

Market/Economy

Market is up 1% over Bernanke **open-ended** quantitative easing news. The greenback is trading lower as the increased dollar supply will debase the currency. Equities, commodities, namely gold, are up and the yield curve has steepened. The FED will purchase \$40BB/month in long term, MBS securities. The FED will keep the rates at zero until 2015. We wrote a piece on MREITs and the role repo loans play on the viability of the business model and the net interest margin. We believe the announcement reinforces the long play in the MREITs, related to the NIM. The FED will purchase agency mortgages, or GSEs such as Fannie, Freddie and GNMA, and could purchase more than half of all new issuances. PPI at 1.7%, 50 bps higher than anticipated while core PPI fell in line at 0.2%.

QE1-11/25/2008 -600 Bond

QE1 Rd. 2 – 03/18/2009 – 750 Bond

QE2- 11/03/2010 – 600 long term Treasury

Operation Twist – 09/21/2011– 400 BB long term Treasury

QE3- 09/13/2012 - Indefinite MBS purchase – 40 BB/ week

Essentially, the FED is holding securities which pays interest from taxes collected. If they purchase MBS, then they will collect on the mortgage interest payments. Banks benefit as they will probably receive a premium on their investment. Homeowners can refinance at a lower rate. Equity markets will improve as capital flows into equities. The ones who suffer are those who have to pay more for goods with inflation, and importers who face a weaker dollar.

Bankruptcy Basics

Bankruptcy Code of 1978, otherwise known as title 11 of the US Code is the uniform federal law that governs all bankruptcy cases. There are 90 districts in the U.S. Debtor meets judge, typically only at a “341 meeting”, or meeting of creditors. The goal is provide a fresh start for the debtors.

Ch. 7- Liquidation, trustee takes over assets, reduces them to cash, and makes distributions to creditors.

Receives immediate discharge from debt.

Ch. 9 – Reorganization for municipalities

Ch. 11 – Reorganization, submit a plan of reorganization in first 120 days. Can reduce debt by repaying debt or discharging. Terminate burdensome contracts, rescale operations.

Ch. 12 – Debt relief for fishermen

Ch. 13 – for individual debtor with a regular source of income. Can work out a repayment plan and individual could retain valuable assets, like homes.

Ch.15 – cross border insolvency i.e. Reddy/Arctic Glacier

Most debt will be discharged, except government related bills, alimony and child support, willful injury lawsuits,