

The Financial Meltdown: “We will never know the true inside story of what really went on”

Policies & Market Trends in the US

By [Bob Chapman](#)

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On Friday, we had the latest edition of the FDIC “Friday Night Financial Follies” as regulators on Friday shut down Bank of Lincolnwood, a small bank in Illinois, marking the 37th failure this year of a federally insured bank. More are expected to succumb amid the pressures of the weak economy and mounting loan defaults.

The Federal Deposit Insurance Corp. was appointed receiver of the failed bank, based in Lincolnwood, Ill., which had about \$214 million in assets and \$202 million in deposits as of May 26.

All of Bank of Lincolnwood’s deposits will be assumed by Republic Bank of Chicago, based in Oak Brook, Ill., which also agreed to buy about \$162 million of the bank’s assets; the FDIC will retain the rest for eventual sale. Bank of Lincolnwood’s two offices will reopen on Saturday as branches of Republic Bank of Chicago.

The FDIC estimates that the cost to the deposit insurance fund from the failure of Bank of Lincolnwood will be \$83 million.

In a step that would substantially increase the price tag for Bernard L. Madoff’s long-running Ponzi scheme, lawyers for a group of his victims are asking a federal bankruptcy judge to reject the way their losses in the fraud are being calculated.

The customers insist that, by law, they should be given credit for the full value of the securities shown on the last account statements they received before Madoff’s arrest in mid-December, even though the statements were bogus and none of the trades were ever made. According to court filings, those account balances add up to more than \$64 billion.

After months of private negotiations and Internet arguments, lawyers for these customers formally put the issue before the federal bankruptcy court in New York in a lawsuit filed late Friday evening, less than a month before the deadline for filing claims for compensation.

The approach they seek would produce a significantly higher tally of cash losses than the formula being used by the court-appointed trustee overseeing the claims process for the Securities Investor Protection Corp., a government-chartered agency financed by the brokerage industry.

The trustee, Irving H. Picard, is calculating investor losses as the difference between the total amount a customer paid into the scheme and the total amount withdrawn before it collapsed.

Customers who qualify are eligible for up to \$500,000 in immediate compensation from SIPC. Those whose eligible losses exceed that amount would divide up the assets recovered by the trustee.

Credit card holders who might have used tax refunds to pay down balances apparently spent the money elsewhere as the recession deepened in the first quarter.

That's one conclusion that may be drawn from data showing the delinquency rate for bank-issued credit cards rose 11 percent in the first three months of the year, according to credit reporting agency TransUnion.

The delinquency rate - card holders who are three months past due - jumped to 1.32 percent this year, from 1.19 percent in the first three months of 2008, TransUnion said.

The average total debt on bank cards also rose, jumping to \$5,776 from \$5,548 last year.

Balances typically rise in the first quarter, as holiday spending comes due, said TransUnion's Ezra Becker.

The credit card delinquency rate remains well below the 5.22 percent for mortgages in the first quarter, meaning card holders are trying hard to keep their payments current.

It's too early to tell how changes in credit card regulations will affect payment rates, Becker said.

- The biggest price [swings](#) in Treasury bonds this year are undermining Federal Reserve Chairman [Ben S. Bernanke](#)'s efforts to cap consumer borrowing rates and pull the economy out of the worst recession in five decades.

The [yield](#) on the benchmark 10-year Treasury note rose to 3.90 percent last week as volatility in government bonds hit a six-month high, according to Merrill Lynch & Co.'s [MOVE Index](#) of options prices. Thirty-year fixed-rate [mortgages](#) jumped to 5.45 percent from as low

as 4.85 percent in April, according to Bankrate.com in North Palm Beach, Florida. Costs for homebuyers are now higher than in December.

Government bond yields, consumer rates and price swings are increasing as the Fed fails to say if it will extend the \$1.75 trillion policy of buying Treasuries and mortgage bonds through so-called quantitative easing, traders say. The daily range of the [10-year](#) Treasury yield has averaged 12 basis points since March 18, when the plan was announced, up from 8.6 basis points since 2002, according to data compiled by Bloomberg.

The trend of employment in the U.S. strengthened in May for the first time in 16 months, a report said Monday.

The Conference Board said its May employment trends index rose 0.2% to 89.9 from April's revised level of 89.7 that was originally reported as 89.5. The May index was down 20% from a year ago.

In May, the percentage of firms not able to fill positions right now, the percentage of consumers who think jobs are "hard to get", real business sales and job openings showed improvement.

The privately owned Federal Reserve has subjected us to a 22-month period of massive excess liquidity. The present increase in liquidity, formerly known as M3, which is no longer published because it's not cost efficient, or there isn't sufficient interest in the figures, says the Fed, is growing at about 18%. The major purpose for the US Treasury and the Fed to commit to an increase in spending of \$14.8 trillion is to bail out banking, Wall Street and the insurance industry, all of which turned prudent investment into a casino.

The method chosen to deal with a financial crisis caused by unsustainable debt created by excess liquidity is to create more money and credit and channel it to the financial sector to reflate their balance sheets, which are debt infested with toxic CDO and ABS debt. The rich on Wall Street, banking and insurance are deleveraging with the taxpayer taking all the risk, as the public gets very little in return. We are surrounded by financial zombies, which we keep alive after they almost destroyed our financial system.

Major inflation is the result as wages barely rise and the loss of purchasing power is borne mostly by the poor and the lower middle class. Ever since free trade, globalization, offshoring and outsourcing began about 1980 wages have not kept up with inflation. Production gravitated to the low wage third world exacerbated by massive condoned illegal immigration. This was accompanied by cronic overcapacity that made conspicuous consumption relatively inexpensive. That was joined by much easier credit. Twenty-three months ago we saw an implosion as a result of these policies, which is still with us. Without this continuation of debt the system cannot continue to function and the downward spiral feeds on itself. Everyone is looking for a bottom soon. That isn't going to happen, stimulus or no stimulus. Handing money to citizens isn't the answer. In this case 90% has gone to reduce debt.

The first step to recovery is to drastically cut government spending and to lower corporate and individual taxes. Get rid of the Federal Reserve, which is directly responsible for this mess and erect tariffs on goods and services. If we can accomplish that the recovery will

begin, but it won't be easy. It will take years to accomplish.

As a result of flawed fiscal and economic policies nations are facing record deficits. Some like England have been put on negative credit watch, which could lead to a downward re-rating. The US, Japan and others are following close behind. In fact down grades could come before the end of the year. Interest rates are already moving higher and have been since the beginning of the year. Downgrades would bring even higher rates.

The Chairman of the Fed, Ben Bernanke, would have us believe along with other, so-called experts, that monetary easing will come in time to head off hyperinflation. Unfortunately that cannot happen. The minute money and credit is withdrawn from the system it will collapse. The underlying deflationary drag is too great and that drag will take years to diminish. How can our Fed Chairman and our Treasury Secretary think for a moment that they'll just be able to turn the tap off when their current orgy of spending ends? Politicians unfortunately see this, as only they would, as an opportunity to purchase votes by making sure the spending continues. It will be interesting to watch over the next several years, as many nations scramble in the bond markets to raise money to keep their economies going. There is no telling at this point how high interest rates are going to go.

Our President tells us of trillion dollar plus deficits are far as the eye can see. Those deficits assume 3% growth rates in GDP, which is not going to happen and the end of the Bush tax cuts. Deficits will be much larger than the Congressional Budget Office estimates, if due to nothing more than exploding entitlement expenditures. This plan involves the perpetual rolling of \$5 trillion in Treasury paper much of which is held by foreigners plus the new debt incurred, plus the interest on the existing debt. Do you really believe foreigners are going to fund such deficits indefinitely? We don't think so with a falling dollar. The dollar is falling again and interest rates are rising and they both are going to continue to do so, as gold and silver go higher. The minute the Fed began creating money out of thin air to fund Treasury sales, plus buy Treasuries out of the market, plus buy Agency securities and toxic junk to the tune of \$2.2 trillion for openers, you had to know the game was over. It's all-downhill from here. This week 30-year fixed rate mortgages could hit 5-3/4%.

Last week we heard the VAT, Value Added Tax, may be on the way. It's the most vicious of all taxes and you do not want to experience it. It would help solve the problem, but your standard of living will drop 20% if it is enacted. Such taxes cannot come until 2011 because 2010 is an election year. Such taxes will exacerbate the depression. In the end cutting spending is the only answer.

Mr. Obama speaks of the importance of living within our means and not spending money we do not have on things we do not need. Obviously the president hasn't been told we are in a depression. The less the public spends the deeper the depression gets.

That said Mr. Obama engages in profligate federal spending to deaden the pain and essentially to prolong the financial and economic agony.

Then comes the creative destruction with government deciding who should survive and who should fail by edict. Some call it crony capitalism and favoritism, we call it taking care of fellow Illuminists.

The way Wall Street tells us we need hands on help from Wall Street and banks, which led to this disaster. The president wants economic advisers who are theoreticians. All paper has to

be marked to a real market price to clean out the bad assets. Government should not be giving free loans to hedge-funds and private-equity firms, so they will buy assets they would not normally buy. Due to electronic trading, which has led to major trading off established exchanges, and into the dark pools we do not know who is doing what. A net flow of information so that the investors and transparency is nearly gone. Bank holding companies, which own the Fed, can see in advance what their clients are interested in buying and front run those orders in their own accounts. If they make major mistakes they just get bailout out by the Fed.

There is no transparency. We only find out what went on when somebody slips or in some way something gets exposed. Transparency, oversight and accountability do not exist. Most everything important is done in secret. A good example was six months ago when Bloomberg News attempted to force the Fed to reveal the details on more than \$2 trillion in loans that went to banks, including Citigroup and Goldman Sachs. The Fed told the court to take a hike and said it was a state secret. We have no word as well who made the short-dated, out-of-the money bets in March of 2008 that Bear Stearns would fail. Those bids paid off in the millions, or why Lehman was allowed to fail and AIG was saved, etc.

Not one banking or Wall Street executive owned up to what really happened to cause the crisis. They are totally lacking in honesty, integrity and decency. As it now stands we'll never know the true inside story of what really went on. We have seen no civil or criminal charges against any of these crooks. Not even investigations. Whatever happened to RICO?

Over the past 25 years our financial industry has descended into darkness and corruption and the people who caused it are getting away scott free.

Our Treasury Secretary Geithner's ill-fated trip to China and our president's recent journey to Germany was humiliating. Crowds as well as the German government were demanding the return of their gold. The US has been giving platitudes to the Germans when the Germans know their gold has been sold or leased. Leasing is tantamount to selling. This story has not been broken in the mainstream media, but in time it will be and when it is propaganda will not deflect the ultimate outcome.

The president and Larry Summers think they can restore confidence and trust in the economy with lies and propaganda, but they are deluding themselves. The stock, bond and capital markets are dependent on confidence, but they are more dependent upon the deplorable state of the foundation on which our economy rests. In 22 months the Fed and the Treasury have accomplished very little except bailing out their fellow elitists in the financial industry with taxpayer debt. The mantra that the worst is over is simply more lies similar to those we've heard over and over again. Thus far the smoke and mirrors and the "Working Group on Financial Markets have managed to create a 35% to 50% bear market correction in the averages. Our president, a professional con man and street hustler promises he will always tell you the truth about the challenges we face. Trust him and you will find yourself somewhere out in left field.

Thus far all we have seen is a papering over of the financial system. Our Treasury and Fed offer the Term Asset-Backed Securities Loan Facility, the Public Private Investment Program, the phony stress test and TARP. The commitment to domestic and foreign financial entities is already at \$14.8 trillion. There is no discussion of building a new better system that rewards prudent risks, allocates capital where it is really needed, not in the hands of banking and Wall street. It would as well be a great idea if the SEC and the CFTC started

protecting the investors and stop collaborating with Wall Street and Washington to manipulate markets.

When will the rescues of the financial sector end - when it has bankrupted us all? They are the ones who caused all this.

We now have Government Motors at the former General Motors and Chrysler that has been given away to Illuminist Fiat. Is every company, bank and brokerage house in America to be bailed out indefinitely?

Thirteen percent of Class A office space in NYC was empty in April, up 6.5% yoy. Sublets account for 40% of space available in Midtown Manhattan versus 30% yoy. That \$150 per square space is now available for \$40 per square foot.

In California the legislators have allocated \$100 million for a tax credit for homebuyers who purchase a new home between 3/1/09 and 3/1/10. The buyers cannot sell for two years from date of purchase. Once the funds have been totally allocated the subsidy is over.

Over 50% of used home sales are foreclosure related, as supply is heavily unbalanced. For all intents and purposes organic house sales have not grown in 18 months.

Interest rates on government bonds are rising due to oversupply and monetization. Debt as a percentage of GDP will be 80% in the US, in England 100% and in Japan 200% in the next few years. Revenues are not meeting expectations. Shortages are running 35% to 50%. As long as this persists excess money and credit will never be withdrawn from the system. If additions continue along with monetization inflation will rage until the system collapses. As an example the US will have a 50% revenue shortfall for fiscal 9/30/09 of \$2 to \$2.5 trillion. The prices of oil, gold, silver and commodities are currently reflecting inflation irrespective of government manipulation as rotation takes place from stocks and bonds into those areas. Government producing bogus CPI and other statistics is not fooling anyone. Wall Street won't talk about it but they know what is going on. Even with a 3.85% ten year T-note the yield is a loser because real inflation is higher than that and will continue to be so. We see it hovering around 9% irrespective of official figures. There is severe upward pressure on interest rates because the US and other governments have such an enormous demand for funds. They are crowding out business and individuals from borrowing, plus they are trying to keep solvent balance sheets, which is an impossible order. If government bonds are not risk free paper than investors will go elsewhere to preserve capital. The stock market has already rallied some 35% to 50% and bonds and the dollar are falling. That leaves commodities and gold and silver for safety. Gold is the best hideout so to speak and that is why our government suppresses it so diligently, secretly.

Foreigners are finally starting to get the message after eight years of a falling dollar. You do not buy more of a bad asset just to protect your past investment in dollar denominated assets. Bonds are now in a beginning state of collapse and you could easily see the 10-year Treasury at an 8% yield in two years just like it was in 1992 when we called that market to a top and at a top. The only way the bond market can stabilize is via confidence. Savings are increasing but confidence has yet to return. As an antithesis our president wants citizens to spend. You cannot have it both ways. It should be remembered that as yields rise disintermediation takes place. That is money moving from one place to another. Money moves into bonds as yields rise and most of these funds will come from the stock market. As

yields rise so does economic efficiency. Any stocks in any financial entity will suffer under such circumstances due to the increasing cost of money causing a drop in profits, never mind the toxic assets on their books.

Make no mistake a change in central bank investment policy and the demise of the Fed will produce a gold price upwards of \$6,000 an ounce. This move will be aided and abetted by higher commodity prices, which will add to the inflation caused by monetization. The justification for zero interest rates and an increase in money and credit of 18% in deflation is underlying our financial system and that in part is true. That is why policymakers want to borrow 10% of GDP not caring about the consequences just to keep the system from collapsing. Thus we have two inflation sources, commodity inflation and money and credit and monetization expansion. There is a 100% chance of hyperinflation over the next two years and a 100% chance of higher gold and silver prices. Use any dips to purchase more gold and silver coins and shares.

May Employment Report Not Believable, notes that the BLS added the most ever B/D jobs in May 2009, which is incredulous in the current environment. Yet most of the Street and financial media trumpet the report without performing any due diligence. Since January the absurd Birth/Death Model has created more jobs than in comparable 2008. This is incredulous! It appears that Team Obama is determined to be even more duplicitous with government economic statistics than prior administrations. Desperate times demand desperate measures.

All told, nearly 25 million Americans were either unemployed, underemployed or had given up looking for a job in April.

The ranks of involuntary part-timers has increased by 4.9 million in the past year, according to a May study by the Federal Reserve Bank of Cleveland. Many economists now predict unemployment won't peak until 2010. And since employers generally increase the hours of existing workers before hiring new ones, workers could be looking for full-time jobs for some time.

John Williams: May Jobs Loss Was About 538,000 Net of Biases versus 345,000 Official Decline - Birth-Death Model Upside Bias Increased by 27% - Annual Payroll Decline Deepened to 4.0% - SGS-Alternate Unemployment at 20.5%

The jobs report also reflected upward revisions to March and April reporting, but such were due largely to the gimmicked recasting of seasonal factors each month on top of slightly improved unadjusted data. The concurrent seasonal factor bias (CSFB) narrowed the reported jobs contraction by about 89,000, while the revamped birth-death model likely narrowed the contraction by at least another 104,000 (60,000 usual adjusted average plus 44,000 in new biases).

There has been a shift in reporting patterns to show upside prior-period revisions in the establishment (payroll) survey, including upside changes to March reporting, which had

been revised lower in April's reporting (successive revisions for a given month usually continue in the same direction). This suggests that the BLS may have shifted internal reporting assumptions, with the effect of generating less-negative numbers. Assumptions include, for example, the handling of companies that fail to report payrolls in the current month (are they out of business or just late in handling paperwork?). There certainly has been a shift to the upside in terms of birth-death model assumptions.
<http://www.shadowstats.com>

Policy-makers at the U.S. Federal Reserve stepped up their anti-inflation rhetoric this week after a bond market sell-off delivered a sharp reminder that they ignore investors at their peril.

"This is a day of reckoning that the Fed would have hoped (would come) a year or two from now," said Gregory Hess, an economics professor at Claremont McKenna College. "They have done big things and now they face the consequences."

Nobel Prize-winning economist Paul Krugman said the world's economy is showing "not a hint" of a "V-shaped" recovery marked by a swift decline and revival.

The economy is "stabilizing, not recovering," Krugman, an economics professor at Princeton University in New Jersey, said today at a conference in Dublin. "Things are getting worse more slowly."

David Rosenberg notes that the Household Debt-To-Net Worth ratio is currently at an all time high of 26% and if the ratio normalizes at the pre-'90s bubble level of 20% or the long-term average of 16%, debt elimination/destruction/default/write-offs would be \$3 trillion to \$5 trillion, respectively.

David's conclusion: A goodly chunk of this excess debt — bringing credit into realignment with the permanently new and lower level of household net worth — is going to have to be paid down (or defaulted on). This is the lingering deflation risk that the bond bears have yet to factor in."

Mr. Rosenberg echoes our view that the collapsing bond and dollar have checked the Fed: "...if the Fed doesn't step in and buy more government bonds, investors are going to conclude that there is not enough demand to absorb all of the new supply coming on stream. Yet, if the Fed were indeed open to the idea of expanding its bloated balance sheet further, then the 'monetization of debt' would cause the inflation-phobes to panic and sell their long-duration paper."

Barney Frank convinced GM's CEO to keep his district's plant open. Rep Barney Frank (D-Mass.) won a stay of execution on Thursday for a General Motors plant in his district that the automaker had announced it would close.

The Obama administration plans to appoint a “Special Master for Compensation” to ensure that companies receiving federal bailout funds are abiding by executive-pay guidelines, according to people familiar with the matter.

If President Obama and Democrats push through the proposed multi-trillion dollar healthcare bill, the inflationary recession will turn into something much, much worse.

Employers would be required to offer health care to employees or pay a penalty – and all Americans would be guaranteed health insurance – under a draft bill circulated Friday by Sen. Edward M. Kennedy’s health committee.

The bill would provide subsidies to help poor people pay for care, guarantee patients the right to select any doctor they want and require everyone to purchase insurance, with exceptions for those who can’t afford to.

U.S. pushed Fiat deal on Chrysler. The Obama administration rushed an alliance between Chrysler LLC and Fiat SpA despite Chrysler’s worries about Fiat’s financial health and its willingness to share technology, according to internal company emails.

The emails show Fiat ignoring requests for documents and trying to change contract terms late in the talks. A Chrysler adviser at one point said the deal risked looking as if the U.S. automaker and the Treasury Department, which helped broker the pact, were “in bed with a shady partner.” In another note, an official referred to the Treasury Department as “God.”

Transpacific container rates are continuing to drop. Our rates just went down again (3rd time this year) and we have companies getting in touch with us almost every week offering us lower rates. If the US is coming off the bottom and China is recovering, it seems odd the shipping rates from China to the US keep dropping.

The Obama Administration argued Monday that no court, including the Supreme Court, has the authority to hear a challenge by Indiana benefit plans to the role the U.S. Treasury played in the Chrysler rescue, including the use of “bailout” (TARP) funds.

This morning, the economic research firm e-forecasting.com, in conjunction with STR, announced that following a decline of 1.1 percent in April, HIP declined 1.3 percent in May. HIP, the Hotel Industry Pulse index, is composite indicator that gauges business activity in the U.S. hotel industry in real-time. The latest decrease brought the index to a reading of 83.1. The index was set to equal 100 in 2000.

Looking at HIP’s six-month growth rate, which historically has signaled turning points in U.S. hotel business activity, HIP declined by an annual rate of 20.7 percent in May, following a

drop of 21.3 percent in April. This compares to a long-term annual growth rate of 3.2 percent, the same as the 38-year average annual growth rate of the industry's gross domestic product.

A little more than five years ago Developers Diversified Realty bought 110 properties containing 18.8 million square feet of space from Benderson Development in a \$2.3 billion deal. Now Benderson is buying a portion of those assets back—reportedly at a 30 percent discount...

This is fairly incredible. Speculation has been that values on retail properties would fall 40 percent peak to trough. But the peak on values wasn't reached until 2007. The fact that Benderson is buying properties at a 30 percent discount to 2004 values is a bit of a shocker.

The Fed monetized another \$7.5B of govies (4s thru 7s) on Monday. But Ben told Congress that 'the Fed won't monetize the debt'. So this must be something other than monetizing the debt.

Banks will be able to increase charges for loans more easily after tightening so-called market-disruption clauses in funding documents, according to HSBC Holdings Plc.

The clauses, common in loans, enable banks to raise the rates they charge to borrowers to reflect their true cost of funds. Historically, rates couldn't be raised unless at least half the banks involved in a loan were in agreement. That threshold is now being set as low as 20 percent, HSBC Head of Syndicated Finance for Asia-Pacific Global Capital Markets, Phil Lipton, said in a June 4 interview in Singapore.

The Obama administration wants Europeans to put their banks through more rigorous public stress tests to help ensure that the institutions survive if the economy slips from bad to worse. This is payback for Merkel's statements.

Automobile dealers have been among the biggest contributors to U.S. political campaigns over the past decade, surpassing all but two groups in donations. That \$13 million investment may be paying off as the dealers get a lot of attention on Capitol Hill.

Congress has held hearings on the planned shutdown of thousands of dealerships and is debating ways to provide relief to the businesses. Almost a quarter of the members of the House of Representatives signed letters to President [Barack Obama](#) and his auto task force questioning plans to close the dealerships.

The lawmakers' involvement may disrupt plans by [General Motors Corp.](#) and Chrysler LLC to emerge from bankruptcy with a leaner dealer network.

Inventories at U.S. wholesalers fell in April for the eighth straight month as distributors tried to cut excess supply apace with decreasing sales.

The 1.4 percent decline in [stockpiles](#) was larger than forecast and followed a revised 1.8 percent decrease in March that was larger than previously estimated, the Commerce Department said today in Washington. [Sales](#) fell 0.4 percent to the lowest level since 2005.

The economy shrank at a 5.7 percent annual pace in the first quarter, reflecting a record drawdown in inventories that may set the stage for a return to growth later this year. Companies including General Motors Corp. are among those still paring output to limit the glut of stocks.

“You probably won’t see a big hit to GDP in the second quarter from inventories,” said [Sal Guatieri](#), a senior economist at BMO Capital Markets in Toronto. “Even though they’re falling quite sharply, they’re falling at a slower rate.”

At the current sales pace, it would take 1.31 months for distributors to deplete the amount of goods on hand, compared with 1.32 months in March. The reading was as low as 1.1 months in June 2008.

Inventories at wholesalers were forecast to drop 1.2 percent after an initially reported 1.6 percent decrease in March, according to the median estimate of 36 economists surveyed by Bloomberg News. Projections ranged from a decline of 1.7 percent to an increase of 1 percent.

The U.S. Treasury approved 10 banks to buy back \$68 billion of government shares, reducing officials’ authority to intervene in everything from lending and hiring strategies to compensation policies.

“These repayments are an encouraging sign of financial repair, but we still have work to do,” Treasury Secretary [Timothy Geithner](#) said in a statement released in Washington today.

Today’s decision reflects rising pressure from banks to free themselves of government stakes that left them vulnerable to political interference, following a popular outcry against Wall Street bailouts.

The Treasury didn’t name the banks. [JPMorgan Chase & Co.](#) is among those allowed to repay Troubled Asset Relief Program money, a person familiar with the situation said yesterday. [Morgan Stanley](#) said it is among the group, in a release within minutes of the Treasury’s announcement.

[Goldman Sachs Group Inc.](#), American Express Co. and State Street Corp. are among those that have sold shares and debt unguaranteed by the government, steps officials have sought to demonstrate lenders can go without federal stakes.

[Bank of New York Mellon Corp.](#), [BB&T Corp.](#), [Capital One Financial Corp.](#) and [U.S. Bancorp](#) were among firms found to have no additional capital need in regulators' stress tests on the 19 biggest U.S. banks a month ago.

The pace of prime borrowers going into foreclosure is accelerating, especially in states with mounting unemployment or property values that saw a big run-up during the housing boom.

It's a marked shift from earlier this year, when foreclosures were driven by defaults on subprime loans. And it has major implications — ravaging the credit scores of borrowers who once had unblemished records and dragging down property values in more affluent neighborhoods.

It also threatens to undermine the housing recovery.

"It's definitely a concern," says Brian Bethune at IHS Global Insight. "(Unemployment) is a major driver of foreclosures, and it will frustrate the housing recovery process."

In the first quarter, almost half of the overall increase in the start of foreclosures was due to the increase in prime, fixed-rate loans, according to the Mortgage Bankers Association (MBA). At the end of the fourth quarter, 2.4% of prime mortgages were seriously delinquent, more than double the 1.1% at the end of March 2008, according to a report by the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

"In the beginning, the higher-end (homes) were a bit isolated," says Kevin Marshall, president of Clear Capital, a provider of real estate asset valuation. "But in the last several months, we're seeing a significant erosion in the higher-end homes. It's reached into the prime loans."

California, Florida, Arizona and Nevada represent 56% of the increase in foreclosure starts, including half of the increase in prime fixed-rate foreclosure starts, according to the MBA.

That coincides with states reporting some of the highest unemployment rates. In California, the unemployment rate in April was 11%, according to the Department of Labor. In Nevada, it was 10.6%.

National chain store sales slumped 4.3% in the first week of June versus the previous month as Wal-Mart Stores Inc. (WMT) is no longer included in the readings, according to Redbook Research's latest indicator of national retail sales.

The drop was compared to a targeted 4.1% fall. Wal-Mart, as of May, stopped providing

monthly sales figures. Redbook said it didn't have figures which excluded the impacts from Wal-Mart now being excluded from the readings.

The Johnson Redbook Index also showed seasonally adjusted sales in the period were down 4.4% versus a year earlier, compared to a targeted 4.2% drop.

Redbook said that on an unadjusted basis, sales in the week ended Saturday were down 4.4% from the same week a year earlier.

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index rose 0.2% in the week ended Saturday from its level a week before on a seasonally adjusted, comparable-store basis.

On a year-on-year basis, retailers saw sales fall 0.8% in the latest week, the biggest decline in five weeks.

From a default rate of 2% a year ago, Moody's now expects the US default rate on speculative grade bonds to hit 14.5% this year. Between 2011 and 2015, \$972 billion of index-eligible institutions loans and high-yield bond debt must be refinanced. This does not include privately negotiated revolving credit lines. Seventeen percent of these loans could easily default. Structures that repackaged risky debt for institutional investors no longer exists. The ability of distressed banks under government scrutiny to make risky loans no longer exists. Where these borrowers will borrow almost \$1 trillion and at what price is questionable.

The Fed has been creating money out of thin air and monetizing a good part of it. This new money has gone to the Treasury and the financial sector. It is not being lent. It is being used to bolster balance sheets. It is not reaching consumers in the form of increasing employment, raising wages to restore fallen demand or to enhance economic recovery. Buying power is falling fast as underlying inflation persists reducing demand, which you are now seeing in falling retail sales. These funds from the Fed at the same time support an overpriced stock market. Lenders are opportuning the markets with public loans as they lay off workers to cut operational costs. That perhaps brings financial profit inflation and tends to cost price deflation. The result is financial profit inflation on a temporary bases, which misleads people into thinking there is a recovery underway when no such economic recovery is at hand. This leads to stock market corrections of the bubble variety in the context of a bear market rally. All this is the result of intervention by the Treasury and the privately owned Federal Reserve, the result of which is inflation, which destroys wealth, except for those who own gold and silver related assets. This production of current money and credit degrades wealth and money as a store of value. Most of the loss of purchasing power is borne by the poor and the lower middle class.

The basic problem for the world economy for the past 30 years has been free trade, globalization, offshoring and outsourcing. Wages have been driven down worldwide in order to feed mercantilist profits into the hands of transnational elitist conglomerates. Boom or bust wages spiral lower. This has created massive overcapacity masked by unsustainable demand. Now even low waged workers are unable to buy or pay off their credit cards. Government stimulus is not the answer, purging the system is the answer.

Republicans have delayed the House vote on a \$90 billion Bill funding the war in Afghanistan and Iraq. It has been postponed until this week because of strong opposition from the Republicans due to a provision giving additional money to the IMF. It probably will

be dropped from the Bill and be set up as a stand-alone Bill.

A House of Representatives committee on Tuesday said it would subpoena the Federal Reserve to force the central bank to surrender documents regarding its role in [Bank of America's](#) <BAC.N> takeover of [Merrill Lynch](#) last year.

The subpoena comes two days before Bank of America Chief Executive Ken Lewis is set to testify before the House Oversight Committee, which is probing the transaction, what Lewis knew about Merrill's financial condition and potential regulatory pressure to complete the deal.

Lewis, in testimony prepared for the hearing, said he became aware of "significant, accelerating losses" at Merrill in mid-December after the shareholder vote. Lewis has consistently maintained in statements that he did not realize the severity of Merrill's problems until after that vote.

The CEO, who has since been ousted as chairman, also said he told Treasury and Fed officials he was considering declaring a "material adverse change" which would have allowed it to walk away from the acquisition.

"Treasury and Federal Reserve representatives asked us to delay any such action, and expressed significant concerns about the systemic consequences," Lewis said in the testimony.

Fremont Investment & Loan Co., once one of the state's largest subprime mortgage lenders, agreed to pay \$10 million to settle charges that it offered predatory loans in low-income neighborhoods across Massachusetts, Attorney General Martha Coakley said yesterday.

"They essentially agree that their actions were unfair and deceptive, and they have agreed to pay damages for that," Coakley said.

Fremont had previously denied the charges in court.

Company officials did not comment on the settlement, referring all inquiries to the company's website. The site did not include information about the settlement, but said the company has changed its name to Fremont Reorganizing Corp. and that Fremont loans will now be serviced by Litton Loan Servicing LP.

Fremont, based in California, originated more than 15,000 loans in Massachusetts between 2004 and 2007 before its parent company, [Fremont General Corp.](#), filed for Chapter 11 bankruptcy in 2008.

[Talbots Inc.](#), the US women's clothing chain, said it's eliminating about 20 percent of corporate jobs to reduce expenses in the third round of cuts in little more than a year.

That includes the elimination of open positions across all corporate locations and may save \$21 million a year, the Hingham, Mass.-based company said yesterday.

Sixty-one open positions are being cut and 264 workers are leaving the company, Talbots spokeswoman Julie Lorigan said yesterday. The retailer reduced corporate headcount in June 2008 by about 9 percent and in February by about 17 percent.

U.S. mortgage applications fell last week to the lowest level since February as a jump in borrowing costs discouraged refinancing and signaled that Federal Reserve Chairman [Ben S. Bernanke](#)'s efforts to cap rates is stalling.

The Mortgage Bankers Association's [index](#) of applications to purchase a home or refinance dropped 7.2 percent to 611 in the week ended June 5, from 658.7 the prior week. The refinancing gauge fell 12 percent. The purchase index gained 1.1 percent.

Fixed U.S. [mortgage rates](#) jumped to the highest level this year last week, threatening to deepen the housing slump and sideline prospective home buyers. An improving economic outlook spurred an increase in rates even as a rising jobless rate is contributing record home foreclosures. Still, lower property values are helping the housing market stabilize.

The mortgage bankers' [refinancing](#) gauge issued today fell to 2,605.7, the lowest level since November, from 2,953.6 the previous week, today's report showed. The [purchase](#) index rose to 270.7 last week from 267.7.

The share of applicants seeking to refinance loans fell to 59.4 percent of total applications last week from 62.4 percent.

The average rate on a [30-year](#) fixed-rate loan surged to 5.57 percent, the highest since November, from 5.25 percent the prior week.

At the current 30-year rate, monthly borrowing costs for each \$100,000 of a loan would be \$572, or about \$44 less than the same week a year earlier, when the rate was 6.25 percent.

The average rate on a 15-year fixed mortgage rose to 5.10 percent from 4.80 percent the prior week. The rate on a [one-year](#) adjustable mortgage increased to 6.75 percent last week from 6.61 percent.

The Washington-based Mortgage Bankers Association's loan survey, compiled every week, covers about half of all U.S. retail residential mortgage originations.

The U.S. trade deficit widened in April for a second month as exports dropped to the lowest level in almost three years, offering little sign of an end to the worst global recession in the post-World War II era.

The gap between imports and exports grew 2.2 percent to \$29.2 billion, in line with forecasts, from a revised \$28.5 billion in March that was larger than previously estimated, the Commerce Department said today in Washington. Foreign demand for U.S. goods dropped 2.3 percent, exceeding a decrease in imports.

A group led by [Fiat SpA](#) will complete its purchase of most Chrysler LLC assets this morning New York time, after the U.S. Supreme Court rejected creditors' objections and cleared the way for a new U.S. automaker, said two people familiar with the matter.

The new company, Chrysler Group LLC, will be owned 20 percent by Turin, Italy-based Fiat, 9.85 percent by the U.S., 2.46 percent by Canada and 67.69 percent by a [United Auto Workers](#) union retiree health care trust fund. The U.S. and Canadian governments financed the sale with \$2 billion.

Chrysler LLC won court permission to cancel 789 car dealership agreements, as a judge overruled objections from dealers who said their long family ownership and sales figures made them a boon to the reorganizing company.

U.S. Bankruptcy Judge [Arthur Gonzalez](#) in New York ruled yesterday that about a quarter of Chrysler's dealers must stop selling the automaker's vehicles immediately, as required under an agreement to sell the bankrupt car company's best assets to a group led by [Fiat SpA](#).

The 3-year bond auction yielded 1.96% and the bid to cover was 2.82 versus 2.66 to 1. That is because foreign central banks purchased 43.8% of the issue versus 37% at the last auction.

President Barack Obama on Tuesday proposed budget rules that would allow Congress to borrow tens of billions of dollars and put the nation deeper in debt to jump-start the administration's emerging health care overhaul. The "pay-as-you-go" budget formula plan is significantly weaker than a proposal Obama issued with little fanfare last month.

It would carve out about \$2.5 trillion worth of exemptions for Obama's priorities over the next decade. His health care reform plan also would get a green light to run big deficits in its early years. But over a decade, Congress would have to come up with money to cover those early year deficits.

Obama's latest proposal for addressing deficits urges Congress to pass a law requiring

lawmakers to pay for new spending programs and tax cuts without further adding to exploding deficits projected to total about \$10 trillion over the next decade.

Voters now trust Republicans more than Democrats on six out of 10 key issues, including the top issue of the economy. The latest Rasmussen Reports national telephone survey finds that 45% now trust the GOP more to handle economic issues, while 39% trust Democrats more. This is the first time in over two years of polling that the GOP has held the advantage on this issue.

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