



What's New?

Feddern Financial Consulting Group Newsletter

October 16, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 300,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! *Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!***
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!*
*ANALYSIS OF THE ABOVE: No Real Hope YET! -10/16/2009***

Here We Go AGAIN!

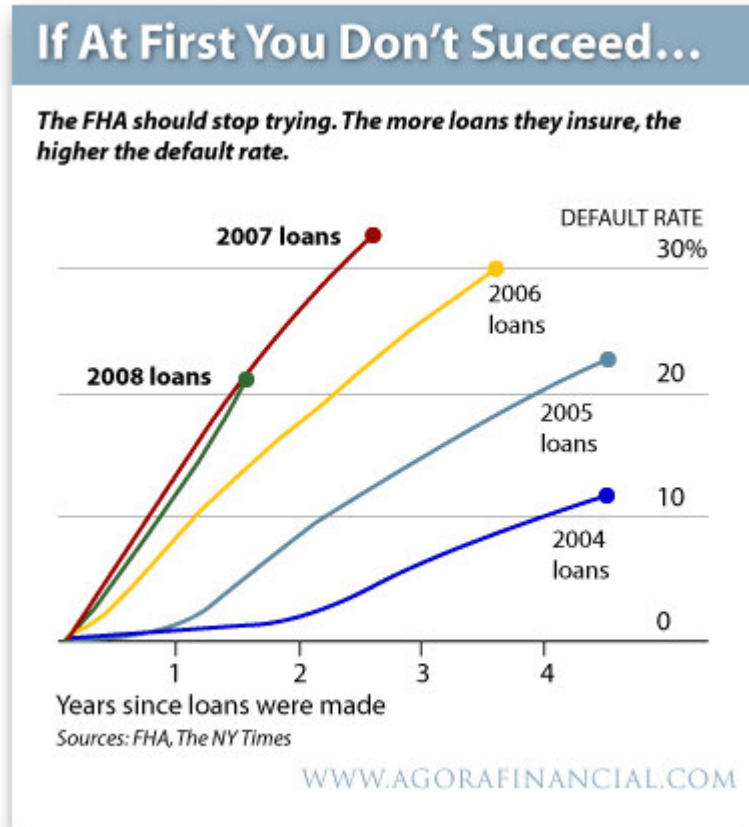
The Federal Housing Administration, "appears destined for a taxpayer bailout in the next 24-36 months," Edward Pinto said at a congressional hearing yesterday. As the former chief credit officer for Fannie Mae, he should know all about such stuff.

But it doesn't even take an industry insider to figure this one out. Just a year after bailing out the overleveraged Fannie and Freddie, the FHA has managed to paint itself into the exact same corner. Can you believe it!

When the free market -- in its infinite ignorance -- stopped issuing easy money home loans last year, the FHA stepped in and became a huge player in the mortgage loan biz. It went from insuring 6% of new mortgages in 2007 to over 21% last year, and even more in 2009.

Now the FHA insures 5.4 million single-family home mortgages -- most of which require only 3.5% down payment -- at a value of \$675 billion. Their cash cushion? Oops, they must have forgotten to beef that up too... it's just \$30 billion. That's the same 20-1 leverage our government's been pooh-poohing on Wall Street.

And since the FHA has become the insurer of last resort, famous for their crazy low down payments, the loans they cover are souring at an accelerating pace. The more recent the loan, the worse it's performing... can you hear the wind sucking out of this one? Notice this graph from our friends a AngoraFinancial:



So what happens if the FHA goes belly up? Hey, don't call us alarmists: "Let's be clear," said Congresswoman Maxine Waters at the hearing, "without the FHA,

there would be no mortgage market right now.” As we’ve forecast before, look for the FHA to be the next multibillion-dollar bailout.

“We remain concerned and recognize the risk associated with increasing numbers of seriously delinquent loans,” Federal Housing Finance Agency acting director Ed DeMarco testified yesterday in a separate congressional hearing. Not to be confused with the FHA, the FHFA is Fannie and Freddie’s post-receivership regulator. I bet you didn’t know that. Heh, what... you thought throwing them \$100 billion would fix everything? WRONG!

DeMarco testified that Fannie and Freddie loans, like the FHA’s, are souring at rates “disturbing both in their magnitude and the fact that they continue to increase.” Despite already being beneficiaries of over \$96 billion in bailout bucks, Fannie and Freddie will “likely require additional draws,” he said... the nicest possible way to admit both companies need billions more.

Is this housing recovery a big fraud? We certainly think so.

The FHA/Fannie and Freddie fiasco is one of several factors keeping the market from another day of gains. The Federal Reserve began testing “reverse repo” sales today... essentially a way for them to suck money out of the system when (if ever) they decide to tighten monetary policy. That’s taken a little wind out of trader’s sails and blown it into the dollar index. The gauge of greenback strength is up a few tenths of a point, from yesterday’s 52-week low of 75.7.

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All of our past Newsletters are available on our Website at:

www.federngroup.com

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your “referrals.” It’s the main way we continue to build our business.

Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell

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