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The Voyages of the Debt-Addled Enterprise

by The Mogambo Guru

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That the national embarrassments known as Fannie Mae and Freddy Mac are in the news a lot these days means that I should say something about it to show that I have been paying attention. So I will turn one jaundiced eye to the whole unsavory episode and say that these two corrupt, brain-dead mortgage behemoths have, or guarantee, over \$5 trillion in mortgages, which is most of the mortgages in the country, and which is more than a third of the entire U.S. Gross Domestic Product of \$13 trillion, which is the total of all the goods and services this country sells in an entire freaking year.

I say this because they have just been given permission to get even bigger! Hahaha! And they can now take on mortgages of up to around US\$700,000, which I mention only because these are agencies that were created a long time ago to help low-income people get housing, but now they are issuing mortgages so large that they are about 15 times the average household income, for crying out loud! And probably 20 times as much as a poor person can afford!

Yet, against this staggering load of incestuous liabilities, and liabilities masquerading as assets that totals a third of the annual GDP output of the whole freaking country, these two greedy, corrupt, filthy pieces of debt-addled Government Sponsored Enterprise crap have only a paltry \$80 billion in capital! Hahahaha!

This shows the utter madness of it all, as it means that each dollar of capital is leveraged (hold onto your hats) 62 times! When's the last time you bet on some nag to win when the odds were 62-to-1 against you?

For Fannie and Freddie, this leverage means that their total assets equal only a miniscule 1.6% of their total liabilities! So, if the value of their insane levels of mortgage liabilities decreases by a lousy 2%, all their capital would be gone, and they would be completely bankrupt! Hahaha! What insanity!

And where was the Office of Federal Housing Enterprise Oversight in all of this? Hahahaha! I'm glad you asked! Dow Jones has OFHEO Director James Lockhart saying that Fannie Mae and Freddie Mac are both "adequately capitalized, and that Fannie Mae can "ride out the storm" in the housing market over "coming months."

The article predictably did not quote The Mogambo, who said, "While the company may 'ride things out', the investors will probably lose everything, assuming that they have anything left after the 90% loss that the stocks in these two 'idiot's delight' Government Sponsored Enterprises have suffered, tanking from their recent highs."

And you know it must be really bad because one of the most obviously dangerous incompetent losers in all of Congress, Senator Christopher Dodd of Connecticut, says

that Fannie and Freddie are "strong, viable institutions." Hahaha! Perfect! Hahahaha! Connecticut must be very proud of its Senator! Hahahaha!

Perhaps in a related vein, Fannie and Freddie are not the only ones using massive leverage and inadequate reserves to take big, big risks, as Jim Willie of the Hat Trick Letter notes, "US banks have only \$130 billion in reserves. Best estimates call for an additional \$600 billion to \$900 billion in losses to be suffered, which begs the question of where the necessary funds will come from to avert bankruptcy to the bulk of the US banking system." Good question!

\$130 billion in reserves? According to the Federal Reserve data, total reserves in the banks of the Fed system are only \$44 billion!

But either way, this chump change is reserves against all, or most of, or more than, a trillion dollars in losses? Hahahaha! Funny one!

But all is not, I guess, lost, as we now must prove Thomas Jefferson right when he warned that if you let banks take over the money supply, what will grow up around them will make us landless slaves on the very land our ancestors fought to give us, which seems to coming true as Mr. Willie goes on, "The consequence down the road two to three years from now is the mushrooming of foreign owned banks operating inside the US Economy. As foreign institutions are begged for US bank relief aid, and sustenance, they will surely make demands. That is reality. They will demand more control over the banks they give assistance to, in essence to turn them into tools for the foreign states. They will demand a seat on the Board of Directors, for instance. Their governments will also demand for reform to US laws regarding foreign entities operating as banks inside the United States."

And for those who ask, "We now know who our slavemasters will be, but who is going to pay for all the incomprehensible amounts of money with which U.S. Treasury Secretary Henry Paulson wants to buy unlimited stakes in, and lend to, Fannie Mae and Freddie Mac, which is more money doomed to be eventually lost until these two embarrassing, bankrupted Government Sponsored Enterprise monstrosities are finally dissolved and put out of our misery, but in the meantime means that a lot of that money will end up in the pockets of their current owners in a big bail-out?"

The answer is, "Everyone will pay, either in taxes or inflation, but almost certainly both", although the rest of the quote is "Except the people who own gold, silver, oil and commodities, which will soar in price when priced in U.S. dollars or any other stupid nation's stupid currency when their central bank is, like the Fed, with the government's permission, creating too much money and credit, which inflates the money supply, which makes prices go up and up and everybody is miserable."

One of them is me, and if another one is not you, then practice saying, "Yes sir, Exalted Mogambo Master (EMM)!", because that is the difference in the roles played by them that has gold and silver versus them that ain't! Life is so simple sometimes! Whee!