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**FINANCIAL FACTS:**

**FROM SENATE TO WHITE HOUSE** - Either Senator Barack Obama (IL) or Senator John McCain (AZ) will become the 44th President of the United States following our nationwide 11/04/08 election. Since 1960 when Senator John F. Kennedy (MA) won the presidential election, every US president has either been a governor or the vice president before becoming president (source: White House).

**BANKING PROBLEMS** - 1 out of every 36 mortgage loans was in the foreclosure process nationwide as of 6/30/08. 1 out of every 71 mortgage loans was in the foreclosure process nationwide as of 6/30/07 (source: MBA).

**THE BEST PERFORMING MONTHS** - 67% of the total return for the S&P 500 generated over the last 18 years (1990-2007) has occurred during the 4-months from October-January. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the US stock market (source: BTN Research).

WHAT THE BAILOUT MEANS FOR YOU. *By Evan Swanson, CMPS*

Unless you live under a rock, you are probably familiar with the fact that the federal government recently announced that it would assume control of mortgage industry behemoths Fannie Mae and Freddie Mac. The move has created overwhelming media coverage and speculation, all with mixed messages on the potential outcomes.

However, very little of the media's coverage has focused its message on educating the reader on why these two entities are so crucial to the U.S. economy and what practical implications the move will have on the general public.

It is my objective to summarize answers to these two issues.

**WHY ARE FANNIE MAE AND FREDDIE MAC SO CRUCIAL TO THE US ECONOMY?**

A brief history lesson will help explain why these entities are so important. Prior to the establishment of Fannie Mae and Freddie Mac, commercial banks were the primary source for mortgage loans. These banks collected money in the form of deposits and then lent a portion of these deposits back out in the form of mortgages and other loans.

This system worked fairly well for many years, until the Great Depression and stock market crash prompted depositors to make "runs" on banks. (A bank run is when a large number of individuals withdraw their deposits from a bank out of fear of bank failure.) The situation left banks without capital to lend during an economic environment when fiscal stimulus was needed, prolonging an economic downturn.

In response to this issue, President Franklin D. Roosevelt established Fannie Mae in 1938 as a government agency charged with, among other things, buying mortgages from banks, chopping them up into securities (known as mortgage-backed bonds) and selling them to investors.

This allowed banks to lend a borrower money for a mortgage, sell the mortgage to Fannie Mae (and book a small profit), and then lend that same amount of money again, and again, and again. This is why you hear that Fannie Mae (and Freddie Mac) provides "liquidity" into the mortgage market.

In 1968, under President Lyndon Johnson, Freddie Mac was established as a competitor to Fannie Mae, and the two firms were privatized because the federal government no longer wanted Fannie Mae on its balance sheet.

Without these two firms in operation, banks and lenders would NOT have money to lend. As a result, the credit markets for new mortgages would effectively cease and the U.S.

economy would likely find itself in a deep, deep depression. In fact, Alan Greenspan was recently quoted as saying that these two entities were "too big to fail." (For a more detailed review of the history and role Fannie Mae and Freddie Mac in our economy, read my July 15, 2008 blog posting: <http://www.evanswanson.com/housing-real-estate/fannie-mae-freddie-mac-in-the-news/>.)

**WHAT PRACTICAL IMPLICATIONS WILL THE MOVE HAVE ON THE GENERAL PUBLIC?**

The bottom line is that government intervention of this magnitude into the financial markets is unprecedented. Therefore, accurately predicting the potential ramifications is next to impossible. However, there are four main points that I the general public should be aware of.

**MORTGAGE RATES:** By stepping in and assuming the guarantees and obligations of Fannie Mae and Freddie Mac, the federal government has provided additional confidence into mortgage-backed bonds, which ultimately determine mortgage rates. Furthermore, as a part of the plan, the federal government announced that it would invest \$5 billion into the mortgage-backed bond market.

These two measures have caused mortgage rates to drop, and some analysts believe that mortgage rates will continue to drop in the near future. (For a more detailed explanation of this impact, please visit my blog posting from September 8, 2008: <http://www.evanswanson.com/rate-update/rate-update-september-5-2008-fannie-mae-freddie-mac-bail-out/>.)

**FUTURE UNDERWRITING STANDARDS:** What is not commonly understood by the general public is that Fannie Mae and Freddie Mac ultimately set or heavily influence the guidelines to determine what loans will be approved. This applies to virtually all loans in the mortgage industry.

Some have speculated that the federal government may begin to loosen underwriting standards in the near term to help prop up the housing market. However, in the long term, underwriting standards may become influenced by who sits in the oval office and on Capitol Hill.

**LOAN MODIFICATIONS:** For those who find themselves in trouble with their existing mortgages, this move may prove to make a loan modification easier to negotiate. This is because most analysts agree that the government will be more willing to work with troubled homeowners than public corporations that have to answer to stockholders.

WHAT THE BAILOUT MEANS FOR YOU. By Evan Swanson, CMPS (CONTINUED FROM FRONT)

**FUTURE TAXES/ INFLATION:** Unfortunately, whether you stand to benefit from any of the previous three points or not, you will ultimately get stuck with the bill in the form of higher taxes and/or higher inflation.

By assuming control of Fannie Mae and Freddie Mac, the government is now guaranteeing the interest payments on the \$5 trillion that

each of these entities has in its combined loan portfolios. If, for instance, 5% of these loans go bad, the U.S. taxpayers are on the hook for \$250 billion. Although, it should be noted that the alternative of not bailing out these institutions would likely have cost our economy a lot more in terms of financial disaster.

The bottom line is that the government takeover of Fannie Mae and Freddie Mac will affect different people in different ways. For now, the only sure thing is that mortgage rates have dipped lower in the news. If you'd like to discuss how this could have an impact on your individual situation, we're always happy to review it with you. Please call or email us!

CUSTOMER SPOTLIGHT: QUINN'S PRIME AND VINE By Aaron Johnston

A few months ago, the Swanson & Johnston quarterly reader started what we hope will become a permanent addition to our newsletter: the Customer Spotlight. It is a chance for the Swanson & Johnston Lending Team to highlight a small business run by one of our many unique and appreciated customers. The more Evan and I delve into working on our business, we see the similarities between our way of conducting business and the way many of our clients do.

This month we would like to focus on Quinn's Prime & Vine, a small specialty grocery store in the Village Center shopping area, which is in the heart of Northwest Portland's Forest Heights neighborhood.

Quinn's Prime & Vine is owned by David and Evelyn Quinn, who opened the store in 2005. David and Evelyn moved to the Northwest from Florida and, within a couple of years, found themselves in a new climate, with new careers and their new business. David is considered the creative side of the business, choosing most of the menus and products offered in the store. With over 17 years in the retail grocery business and a love for wine and cooking, David seems to have found his perfect fit with Prime & Vine. Evelyn's experience is on the business side—she has many years of experience in aviation management and with non-profit organizations as a fund-raiser and board member. Evelyn is a very active member in the Oregon Humane Society. In fact, she and

David have sponsored the annual "Dog Day Afternoon in the Heights" for the last three years.

So what is the specialty of Prime & Vine? You guessed it: meat and wine. Prime & Vine carries the very best USDA-grade prime and upper choice, all-natural beef. This beef is from local Northwest Angus herds with no antibiotics or hormones. I had to talk about the meat first because ever since I started writing the article I can't get the beautiful image of the meat cooler of my



head... all those perfect cuts of meat staring at me. Now that my favorite part is out of the way, I will move on to what most of our readers will be interested in...the Vine.

Quinn's Prime & Vine stocks about 1400 bottles of domestic and imported wine, so whether you're a locavore or prefer out-of-country favorites, you'll find wonderful options for your sipping pleasure. With anywhere between 400 and 500 different labels in stock at any point in time, you are

sure to find the bottle of wine that will best suit your taste or occasion. The best part about this charming store is that you can taste several of these wines by the glass at the wine bar before choosing the one you'd like to purchase. In fact, every Thursday from 4-7 pm, you can come in with friends or family and taste many different wines on display—you might even find your new favorite.

Quinn's Prime & Vine doesn't stop at the meat and wine; it also offers a number of competitively priced items—such as milk, bread, fresh produce and baked goods—that you'd find in regular grocery stores. Whether you are stopping in for a quick snack, your favorite locally brewed beer, or a wine-related gift on your way to a party, Prime & Vine will likely have what you need. Prime & Vine also offers party platters for up to 100 people and custom-cooked meals if you and your family are in need of a quick, healthy bite and want to avoid fast-food joints.

Quinn's Prime & Vine can be found on the web at [www.quinnprimeandvine.com](http://www.quinnprimeandvine.com). The web site is a good resource for great information about the store and everything it offers. If you have specific questions about wine or product availability, you can reach Quinn's Prime & Vine by phone at (503) 292-4600.

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