

September 12, 2008

Stupidity Protection Plan

by The Mogambo Guru

"Man, oh man! 'Nothing is off the table'! Wow! How come I never have anyone covering my Mogambo Incompetent Butt (MIB) like that, saying, 'Let's protect Mogambo from the results of his own stupidity and stick somebody else with the bill?'"

Naturally, the Big Freaking News (BFN) is about the corrupt and incompetent federal government nationalizing the corrupt and incompetent Fannie Mae and Freddie Mac in the biggest nationalization in the history of the world, in that a couple of companies that are worth a few billion dollars or so guarantee about \$12,000 billion in mortgages that are going sour! Hahaha!

The Washington Times reports that the Treasury Department "will infuse cash into the mortgage finance giants to make sure that Americans will still be able to find affordable mortgages and that the global markets will continue to operate smoothly", which Mr. Paulson said has the "potential" of being \$200 billion. And this is just the first estimate, which is always too low by at least half, and all so that Fan and Fred can guarantee more big mortgages on expensive houses that are only affordable by paying low interest rates, which the Fannie Mae and Freddie Mac guarantee allows! Hahaha! We're freaking doomed!

The article quotes Treasury Secretary Paulson as saying, "Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of them would cause great turmoil in our financial markets here at home and around the globe", which sounds so much better than "Me and my friends are so stupid that we bought a lot of this crap and sold a lot of this crap to people who are threatening to beat the crap out of us, and now everybody is up to their eyeballs in this crap and losing their nasty butts, and anybody holding this stupid derivatives crap is going to be stuck with big, crappy losses," to which the gratuitous use of the word "crap" six times and "nasty butts" one time in this run-on sentence is highly instructive.

The Wall Street Journal on Monday had some of the best details, such as when Mr. Paulson told the lead team of bankers that "nothing was off the table in terms of structuring an intervention." Hahahaha!

Man, oh man! "Nothing is off the table"! Wow! How come I never have anyone covering my Mogambo Incompetent Butt (MIB) like that, saying, "Let's protect Mogambo from the results of his own stupidity and stick somebody else with the bill?"

Instead, I get fired! And my retirement plan? Forget it, pal!

Anyway, this is not about me and how I am always getting picked on just because I am incompetent and hateful, but how it is only later that we discover that the bankers from Morgan Stanley "determined that the companies were in need of as much as \$50 billion" right away. Hmmm!

Since there are only 145 million jobs in this country, and only about 100 million jobs that are not paid by a government, that means that each private-sector worker in this

country is already on the hook for \$500, and this thing has not even started yet!

The reason for the unholy, unprecedented and unbelievable nationalization of half the mortgage market in America is simplicity itself: firstly and foremostly, that foreigners, foreign banks, foreign central banks, foreign investment accounts, and lots of retirement accounts of foreigners own trillions of dollar's worth of these guaranteed mortgages that are going sour, and to keep from losing their greedy investment butts, they need the payment guarantees thoughtfully guaranteed by Fannie and Freddie, as per the contract.

Jennifer Barry, at GlobalAssetStrategist.com, writes, "The U.S. economy is particularly vulnerable to a politically motivated sell-off of assets by a sovereign wealth fund, like the one run by China. According to a Congressional report released in January, 'foreign investors now hold slightly less than 50% of the publicly held and publicly traded U.S. Treasury securities, 25% of corporate bonds, and about 12% of U.S. corporate stocks.'"

In addition, she adds, "Overseas investors control over 44% of the U.S. national debt."

So it comes as no surprise that The New York Times had the headline, "China's Central Bank is in a Bind", which is the conclusion that one invariably comes to after learning that China "has been on a buying binge in the United States over the last seven years, snapping up roughly \$1 trillion worth of Treasury bonds and mortgage-backed debt issued by Fannie Mae and Freddie Mac."

The problem, she says, is that, "Those investments have been declining sharply in value when converted from dollars into the strong yuan."

If you are like me and most Americans, we immediately see that these are foreigners, who don't even speak English, and when they do, they sound hilarious with their funny accents. Naturally, with such an easily-identified group with no voting power that is agitating for its rights to have contracts honored, America has demonstrated again, as it has consistently demonstrated over and over again for a hundred years or so, that we will cheat them any way we can, and kill them if we can't. So no problem!

So what's the problem? The problem is that Fannie and Freddie don't have the money to make good on their contractual obligations, having gradually leveraged their tiny little capital base, and then their anticipated cash flows, and anything else they could borrow against, by 100 times, or by a 1,000 times, or by a zillion times (nobody knows, as they haven't issued any financial information for years and years). Even a 1% loss would wipe them out a dozen times over!

And, worse, even after screwing those foreigners out of their money, there STILL isn't enough to make good on the Americans, American banks, America's central bank, American investment accounts, and lots of American retirement accounts owned by Americans who vote, that also own trillions and trillions of dollar's worth of these guaranteed mortgages that are going sour. Oops! Hahaha!

This could be why Bill Gross of Pimco is reported by Bloomberg.com as saying that "The U.S. government needs to start using more of its money to support markets."

And this is why the Mogambo Hyper-Galactic News Service (MHGNS) breathlessly reported that "Earthling Bill Gross, fund manager at Pimco, has lost his little pea-brain

and is reported to have urged the U.S. government to take one small step for man and one giant step for socialist hell in the USA by 'using more of its money' to buy assets like the corrupt Fannie and Freddie, that are collapsing to their real value of almost zero, like the government has hundreds and hundreds of billions of dollars in spare money just sitting around somewhere! Maybe trillions! Hahaha!"

Mr. Gross does not refer to the broadcast, and perhaps has the best of intentions as pertains to the country as a whole when he says that it is a serious problem when "Banks, securities firms and hedge funds are dumping assets, driving down prices of bonds, real estate, stocks and commodities. Unchecked, it can turn a campfire into a forest fire, a mild asset bear market into a destructive financial tsunami", which I heard has already cost banks and brokers over \$500 billion in write-downs.

However, it all sounds a little less altruistic when you learn that "About 61 percent of Gross's holdings were mortgage-backed securities as of June 30, mostly debt guaranteed by Fannie, Freddie or Ginnie Mae, according to data on Pimco's Web site."

Peter Schiff of Euro Pacific Capital says that it is useless to even try, as "Despite the near euphoria that the plan has sparked on Wall Street, the move will go down in history as the biggest policy blunder of all time, and will be credited as a pivotal point in the financial collapse of the American economy. The ultimate cost to United States citizens will be in the range of hundreds of billions of dollars, perhaps more."

The only funny part of the whole mess is the supreme irony that "The original idea that gave birth to Freddie and Fannie, which is to make housing more affordable to average Americans, should now be seen as farcical. Their new goal is to keep housing prices high" by making the cost of financing low! Hahaha! Thanks, Mr. Schiff!