

Schuman/Dutko Financial Weekly *Providing a global solution in finance*



Top line

The focus this week for the Obama Administration was reducing home foreclosures in the U.S. The plan unveiled targets two groups (1) borrowers with conforming loans (guaranteed by Fannie Mae and Freddie Mac) and (2) borrowers with unaffordable loans (payment exceeds 38% of income). The Federal Reserve follows the European Central Bank in targeting a de facto 2% inflation rate.

The European Commission is pressing ahead with its strategy to tackle the financial crisis. Actions include an upcoming major conference to address the options for regulating hedge funds and private equity that will feed into a broader ongoing EU consultation on this topic.

Key developments this week

US

Similar to last week, when there was great anticipation for the Obama Administration's Financial Stability Plan, the announcement this week of a plan on loan foreclosure mitigation left something to be desired with many details still "to come." The Administration announced their proposal to aide two types of borrowers in the U.S.

(1) Borrowers with loans guaranteed by Fannie Mae and Freddie Mac.

Fannie and Freddie will now be allowed to refinance loans they already guarantee up to a loan-to-value limit of 105%. This provision is designed to assist those homeowners who are paying mortgage rates much higher than the going rate because they don't qualify to refinance without sufficient equity in their homes.

(2) Borrowers with Unaffordable Loans.

A \$75 billion government fund will be set up to help lenders reduce the rate to 38% of income. TARP recipients will be required to participate.

The re-default rate thus far experienced with the FDIC and other Agency programs has been close to 50%. Also – the problem remains with the securitized pools of mortgages, jointly owned by investors, with different claims on the assets, which amount to 62% of the “problem” loans.

EU

EU review of US Terrorist Finance Tracking Programme: an EU review of the US Terrorist Finance Tracking Programme has confirmed that the US Treasury Department respected privacy safeguards in the handling of personal data included in the TFTP representations. The review, undertaken by Judge Brugière on behalf of the EU, examined procedures governing the handling, use and dissemination of financial transaction records from the EU which are carried over the SWIFT network and obtained by the US Treasury Department in support of the TFTP.

High-Level Conference on Private Equity and Hedge Funds: the European Commission is organising a High-Level Conference on Private Equity and Hedge Funds, to be held in Brussels on 26th and 27th February 2009. The conference will contribute to the EU's ongoing consultation on possible EU regulation of the hedge fund sector. The conclusions will also feed in to the review of the adequacy of supervisory and regulatory arrangements for all financial market actors in the context of the financial crisis.

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