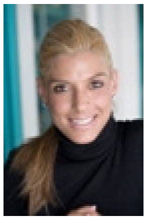
The CS Advisory Group

the plan: action alert



Navigating the Turbulent Mortgage Marketplace

Exclusive Report: What is the *REAL* Problem with Banks and Financial Markets?

There are three REAL problems banks, financial institutions and the financial markets are facing today.

1. Over Leverage
2. Lack of Liquidity, and
3. Ineffective Regulation

Please see the downloadable .pdf article for a detailed exclusive on this topic at the link on the right.

If you would like to know more about other articles in this series pertaining to the financial markets and the options you may have with your current mortgage, please call Marti Sheredy VP of Client Services on my team at 818-762-0844 or email her directly at MartiSheredy@TracyCavanaugh.com.

Warm Regards,
Tracy Cavanaugh CMP, CMPS
The CS Advisory Group

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REPORT

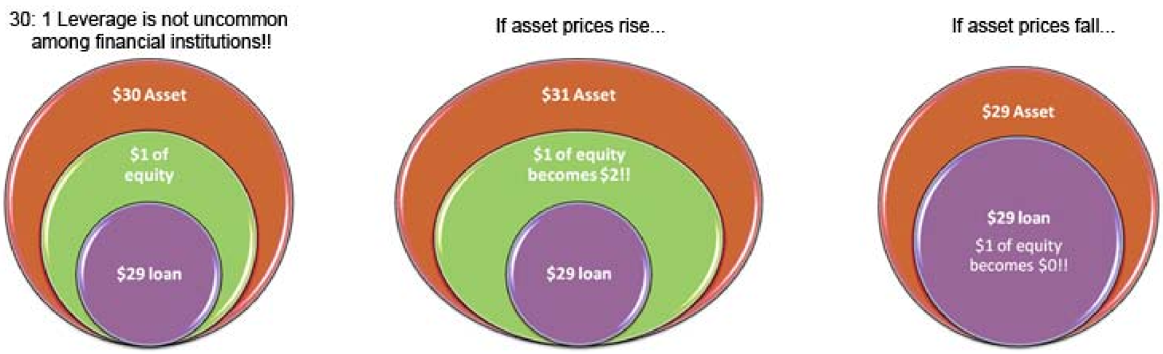
About Tracy Cavanaugh

Tracy has over a decade of experience in the mortgage banking industry. She established the Advisory division of AFFG with offices in both east and west coasts.

Tracy has earned the designations of both Certified Mortgage Planning Specialist (CMPS) and Certified Mortgage Planner (CMP) and holds a New Jersey Mortgage Banking License for both first and second mortgages and is a licensed California lender. She is a member in good standing with the Financial Planning Association and Certified Mortgage Planning Specialist Institute.

What exactly is the problem today with banks, financial institutions and the financial markets?

Problem #1 – Over-Leverage – During the last several years, financial institutions borrowed more money to engage in their business activities than at any point in the history of the United States banking industry.



As you can see from the illustration, if asset prices fall by just 3% ($1 in this case) the financial institution's equity in the investment asset is wiped out, and they need to raise more funds to restore their 30:1 leverage ratio! When you hear about "capital requirements," that is exactly what it means. In other words, financial institutions need to raise more funds in order to meet their minimum capital requirements of having $1 of equity for every $29 of leverage. Every time asset prices fall, financial institutions need to raise more money to maintain their minimum capital requirements. Now here's the billion dollar question: where are the financial institutions going to get the money from?!

Yep. You guessed it! They are forced to sell even more of their investment assets!! If they sell off their investment assets, prices decline even further due to supply and demand. After all, prices always decline when there are more sellers than buyers in any marketplace. This creates a downward spiral in prices, causing the financial institution to sell even more assets into an already depressed market. A bad situation quickly becomes even worse, and that is exactly what has been happening among financial institutions since July 2007.

There are two other ways for financial institutions to raise funds:

- Sell stock in their company or merge with a larger institution
- Borrow more money

Problem #2 – Lack of Liquidity – Financial institutions will continue to try and raise funds to meet their obligations and continue running their businesses. Although it is scary to think of the various doomsday scenarios that could result from the high leverage and the lack of liquidity, these worst case scenarios are unlikely to occur for two main reasons:

Foreign investors and governments, sovereign wealth funds and other large investors have too much invested already in the US to allow the US financial markets to collapse. If the financial markets and institutions collapse, these investors would lose enormous amounts of capital. Not only that, but their own economies would crumble because US consumers would no longer be able to afford to purchase their products. Therefore, foreign investors are likely to continue being an important source of funding for US corporations and banking institutions.

The Federal Reserve has been very active in providing liquidity to financial institutions throughout this crisis and will likely continue to do so.

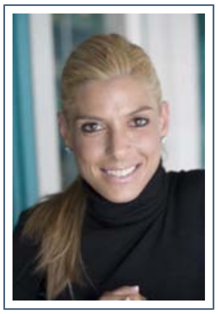
Problem #3 – Ineffective Regulation – The financial industry regulatory structure in the United States is, to a large degree, over 100 years old! Various government officials have proposed certain reforms that are currently in the process of being considered and debated. Although the reform process has started, it will take several years to fully reform the regulatory structure of the US financial markets. As a participant in the CMPS Institute I have been very active in helping to reform and shape the future of the US financial regulatory structure.

Conclusion:

It is always advisable to consult with a Certified Mortgage Planning Specialist ™ (CMPS®) when navigating today's turbulent mortgage and real estate marketplace. As a CMPS® professional, I am committed, qualified and equipped to help you evaluate your options!

Please ask me about other articles in this series:

- What exactly is going on with Fannie Mae and Freddie Mac?
- How long will the turmoil last, and is this still a good time to buy a home?
- What are the options if I owe more on my mortgage than the value of my home?



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