

February 29, 2008

Heads I Win, Tails I Break Even

by The Mogambo Guru

"And the borrowers just saw a chance to benefit by the bank's stupidity, and they borrowed the money on the 'heads I win, tails I break even' chance that they could later sell at a profit or walk away."

Bob Wood of Kaizen Managed Assets asked me a question, which I don't remember exactly, but which I paraphrase as, "Where is all the money going to come from to keep consumers consuming so that this idiotic fiat-currency/unlimited fractional-banking/massive size of government stupidity doesn't implode, as prices continue to outstrip incomes as we plunge, plunge, plunge into the living nightmare of a huge, huge, HUGE freaking inflationary bust at the end of a huge, huge, HUGE freaking boom of rampant monetary inflation that was, at the root, the result of yet another damned crisis caused by the damned banks, which is one more crisis in the damned banks in a long line of crises caused by the damned banks for the last zillion years in a row, which is getting very tedious, as all economic crises are ALWAYS caused by the banks acting badly and, in this case, caused by the damned Alan Greenspan and his equally-damned precious little Federal Reserve nitwits creating monetary inflation for decades, who together produced all the staggering amounts of excess money, credit and debt that they conjured up to finance the decades-long boom in asset prices and size of governments, which has now caused inflation in consumer prices, which will lead to disaster, just as Ludwig von Mises and the whole Austrian School of economics so confidently predicted?"

Well, he didn't ask the question in those exact words, which you would probably have guessed anyway, because I had planned to have him end his soliloquy with, "And you can tell who the Austrian School economists are, because they are big-time holders of gold and silver since they know how this whole thing works out, just like The Mogambo knows, and all hail the Mighty, Mighty Mogambo (MMM)! Hooray for The Mogambo!"

Well, the truth is that he did wonder where the money for additional rampant consumer spending was going to come from, and he did become irate that I stole some fries from his plate when he carelessly left them unattended when he was looking at a pretty waitress who walked by, like I am responsible for him not guarding his own food or something, and there was some talk about where money was going to come from in general, too, which I initially understood to be some rude crack about how I never pick up the check.

Well, I had to admit that I did not know the answer to where all this money will be coming from, but I know where French fries come from; you just have to ask the waitress for them, and she brings them to you! So maybe if we ask the waitress for some money, she'll bring us some of that, too!

Well, apparently he was ready for my smart-aleck remark, and he whipped out a news item from AP with the headline, "More People Tap 401(k) Accounts for Cash."

It seems, according to his AP article, that an outfit called Great-West Retirement Services has noticed that more people are taking money prematurely out of their

retirement accounts, and that, "hardship withdrawals jumped 14 percent last year, and the number of loans rose almost 13 percent, with a dramatic increase occurring in the fourth quarter."

Even over at Fidelity Investments, one of the nation's behemoth providers of mutual funds, said it saw, "withdrawals surge 17 percent in 2007, with record withdrawals in December, but a smaller increase in loans."

And as bad as that is, these people needing to withdraw their money are the lucky ones! The article goes on to say that, "Only 32 percent of workers ages 36 to 43 have any coverage by a pension plan."

And Theresa Perry, who manages benefits for a firm named PinkSlip LLC in San Francisco, said she's been "surprised by the number of people using hardship withdrawals to make payments on so-called 'piggyback' loans, which are home-equity loans wrapped with a first mortgage to allow borrowers to fully finance a home's value." Hahaha! She's surprised? Hell, I am astounded!

I am flabbergasted that any bank would loan 100% of the price of a house to somebody who didn't even have enough money for any down-payment, no matter how small! And the borrowers just saw a chance to benefit by the bank's stupidity, and they borrowed the money on the "heads I win, tails I break even" chance that they could later sell at a profit or walk away. Now some of them are merely revealing their true stupidity, too; they are bankrupting their retirements to keep the house that they couldn't afford, that they can't afford, and is now worth less than they owe! Hahahaha! And going to get worse!

Then she admits that she is pretty astounded, too, and that she's, "been doing benefits administration for 15 years, and using 401(k)s to keep mortgage payments under control is new to me."

Apparently, people used to raid their retirement plans to buy houses, but she says that things have changed, and "They're not taking money out to purchase homes anymore. They're taking money out to keep the home they already have."

To this I can only say, "Hahahaha!"