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## **The Federal Reserve and regulations for the market**

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The U.S. Treasury released its proposal for regulatory overhaul of the financial markets on March 31st. Reportedly in the works for over a year, the long-term plan consolidates the commercial banking oversight activities and broadens investment market oversight activities. The turbulence and turmoil in the markets were symptomatic of greater ills in the institutions themselves. The financial collapse of Bear Stearns punctuated a series of lesser, significant losses at commercial banks, investment banks and hedge funds. It is increasingly easier to justify the mortgage workouts for the single-family home-owner as the Federal Reserve continues to bail the banking boats on Wall St.

The short-term impact of the proposed regulatory overhaul might well be limited to increased confidence and comfort in the financial markets. However, President Bush intends to promptly expand the President's working group on financial markets, now headed by treasury secretary Paulson and now including top officials from the Federal Reserve, the securities and exchange commission, and the commodity futures trading commission, to include three additional regulatory agencies including the office of thrift supervision which is to be eliminated in the overhaul. Also, some feel that the proposed mortgage origination commission might get legislative attention sooner rather than later. Otherwise, anticipatory action, strategically and tactically, by market participants might well bring desired effects sooner rather than later.

The bailing is necessary in the banking sector. For Bear Stearns, the lending banks would not extend Bear's credit because the Bear's security was of indeterminate or uncertain value. Of the security offered, the subprime paper, securing the subprime mortgage-backed securities, or collateralized debt obligations, which in turn secured the bank loans, is worth less than the cost, but probably not worthless. But the lending banks would not extend the credit because the security was illiquid and of indeterminate or uncertain value. So the fed bailed the Bear and extended credit of approximately \$29 billion, secured reportedly by investment grade assets, to facilitate the Bear takeover by JP Morgan Chase to avoid a Bear bankruptcy with broad repercussions in the market and economy. Further, the fed extended credit to other Wall St. firms in similar circumstances.

All of which brings us back to workouts and relief for the home borrowers who have subprime and other non-conforming loans. If the subprime paper is discounted and/or paid off by refinancing, the security can be monetized or determined, and markets stabilized through restored credit. Easier said than done, but the process is evolving and funding is developing. The U.S. Senate is working on a \$10 billion bailout for homeowners which includes tax-exempt bonds and financial assistance for homeowners in over their heads. In the meantime the credit crunch and its market paralysis are weakening an already weak economy. However, most of those closest to the fire are still hopeful about a no-growth first half for 2008, and a moderately, rebounding second half.

The February job loss of 63,000 and March job loss of 80,000 announced April 4th confirmed other

negative trends at the national level. The crisis, or turbulence, has created opportunities. The counselors at the 2008 midyear meetings in Chicago April 13-16th will be analyzing the data in several general sessions. The global supply chain and macro trends feature international investors and economists, and all will be examining real estate fundamentals as well as commodity and currency issues.

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