US Treasury Controlled by Wall Street

Geithner's Kitchen Cabinet

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Some of Treasury Secretary Timothy Geithner's closest aides, none of whom faced Senate confirmation, earned millions of dollars a year working for Goldman Sachs Group Inc., Citigroup Inc. and other Wall Street firms, according to financial disclosure forms.

The advisers include Gene Sperling, who last year took in $887,727 from Goldman Sachs and $158,000 for speeches mostly to financial companies, including the firm run by accused Ponzi scheme mastermind R. Allen Stanford. Another top aide, Lee Sachs, reported more than $3 million in salary and partnership income from Mariner Investment Group, a New York hedge fund.

As part of Geithner's kitchen cabinet, Sperling and Sachs wield influence behind the scenes at the Treasury Department, where they help oversee the $700 billion banking rescue and craft executive pay rules and the revamp of financial regulations. Yet they haven't faced the public scrutiny given to Senate-confirmed appointees, nor are they compelled to testify in Congress to defend or explain the Treasury's policies.

These people are incredibly smart, they're incredibly talented and they bring knowledge, said Bill Brown, a visiting professor at Duke University School of Law and former managing director at Morgan Stanley. The risk is they will further exacerbate the problem of our regulators identifying with Wall Street.

While it isn't unusual for Treasury officials to come from the financial industry, President Barack Obama has been critical of Wall Street, blaming its high-risk, high-pay culture for helping cause the financial-market meltdown.

Import Price Index rises 0.1% MoM in September, -12% YoY

Mortgage applications fell a seasonally adjusted 1.8% last week, compared with the week before, as mortgage rates rose, the Mortgage Bankers Association reported Wednesday. This week-to-week drop follows a 16.4% week-to-week gain for the week ended Oct. 2. The MBA survey covers about half of all U.S. retail residential mortgage applications.

Applications to refinance an existing mortgage were down an unadjusted 0.1%, compared with the week ended Oct. 9, according to the MBA's weekly survey. Home purchase applications fell a seasonally adjusted 5%.

The four-week moving average for all mortgages was up 5.6% last week.

Refinance mortgage applications made up a 67.4% share of all applications last week, up from 66.3% the week before. Adjustable-rate mortgage applications made up a 6.2% share of all applications, up from 6.1%.

Rates on 30-year fixed-rate mortgages averaged 5.02% last week, up from 4.89% the previous week. The average rate on 15-year fixed-rate mortgages was 4.44%, up from 4.32%. And rates on 1-year ARMs averaged 6.71%, up from 6.56%.

To obtain the rates, the 30-year fixed-rate mortgage required payment of an average 1.11 points, the 15-year fixed-rate mortgage required payment of an average 1.04 points and the 1-year ARM required an average 0.32 point. A point is 1% of the mortgage amount, charged as prepaid interes.

The economy may be poised for a rebound but for a lot of people times are very tough. According to a new report, the number of homeless people sleeping in New York City shelters has reached an all time high at 39,000 — many of them are children.

Using New York City's own data, a homeless group claims a record number of people are in city shelters, particularly children, despite years of programs that were supposed to bring homeless numbers down. But perhaps the best way to understand this is to listen to a woman trying to hold her family together.

Most of us walk through the streets of the city thinking about our own problems. Hopefully, that does not include where we're going to sleep tonight. But for more and more New Yorkers, that's not the case, especially for children.

Mary Brosnahan, longtime executive director of the Coalition for the Homeless used the city's own data, and says homelessness has been increasing each of the last five years, and currently is at an all-time high. At the end of September, 10,494 homeless families lived in shelters, including 16,615 homeless children.

What does that mean for those children, and their future? That they will spend a substantial amount of their childhood, in a homeless shelter? asked Bill de Blasio, the chairman of the City Council General Welfare Committee.

Bank of America Corp. said Tuesday it will charge a limited number of its credit card customers annual fees ranging from $29 to $99 starting next year.

"We're testing this to see what the feedback is. In terms of any plans going forward, we haven't made any decisions," said Betty Riess, a spokeswoman for Bank of America. She said the fee is being "tested" on 1 percent of its credit card accounts globally, but declined to give specific numbers.

Bank of America, based in Charlotte, N.C., had 80.2 million credit cards in circulation last year, making it the third-largest issuer of cards, according to CreditCards.com. Chase was first with 119.4 million cards, while Citi had 92 million.

The Bank of America accounts that will be charged fees were selected based on "risk and profitability," Riess said. That means customers in good standing who never carried a balance – and never incurred interest charges or late fees – could be among those getting notices.

The volume of delinquent commercial mortgages jumped sevenfold last month as borrowers who got loans with lax terms fail to make debt payments amid sinking real estate values, according to Credit Suisse Group AG.

In September, installments on $22.4 billion of mortgages were at least 60 days late, up from $3.2 billion a year earlier, Credit Suisse analysts wrote in a report. The delinquency rate rose 33 basis points to 3.34 percent, according to the New York- based analysts led by Gail Lee. A basis point is 0.01 percentage point.

Commercial-property owners are struggling to repay debt as data from Moody's Investors Service show prices have plummeted 38.7 percent from October 2007 peaks. Defaults on shopping malls, skyscrapers and hotel loans are increasing as borrowers that took out mortgages expecting rents and occupancies to rise miss payments, according to the analysts.

"As the credit crunch intensified over the past year, the poor underwriting on recent vintage loans has resulted in early defaults," the Credit Suisse analysts said.

JPM CEO Jamie Dimon: Credit costs remain high and are expected to stay elevated for the foreseeable future in the consumer lending and card services loan portfolios.

JPMorgan's loss provision to cover current and future home loan defaults rose to $3.99 billion, while its provision for credit card losses surged to $4.97 billion.

Credit card defaults and mortgage losses are likely to continue to creep higher and lag an overall economic recovery. Losses on credit cards typically mirror unemployment, which rose to 9.8% in September.

JP Morgan's losses on credit cards have already passed 10%. The bank said the percentage of credit card loans it wrote off as not being repayable in the third quarter reached 10.3%.

Loan losses were also pushed higher by weakness in the portfolios JPMorgan acquired when it purchased the failed bank Washington Mutual a year ago.

Federal Reserve Governor Daniel Tarullo, who is leading an overhaul of the Fed's bank examinations, plans to tell a Senate subcommittee today that U.S. banks face the risk of further "sizable" credit losses.

"While there have been some positive signals of late, the financial system remains fragile and key trouble spots remain," Tarullo, 56, said in remarks prepared for a hearing in Washington. He added that it will be some time before the banking industry will "fully recover and serve as a source of strength for the real economy."

Just because Goldman is recommending this to its clients, however, doesn't mean Goldman is putting its own money behind the new bull market in mergers and acquisitions. Indeed, it is just as likely that Goldman is preparing to short the very takeover stocks it is touting to the public, just as it did in the late stages of the real estate and mortgage bubble. It's all perfectly legal. And it is perfectly in keeping with what we know about Wall Street's most successful firms, which is that if they stumble on a profitable trading strategy, the last person they are likely to share it with is you.

What we're witnessing here is pretty simple: another bubble in financial assets. All that

“liquidity” created by the Federal Reserve and other central banks has accomplished its task and prevented a global financial meltdown.

Prior to the depression of the 1920s, there was a mortgage loan product used by many of the American people, known as the interest only loan. Why did this long disappear? And why has it suddenly reappeared? Let’s take a moment to answer each question, and hopefully provide some food for thought.

During the 1920s and into the early 30s, many of the citizenry of this country chose to live above their means. They chose the interest only loan because it allowed them to purchase a larger home for less money. What happened when the stock market crashed and jobs were scarce, and there was no income? Many of these people were left without homes; as they had chosen to simply pay the interest on their mortgage there was no equity built into their homeownership. When no equity builds, and the income ceases, the bank forecloses and residents or forced from their homes.

Letter to NY Times, September 5, 2005: In the 1920’s, when there was a great residential real estate boom not unlike today’s, most residential mortgages were interest-only — referred to then as nonamortizable. And they came due at a time when the bubble had burst. Consequently, the value of the collateral (the home) was less than the balance of the mortgage, the owners could not refinance the mortgage and they lost their homes.

It is an inexact parallel, but an informative and chilling one nonetheless, especially because the adjustable-rate feature of today’s mortgages makes the risk of default even greater.

A Treasury rule on loan modifications riles the securities market. One reason the MBS market blossomed in the first place is because investors who bought a mortgage security believed that first mortgages were senior to second liens. In the event of a foreclosure, second liens would be extinguished first and holders of the first mortgage would get what was left because that’s what the contract said.

This changed in April when Treasury announced that instead of foreclosing on delinquent borrowers and wiping out second liens, mortgage servicers (mainly the biggest banks) would be given incentives to modify both loans, thereby spreading the losses. In mid-August, Treasury announced the details of its “Second Lien Modification Program,” or 2MP.

Treasury’s other political goal, as Mr. Fink [Blackrock CEO] points out, is to help the banks avoid more losses. U.S. financial institutions hold almost $1.1 trillion in second liens, also known as home equity loans or “helocs.” Some 42% of all helocs are held by four banks—Bank of America, J.P. Morgan Chase, Citibank and Wells Fargo. Since in a traditional mortgage foreclosure the second loan is usually wiped out, these big four banks have an exposure in the hundreds of billions of dollars.

Mortgage-finance consultant Edward Pinto points out that these same lenders have about $800 billion of first mortgage loans on their books, representing 8% of the total outstanding first mortgage loans in the U.S. But they also act as the servicers on almost 60% of total first mortgages, which means they handle negotiations on loan modifications. Thus when a home owner asks one of the big four banks to redo a loan, the banker may have a greater interest in saving the home-equity loan than in protecting the creditors of the first mortgage… [Once again Congress and solons are bailing out the big banks.] The mid-Atlantic manufacturing sector continued to show signs of recovery in October.

The Federal Reserve Bank of Philadelphia said its index of general business conditions moved to 11.5 in October from 14.1 in September and from 4.2 the month before. The index has now remained positive for three consecutive months.

Positive readings indicate growth, although October's reading fell below economists' expectations for a 12.0 reading.

Manufacturing executives reported marginal growth this month, said Michael Trebing, economist with the Philadelphia Fed.

The Philadelphia Fed report comes as the nation's factory sector continues to improve. In September, activity in the overall U.S. manufacturing sector expanded for the second consecutive month, a hopeful sign the economy is getting back on its feet.

In the report, the bank found largely positive developments.

The October new orders index was 6.2 from 3.3 the month before, while the shipments index was 3.3 after September's 8.2. Hiring remained weak, though there are signs that widespread declines have moderated considerably. The employment index was at -6.8 from September's reading of -14.3 and after a -12.9 in August.

Inflation heated up, with the prices paid index hitting 21.3 from 14.9 in September. The October prices received index was -4.3 from -10.6 in the prior month.

Inventories continued to fall, with that reading coming in at -31.8 from -18.1 in September. Meantime, the future general activity index remained positive for the 10th consecutive month but decreased from 47.8 in September to 39.8, its lowest reading since April. "Firms are still optimistic, but many are still cautious," Trebing said.

The Philadelphia report came on the heels of a much stronger than expected report earlier Thursday on manufacturing in the New York area. The New York Fed's Empire State business conditions index jumped almost 16 points in October to 34.57 from 18.88. The survey's employment index rose to 10.39 from -8.33 in September.

The number of U.S. workers filing new claims for jobless benefits decreased last week to the lowest in nine months, a hopeful sign for a lousy job market.

Total claims also fell.

Initial claims dropped by 10,000 to 514,000 in the week ended Oct. 10, the U.S. Labor Department said in its weekly report Thursday.

Economists surveyed by Dow Jones Newswires had expected a level of 515,000 new claims for the week of Oct. 10

The last time initial claims were as low as 514,000 was the week ending Jan. 3, 2009, when 488,000 new claims for benefits were made.

The Labor Department revised down the number of new claims filed the previous week, ending Oct. 3, to 524,000 from 521,000.

The four-week moving average of new claims tumbled by 9,000 to 531,500 last week, down

from the previous week's revised figure of 540,500.

New claims have gone down three times in the past four weeks, which is a good sign for a weak labor market that is threatening the economy as it pulls out of the longest and deepest recession since World War II. Since the slump began in December 2007, the U.S. has lost 7.2 million jobs, including 263,000 last month. Most economists believe a recovery has begun and that gross domestic product grew in the second half of the year. But fears about unemployment among consumers aren't helping the economy. Their spending makes up 70% of gross domestic product.

In the Labor Department's Thursday report, the number of continuing claims – those drawn by workers for more than one week in the week ended Oct. 3 – dropped, by 75,000 to 5,992,000.

The unemployment rate for workers with unemployment insurance for the week ended Oct. 3 slipped to 4.5%, down from the prior week's 4.6%.

By state, Florida had the largest decrease in initial claims for the week ending Oct. 3, down 5,178 because of fewer layoffs in the construction, trade, service and manufacturing industries, and in agriculture. Pennsylvania had the largest increase, at 3,618; Labor cited layoffs in the construction, primary metals, furniture and food industries.

The rise in U.S. consumer prices eased in September as food prices fell and energy costs moderated sharply, indicating that a slow economic recovery is keeping inflation contained.

The seasonally-adjusted consumer price index rose 0.2% in September, the Labor Department said Thursday, slowing down from a monthly 0.4% rise in August, when energy costs surged.

The core CPI, which strips out the volatile food and energy prices, also advanced by 0.2% in September, compared to a 0.1% rise the previous month.

The figures were only slightly higher than Wall Street forecasts, which had projected a 0.1% rise in both the headline CPI and core inflation.

In annual terms, the unadjusted CPI index fell for the seventh consecutive month, by 1.3%. The economy's weakness has led consumer prices to ease sharply over the past year and the Federal Reserve expects a slow recovery to keep inflation contained for some time.

When they last met Sept. 22-23, a majority of Federal Reserve officials viewed the risks to inflation as being roughly balanced over the next few quarters, minutes from their meeting showed Wednesday.

Manufacturing in the New York region expanded in October for a third straight month, reinforcing signs that factories are helping pull the economy out of the worst recession in seven decades.

The Federal Reserve Bank of New York's general economic index soared to 34.6, the highest since mid-2004, from 18.9 in September, the bank said today, marking the first time the measure has shown expansion for at least three months since a period ending in January 2008. Readings above zero for the Empire State index signal manufacturing is growing.

Federal Reserve officials last month discussed expanding a program to buy mortgage-backed securities, a sign of continued concern within the central bank about the strength of the economic recovery, minutes of the Fed's latest policy meeting showed.

Some members of the Federal Open Market Committee thought increasing the size of the program "could help to reduce economic slack more quickly," the minutes said. At least one member of the committee believed the improving economic outlook could warrant a reduction in the purchase target.

The Fed ultimately voted to commit to buying the full $1.25 trillion in mortgage-backed.

There will be no cost-of-living increase for more than 50 million Social Security recipients next year, the first year without a raise since automatic adjustments were adopted in 1975.

Blame falling consumer prices. By law, cost-of-living adjustments are pegged to inflation, which is negative this year because of lower energy costs. Social Security payments, however, do not go down even when prices drop.

The Obama administration, meanwhile, is pursuing a different way to boost recipients' income. On Wednesday, President Barack Obama called for a second round of $250 stimulus payments for seniors, veterans, retired railroad workers and people with disabilities.

The payments would match the ones issued to seniors earlier this year as part of the government's economic recovery package. The payments would be equal to about a 2 percent increase for the average Social Security recipient.

The White House put the cost of the payments at $13 billion. Obama didn't say how the payments should be financed, leaving that up to Congress. The president is open to borrowing the money, which would increase the federal budget deficit, just like Congress did with the first round of stimulus payments.

Social Security payments increased by 5.8 percent in January, the largest bump up since 1982. The big increase was largely because of a spike in energy costs in 2008.

Social Security is doing its job helping Americans maintain their standard of living, said Social Security Commissioner Michael J. Astrue. But, he added, In light of the human need, we need to support President Obama's call for us to make another $250 recovery payment for 57 million Americans.

The Labor Department reported Thursday that consumer prices had declined 2.1 percent since the third quarter of 2008. The cost-of-living adjustment for Social Security, or COLA, is based on the change in consumer prices from the third quarter of one year to the next.

Social Security recipients shouldn't get a raise next year because their purchasing power has already increased with falling consumer prices, said the Center on Budget and Policy Priorities, a liberal-leaning think tank.

Since the purpose of COLAs is to preserve beneficiaries' purchasing power, the decline in overall prices means that beneficiaries do not need a COLA in January 2010, Kathy Ruffing, a senior policy analyst at the center, wrote in a report this week.

Over the past 12 months, gasoline prices have fallen 29.7 percent and overall energy costs

have decreased 21.6 percent, the Labor Department said Thursday.

Ruffing noted that government forecasters don’t expect consumer prices to return to 2008 levels until 2011.

Sen. Judd Gregg, R-N.H, called the $250 payments “inappropriate.”

The reason we set up this process was to have the Social Security reimbursement reflect the cost of living, Gregg said.

Some advocates for seniors, however, argue that older Americans spend a disproportionate amount of their incomes on health care costs, which rise faster than consumer prices.

The lack of a cost-of-living increase triggers several provisions in the law. Among them, the amount of wages subject to Social Security payroll taxes will remain unchanged. The first $106,800 of a worker’s earned income is currently subject to the tax.

Also, Medicare Part B premiums for the vast majority of Social Security recipients will remain frozen at 2009 levels. However, premiums for the Medicare prescription drug program, known as Part D, will increase.

Obama’s proposal calls for sending $250 payments to Social Security recipients as well as those receiving veterans or disability benefits, railroad retirees, and retired public employees who don’t receive Social Security. Recipients would be limited to one payment, even if they qualified for more.

Obama’s proposal has picked up support from key members of Congress, including Senate Majority Leader Harry Reid, D-Nev., and House Speaker Nancy Pelosi, D-Calif.

Republican leaders said they, too, favor the proposal, but without increasing the deficit. Rep. John Boehner, R-Ohio, said he wanted to use unspent funds from last year’s stimulus legislation to offset the cost.

Senate Republican Leader Mitch McConnell of Kentucky said he expected members of his rank and file would also want to offset the estimated $13 billion cost, but did not state a personal preference.

Several groups that advocate for seniors have also endorsed the $250 payments, including the AARP and the National Committee to Preserve Social Security and Medicare.

One group, The Senior Citizens League, said Social Security recipients would be better off with a 3 percent increase in their monthly payments.

Although President Obama’s call for a one-time payment of $250 will help seniors, it is a distraction since the zero COLA will cost retirees thousands in lost compounding throughout their retirement, said Shannon Benton, executive director of The Senior Citizens League.

The average monthly Social Security payment for all Social Security recipients is $1,094.

Harley-Davidson Inc. said Thursday that its third-quarter profit slid 84 percent on fewer motorcycle shipments and recession-related difficulties in getting loans for its customers. The motorcycle manufacturer also plans to stop making Buell motorcycle products and will

sell its MV Agusta division as it looks to concentrate efforts more on its namesake brand.

We believe we can create a bright long-term future for our stakeholders through a single-minded focus on the Harley-Davidson brand, CEO Keith Wandell said in a statement.

The Milwaukee-based company will sell off its remaining Buell inventory, including motorcycles, accessories and apparel, through its authorized dealerships while supplies last. Dealerships will continue to provide replacement parts and service for Buell bikes, with warranty coverage continued as well. The line's closing will likely result in a $125 million one-time cost for Harley-Davidson, with approximately $115 million expected this year.

The move means about 100 salaried workers and about 80 hourly positions will be eliminated, with most of the cuts occurring by Dec. 18.

Shares fell 80 cents, or 3.1 percent, to $25.46 in electronic pre-market trading.

A Congressional move to enact "Stimulus II" will be talked about into next year and then finally become reality. The fools in Congress are talking in terms of $200 billion when $2 trillion is needed. As you have seen $800 billion did very little to stoke the economy thus far. These packages and other subsidies bring only transitory relief. Americans are in the process of trying to free themselves from debt slavery foisted upon them by banking elitists, as that unfolds there is no possible way consumption, which is now 69.3% of GDP, can rise. Who wants to incur more debt when unemployment may be just around the corner?

Without an additional substantial stimulus package the economy is looking at stagnation and further progressive deterioration. It won't be long before the federal debt as a percentage of GDP is 60%. This is the path Japan has taken since 1992. They have lived in perpetual depression ever since. The difference was Japan had the US and other markets to export too, which kept them from collapse. Those markets are now in collapse. Their debt to GDP is now 180%. As a result the numbers of unemployed are increasing, not at as great a rate, but increasing nevertheless.

Over the past nine months the creation of money and credit has advanced at about a 20% rate. The major recipients have been banks, the brokerage industry and insurance as corporate borrowers are crowded out of the market. The Fed and the administration are in a box and they cannot get out. No matter which way they turn they face terrible problems.

It is no wonder investors are looking more and more to gold, silver and commodities. There is also a desire by buyers to take delivery, because they obviously do not trust the exchanges. Such delivery could create supply shortages and possibly exchange collapses as seen in the late 1830s and in the early 1930s. Liquidity problems will also arise as the stock market falls. Most investors are unaware that investments in hedge funds have fallen from about $3 trillion to $2 trillion yoy, and leverage has been reduced to about 5 to 1. The delivery of gold and silver and commodities can be disruptive sending prices higher due to lack of product, and such events aggravate inflation and could cause hyperinflation. In investing there is always cause and effect. If the stock market weren't so ridiculously high you wouldn't have such strong precious metals and commodities prices. Wait until the market falls and more funds flow into the sector. Then gold, silver and commodities will move higher.

JPMorgan Chase's earnings were fictitious. Their fixed income and derivatives books are

marked to fantasy. The tooth fairy is loose again.

September gasoline sales rose 1.1% after rising 4.7% in August.

About 30% of foreclosures in June involved homes in the top third of local housing values, up from 16% three years ago. The bottom third, now accounts for 35% of foreclosures, down from 55% in 2006.

Mortgage rates for 30-year fixed U.S. home loans rose for the first time since August, ending a streak that helped boost home-loan applications and demand for housing.

The average 30-year rate climbed to 4.92 percent from 4.87 percent last week. The 15-year rate was 4.37 percent, mortgage buyer Freddie Mac of McLean, Virginia, said today in a statement.

Mortgage applications to buy a home fell 5 percent in the week ended Oct. 9 and the refinancing gauge decreased 0.1 percent, according to the Mortgage Bankers Association.

Unemployment in Massachusetts has reached its highest level since the 1970s, officials said yesterday as they also disclosed that the state will exhaust a fund that helps laid-off workers pay for health insurance by the end of next month.

State officials said they are considering a number of emergency measures, including imposing higher costs on the unemployed and raising fees on employers, to close a gap that could exceed $50 million by April.

“Every option is on the table,’’ Labor and Workforce Development Secretary Suzanne Bump said in an interview after her staff briefed an advisory board of labor and business leaders yesterday. “Nothing stays the same.’’

The unrelenting rise in unemployment will also trigger an automatic 40 percent increase in the tax businesses are required to contribute for unemployment benefits. In January, the tax will increase from an average of $594 per employee to $832.

“This is a breathtakingly bad picture,’’ said Michael Widmer, president of the Massachusetts Taxpayers Foundation, a business-funded public policy group, and also a member of the advisory council that monitors the solvency of the two accounts that fund unemployment benefits.

“They’re putting additional taxes on employers, and we are seeing our jobs erode,’’ Widmer said in an interview. “It’s devastating in terms of the state’s competitiveness.’’

A House panel voted yesterday to regulate for the first time privately traded derivatives, the kind of exotic financial instruments that helped bring down Lehman Brothers and nearly toppled American International Group.

The 43-to-26 vote by the House Financial Services Committee was a first major step for President Obama’s plans to overhaul federal regulations governing financial institutions.

The mostly party-line vote showed Democrats were prepared to override objections by Republicans and the financial lobby and demand increased oversight of Wall Street.

No Democrat on the panel opposed the measure. One Republican, North Carolina Representative Walter Jones, sided with them to approve it.

Next week, the panel is expected to approve another big piece of Obama regulatory plan that would create a federal agency dedicated to protecting financial consumers. Both measures would still face scrutiny by the full House, as well as the Senate, where business-minded Republicans are likely to wield more influence.

But for now, the administration is hailing yesterday's vote as a critical step toward throwing sunlight on an opaque and growing $600 trillion global market.

The bill "is absolutely essential to preserving a strong marketplace, preserving transparency, [and] getting incentives right in the system,'' said Michael Barr, Treasury's assistant secretary for financial institutions.

AIG sold a form of derivatives, called credit-default swaps, to investors who were looking to protect themselves against losses in the housing market. When home defaults rose, AIG did not have enough resources to make good on all of its promises and required a hefty government bailout to avoid folding.

Hedge fund managers – a secretive, lightly regulated group portrayed by some as villains in last year's financial meltdown – appear to have a new degree of clout on Capitol Hill in shaping legislation that will determine how they will be regulated.

To gain that clout, industry leaders are using a congressman-turned-lobbyist, a major increase in campaign donations, and a strategy that relies heavily on advancing their own reform ideas, making them active players in the legislative process and perhaps staving off more rigorous regulation measures.

Few might have predicted such an outcome just months ago for the hedge fund industry, which has a major presence in Boston and whose future will be largely decided in key committee votes this week and next.

Capital One Financial Corp. charge-off rate on credit cards rose to 9.77% in September from 9.32% in August. Delinquent accounts rose 5.38% to 5.09%.

The commercial credit market grew $27.1 billion to $1.326 trillion.

The previous three weeks, the Fed balance sheet contracted modestly. But for the week ended on Wednesday, Benito poured $54.747B into the system via the monetization of $70.699B of MBS. Term auction credit declined 22.937B.

John Williams: Adjusted to pre-Clinton (1990) methodology, annual CPI growth held at 2.1% in September, versus 2.1% in August, reflecting the differences in SGS versus BLS handling of clunkers pricing in August, while the SGS-Alternate Consumer Inflation Measure, which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 6.1% (6.11% for those using the extra digit) in September, versus 6.0% in August.

Senators diverted $2.6 billion in funds in a defense spending bill to pet projects largely at the expense of accounts that pay for fuel, ammunition and training for U.S. troops, including those fighting wars in Iraq and Afghanistan, according to an analysis.

Among the 778 such projects, known as earmarks, packed into the bill: $25 million for a new World War II museum at the University of New Orleans and $20 million to launch an educational institute named after the late Sen. Edward M. Kennedy, Massachusetts Democrat.

Consumer confidence fell back sharply in early October, a report Friday said, even as the economy shows strength.

The University of Michigan/Reuters consumer sentiment index's preliminary reading for October dropped to 69.4 from the final September reading of 73.5.

Economists surveyed by Dow Jones Newswires had expected the early-October index to edge up to 73.8.

The preliminary current conditions index for October slipped to 72.1 from 73.4 in September, while the expectations index plunged to 67.6 from 73.5 in September.

The drop in sentiment runs counters to the gains made in the U.S. economy and hints that labor markets are close to a bottom. Industrial production increased a larger-than-expected 0.7% in September and jobless claims have fallen in five of the last six weeks. Worries over prices may be one reason for the unexpected drop.

The one-year inflation expectations reading was 2.8% versus 2.2% in September, while the five-year inflation reading edged up to 2.9% from 2.8%.

Industries boosted production by 0.7% in September compared to the prior month, marking the second-straight monthly increase, the Federal Reserve said Friday. Production increased a revised 1.2% in August; originally, the Fed said output that month increased 0.8%.

The rate industries used their capacity increased to 70.5% from August's 69.9%. The Fed originally estimated August capacity utilization at 69.6%. The 1972-2008 average was 80.9%.

Economists had expected industrial production to increase by 0.2% in September, with a capacity utilization rate of 69.8% for the month. Over the 12 months ending in September, industrial production was 6.1% lower. Capacity use in September 2008 was 74.5%.

Overall Manufacturing production climbed by 0.9% in September, the report said. Manufacturing capacity utilization also increased to 67.5% from 66.8% in August.

Output in the mining industry increased 0.7% after climbing 1.1% in August. Mining capacity use rose to 83.6% from 82.9%.

Utilities production decreased 0.7% last month, the Fed said. It increased 1.9% in August. Utilities capacity use also slipped to 78.1% from 78.7% in August.

Manufacturing of motor vehicles and parts climbed to 8.1% in September. The auto industry's capacity use increases to 51.2%.

Excluding autos, U.S. industrial production increases 0.3%.

Machinery production decreased 0.9% in September. Business equipment decreases 0.1%.

Output by the service sector, which makes up most of the U.S. economy, isn't reflected in the industrial production data.

The Federal Reserve's latest weekly money supply report Thursday shows seasonally adjusted M1 rose by $16.9 billion to $1.672 trillion, while M2 fell $23.3 billion to $8.341 trillion.

The figures are preliminary estimates for the week extending through Oct. 5 and are subject to revisions.

More details on the report, along with weekly information on the Fed's custody holdings, repurchase agreements, Treasury portfolio and free reserves.

State tax collections tumbled the most in almost half a century in the second quarter as the economic recession curbed levies on incomes and sales.

The 16.6 percent plunge was the biggest since at least 1963, the Nelson A. Rockefeller Institute of Government said today. For the 12 months to June 30, the fiscal year for most states, revenue declined 8.2 percent, or $63 billion, about twice what states got from the $787 billion U.S. economic stimulus package, the institute said.

State revenue has dwindled for two straight quarters and continued to decline in July and August, the Albany-based research organization said. Budgets for the year that began July 1 already face $26 billion of deficits, the Washington, D.C.- based Center on Budget and Policy Priorities said Aug. 12, forcing state lawmakers to confront additional spending cuts.

We're looking at a multiyear problem hitting essentially every state, Robert Ward, the institute's deputy director, told reporters. It has happened during recessions before, but the depth of this decline is unprecedented in modern times.

Collections dropped in 49 states in the second quarter as sales and personal-income taxes slid for the third consecutive period, the institute said. Income tax was down 27.5 percent and sales tax fell down 9.5 percent, its study said. Both categories fell by the most in 45 years.

The dollar will extend its drop versus the euro over the next two to five years, falling as much as 20 percent to an all-time low under a widening U.S. budget deficit, Harvard University's Professor Niall Ferguson said.

Policy makers favor the dollar's slide as a means of supporting a recovery from the worst economic slump since the Great Depression even as they voice support for a strong greenback, Ferguson said in an interview on Bloomberg Radio.

A weak dollar is the simplest solution to most of America's problems right now, said Ferguson, author of The Ascent of Money: A Financial History of the World. We are likely to see 1 percent to 2 percent growth unless exports take off, and that's what everyone in Washington is quietly hoping: If the dollar keeps sliding, then maybe we can get some traction on exports.

Capacity Utilization rises 70.5% in September.

The July TIC total net flow was revised to minus $107.7 billion from minus $97.5 billion. Net

long-term TIC flows were $28.6 billion. August inflows were $10.2 billion.

In the last four months China only increased its US Treasury position by $3 billion; Japan by $54 billion; the UK by $63 billion, as oil exporters fell $3.6 billion.

Buyers should keep in mind that the bond market is a bubble and when it bursts there will be mega losses.

We see no recovery. The stock market is topping out; foreclosures are at an all-time level; commercial real estate is in a state of collapse; unemployment is setting records and most major banks are insolvent. The capper is the Fed is monetizing everything in sight.

Florida Democrat US Rep. Alan Grayson has called for an "Unmask the Fed" campaign. He wants to block the confirmation of Fed Chairman Ben Bernanke until Ben produces the paperwork on the Bear Stearns failure and which financial institutions received $1.2 trillion in bailout money, who received it and how much.

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