



## MONETARY POLICY, CREDIT & HOUSING

### The Good Old Gold Standard

Under the gold standard the money supply, thus credit, was severely restricted. So too, were economic growth and inflation. Most short-term lending was provided by local banks where consumers and businesses kept their money for the short-term (checking accounts) and long-term loans, including mortgages, were obtained at the local thrift and loan where consumers placed their long-term savings. Lenders required hard assets as collateral and real estate mortgages required exceptional credit and equity. You either had the money or you didn't. In the absence of money and credit things just had to wait.

### A Credit Based Economy

In order to make money more readily available Washington took the dollar off the gold standard and backed it by the credit and good faith of the U.S. Government - we became a credit based economy. This together with the central banking system (Federal Reserve) has enabled the economy to more quickly respond to the need for growth and stabilization.

So when Washington wanted money; first they taxed, then created fees and charges. They spent the social security trust fund and replaced it with; you guessed it, their credit and good faith. Now, since these sources are tapped out they just print more money or issue more government backed securities and voila we have more government services and more money to borrow and spend. That makes life easier, except we are perilously in debt and unable to meet current, let alone past obligations.

Other governments followed and today we live in a credit based global economy with the U.S as the lead debtor.

Countries that have been banking trade surpluses (China, Japan & the oil producers) need to park their money and have been buying U.S. Government backed securities. Now we find ourselves indebted to friendly and not-so-friendly nations.

This is creating several dilemmas:

1. The more money we print to cover our deficit spending the less our dollar is worth in exchange.
2. The more we borrow, the greater the demand for higher interest to cover the risk of a shrinking dollar (inflation). This is devaluing the U.S. dollar in the foreign exchange markets.
3. We can expect this inflation to eventually (soon) reach these shores. This does not take into account the rising cost of imported energy.

## Key Economic Reports Released This Week

RELEASE DATE	ECONOMIC INDICATORS	RELEASED BY	CONSENSUS SURVEY <sup>1</sup>	Wt.	INFLUENCE ON INTEREST RATES
Mon 12/17 1:00 pm et	Weekly Bill Auction	Dept. of the Treasury	N/A	**	▼ If strong demand ▲ If weak demand
Tue 09/23 10:00 am et	Richmond Fed Survey <i>for Sept '08</i>	Federal Reserve Board	N/A	**	Undetermined
Wed 09/24 7:00 am et	MBA Mtg Apps Survey <i>for week ending 09/19</i>	Mortgage Bankers Association of America	N/A	*	Undetermined
Wed 09/24 10:00 am et	Existing Home Sales <i>for Aug '08</i>	National Association of Realtors	4.94M	**	▲ If above consensus ▼ If below consensus
Wed 09/24 1:00 pm et	2-Year Note Auction	Dept. of the Treasury	N/A	**	▼ If strong demand ▲ If weak demand
Thu 09/25 8:30 am et	Jobless Claims <i>for week ending 09/20</i>	Bur. of Labor Statistics Department of Labor	450K	*	▼ If above consensus ▲ If below consensus
Thu 09/25 8:30 am et	Durable Goods Orders <i>for Aug '08</i>	Bureau of the Census Dept. of Commerce	-1.5%	***	▲ If above consensus ▼ If below consensus
Thu 09/25 10:00 am et	New Home Sales <i>for Aug '08</i>	Bureau of the Census Dept. of Commerce	510K	**	▲ If above consensus ▼ If below consensus
Thu 09/25 1:00 pm et	5-Year Note Auction	Dept. of the Treasury	N/A	**	▼ If strong demand ▲ If weak demand
Fri 09/26 8:30 am et	Gross Domestic Product (GDP) <i>2Q08 final</i>	Bur. of Econ. Analysis Dept. of Commerce	3.3%	****	▲ If above consensus ▼ If below consensus
Fri 09/26 10:00 am et	Consumer Sentiment <i>for Sept '08</i>	University of Michigan	71.0	*	▲ If above consensus ▼ If below consensus

<sup>1</sup>Survey courtesy of Insight Economics, LLC

\* Low Importance \*\* Moderate Importance \*\*\* Important \*\*\*\* Very Important

This is a classic setup for disaster – spending more than we have and borrowing yet more to support our habits.

Does this sound a bit like the housing and consumer credit situations?

Now, we have to go to the international market to borrow more money to bail out the mortgage mess left on Wall Street and Main Street, an estimated \$7,000+ per taxpayer. And we have yet to address consumer credit.

No wonder the lending industry is hesitant to lend, even at their low cost of funds.

The monetary and credit issues will have to be addressed before housing can fully regain its footing. ☹

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