



MarketWise Commentary
Week of September 29, 2008

Crisis Update

Economic crisis was paramount on everyone's mind this week. The average American is now trying to understand how the mortgage crisis extends to their economic security. With a 700B bailout plan in the works, it should provide short-term relief on interest rates and possibly some liquidity in the market. The jury is out whether this is just too little too late to deal with the systemic failures of major financial institutions. Washington Mutual was seized last week and sold to JP Morgan Chase. The good news is that all depositors were protected in that move. The fact remains that there are many banks teetering on the edge. Wachovia and Downey Savings are probably on the top of the worry list. MarketWise expects that Wachovia will be sold in the next two weeks.

Mortgage applications fell last week by more than 10% and interest rates edged up over 25 bps. The bright spots are FHA lending which continues to set record levels with 23% of all mortgage originations in July, 2008 and it is expected to peak at around 30% by year end. This is up from 3% in the previous year. The winners are definitely starting to emerge with Citi, Chase, Wells and Bank of America taking likely to hold 50%+ of all mortgage servicing (5 Trillion plus) by the end of the year.

The volatility next week is very likely to be high and more high profile mergers will be announced. With a bailout package in the works that is the largest since the Great Depression, this should provide some short term stimulus but the fundamentals must return to the economy to have any sustained impact.

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