

WHEEL SQUIRRELS STUMBLE INTO BEAR NUTS - AN ECONOMIC UPDATE AND FORUM

A couple of days ago, we discussed what really happened, and what the longer term implications might be, in the Bear Stearns forced sale/bailout over the March 15-16 weekend. There have been several things that have come out since then that are right on point with what we were all chewing on. Some are directly on point to the Bear deal, some are tangentially related and some are just general economic/financial news and thoughts. Masaccio wanted somewhere to jaw about things economic related; and what masaccio wants, masaccio gets. In no particular order then, here are some of the nuts I have stumbled on; please add any and all of your own in the comments.

1) This one I added as an update to the first post, but it still sticks in my craw a little bit. There simply is no such thing as a conflict of interest to the group currently running our country I guess (and when a Supreme Court Justice doesn't feel obligated to be concerned over interest conflicts, why should anyone else I suppose). At any rate, turns out that JPMorgan Chase & Co head Jamie Dimon held a Federal Reserve board seat while Chase was in negotiations with the Federal Reserve over a deal to acquire Bear Stearns at an insanely low price. How convenient.

2) If there is any doubt about the fact that what is happening in relation to investment houses and the fear they sense from the financial struggles as to their continued ability to leverage and manipulate derivative financial instruments, contemplate this:

Eight of the 10 largest donors so far to the U.S. presidential campaigns are Wall

Street banks, led by Goldman Sachs, according to research Thursday from a political watchdog group. Goldman and its executives have pumped \$1.7 million into the races, with 70 percent going to Democrats Barack Obama and Hillary Clinton, despite former CEO Henry Paulson's present job as treasury secretary for the Republican Bush administration.

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After Goldman, top-giving banks are Citigroup, Morgan Stanley, Lehman Brothers, Merrill Lynch and JPMorgan Chase, which is buying troubled rival Bear Stearns in a government-engineered bailout.

3) Remember my question as to whether this was all a one off deal or was setting up some type of revolutionary precedent? Arguably this is slightly different than the \$30 billion guarantee in the Chase purchase, but still, the part where the Fed makes large loans to investment houses, sure looks like it is being set up by both parties to become the new norm:

Big Wall Street investment companies are taking advantage of the Federal Reserve's unprecedented offer to secure emergency loans, the central bank reported Thursday.

Those firms averaged \$32.9 billion in daily borrowing over the past week from the new lending facility, compared with \$13.4 billion the previous week. The program, which began last Monday, is part of the Fed's effort to aid the financial system.

On Wednesday alone, lending reached \$37 billion.

The Fed, for the first time, agreed on March 16 to let big investment houses temporarily get emergency loans directly

from the central bank. This mechanism, similar to one available for commercial banks for years, will continue for at least six months. It was the broadest use of the Fed's lending authority since the 1930s.

4) I don't know what the implications of this one are, but the long time chairman of Bear Stearns just liquidated his holdings in the company. Ouch.

Bear Stearns Cos. Chairman James Cayne on Thursday dumped his entire stake in the embattled investment bank for \$61 million as it appears closer to a takeover by JPMorgan Chase & Co.

Cayne sold 5.66 million shares for exactly \$10.84 a share on March 25, according to a filing with the Securities and Exchange Commission. His stake was once valued at about \$1 billion when the stock was trading at \$171.50 per share.

5) You know, none of the financial collapse mechanisms that got us to where we are today came about by chance, these were features of the economic system that has been purveyed by the Republicans, and most critically, the Bush Administration. They didn't just put these mechanisms in place, they goaded and bullied people into using them in order to fuel their otherwise pathetic and hollow economic system and tax cuts. The next card to collapse in this house is home equity loans:

Americans owe a staggering \$1.1 trillion on home equity loans – and banks are increasingly worried they may not get some of that money back.

To get it, many lenders are taking the extraordinary step of preventing some people from selling their homes or refinancing their mortgages unless they

pay off all or part of their home equity loans first. In the past, when home prices were not falling, lenders did not resort to these measures.

Such tactics are impeding efforts by policy makers to help struggling homeowners get easier terms on their mortgages and stem the rising tide of foreclosures. But at a time when each day seems to bring more bad news for the financial industry, lenders defend the hard-nosed maneuvers as a way to keep their own losses from deepening.

6) The candidates have all made major economic speeches in the last few days. Obama is here. Clinton is here. McCain is here. As masaccio has pointed out, McCain is, of course, a blithering idiot. I will leave it to you all to discuss the rest. Again, this is NOT a forum for engaging in the battle of the candidates between Obama and Clinton. Don't violate the spirit of EW's rules she left us with; it would make her sad on her birthday!

Anything else you all have on the finance/economic front, have at it.

UPDATE: I knew this whole Bear Stearns, slam it through on the weekend, thing looked like like a craven power play of the entitled set, and that was really my question in the Sometimes You Eat The Bear, and Sometimes The Bear Eats You post. Guess what, I may (still even odds though) not be quite as stupid as I appear! This just hit the New York Times:

The Bush administration will propose on Monday that Congress give the Federal Reserve broad authority to oversee financial market stability, in effect allowing it to send SWAT teams into any corner of the industry or any institution that might pose a risk to the overall system.

The proposal is part of a sweeping

blueprint to overhaul the country's hodge-podge of regulatory agencies, which many specialists say failed to recognize rampant excesses in mortgage lending until after they triggered what is now the worst financial calamity in decades.

According to a summary provided by the administration, the plan would consolidate what is now an alphabet soup of banking and securities regulators into a trio of overseers responsible for everything from banks and brokerage firms to hedge funds and private equity firms.

While the plan could expose Wall Street investment banks and hedge funds to greater scrutiny, it avoids a call for tighter regulation. The plan would not rein in practices that have been implicated in the housing and mortgage meltdown, like packaging risky subprime loans into securities carrying AAA ratings.

Well, what do you know? They are not only not going to clamp down on derivatives and the other Enron like aspects that have caused this mess, they are going to consolidate regulatory agencies (read see to it that there are a lot less). Wonderful; do we get a huge corporate tax cut with that I suppose?