/24	**Hey, Where'd That Horsey Go? Bloomberg:** "The $62 trillion market for credit- default swaps, created to protect banks from loan losses, helped fuel a near-meltdown in the financial system and now may be regulated for the first time. The resulting run on shares of financial companies prompted [SEC Head Doofus] **Christopher Cox** yesterday to seek enforcement powers over the market. " Meanwhile, resistance grows to the **Mother of All Bailouts**, apparently because Matt keeps writing his representatives. Didn't know I had such power! Distressingly, the discussion seems to be the form it will take rather than whether there should be one or not. **AIG** knuckles under and takes the government's $85 Billion deal--they'd tried to find cheaper private financing, but apparently we're the mark, 'cause we ended up with it. You ever buy something on eBay in a moment of overdone enthusiasm? Yeah, I feel like that. **Speaking of Bailouts**, GOP Nominee John McCain III bails out of Letterman tonight, the debate Friday and suspends his campaign. Also want to bail out of VP debate possibly due to the prospective field dressing of the Governor of Alaska who got stumped by Katie Couric on an easy question. **No Shit Sherlock Dept**: President Bush uses his immense credibility and popularity to address the nation, warns of a "long and painful recession" if the Bailout doesn't pass. Like it'll make a difference. You have a freakin' Harvard MBA, where have you been the last five years? **Sign O' The Times:** Bill Heard Enterprises, the largest Chevrolet dealership in the country, closes its last 13 dealerships, affecting about 2,700 employees.
Thursday	9/25	President Bush has Barack Obama and John McCain III in for discussions, photo op. GOP representatives are balking at voting for **Bailout.** Democrats leery of passing it then getting hung out to dry, so Harry Reid says no deal unless McCain's on board. **He's Baaack!** Remember Yu Longding? A month ago he warned that there had better be no losses in Fannie and Freddie securities and the next thing you know, we'd nationalized 'em. Now he says, "``China is very worried about the safety of its assets,'' he said. ``If you want China to keep calm, you must ensure China that its assets are safe." In a non-**Friday Bank Failure**, Washington Mutual goes belly up; parts of it are sold to JP Morgan Chase. WaMu is by far the largest bank failure in history, at $307 billion in assets, eclipsing 1984's Continental Illinois (**Bonus Local Angle**: I know a guy who was with Continental in London when it collapsed). FDIC head Sheila Bair said they did it on a Thursday instead of the usual Friday because word had leaked out. Supposedly, this will have no cost to the FDIC. **Where do I apply for that job?** Alan Fishman, CEO of WaMu, started September 7th. He got a $7 million signing bonus. He gets to keep it, and may qualify for an $11 million severance. That's some nice jing for less than three week's work. **At the other extreme**, a private equity executive in the UK kills himself by jumping in front of a train. Leaves behind wife and 8 year old son. Coward.
Friday	9/26	The enormous **credit default swap** (CDS) market is imperiling the whole financial system but it does provide some useful clues as to the default risk of various entities. Interestingly, looking at two entities headed by clowns, **MacDonald's** CDSs are quoted at 26.5 basis points today where **U.S. Government** CDSs are at 30bps. **Translation:** MacDonald's is safer than the U.S. Government (until last spring, there was no U.S. Government CDS market, the very idea seemed silly). These CDSs were 28 and 25bps last night, so the failure of the Mother of All Bailouts deal must have hurt. Also, those new MacDonald's espresso drinks are pretty good. First Presidential debate between John McCain and Barrack Obama. **Ten Trillion Dollar Man Watch:** $ 9,889,199,531,449.

Saturday	9/27	Desperate negotiations on the Mother of All Bailouts. House Republicans against it still, House Democrats unwilling to take the fall voting for this odious plan from a GOP Administration.
Sunday	9/28	Dutch insurance and investment group **Fortis** (actual advertising slogan: "Here Today, Where Tomorrow?") gets an 11 billion Euro rescue from the governments of Belgium, the Netherlands and Luxembourg after a frantic weekend of negotiations. That's only about $16 billion, but then these are small countries. The UK's **Bradford and Bingley**, a major mortgage lender with approximately 150 Billion pounds of loans outstanding, is nationalized and may be merged with Northern Rock, nationalized last year. That's about $275 Billion for those of you keeping scrore at home. More urgent negotiations and accompanying happy talk about the Mother of All Bailouts. Interesting article in paper; **AIG** has 116,000 employees, it was a 340-employee office in London that brought them down. Ahhh, the power of derivatives! Friend of Matt's calls him; has investments with **Wachovia.** Going to be OK? Sure, I say, as long as you don't have an investment *in* Wachovia. Wachovia closed Friday at $10 a share.
Monday	9/29	**Citibank to take over Wachovia**. For $1 a share. It didn't actually go belly-up; Citibank is taking over the assets and will take the first $42 Billion in losses on the $312 Billion loan portfolio. The FDIC takes any after that, and gets $12 billion worth of Citibank preferred stock as compensation. Remember, some recent bank failures have shown 25-30% losses on loan portfolios. After lunch, the **Mother of All Bailouts fails** to pass the House of Representatives, voted down 228-205. Dow Jones Industrials (now without AIG!) down 777 points. Don't worry, the first circuit breaker doesn't kick in until down 1,200 points. Per day. This'll get recalculated later this week and it'll be a bit tighter. Not to fret or anything, but U.S. **gasoline inventories** at their lowest levels since 1967. If you think people are mad about bailing out Wall Street, wait until they can't buy gasoline! Mitsubishi UFJ to buy 21% of **Morgan Stanley**. At least it's private capital at risk.
Tuesday	9/30	**DING DING DING DING!!! GOT IT!!** Mr. Bush is now the **Ten Trillion Dollar Man!!** Our national debt at the end of the day stood at **$10,024,724,896,912.49**. And to think I was worried he wouldn't make it! Never doubt this Administration's ability to spend money! Ahhh, the **End of the Quarter**. Uh-oh, it's a redemption request date for hedge funds! This is going to be brutal, though we aren't likely to know the extent of the carnage for a while. Russian market closes down right after the open; with oil prices down, big concerns there. In the shock and surprise of the failed Mother of All Bailouts, the market goes up 485 pts. Oh, I guess everything's OK then? LIBOR at record levels (6.88%), short term credit markets at a virtual standstill. Banks borrowed $30 Billion from the European Central Bank overnight at 11%, up from 3% a week ago. FDIC looking to increase $100K deposit guarantee. **AIG**, having just gotten bailed out two weeks ago, celebrates by having an **executive retreat** that costs $443,343.71, including $24,868 on Spa and Salon services. Yep, it must be stressful getting $85 Billion of taxpayer money, need that massage! Where can I get one? It's my freakin' money

Wednesday	10/1	**Ford's** September vehicle sales down 34.6% from last year. September was the slowest month (so far) this year. Senate to vote on the **Mother Of All Bailouts**, now 300 pages long and full of lard and pork. Matt starts writing Senators again! **Warren Buffet invests $3 Billion in General Electric** preferred stock. Not to be alarming or anything, but the 3rd Infantry Division's 1st Brigade Combat Team today started a year under control of Northern Command. The 1st BCT will be the federal response force for emergencies and disasters, including terrorist attack and **the control of civil unrest**. This is the first time an active Army unit has been assigned to NorthCom. They'll be fielding the Army's first-ever nonlethal package of crowd and traffic control equipment and nonlethal weapons designed to subdue unruly or dangerous individuals without killing them. Better stay ruly, it sounds like! They'll be known as Sea Smurf (CBRNE Consequence Management Response Force). Hmmm, our own government is basing Army units domestically to deal with civil unrest. It'll be like the RNC in St Paul all the time! (or Denver, where there's a flap over the cops' commemorative DNC t-shirt saying "We get up early to beat the crowds" which actually is pretty funny).
Thursday	10/2	**The only Vice Presidential debate.** This ends up a bit disappointing, like watching a NASCAR race with no crashes. GOP nominee Sarah Palin manages to avoid answering questions charmingly, winks at us, but doesn't have the awkward moments she's shown in the few interviews she's been allowed to give. Oh well. House looking at Mother of All Bailouts. This thing's bound to pass just from momentum despite ill-conceived plan. Interbank lending, commercial paper markets are shrinking or dormant, most money being borrowed directly from central banks. Speculation on the rush to pass this bill, focus turns to credit default swap auction dates coming up this month. **My Big Fat Greek Bailout**: George Alogoskoufis, the Greek finance minister, said deposits "in all banks that operate in Greece" would be "absolutely guaranteed", amid signs that savers were becoming restless. That'll give the EU ministers something to gnaw on this weekend. European banks are more leveraged than U.S. banks. Here's a nice side story: a lot of Euro banks used AIG for credit default swaps. Had AIG gone tits up, many European banks would have rolled over with them. So that's what our bailout is buying!

Friday	10/3	**Matt & Karla's 21st Anniversary!** Oh heck, we've seen market crashes before! A couple of weeks after we got married the Dow dropped 22% in a single day. Now that's a crash! This one may be slower moving, but it's headed the same way. House of Representatives passes the modified **Mother of All Bailouts,** now with pork! At least that's what we're calling it for now but remember it was less than a month ago that Fannie and Freddie seemed like a shockingly large intervention. Why oh why these politicians think Paulson & Co. know what they're doing this time around when they have been wrong over and over again is beyond me, but now we have a huge expensive and faulty bailout in place. Meanwhile, **Wells Fargo** bids $15 a share for **Wachovia,** which annoys the crap out of **Citibank** who wanted it for $1 a share. Threats back and forth. We'll see what happens. Meanwhile, states and cities sold 15% of a normal week's bond sales amid rising rates (highest in 8 years) and investor reluctance. At least 13 states are cutting K-12 and early education programs and 19 are considering state worker layoffs. Early speculation says California might not make its October month-end payroll, now they want to borrow money from the Feds. This ought to be interesting. **Worst Week for S&P 500** since the 2001 terrorist attacks leaves the Dow Jones 30 Industrials (now AIG-free!) at 10,325, below the 10,588 it stood at the day George W. Bush took office. Man, if only we'd privatized Social Security! Well, at least unemployment is 50% higher and the debt has gone up $4.5 Trillion! So far. New Feature: **The Eleven Trillion Dollar Man Watch**: $ 10,186,269,007,199.
Saturday	10/4	**Citibank is pissed about Wells Fargo and Wachovia,** and got a judge to issue an injunction blocking their deal. To review, Citi was paying a buck a share and taking the first $42 billion in losses, the FDIC got the rest and $12 billion in Citi preferred stock, which means either Citi is super nice or there are some expectations of loss there. Wells Fargo came barging in and offered $7 a share, no FDIC required. If you're a Wachovia shareholder or a U.S. taxpayer, this sounds great! Anyway, big legal confrontation likely to go on here as these two financial crows pick at this piece of carrion. In Europe, the rescue deal for something called Hypo Bank falls apart and apparently threatens the Euro. Bank rescues there could be tough because there isn't a Europe-wide regulator and some banks' assets are bigger than their home countries GDPs. I'm disappointed to note that Sarah Palin is now wearing her hair down, not up in the naughty librarian bun. Oh well.
Sunday	10/5	**Germany annuonces a $68 Billion rescue of Hypo Bank.** No, I've never heard of them either, but they're apparently a big commercial real estate lender over there, though not a depository institution. Germany also announced it is guaranteeing the deposits of all its banks. Meanwhile, **Citibank** and **Wells Fargo** were in negotiations over the **carcass of Wachovia** with the Fed pressuring them to reach a deal, including possibly each buying half. One issue; nobody wants the California branches. Their lawyers were sparring in court Sunday. Where are courts open on Sunday? Do the lawyers get time and a half?

Monday	10/6	**Party Like It's 1999:** Dow goes below 10,000 for the first time since 2004, down 3.5% on the day. Globally speaking, this isn't too bad as Europe has worst down day in a couple of decades. Iceland in the throes of a banking and financial crisis, government warning about lack of money to bring in foodstuffs, people hoarding food. Citi and Wells Fargo cease suing each other for the moment. **Oil** below $90 a barrel. Whew, glad that crisis is over! **Friends in Need**: Pakistan's (loyal ally in the Global War on Terror, also residence of Osama bin Laden) foreign exchange reserves are so low that the country can only afford one month of imports and faces possible bankruptcy. Not to worry, it's only 140 million people armed with nuclear weapons pissed off that we keep bombing their northern territories.
Tuesday	10/7	Not content with Term Auction Facilities, $700 Billion bailouts, accepting wrapping paper as collateral for loans, etc., the Fed announces it's going to start buying 90-day commercial paper in its **Commercial Paper Funding Facility**. Although the stock market has been suffering (another 500 points down today), it's the credit markets that are having a seizure. Part of the reason is the Fed's intervention; if you can borrow from the Fed directly, why deal with other banks? It's a darn good thing we have small government free-market Republicans in charge! Meanwhile, in the UK, the government announces a **£50 Billion restructuring of High Street banks** (that's the English version of Main Stree). Unlike our own $700 Mother of All Bailouts (so far), the UK version is a direct recapitalization by investing in the banks instead of a back door recap by overpaying for crappy assets. They're also chucking some of the responsible parties, as the senior Royal Bank of Scotland executives are made to walk the plank. In an interesting move, **Iceland**, a NATO member, is **asking Russia for a $5 Billion loan** to help bail it out. Wonder what Mr. Putin might want in return? Use of the abandoned U.S. military airbase in Keflavik, perhaps? **Second Presidential debate**, a town hall style meeting. Blah blah blah, I can't watch.
Wednesday	10/8	Not that they're panicing or anything, but the **Fed announced a 1/2 percent rate cut** on the Fed Funds rate. In a touching show of unity, England, Canada, the European Central Bank, China, Sweden and Switzerland announce cuts as well. Japan applauded from the sidelines. Indonesia closed its stock exchange indefinitely after it fell 10%. Russia, Ukraine and Romania suspend trading as well. **Underwater Perspective**: Moody's reports that about 12 million households (16%) of the 75.5 million that "own" their home are underwater, with mortgage balances higher than the home value. About 24 million own their homes free and clear, the other 40 million owe less than the value. Back from **Gaffe Rehab, Carly Fiona** (disgraced HP CEO/Golden Parachutist) shows up on tv saying how Mr. McCain's bailout of homeowners should work. Funny, a few weeks ago he wasn't qualified to run a company, now he's all set to do this complex refinance program. Commercial Paper rates start to ease a bit, perhaps a first whiff of the market unseizing?

Thursday	10/9	Today is **Lehman** credit default settlement day. It'll be fun to see how that goes! Possibly related story: **AIG** is back to the well, now borrowing $37.8 Billion from the Fed. That $85 Billion from three weeks ago wasn't enough, apparently. They're saying it's a temporarly liquidity issue, not a solvency issue, but either way, you and I are into these guys for $123 Billion. Remember that AIG was a big writer of Lehman credit default swaps. At this rate they're going to need another massage. **Iceland** nationalized the last of its banks, which have astonishing impacts for a country smaller than Des Moines. So much for loosening credit markets: LIBOR is up, TED spread highest ever. **Hong Kong, South Korea** and **Taiwan** all cut interest rates. **Wells Fargo** and **Citibank** have stopped suing each other long enough to take a deeper look at **Wachovia's** assets. It ain't pretty, and there's some risk the deal could fall apart. Late in the day, Citi walks, leaving the prize to Wells Fargo. Treasury Secretary Henry Paulson announces that the Treasury may take some of the $700B in bailout money and do **direct investments in banks**, to my mind a cleaner way of recapitalizing than buying shitty assets at above-market prices. **Dow** drops another 679 pts, we're in 2003 territory now.
Friday	10/10	First whiffs of real trouble, with shippers unable to get **letters of credit** honored. If that persists, it will have some real-economy effects. **Insurance effects:** MetLife had to issue stock to raise capital. Having just had the worst week ever in the stock market, the timing tells you the need was dire. Small government conservative Harvard MBA **President Bush** gives pep talk to cheer up markets; Dow moves to down 700 pts. Later, Treasury Secretary Paulson talks at 3:45 how there will be a coordinated effort to get a clearing mechanism to reduce LIBOR rates, stock market goes from 500 down to 300 up, settles at down 128, which in this week feels pretty good. It's the **first ever 1,000 point day** on the Dow and caps the **worst week in 75 years**. **Lehman CDS auction** done; sellers of CDS protection will have to pay out 91.375 cents on the dollar, about $270 Billion in aggregate. Still not sure who took it in the shorts on this and who will come out smelling like a rose. **UK** warning that world financial system close to collapse, need coordinated G7 action this weekend; Italy's Berlusconi suggests closing markets while rules are rewritten, later says he didn't say that.
Saturday	10/11	**G7 leaders** meeting in Washington to discuss economic situation, a coordinated response, Texas's win over Oklahoma, etc. **International Monetary Fund's** head says the world financial system is "on the brink of a systemic meltdown". Also likes the Longhorns chances at Number 1. **Britain** announces some **bank rescues** involving the government buying stock in Royal Bank of Scotland, HBOS, Barclays and possibly Lloyds Bank TSB. The governor of the Bank of England told the banks to ask for more than they need. **Germany** reported to be working on a bank rescue plan. The trouble in Europe is that many nation's banks (think Iceland, Switzerland) are larger than their home countries' economies. This makes a gov't rescue problematic. News comes out that **GM** is in talks with **Chrysler** about merging. They talked to **Ford** in July but Ford wasn't interested. Darn, they could have combined the makers of the Chevette and the Pinto! GM stock at about 1950 levels.

Sunday	10/12	**European leaders** of the 15 countries using the Euro announced a **plan** to save banks, guarantee deposits and also guarantee interbank lending. They're also going to do **direct equity investments** in banks, something the U.S. Treasury Secretary and Bush Administration is also looking at. The size of all this is not specified yet, but Germany alone looks to do more than $500 Billion. The news on the **Lehman CDS auctions** is that the net cost is "only" $6 Billion, which would be good news indeed, if true. One underlying assumption here is that no counterparties fail. It's all supposed to be settled by 10/21. **Mitsubishi** is looking for better terms for last month's $9 Billion investment in **Morgan Stanley**. It was for 21% of the firm, whose entire market cap at the end of day Friday was $10 Billion, so that would be a crappy deal in a hurry! They're also concerned about getting diluted if the U.S. Government did a direct investment later, but got assurances from Treasury that they would be "protected" in the event that happens. Not sure what that means, but both the Treasury and Japanese government were in on the talks, so this is some high-level stuff. **Hey, Where'd That Horsey Go? Dept**: The Financial Stability Forum, a group of governments, central banks, the IMF, etc. has proposed that, in future, banks will be prevented from borrowing – or creating "leverage" – on the scale seen in recent years, and will have to set aside more of their own resources, or capital, so that they can withstand any future turbulence. Good work, guys!, keep it up!
Monday	10/13	As part of the **credit door slamming shut**, credit card and auto loan securities are trading at much higher spreads than in the recent past or a year ago. It means less, more expensive credit for consumers. **UK exchanges open** today, after some speculation they might remain closed. Central banks making virtually unlimited funds available, anything to alleviate panic in the markets. The EU actions get more clarity: 1.3 trillion euros (**about $1.8 trillion dollars**) to guarantee bank loans and take stakes in lenders. Got some money left after last week's markets? **Iraq** is auctioning off 40 billion barrels of oil reserves today at the Park Lane Hotel in London. It's the biggest oil sale ever. **Bonus Local Angle**: Matt's Uncle Brian used to run the Rose and Crown pub in Old Park Lane, a block down from here and just around the corner. Stock market likes all this, Dow up 936 points, biggest up day since 1939.