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A Lawyer's Perspective

The solution to our economic woes

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On the historic day that the federal government "rescued" Main Street (yeah, right), the Wall Street stock market suffered a net drop of 157 points. One media account said that was "an indictment of the underlying economic condition that necessitated a rescue in the first place". And all God's people said…Amen!

So, now what is the solution to the economic woes of us "Main Street" business people?

I presented that question to Thomas Campbell, Vice President of the First National Bank of Absecon, a long-time local banker. Please indulge me as I try to communicate that conversation, in my own words.

The Economic Recovery Stabilization Act (ERSA) will allow an investment entity holding "toxic assets" to unload that bad paper on the feds. Treasury must first figure out how to determine what those assets are worth and how to acquire them.

Even when that paper is sold, there is no requirement that the lenders receiving your tax dollars will put it back out on the street. In fact, if you were an investment banker with every federal watchdog looking over your shoulder, would you start shoveling money out the door? On the other hand, let's say that you are a lender with stock in your employer, but you are prohibited from receiving your usual end-of-the-year bonus. "Liquidity" drives up stock prices, right?

Let's see what happens when Lender's long-time customer Borrower comes to the lending window at Mega-Bank. Borrower has heard that the "Rescue package" will create "market liquidity" to ease the "capital crunch". Borrower wants a loan to buy some Margate beach block real estate at fire-sale prices on better terms than she was offered before the "Bailout", oops, "Rescue". The talking heads say that this legislation will help Lender's liquidity. Borrower doesn't expect to leave with her pocketbook full of cash today, but hopes to start the loan process. Perhaps, she could have a deal ready to be financed by the time that liquidity hits South Jersey.

That's possible, she is told but maybe that time is six months, maybe twelve, maybe more, away. As she turns to leave, Lender tells her that "it all depends on how the capital and mortgage markets react over the intermediate term to the recession that we are apparently in right now, in addition to resolution of the many technical details to be resolved by Treasury and the Fed as they strive to create a mechanism to value and acquire the many disparate financial instruments and/or loans owned by Mega-Bank, not to mention market uncertainties." She goes back to her office and tells her partners that maybe they should scale back their sights at this time.

The next day, she tries Local Bank. You know, one of the few that weren't chewed up by the successive gobblers that became Mega-Bank? Local Banker tells her, we will be glad to lend you money at our normal "lousy economic times" rate and terms. Whoa, she says, what about that $700 billion, plus, in taxpayer money? Isn't that supposed to create "economic recovery and stabilization?"

Of course, Local Banker says, and when the economy recovers and stabilizes, we will once again offer our "good economic times" rate and terms, which he shows her. Gee willikers, she counters, your good economic times rates and terms are still highly conservative! You're right, Local Banker says, that's why we're still here and Mega-Bank is now owned by only God-knows-who, as he looks down the street to see if Mega's sign was changed again.

Borrower goes back to her office, confers with her partners and discusses alternative investments. Borrower opens the Press Real Estate pages to look for a good deal where she can make a reasonable profit when the economy recovers. Ah, ha! She sees an ad for subdividable land in Mullica. Borrower uses cash to buy the Mullica parcel for a two to four year hold with a potential yield that beats gambling on ERSA not being a Ponzi Scheme. Borrower becomes Equity Woman!

What is most likely to happen in South Jersey as a result of ERSA? Casino projects may get a kick start from eventual loosening up in the credit markets. Mortgage loans will still require a sizable down payment. Car loans? Same. Business loans. More collateral up front.

Now let's look at Warren Buffet's CNBC "Squawk on the Street" comment about how failure to pass the "Bailout Bill" would have created an "economic Pearl Harbor". He must have a higher standard of living than we Main Street folks, because switching from a Margate beach block deal to Mullica isn't my idea of avoiding WWII. Just look at how the market reacted the day the bill was passed by the House. Wall Street bazilionaires didn't get that way because they believe in the ERSA fairy.

The market knows that last week's legislation is not the solution to the underlying economic recession we're in right now. Like Equity Woman, we need to accept that fact and start planning for the next upswing in the economy by looking for sound, intermediate-term investments. That's the solution to our economic woes.

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