

Domino Effect: How U.S. financial chaos may affect Mid-South markets

By David Flaum

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Until last week, Emile Bizot didn't think that the last year of financial and stock market turmoil was the worst he has seen in his 45 years as a stock broker.

"I'd been saying no, '72, '73, '75," said Bizot, a financial adviser with [Wachovia Securities](#) in Memphis. "Now I'm saying it's the worst I've seen in my career.

"We've never had [Lehman Brothers](#) (bankruptcy), [Merrill Lynch](#), [AIG](#)," he said, referring to the collapse or near collapse of three financial giants in one week.

"We've never had a situation since '29 when people lost faith in the banks," Bizot said. "Other times we've had high oil prices or corporations in trouble. This time there's great concern and trepidation."

The federal government made moves to try to restore confidence -- offering an \$85 billion loan to AIG, the nation's largest insurance company; pumping money into the banking system; and sketching a plan for the government to buy bad loans and property from banks.

Although he doesn't believe those moves will have a large direct impact on the Memphis business scene, [Dr. Dale Bails](#), associate professor of economics at [Christian Brothers University](#), believes area banks with bad loans and problem properties will be willing to sell them to the government.

"That's one of the things that's wrong (with government aid proposals)," he said. "Even in a situation where a bank was going to manage its way out of the problem, it's not now. They have a way of getting rid of their problem and pushing that off on the taxpayers."

Bails understands what the government is trying to do -- prop up the economy. But, he said, "banks that get into this made a bet. Guess what -- they lost. You're subsidizing people for making bad bets. That doesn't discourage it."

The state's largest banking company, [First Horizon National Corp.](#), the parent of [First Tennessee Bank](#), is one that has been struggling with bad loans -- many of them made

outside Tennessee to home builders, individuals having homes built for them and people borrowing against the value of their homes.

First Horizon has written down the value of many of those assets to what they're worth on the market and set aside reserves to cover those losses, said David Miller, investor relations officer.

"We're in a position to dispose of them at market prices," he said.

Nonetheless, depending on how the federal-asset-buying program is set up, it is possible that First Horizon would sell some of those loans and properties, Miller said.

He sees a broader benefit in the proposal.

"Anything that helps the banks move some of the assets off their balance sheets will create a little bit freer credit," he said.

One concern of folks in finance is that the banks have stopped lending money to almost everyone, including other banks. If that doesn't change, it could freeze the economy.

Miller doesn't see that happening at First Tennessee or around Memphis.

"We are absolutely lending money to good customer relationships in the Tennessee market," he said. "Outside Tennessee is where we're shrinking."

Banks have tightened lending standards, he said, but "there's still competition out there for loans."

Dick Leike, co-founder of [Crye-Leike, Realtors Inc.](#), the largest residential real estate firm in Memphis, hopes those policies will lead to an increase in available mortgage money.

"It appears what we have now is financial insecurity that is affecting the loan market," Leike said.

Rates are good -- you can get a 30-year fixed-rate loan at 5³/₄ percent. And, until at least Oct. 1, [Federal Housing Administration](#)-backed financing with down payment assistance is available for the full value of a home purchase up to \$270,000.

"The tough part is getting the first-time home buyer into the market, which was shut down with problems in the mortgage market," Leike said. "That still hasn't solved itself."

Another potential problem will develop if bank regulators require institutions to dump foreclosed properties at low prices, he said. There are areas in and around Memphis where prices have fallen because of the number of so-called "other real estate"

properties -- mostly foreclosed homes -- on lenders' books.

Nonetheless, he said, homes are selling -- Crye-Leike handled about 800 transactions last month -- and prices are reasonable, averaging \$140,000.

"We're at the point where we're at the bottom of the market," he said.

Although builders and real estate agents may not look at it this way, the news this week that the number of building permits taken out for new homes continues to be far below last year's levels is good news, said Kent Wunderlich, president of [Financial Federal](#), a Memphis savings and loan association.

"We have too much inventory, not only in Memphis but all over the United States," he said. "It's good that there's no building because that will help reduce inventory."

And it will help banks that have loans to builders waiting for buyers for their already-finished homes, Wunderlich said.

In the investment markets, people such as Bizot and Lane Carrick, chief executive officer of [Sovereign Wealth Management](#) in Memphis, spent last week doing a lot of "hand holding."

Problems surfaced even with investments considered secure, like money market mutual funds.

"People are being extremely cautious, they're wanting to go to cash (investments)," Bizot said. And those folks don't care about returns -- three-month Treasury bills had negative rates of return one day last week.

"They just want to go to safety," Bizot said.

Carrick, who has 29 years in the investment business, said he and his colleagues have tried to convince clients to stay in stocks and other beaten-down investments.

The average down market since 1948 lasted 13 months with a price decline of 27 percent, Carrick pointed out.

"After 12 months and a 23percent decline in the market, you have to ask if you want to be a buyer or a seller," he said. "My answer is, you want to be a buyer."

At least Thursday and Friday, that course of action looked good -- as the [Dow Jones Industrial Average](#) rose 7.3 percent and other market gauges posted similar gains.

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Sunday

Talks break down for a federal rescue of troubled investment bank Lehman Brothers.

Monday

Lehman Brothers files for Chapter 11 bankruptcy reorganization protection.

Bank of America agrees to buy Merrill Lynch, the storied brokerage company.

Dow Jones Industrial Average drops more than 500 points, worst decline since Sept. 11, 2001.

Oil drops below \$100 a barrel for the first time in six months.

Tuesday

Federal Reserve agrees not to cut short term, benchmark interest rate.

Oil drops to \$92 a barrel.

The Fed agrees to a bailout of another troubled financial company, AIG, the nation's largest insurance firm, offering an \$85 billion loan in return for 80 percent ownership of the company.

Wednesday

Shares of Morgan Stanley and Goldman Sachs, the last two large independent investment firms, plunge.

Stock prices take another tumble.

Thursday

Word filters out that the federal government will set up a mechanism for buying bad loans and other troubled assets from banks.

Stock market rallies; Goldman Sachs, Morgan Stanley shares rebound.

Friday

Stock market continues meteoric rise as President Bush, Fed Chairman Ben Bernanke and others confirm bank-asset-buyout plan.

Regulators move to stop some forms of short-selling, or betting that stocks will go down, in a number of financial company shares.



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