MarketWise Commentary
Week of October 13, 2008

The volatility within the global financial markets was staggering last week. It was the worst week ever in the Dow Jones 112 year history. Clearly, we are at a pivotal point that will define the global financial markets. On all accounts, broad based government intervention to unfreeze the credit markets is not convincing investors and we are likely to continue to see significant market volatility this week as well.

On a lighter note (but true), the national debt clock in New York City that was put up in 1989 actually ran out of numbers when it reached $10,150,603,734,720. More numbers were ordered and will be available in 2009. Seriously.

The mortgage market news this week was actually mixed with some positive signs but is frankly irrelevant unless we can thaw credit markets very quickly and regain a level of investor confidence.

Right now, the MBA is forecasting a 1.7T year for originations which is something that we need to watch carefully to plan for 2009. The application index last week was up slightly and the National Association of Realtors reported pending home sales increased 7.4%. These are signs of life within the marketplace although this may be short sales or foreclosures at bargain prices moving the pending sales forward.

Well Fargo clearly emerges as a net winner of the mortgage meltdown with limited internal exposure and the acquisition of Wachovia at an attractive price. There is tremendous pressure on loan modifications as Bank of America settled the Countrywide suit for 8.4B which will lead to the modification of up to 390,000 Countrywide loans. This is the tip of the iceberg as McCain suggested this week that the Treasury buy up troubled mortgages and renegotiate. This is the opportunity for mortgage servicers to expand operations in the near term.

Chase has taken the #1 position on subprime lending as it is one of the last firm's left standing that are still willing to write a subprime loan. They wrote 1B in subprime in the first half of the year which is a bit troubling given the complete meltdown of the subprime product. Separately, Fannie Mae took steps to buy mortgage loans from the Federal Home Loan Banks opening up an opportunity to fill that market need.

The surviving mortgage lenders need to redefine the financial model, risk assessment and fees involved in mortgage lending. MarketWise is seeing margins widen for mortgage lenders (back to profitable origination levels) now but unfortunately it only helps going forward and we will still have to wrestle with the past mistakes of the banking community and significant per loan losses experienced in 2007 (over $500 per loan).

Let's hope for some stability this week but stay prepared for market volatility. Good luck this week.

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