Duke In New York an Early Success
New Financial Markets and Institutions program underway

BY SAM VERALDI
VISITING ASSOCIATE PROFESSOR

The Duke in NY: Financial Markets and Institutions Program introduces students to all dimensions of the Financial Services Industry. Students gain firsthand knowledge of the financial services industry, as well as the regulations and institutions affecting it, both through coursework and through organized interactions with Duke Alumni and key personnel at these institutions.

The program incorporates four full-credit courses taught by Duke Faculty, group business consulting projects, a mentorship program with Duke Alumni, guest lectures and panels, visits to various trading floors, and socials hosted by banks and consulting firms.

The students are housed in the New Yorker Hotel, located near Madison Square Garden and Penn Central. It is the heart of Midtown and provides easy access to many of the local activities. The classes are held at the Kimmel Center at the NYU campus.

Students spend direct time with the Program in a diversity of ways: Every Monday and Thursday, 10:00 am to 4:00 pm, class is

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Senior Spotlight
Joshua Kazdin, Trinity College

BY HARRY JONES
PRESIDENT, T’08

Lazard investment banker, wine connoisseur, salsa dancer – could one’s personal utility get much higher? In the world of Josh Kazdin, it can. During his three and a half years at Duke, Josh has accomplished quite a bit in both the academic and social realms.

Josh’s academic journey was influenced heavily by a course he took freshman year, International Political Economy. The class brought out his passion for economics and politics. As a result, Josh decided to double major in economics and political science.

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Sovereign Wealth: The Next Big Thing?
Emerging force in the global economy raises questions

BY LISA LAM
VP OF FINANCE, T’09

The financial markets have always been known for their fast and ever changing landscape; like clockwork, trends have sprung up, run its course and then fade out of the limelight in favor of the next trend. Within this current decade, private equity and hedge funds have developed into key players in the financial markets. However, their novelty may soon be wearing off and take a backseat to a fast emerging force in the global economy: sovereign wealth funds.

In essence sovereign wealth funds are state-owned investments. Their large capital supply is derived from the nation’s expanding

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conducted on the 9th floor of the Kimmel Center, with a break provided for lunch. Students, currently enrolled in the two Markets and Management Studies Certificate courses, have a broad set of academic responsibilities. In MMS 190, students are primarily responsible for individual contributions to one of four consulting projects; in SOC 155, students are responsible for investigating various ethical dimensions of the business environment.

Our four MMS 190 teams serve the following clients: IBM Corporation (6 students), Citigroup Inc. (8), Polo Ralph Lauren (5), and German developer Thomas Kramer (12). The IBM and Ralph Lauren teams are developing technical plans to increase their clients’ shares in the server market and in online retail, respectively; the Citigroup team is examining the effects of the current credit crunch on the mono-line insurance industry; and the final team is producing, with support from Deutsche Bank professionals, an investor pitch book for a new city in the United Arab Emirates. Teams are expected to meet once to twice weekly; to deliver weekly in-class Power Point presentations, updating the class of team progress; to meet, as necessary (often weekly), with representatives of their clients; and, in sum, to devote ten hours per week (per individual) outside of class to their projects. In completing these projects, students are tackling real-world problems, sharpening their professional skills, and improving their ability to think creatively and critically.

Our SOC 155 class places a premium on collaborative learning. Our *Business and Society* text is an effective springboard for class discussions and group assignments on the ethics codes of leading companies, the appropriate role of government regulation in financial services, and other matters of corporate social responsibility and public policy formation.

Moreover, in January, students made formal visits to leading finance and consulting firms. On Jan. 9, we welcomed presentations from seven fixed-income professionals and walked onto the trading floor at the Bear Stearns Companies, Inc. On Jan. 10, we enjoyed a half-day agenda of formal addresses, panel talks, floor visits, and a cocktail party at Citigroup; and learned the contours of investment banking and sales and trading from about two-dozen people. On Jan. 15, we made an evening trip to hear from and to speak with five consultants from McKinsey and Company. On Jan. 18 – before the evening’s event with Duke Faculty, administrators, and local alumni – four Duke graduates at BlackRock Inc. explained the basics of investment management. At all the meetings, I believe students acquired a “broad-angle lens” perspective on the work, the people, and the culture at different, but important, firms. During each visit, students spoke with diverse groups of people, ranging from senior officials to first-year analysts – whose participation underscored the Program’s signature asset, our organized interactions with Duke alumni, and created a pool of local talent our students can reach out to for personal and professional advice.

Additionally our students are participating in a four-module education series with UBS, specifically the Investment Banking group. The subjects for the modules include: Introduction to Corporate Finance; Equity Overview; Fixed Income; and Investment Banking overview. These modules are taught by Duke Alumni who are currently analysts at UBS. Each section involves a pre-work assignment followed by a four hour hands on workshop at UBS.

On about January 17, students began submitting applications for internships at the major financial institutions and consulting firms. These positions are extremely competitive and decisions about the selections by the firms are being completed now.

The students are looking forward to spring break! After break they will return and complete the final two courses of the semester, International Finance and Financial Markets in a Global Economy. The semester will conclude on April 30, 2008.
Getting the Most Out of the Journal

Professor Emma Rasiel says to focus on Business and Finance section, trends when looking to keep informed

ADAPTED BY HARRY JONES
PRESIDENT, T’08

The Wall Street Journal is an important reflection of the news and events most closely watched by the financial markets. Hence, if you are interested in pursuing a career in finance, your preparation should include daily perusal of the Wall Street Journal. One can spend a small amount of time and still get a lot out of the Journal on a daily basis. The following provide some helpful hints to maximizing time in reading the paper.

You should start with the What's News column on the front page. Any story mentioned in the Business and Finance section should at least be glanced over. If a story about a particular company or market situation appears only on one day, it is most likely not that important to the financial world as a whole. You should however, pay attention to stories that have "legs" (i.e., continue to appear over several days or weeks, indicating their relative importance to the market). The entire text of such stories should be read, not just the paragraph that appears on the front page. If you have only subscribed to the on-line Journal, go to the "Today's Newspaper" tab: link to view the main Business and Finance stories. You can also download a .pdf of the front page of the printed edition. Any story that begins on the front page of Section C, regardless of whether it appeared in the Business and Finance column of Section A, should also be read. Again you should read the entire text of these stories. In Section C, also make sure that you also read the “Heard on the Street” column, and the breakingviews.com Financial Insight column.

In terms of financial data, the S&P 500, Dow Jones Industrial Average, Nasdaq Composite, Federal Funds rate, US Treasury 10yr note yield (a measure of interest rates), Gold, Oil, Yen, Euro should be looked at daily. You should not strive to memorize the exact levels of any of these assets at a given time. Knowledge of a rough estimate of these is important. You should also know if these assets have been moving up, down, or sideways (i.e. in a range) over the past few days, months and years. It is also a good idea to look at their movements relative to recent history (e.g., US Treasury 10yr yield is between 4% - 5%; gold is currently priced between $700 - $800 per ounce; oil prices are close to historical highs; the dollar has been increasingly weak).

If you have time, certainly read other stories of interest to you, but on daily basis, only the preceding is essential. It is also good to reinforce your knowledge of what you read by discussing the market and major financial events with others and also learning from other sources as well (i.e. other websites and television programs like Squawk on the Street).

Joshua Kazdin

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On his experiences in double majoring, Josh states that it “has allowed me to experience the best of both worlds. Political Science enables me to conceptualize a perspective. Economics has provided me with the tools and methodology to answer questions coming from this perspective.”

His interest in these disciplines has transcended the classroom and has led him to do research on his own for the past seven semesters. Josh’s research focuses on how political structures have affected financial markets in several different contexts. During his freshmen year, Josh worked with one of his professors on a book for the Library of Congress concerning the intricate political state of Iran. Currently, he is doing research with Professor Fullenkamp on sovereign wealth funds. Josh has found this subject especially rewarding because of the lack of prior work done on the topic. Thus, his research has given him the opportunity to truly add to this very relevant discussion.

Over the last two summers, Josh has been able to take his interest to new levels. During the summer of his sophomore year, Josh studied abroad in China and was able to complete a minor in Chinese (he is fluent in Mandarin).
Alumni Spotlight: Dustin Willard, Trinity ‘06
Economics major moving from investment banking to private equity

What are you up to these days? Have you been working with the same firm since you graduated or is this something relatively recent?

After graduating from Duke, I joined Wachovia’s Leveraged Finance Group. I continue to work in the group today, but will be leaving in June to pursue an opportunity with HarbourVest Partners Secondary Private Equity Group in Boston.

What were the major reasons for your decision to choose private equity? Did you consider any other job opportunities? What types of jobs did you apply for and where?

With respect to my job search during my senior year at Duke, I looked at a wide range of investment banking and consulting jobs, because I was interested in learning more about business and I believed both opened up many doors. I ultimately decided to join the Leveraged Finance Group at Wachovia given the group’s league table status and its location in North Carolina (I am originally from NC and my now-fiancé was still at Duke during my first year). I also found the culture at Wachovia was more positive and inviting than other firms I considered.

As for my post-Wachovia search, I pursued a private equity position, because I believed it would serve to build upon my ability to analyze a company and evaluate different investment opportunities; two skills that I think will always be useful. During my search I learned about secondary investing with private equity. Secondary investing is the buying and selling of the limited partner (“LP”) interests in different private equity funds. (LPs are the different investors in funds set-up by private equity firms like Blackstone, KKR, Carlyle, for example the Duke Endowment would be an LP.) Funds require that LPs invest for a period of 7-8 years, locking up the investor’s capital. However, sometimes investors may need to liquidate their positions. With the growth in the number of private equity firms in recent years, there’s an increased demand for a secondary market for private equity interests. Given the decreased number of sponsor-related acquisitions due to the downturn in the credit markets, I thought the move into the secondary private equity market, where there’s activity in both bull and bear markets, was a safer move than traditional private equity. It also helps that HarbourVest, as the largest secondary private equity fund in the US, is a well established firm, so I know it will be able to last in a downturn. Beyond job security, secondary private equity also allows me the opportunity to analyze a variety of industries across a wide set of alternative investments (from VC to buyout).

Did you intern with your current firm while an undergraduate? If not, what did you do during your summers at Duke? How do you think those experiences prepared you for investment banking/private equity?

During my freshman and sophomore summer, I worked as a pro shop attendant at a local golf course and took summer classes. The summer after my junior year, I actually worked for Citigroup’s Commercial Cards Group, a part of the Global Transaction Services division of Citigroup’s Corporate Investment Bank. I was given a couple of projects of which I was allowed to have complete ownership. These projects were very helpful in interviews, as they provided tangible examples of times when I demonstrated my ability to perform in the workplace. With that said, the experiences provided little in developing any specific skills that were directly transferable to investment banking. However, investment banking analyst programs are not looking for you to have a specific skill set. Interest and a desire to work combined with an ability to grasp new skills fast is what makes for successful analysts.

What classes at Duke prepared you most for investment banking/private equity?

The easy answer is Corporate Finance and Financial Markets and Investments, because their content is most relevant to finance. While I enjoyed both the content and instructors for these classes, I believe Constitutional Law (POLISCI 178) with Professor Chemerinsky and Democracy and International Politics (POLISCI 200D) with Professor Downes were the most helpful for me, because it was in studying for exams and preparing papers in those classes that I fully realized what it meant to thoroughly analyze a topic by breaking down an issue and addressing potential what-ifs in a comprehensive manner. In leveraged finance where I often am evaluating the credit issues, thoroughly thinking
Dustin Willard  
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through the underlying drivers for a business is an essential skill. However, this is a skill that is important in almost any career, and its one of the most valuable skills that a liberal arts education provides.

Which professors would you recommend to Economics majors?

I find both Professor Fullenkamp and Professor Rasiel to be very engaging. They also both have relevant experiences in the subjects they teach and are able to incorporate those into their lectures. I think you have to take at least take one accounting class with Professor Skender. Not only will the accounting skills be very helpful (especially if you are going into finance), he makes an oft considered boring subject interesting and dynamic.

How much, if any, did you utilize the Career Development Center?

Yes, I did. I began meeting with an advisor mid-way through my junior year. She was very helpful in refining my resume and cover letters. I recommend meeting them as soon as possible, so that early-on you can think strategically about your summers and extracurricular activities and consider the range of opportunities available to Duke students. However, I recommend pursuing activities that you enjoy, and not just doing it for a resume, for you will be most passionate about activities you enjoy and will ultimately gain the most from those endeavors.

What is your fondest memory while at Duke?

There were so many times I shared with my friends. Whether it was the time in Krzyzewskiville, late night Texas Hold’em games, group dinners, movie nights, or just the all the times we shared laughing, they all served to make for great memories of my time at Duke.

If you had to give an Econ major at Duke one piece of advice, what would it be?

Economic principles are everywhere and sometimes in the pursuit of academia, the relevancy of basic economic principles is lost. Actively thinking about how the economic principles you learn in the classroom shape decision-making throughout society will not only make you a better student but also help you form more educated opinions about a variety of topics, which in turn leads to more informed decision-making yourself. I would also recommend reading the Economist and the Opinion page of the WSJ.

Sovereign Wealth Funds  
(FROM PAGE 1)

central bank reserves. Although they originated in oil-producing nations during the 1970s as a means of utilizing excess capital garnered from the oil boom, the current purposes of their existence can vary from each nation. Abu Dhabi and Kuwait are focusing on investing their oil profits for the future whereas Russia has set one up as insurance against the volatile commodity prices. Currently, they control a reasonable $2.9 trillion in assets. However, bolstered by rising commodity prices and increasing trade surpluses, sovereign wealth funds are growing at an explosive rate that could lead to $12 trillion in assets by 2015 and a permanent role as major players in the global financial markets. Generally, most sovereign wealth funds maintain a long investment profile and have high risk tolerance and large exposure to foreign exchanges. This broad profile allows them to dabble in many investment levels and classes ranging from standard government bonds to atypical forestry investments.

These funds’ recent foray into Wall Street in the time of the credit crisis has propelled new discussions on their financial role. So far, they have been a welcome savior to the major investment banks struggling after the subprime bust by pouring in $69 billion to help the banks regain their financial footing. As such, they have become another source of capital for the U.S. economy as its own credit market has tightened up. However, this has also raised the issue of foreign control over domestic assets. For instance, China Investment Corporation, which recently took hold of a little less than 10% share of Morgan Stanley, also holds a stake in Blackstone Group. Unlike hedge funds whose sole motive is to increase profit margins, some people worry that sovereign wealth funds may have the ulterior motive of helping its national cause that may supersede its monetary goals.

Likewise, within the past eighteen months, these funds have also begun to invest heavily in the emerging markets.

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Doing Business in the Pacific Rim
What Singapore, Hong Kong, and Australia have to offer

BY JILL MEDHUS
GUEST COLUMNIST, ELON ‘09

In January, Vice President of Information Technology Luke Medhus’ sister Jill, a junior at Elon University, had the opportunity to study abroad in the Pacific Rim. In the month-long course, students experienced three distinct societies and economies: Hong Kong, Singapore, and Australia, through the lens of business and cultural activities of each location.

While abroad in the Pacific Rim, I had the opportunity to observe different styles of business in three or four different locations: Hong Kong (and China), Singapore, and Perth, Western Australia. Each location sold itself as the "best" place to do business and worked hard to attract our interests. Here are the basics of what I took away from the experience, as far as doing business in each location.

Hong Kong is billing itself as the ultimate service sector economy. With the factories in China nearby, the shop is located in Hong Kong. It is experiencing much higher growth in total factor productivity than the other Asian dragons, despite the lack of technological development. Hong Kong has little to no spending on research and development, no patents, no high-tech sectors, and is hit by constant criticism from academics and pundits.

When Hong Kong was handed over to China in 1997 as a Special Administrative Region, the same old argument from pundits resurfaced. They felt that Hong Kong would lose its competitiveness and that it should be more like Singapore. Although Hong Kong experimented in real estate and technological development, it did not turn out to be successful. Yet, although it has undertaken some endeavors with little success, its fundamentals are so strong that there is a lot of potential still to be realized. China's Pearl River Delta is becoming the world's manufacturing center, but only half is currently open for business. If you are to take China as a whole, you will see that the potential has barely been tapped. In fact, if you were to export all of America's jobs to China, you would still see a labor surplus in China. This is astounding and attests to the potential that the world is waiting to see realized in the coming decades. The entire world is watching China, and Hong Kong is bound to follow in its successes.

Although Singapore is similar in wanting to benefit from China's growth, Singapore's business is more diversified and oriented toward the West. The city-state has English as one of its four official languages and its de facto language for business. It is corruption-free, a factor that is key for western investors, as well as successful in innovation, which is parallel to the United States. The United States currently has over $60 billion in foreign direct investment in Singapore, which far surpasses that of China.

In Singapore's rise, the world has seen it experimenting in many industries. Singapore is a hub for the logistics, aviation, oil refining, financial, bio-science, pharmaceuticals, and wafer fabrication sectors of the economy. Its business and financial services make up about a quarter of its total economy. It is also well-known for emerging from the Asian Financial Crisis of 1997 unscathed, due to the trust that foreign investors have put in its systems.

As China continues to rise and consumers become more confident in doing business with the Chinese, look to Singapore to orient a greater portion of its economy in China's direction. You can still expect Singapore to rely on the western economies, but newer powers such as India may replace them in their share of Singapore's economy. As the United States and Europe lose status in the world economy, expect Singapore to diversify to an even greater extent – or else risk the same downturn that western economies will likely face.

From what was observed, Western Australia's economy is not as sophisticated as the cities of Singapore and Hong Kong. Still, though, people are flocking to its capital city, Perth – the most isolated capital city on earth – to take advantage of

PIGGY-BACKING? The growth of Hong Kong can be attributed to its capitalization on China’s economic successes
Sovereign Wealth

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Some estimate that 80%-90% of sovereign wealth funds are being directed into the emerging markets of Asia and the Middle East. China has been an increasing hot spot for these investments; especially for the funds from the Middle East. They are playing an increasing role in the emerging markets IPOs. When Industrial and Commercial Bank of China launched its $1.9 billion IPO, over half of the top 15 amounts were bought by Middle East funds.

Currently, sovereign wealth funds are creating a shakeup in the financial markets. Its timely investments during the US credit crisis have allowed some of the major investment banks the stability to regroup. During the same time, their diversified investment portfolio allows them to influence a wide variety of products and nations. At the rate that these funds are amassing assets, they will become, if they are already not, the next major player in the ever changing field of the global financial markets.

Josh Kazdin

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While abroad, he also gave a lecture for a Harvard in Singapore program on foreign direct investment versus direct investment in China. This past summer, Josh studied math at NYU and Columbia while also taking classes on bartending. At nights, Josh took classes in a variety of dance styles including salsa, cha cha, tango, merengue, swing and jive.

On Duke’s campus, Josh is involved in a myriad of activities including playing in the Duke jazz band, teaching wine and mixology classes, and modeling in the annual Black Student Alliance Fashion Show. In the fall, Josh will work as an investment banker for Lazard with a focus in Asian markets. Although he is looking forward to this wonderful opportunity, he is sad to see his Duke career coming to an end. Josh has very much enjoyed the liberal arts education that Trinity has brought him as he has had the chance to immerse himself in many topics (including Shakespeare for which he also has done research).

In terms of advice, Josh encourages all Duke students to actively participate in research. “Too often, undergrads look at themselves as neophytes in academia, and do not realize their worth in academic discussions. A unique frame of mind that could spur very interesting research can just as easily come from a student as a professor.”

The Pacific Rim

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the boom in its economy. There is a labor shortage across the city. In virtually all of the stores in Perth, "Help Wanted" signs were posted. Yet, these places (food, retail, etc.) were not the only places with labor shortages. World-class accounting, financial, and commodities firms are starving for individuals to fill positions. In fact, promising high school students are leaving for college having already been signed by reputable companies, such as Rio Tinto and PricewaterhouseCoopers, knowing where they will be working after they are finished with school.

While each locale described – Hong Kong, Singapore, and Australia – are experiencing fast-growing economies, they are experiencing success in different ways. I would recommend looking closely at each economy's specified perks before deciding to do business in one place over another. For example, Hong Kong may not have as trustworthy a business system as Singapore in many, many years – if ever, but Singapore may not be able to capitalize off of China's successes as well as Hong Kong, or maybe even Perth, given the industry. Whichever location out of the three one selects for doing business, one should be content to be experiencing a world-class business environment.
The Aftermath of the Subprime Mortgage Crisis
Writedowns, evaporation of liquidity mark the fallout of the market collapse

BY JOHN KUNEMUND
VP OF PUBLICATIONS, T’10

In our last edition of “The Invisible Hand”, Samson Mesele outlined the factors leading up to the subprime mortgage crisis. Quickly summarized, the crisis began when low credit home buyers, who were deceived into purchasing high adjustable rated loans with low introductory interest rates, began to default en masse. As a result of many financial firms’ heavy investment into these subprime loans, the crisis seeped into the general economy, creating the national problem we see today.

In October of 2007, Treasury Secretary Henry Paulson predicted that this burst of the housing market could pose as "the most significant current risk" to the economy. Unfortunately, this somber assessment has proven to be true, with major investment banks, hedge funds, and mortgage lenders posting major losses since the collapse of the subprime mortgage industry early last year. Not to mention the possible recession looming in our futures.

This decrease in housing began early last year when the property market abruptly fell. Compounded with higher interest rates, it became exceedingly difficult for home buyers who took out adjustable-rate loans to make their payments. This might not have led to the enormous financial problem we have found ourselves in today, had it not been for the fact that many of the risky subprime loans were repackaged into mortgage-backed securities, which caused the problem to spread to the financial sector, prompting lenders to become more cautious.

This turmoil in the financial sector became evident when such prominent investment banks as Citigroup, Merrill Lynch, Morgan Stanley, and Goldman Sachs began posting losses in August of 2007. At the onset of the subprime credit crunch, over 25 subprime lenders declared bankruptcy or put themselves up for sale, including New Century Financial, the largest U.S. subprime leader, which filed for chapter 11 bankruptcy on April 2, 2007. Since then, one year after the subprime market burst, numerous investment banks and mortgage lenders have posted extremely large losses in terms of write downs, with Citigroup and Merrill Lynch leading the pack with losses of $32 and $22.5 billion respectively. Following these two are Morgan Stanley, losing $10.3 billion, Bank of America, losing $5.28 billion, and finally Goldman Sachs, writing down $1.5 billion.

As if the situation in the United States wasn’t enough, the collapse of the property market and the subsequent credit crunch has traveled overseas and negatively impacted the financial markets of Europe, Australia and Asia.

Due to the fact that the subprime mortgage woes in the U.S. caused “a complete evaporation of liquidity”, both the French bank, BNP Paribas, and the British Bank, Northern Rock, began to suspend in the late summer of 2007 all withdrawals by investors. These announcements were sparked by the devastating withdrawal of concerned customers at Northern Rock of approximately £2 billion in just three days, after which, Northern Rock had to apply for emergency funds from the Bank of England.

Australia’s future market could become bleak as well with ever-decreasing values of funds, under the weight of their exposure to the subprime credit crunch. Rams Home Loans Group, Australia’s biggest lender, was unable to refinance their short-term debt, with shares falling as much as 41% on the Australian Stock Exchange. Combined with the Australian Hedge Fund, Basis Capital, which applied for bankruptcy protection, it appears that Australian investors are unlikely to see any returns from their investments on the “Basis Yield Alpha Fund”.

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7 “Northern Bank gets bank bail out”. http://news.bbc.co.uk/1/hi/business/6994099.stm
Unsurprisingly, the U.S., Asian, and European stock markets have also continued to struggle with the turmoil in the credit markets into early September. Connections have been drawn between the subprime crisis and the dot-com bust of 2001, which sent the United States into a recession. Seven years ago, the bursting of the dot-com bubble triggered a collapse in business capital spending that took the US and global economy into a mild recession. What we could experience if this crisis grows any further, however, could be much worse. According to Stephen Roach, a senior executive with Morgan Stanley, “This time, post-bubble adjustments seem likely to hit US consumption, which at 72% of GDP, is more than five times the share the capital spending sector was seven years ago. This is a much bigger problem—one that could have grave consequences for the US and the rest of the world”.

What then, is there to do to quell this issue? This is a question that both the Fed and the current Presidential Administration have been trying to tackle, both with significant success since the credit crunch began.

Because nearly two million mortgages made to borrowers with poor credit are scheduled to reset to higher rates this year and next, foreclosure prevention has become a top priority in Washington. In October, the Bush Administration created Hope Now, a group of lenders, investors and nonprofit groups working together to rescue troubled homeowners that are likely to have their homes foreclosed. Some of these members include Bank of America, Citigroup, Wells Fargo, and Washington Mutual.

In a report on February 6th, it was discovered that the Hope Now Alliance has “helped over 545,000 subprime borrowers with shaky credit”, which represents approximately 8 percent of the 7.1 million outstanding subprime loans last measured in September of 2007. This far overreached initial expectations set at 317,000 at risk subprime loaners, which shows that things might be looking up for the battle against the credit crunch.

Another organization with equal success is an offshoot of the 4 members of the Hope Now Alliance, in addition to JP Morgan and Countrywide (which has since been bought out by Bank of America). Dubbed Project Lifeline, its goal is to encourage more loan adjustments and to avoid foreclosures. Formed earlier this year, these mortgage lenders have agreed to “temporarily stop foreclosure proceedings on homeowners who have fallen seriously behind in their house payments”.

Under the program, homeowners who are behind in their mortgages by over ninety days will be offered financial counseling to get them back on track. In order for modifications to be granted, borrowers will have to provide up-to-date information about their wages and debts, allowing foreclosure prevention specialists to assess whether or not a borrower will be able to regain his footing and start paying his mortgage again. If homeowners are able to make their payments on time for three months, the changes to the terms of loans will become permanent.

Similar to these organizations that have combined the private and public sectors, the Fed has also done its part to aid the subprime mortgage crisis. In early 2008, Ben Bernanke gave a two-prong analysis of how the Fed plans to deal with the collapse of the housing market. Their response will involve both efforts to support market liquidity and functioning, as well as the pursuit of macroeconomic objectives through monetary policy, by proposing tougher regulatory standards. In addition, the Fed plans to put a freeze of interest payments on certain subprime loans. On January 22, 2008, the Fed also slashed a key interest rate (the federal funds rate) by 75 basis points to 3.5%, which became the biggest cut since 1984, followed by another cut of 50 basis points on January 30th.

As for the target of increasing liquidity, central banks have conducted open market operations to ensure member banks have access to funds. They also have lowered the interest rates charged to member banks (called the discount rate in the U.S.) for short-term loans. Both measures effectively lubricate the financial system, in two key ways. First, they help provide access to funds for those entities with illiquid mortgage-backed assets. This helps lenders avoid selling mortgage-backed assets at a steep loss. Second, the available funds stimulate the commercial paper market and general economic activity, which will hopefully halt the possibility of a recession.

Despite all of these great achievements that have been made in boosting both the housing market and the financial sector, it is still important to realize that the credit crunch we have been facing has put a major lag on the economy. Even though it appears the government is headed in the right direction of facing this issue head on, we must be conscious that the threat of a recession is real. Only time can tell, however, whether or not it will come about as a result of the subprime mortgage crisis.

12 “Major Lenders Put Freeze on Foreclosure”. http://money.cnn.com/2008/02/12/real_estate/foreclosure_freeze/
13 “The Recent Financial Turmoil and its Economic and Policy Consequences”, a speech by Ben S. Bernake.
http://federalreserve.gov/newsevents/speech/bernanke20071015a.htm