

Impressions

Sweetwater Investments
16398 NE 83d Street
Redmond, WA 98052
425.861.0112
info@sweetwaterinv.com

March 2010

©Sweetwater Investments- all rights reserved

AN OPEN LETTER TO THE PRESIDENT OF THE UNITED STATES

I am going to be very presumptuous in this newsletter. The presumption is not in that I am exercising my right as a citizen to petition my government. It comes because I am going to presume that President Obama or anyone else in the **other** Washington cares what I think about anything. But here goes:

Dear Mr. President,

It has been slightly over a year since you were sworn in as our leader and please accept my congratulations on your accomplishment. As a President with a substantial majority in both houses of Congress you find yourself in the position of young Norman Mclean in the novella [A River Runs Through It](#). After returning to Montana after 6 years at Dartmouth his father says to him “to what use will you put this great accomplishment?” That is truly the question before you, Congress and the American people. This is a time of great change and great controversy and because it is easier to be optimistic than pessimistic it is a time of great opportunity.

I offer my thoughts as a citizen, small business owner, veteran, father, investment advisor, student of history and one who has a deep and abiding love for his country. I also speak as a person who in his youth associated himself with radical political elements including your Chicago neighbors, Mr. Ayers and Ms Dohrn.

With that as preamble let me address some proposed solutions to some of the problems we face:

Residential Property Security

Depending on the numbers are used, somewhere between 5% and 7% of homeowners are in actual foreclosure. There are another 9% who are 60 to 90 days behind in payments who are considered in default. There are legions of others who are underwater, with the value of the house less than the principal of the mortgage. Unless those listed above find some way to change their circumstances there will continue to be pressure on residential real estate for the foreseeable future. The current

Impressions

programs for modification or the loans are not working. There is no single item which makes Americans feel poorer than the decline in the value of their homes. By removing the fear of losing their home you go a long way toward helping mend the psychology of the nation. There is a way to provide relief, and create jobs.

The government should set up a mortgage refinance workout facility administered by the existing banks (for all their flaws they will do this more efficiently than the government) to provide a refinancing option as follows:

1. This agency would offer homeowners a 30 year 4% fixed rate mortgage at an 80% loan to value ratio of the current appraised value. These loans would be assumable, and have no points or prepayment penalties. Given the current yield curve this structure would provide a positive interest rate spread to the lender.
2. The house must be owner occupied and the homeowner must not have committed any fraud on original loan application.
3. The agency would create a second mortgage equal to the difference between the appraised value at the time of purchase and the appraisal at the time of this refinancing. The homeowner would pay no interest or principal on the second mortgage and it would have a term of 7 to 10 years. The second mortgage would be attached to the first mortgage and could not be separated.
4. At the time the homeowner sells the property any appreciation beyond the appraised value at the time of the refinance would be divided 40% to the government, 40% to the lender who made the original mortgage, and the remainder to the homeowner.
5. The program would hire former loan officers of mortgage companies and be supervised by the Fed, Treasury and local banking authorities creating thousands of jobs.

Due to their structure and high credit quality the new mortgages could be bundled and sold to retire the older non performing debt currently destroying the balance sheets of the banks. Homeowners would be secure in their homes and the cost to the government from interest cost differential would be less than the current stimulus and jobs packages in Congress.

Congress would have to pass a law stating two things- the banks issuing the original mortgage have to accept the new ones and if the underwater or at risk homeowner does not accept the offer they will be ineligible for any other mortgage relief program which enjoys government backing.

Impressions

Sweetwater Investments
16398 NE 83d Street
Redmond, WA 98052
425.861.0112
info@sweetwaterinv.com

March 2010

©Sweetwater Investments- all rights reserved

Job Creation

This whole concept Mr. President is a misnomer. Government cannot create jobs, even their own. The only way for federal employment to increase is if there is a need for new services and there are taxes on the private sector to pay the salaries of workers. The federal government cannot and never has created a private sector job in its entire life and no President has ever created a job.

Rather, what government can do is to provide an environment in which jobs can be created by the private sector, and conversely, it can destroy jobs. This last is what government does best. Your formulation that your administration has “created or saved” so many jobs is nothing but political rhetoric which is receiving the lack of credibility it deserves. This is a loser of a line I would drop it immediately. Here is how government can really create jobs:

- Remove uncertainty- Your stated legislative agenda is huge and invasive. It changes so many certainties and replaces them with confusion that businesses have no ability to plan for the future. At the present there are large number of bills in Congress that will increase costs to business (health care and cap and trade are the most obvious). Businesses are sure that some of them will pass. Businesses also recognize that their own accumulation of debt over time has the ability to crush them so they are taking steps to reduce expenses. They also recognize that the bill for the extraordinary spending by the federal government during this crisis will come due at some point and they know they will bear a large portion of the costs. Faced with this level of uncertainty businesses are using the money normally set aside for new employees to pay down debt and put up a reserve against the future costs. The longer they are held in uncertainty the higher unemployment will go particularly among the young and minority groups.
- Put health care and cap and trade on hold for 12 months, no debate no nothing. If they are good ideas they will keep and frankly you have a better chance of passage in a growing economy than in a shrinking one.

Impressions

- Make it clear that there will be no more increases in the minimum wage for the next 4 years. This is a classic entry level job destroyer. It was never intended that minimum wage would be living wage. It was intended to discourage exploitation of the very young and recent immigrants. It is an attractive political sop since it appears to provide a benefit without a cost but that is a chimera. This is why Social Security has grown to be such a monster.
- Reduce the 940 and 941 payroll tax rates for all business for one year and for businesses under 100 employees for 3 years- yes this will increase the deficit, but it is already so large that a few billion more won't make any difference. It would be an immediate cash flow boost to many struggling businesses. This windfall will allow business to replenish their cash, pay debt, and place themselves on a firmer footing going forward.
- Delay the implementation of any environmental regulations or rules enacted since 2008
- Tell the various departments such as labor, commerce, and justice that there will be no prosecution for failure to attain racial, gender or disability quotas for 3 years
- Set up a funding mechanism for the government to fund private venture capital firms with seed capital for early stage companies working the areas of energy conservation, alternative energy, and productivity enhancing technology. Impose no conditions except that the government will expect a 7% compounded return on the money over a 5 year period.
- Start up a CCC (Civilian Conservation Corp); again run by private enterprises (since the goal is to create jobs). This will pay people to do things that benefit the entire nation. Repair the roads and trails in the National Parks (supposedly there is a 9 billion dollar deferred maintenance budget there), rebuild the levees along the major rivers where needed, build the fence along the Mexican border these are things that everyone agrees need to be done, this is the time to do them and the people are available to do the jobs.
- Scrap the whole idea of card check which is nothing more than a sop to union organizers who having destroyed the auto, merchant marine, aerospace, airline,

Impressions

Sweetwater Investments
16398 NE 83d Street
Redmond, WA 98052
425.861.0112
info@sweetwaterinv.com

March 2010

©Sweetwater Investments- all rights reserved

construction industry and the educational system want to work their magic on what is left.

Financial Reform

Here is where I will point fingers. My mother says that every time you point a finger four are pointing back at you so we are all to blame for what happened. Every person who ever swapped one credit card for another to get a lower rate or suspension of payments or a larger credit line is guilty. Every person who took out a home equity line of credit ostensibly for emergencies but they used the money to go on vacation. Every person who refinanced a home to pay off credit cards then ran them back up to the limit is at fault. I could go on and on but everyone is responsible and that includes, particularly includes, all the political leadership of the nation for the last 30 years of whatever party.

Congress's actions with regard to Fannie and Freddie are egregiously shameful and frankly all the past and current chairs of the House Banking and Financial Affairs committee and the Senate Banking committee should be voted out of office or have their positions stripped away. The actions of Congress in not thinking through the consequences of repeal of Glass Steagall, the repeal of the uptick short sale rule and the revocation of the net capital rule for the investment banks are examples of ineptitude and foolishness hard to equal in the history of this country.

You will hear a lot of bleating from the investment and commercial banks that they were not the cause of this mess. If you believe that I have several bridges, some land in Florida and several hundred million dollars in a Nigerian bank account I would like to interest you in. The banks were so blinded by profits that they took on risks they did not and still do not understand. They got so far away from the concept that they were dealing with real people's money that they were driven to stupidity. The commercial banks used the advantage of low cost deposits to finance pyramid schemes of financial engineering and the investment banks leveraged themselves to insane levels to compete. AND THEY DID ALL THIS WITH FULL PERMISSION, OVERSIGHT AND KNOWLEDGE OF THE FEDERAL GOVERNMENT UNDER BOTH REPUBLICAN AND DEMOCRATIC CONTROL.

Impressions

You really need to follow Mr. Volker's concept of separating the commercial and investment banking functions. This is the only answer that will work. Bankers are feckless, irresponsible, not very bright, greedy and ruthless, a powerful combination. As Rogoff and Reinhart demonstrate in their book "This Time it is Different" bank crisis are fact of life but the severity and frequency are controllable. Banks are like children who persist in driving too fast and dangerously, it is irresponsible to continue to give them the keys to the car.

Another issue that is within your purview to solve is the mistreatment of individual investors by the Wall Street complex. It is very simple. Any person who deals with the public must be held to the highest ethical and personal standards and that standard must be that they only do what is right for the client- the fiduciary standard. All you have to do, Mr. President, is to tell Rep Frank that you want there to be no separation of standards between investment advisors that all should be held to the fiduciary standard. You do that and you will win the hearts of a lot of Americans who have been savaged by Wall Street for years with no recompense or redress.

I have only two more suggestions and they will be brief:

Man Up

History may affirm former President George W. Bush as the worst President in US history but I doubt it. He would have strong competition for that title given the record of such luminaries as James Buchanan, Millard Fillmore, Franklin Pierce, Zachary Taylor and others. Be that as it may, the constant attempt to shift responsibility to the former President does you no honor and hardens attitudes against you. Certainly both Presidents GHW Bush and GW Bush contributed to the problems we face but so did Presidents, Clinton, Nixon, Ford and Reagan.

A man and a leader accept the responsibility of their office and do not blame others. They accept President Lincoln's dictum in his second inaugural "with malice toward none and charity for all" and moves on. The fact that other Presidents have attempted to shift blame is not a reason for you to engage in such actions. Two wrongs do not make a right. During the campaign we were promised a new approach, a new bipartisan method, the open hand not the closed fist. If the opposition wants to continue to be obstructionist we the people will see that and take action that is our job. You need to stay above the fray. You have to play the cards dealt you not what you wished you had. A leader must constantly seek to be conciliatory even after repeated instances of adverse reaction. The first step to your oft expressed wish to return civility to public discourse is stop attempting to transfer responsibility.

Impressions

Sweetwater Investments
16398 NE 83d Street
Redmond, WA 98052
425.861.0112
info@sweetwaterinv.com

March 2010

©Sweetwater Investments- all rights reserved

You chose this job, these are your problems, man up, accept them. Stop blaming others that is no longer an acceptable position.

Get Help

Your Administration has the lowest proportion of persons with private sector experience of any in history. Academics and ideologues are great and we need them but they do not understand and cannot grasp the complexity of practical application of policy. This reliance on academics is a mistake President Franklin Roosevelt made and it cost the country years of pain and suffering as chronicled in the book The Forgotten Man. There are millions of individuals who have good solutions to the problems and can tell you the long term effects of policy made in Washington will be when it reaches the people. There are still those(including this writer) who so love this country that they would pledge their fortunes, their lives and the sacred honor to help this country get better; ask them for help it will demonstrate your strength of character and your generosity. It will set you miles above the venal and partisan it will show your greatness. Some of what needs to be done will be painful and dangerous politically but a leader does not flinch at danger and a statesman is driven by one goal- what is best for the next generation.

I respect the challenge you have taken and I respect you for being willing to attempt to lead the nation and I offer these suggestions only as a way to help both the country and you.

Sincerely,

Dennis R. Gibb, President
Sweetwater Investments