

## **MarketWise Commentary**

### **Week of December 22, 2008**

#### The Year in Review

The economic history books will probably not treat 2008 kindly. This was a year that changed the US financial services landscape and ultimately the world picture. Bear Stearns, AIG, Lehman Brothers, Countrywide, Merrill Lynch, Indy Mac and Downey Savings were among the hundreds of notable casualties. For the record, 2008 housing starts were off 47%, building permits fell 48.1% and house completions were down 22.5%. Zillow reported this week that US homeowners “could lose more than \$2 trillion in property value this year, resulting in approximately 11.7 million households owing more on their mortgages than the real estate is worth”. The good news is that nightmare is hopefully settling down and we are now in a refinance boom for the mortgage industry which is a strong shot of medicine to help the embattled mortgage lending community. Even if it is temporary, it is welcome.

The Federal Reserve cut interest rates this week to its absolute low point (between 0-25bps). The big question is whether virtually free money is enough to get the economy jump started? Clearly, it is going to take a fundamental alignment of monetary, fiscal policy and time to mend.

There are signs of life with mortgage applications up this week 2.9%. The White House pulled the plug on the FHA secure program as of year-end which is not a big surprise as the efforts will likely focus on other mitigation initiatives in 2009. A revamped H4H program will certainly help. Ex-Pru Shaun Donavon is going to take the reins of HUD next year which is a job that does require an executive pay raise for the tough issues HUD faces next year. The MBA is pushing for a permanent 625k raise in the conforming loan limit for Fannie Mae and Freddie Mac as part of the Obama 2009 stimulus program.

This week FHFA director Lockhart projected that Fannie and Freddie will push back to lenders between 1-1.5B in loans. For small lenders, this will continue to erode their capital base but does send a direct signal of the increased focus on asset quality. This will impact mortgage lenders and sends the right incentives to button down their business processes and quality control.

Fidelity seems to be making progress on acquiring the some of the assets from LandAmerica out of their bankruptcy. The US auto industry was provided a lifeline this week which certainly extends to the financing arm GMAC/RFC which is making progress on its 38B note exchange program.

So the year of leverage, liquidity crisis and meltdown we can finally put in the history books. Have a great Holiday Season. Best Wishes for the New Year to everyone.

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