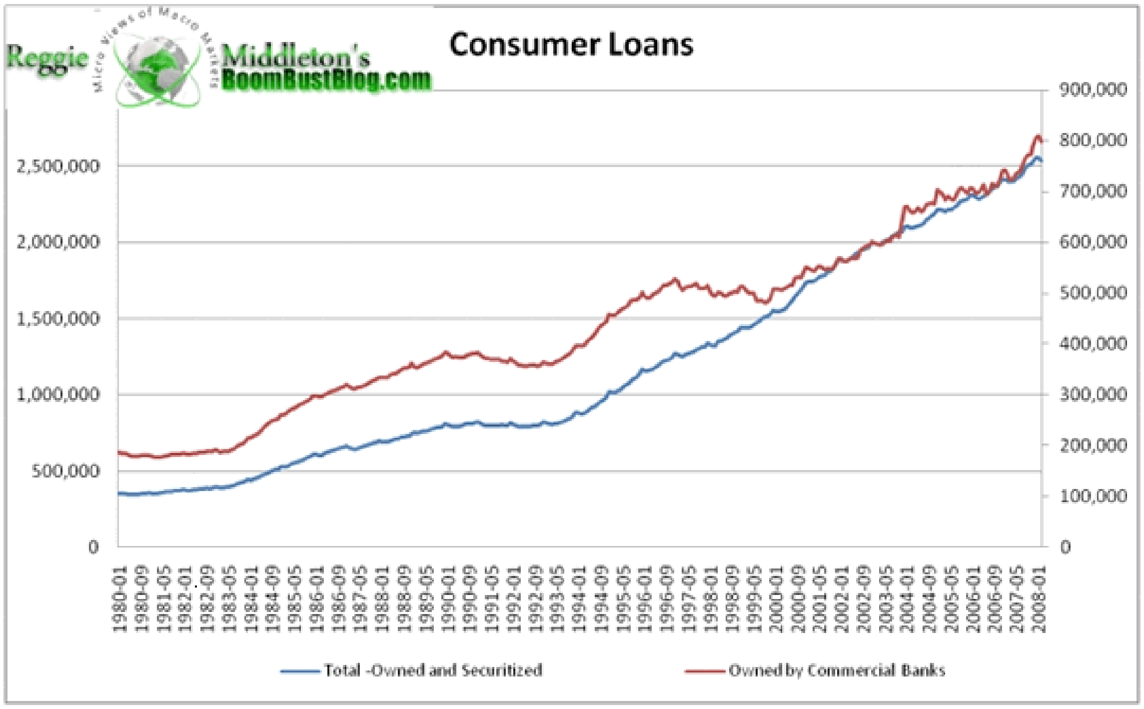
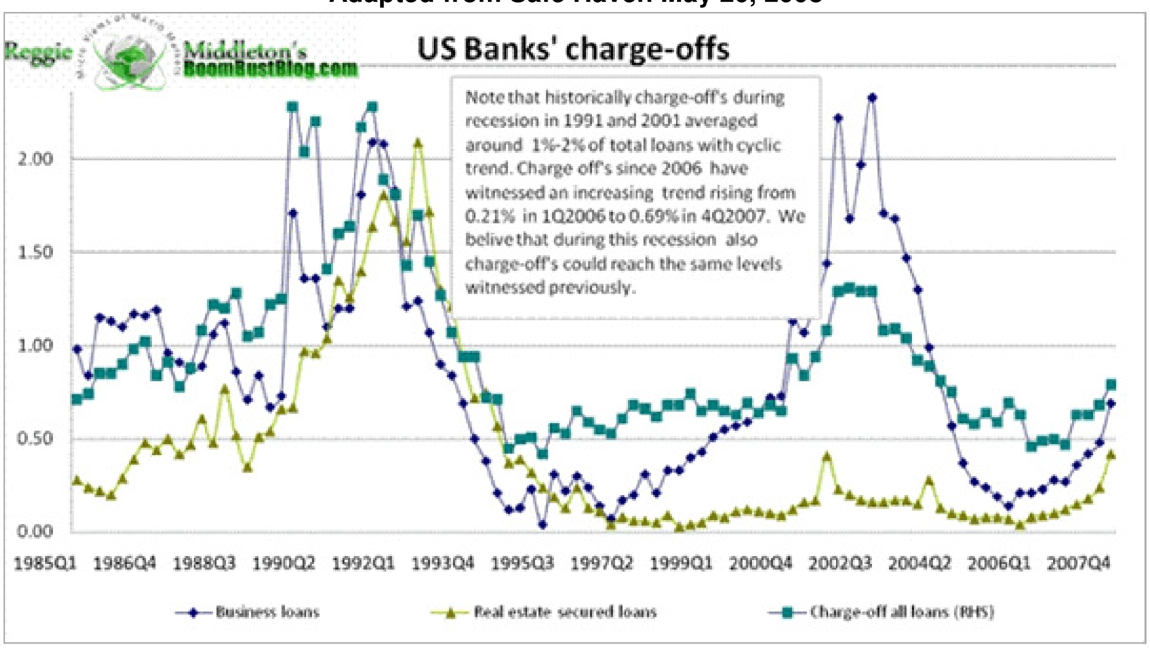
ANOTHER SHOE IS ABOUT TO DROP
WEB BUZZ 2008.05.27

One of the things we have criticized the financial community about is securitizing their loans. The banks–with the help of Wall Street–have poured billions of dollars into the portfolios of individual and institutional investors. Why the criticism? When one divorces the risk from the lender debt, inhibitions cease to exist. If one can collect large fees from these market packages without taking risk and gullible investors believe they will always be bailed out by Washington, one has his nest built on the ground.

Banks are broke, but the real problem in the longer term is the consumer. Please note the following chart. Not only have the banks laid off billions of such debt, they have recently retained most of the loans for themselves, most of the time placing them off balance sheet. They just couldn't stand prosperity. They ended up believing their own sales pitch. What will change-offs be when these loans start to go bad? Look at the second chart–our guess is that it will be a new high over the last 20 years.



Adapted from Safe Haven May 20, 2008



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