

The Age of The Bailout

by Dave Corsi

Now that the "Age of the Bailout" is well under way, the states are getting into the act. Leading off with California, the governors are headed to Washington pleading with Congress to bail them out as well. This past week New Jersey and New York made the pilgrimage to Washington to ask Washington to cover up their fiscal sins and make it all better.

However, Washington can't make it all better because the Federal government has problems of their own. They have already spent nearly \$1 trillion dollars, just this year, that they don't have. This means one of two things: Washington can tell the states, "no thanks" (hardly likely), or get those printing presses humming. I am betting on the latter. Governments throughout this nation, and the world, I might add, have proven to be thoroughly incapable of managing money and budgets. It was only a matter of time for their failures to become public and that time is now.

After mismanaging the nation's lending and money supply, The Bush Administration's Treasury Department, Congress and the Federal Reserve are taking the easy way out and will begin increasing the money supply. Hoping and praying that this scam will at least give them cover till they retire from public office and so they can then write books explaining how they acted as statesmen.

The bottom line for us as investors is with new "easy money" rolling in, the government is hoping to stem the tide of declining house prices by keeping the interest rate low. Yet this will just prolong the situation while creating a false sense of security. It will inflate the price of things, namely houses. In the meantime countries flush with cash (China among others), will start looking for places to invest that cash. And that cash will go to the nation that is the highest bidder which will eventually force countries around the world to raise their interest rates, hence increasing their chances of getting some of that Chinese cash.

Remember the above paragraph the next time some politician defends this nation's tax policy, which is the source of all the misery. In their quest to tax production (to paraphrase Albert Einstein, he said it was the stupidest thing he ever saw a government do: taxing production), and create "class warfare," coupled with loopholes and write-offs (65,000 pages worth), the government sowed the seeds of this mess.

Wall Street has become a street of drug addicts with the drug dealer being the Federal Reserve and the drug is "easy money." Wall Street keeps begging the Feds to lower the prime rate as if that will solve the problem. In short, just one more fix and things will be all right. In reality, just one more fix will do nothing. That "fix" mentality is what caused easy money to flood the real estate market, causing prices to rise well above true value. Does anyone really believe real estate values truly doubled over the course of five years? Simply put, the system was rigged so that demand would exceed supply which caused a false appreciation. The powers that be (Government, Federal Reserve, Wall Street, Treasury) are once again starting up the printing presses and lowering interest rates thereby making the same mistake, proving that they will do anything to cover up their incompetence.

Because of the above scenario, politicians are now falling over themselves trying to pass legislation to protect homeowners in foreclosure. Some of it is reasonable; most of it is not. The leaders of the New Jersey Association of Real Estate Professionals (NJAREP) (of which MREIA is a prime member) have just learned that our efforts have been successful in having bill A2517 pulled from consideration. This bill would have made financial institutions very leery to make any loans in New Jersey to anyone without perfect credit and a large down payment.

Unfortunately this is only a temporary respite. We know they are going to come back with something. Our hope can only be it will be something that makes more sense. I will keep you posted.

Finally, I must commend one of our members, Sak Potiatis, for doing a tremendous job in working with NJAREP in attempting to get the legislators to understand the consequences of the bills they are looking to pass. Sak and I recently testified in Trenton on Bill A281 that would have had a dampening effect on investors buying foreclosures. The legislation as originally written would have made it next to impossible for you to buy property in foreclosure. It was ready to be passed out of committee with no changes, but after our testimony, several legislators saw our point and it passed with the promise that our grievances would be addressed. Thanks again to Sak and his wife's car. (PS: ask Sak about it!).

If you would like to volunteer to become involved with the work of my committee, please email me at dcorsi3119@comcast.net or call (732) 923-1410.

******* Election Update*******

Now that the election is behind us and the Democrats are in firm control of the Executive and Legislative branches of government be prepared for “change” (pardon the pun!). With the declining real estate market, opportunities will present themselves but you must be flexible and have a sound game plan. Some things to look out for:

Higher Taxes - Capital Gains, Income, Estate and Property
Increased Regulation – Environmental, Fair Housing Regulations
Increased Landlord and Property Owner Liability

Expect a **decline in short sales**. Vice President-Elect Joe Biden has stated that the incoming Obama Administration will support bankruptcy judges modifying interest rates and cram downs (lowering of principal owed) unilaterally. This would be a huge shift towards judicial activism that appears to contradict the 10th Amendment.

Rules, restrictions and regulations governing the investor-landlord are likely to increase substantially.

Pay careful attention to the next few months, in particular to prior to the New Year. Observe what wealthy Obama supporters do. Are they cashing out stock options or taking bonuses early. Remember whatever passes in 2009 will probably be made retroactive to January 1st.

The author is a Past President of MREIA, the current Legislative Awareness Chairperson and has made presentations at MREIA meetings and the Learning Annex.