



By Pat Cutler

I'll be Lame for Christmas

Several years ago, I was out running with my dog Rocket on the morning after Thanksgiving. At 6:30 am, there was little to no traffic and most houses were dark and quiet. As was his habit, Rocket ran through the neighborhood yards while I jogged on the street. Like me, he had developed a route he followed religiously. There were sprinklers to bathe in and drink from, dogs and cats to visit, and rabbits to chase. Occasionally, he would find a bone or tennis ball he would carry until we returned home.

Halfway through our morning run, disaster struck. I was crossing over a stream on Shady Lane when Rocket appeared, carrying a large turkey carcass in his mouth. I knew I had to get rid of the turkey carcass or Rocket would eat it when we reached home. I slowed to allow him to come up beside me. Just as he pulled even, I reached down and grabbed the turkey. Rocket veered to the right and I was thrown off stride. My foot turned and I heard a bone crack. I had broken my ankle. A concerned Rocket dropped the carcass, which I quickly grabbed and pitched over the bridge's railing. Rocket took off like a shot down the hill and retrieved the carcass from the stream. Phoneless, I limped home followed by a black lab triumphantly carrying a turkey carcass. I spent the day at the emergency room. Rocket spent the day sleeping after eating the carcass.

Congress is limping along as well. Members of Congress have returned for a lame duck session. Having lost six seats in the Senate and more than 60 in the House, Democrats are working feverishly on their Christmas wish list before time runs out. Republicans may be content to avoid voting until reinforcements arrive. Compromise is needed on a number of issues, including tax cuts, the SMART treaty and a continuing resolution to fund the budget. We are all tired of walking with a limp; it's time for America to run again.

Dashing Through the Dough

Last week, Obama and Senate Republicans reached agreement to extend all of the Bush tax cuts for two years. In the spirit of the season, Obama and the Senate decided to refill their reindeer mugs from the spending punchbowl and worry about the deficit another day. Continued subsidies for ethanol, a one year reduction in payroll taxes, a one year extension of unemployment benefits, energy credits, and tax credits for virtually everyone and things are included in the bill. The cost of the bill is estimated to be in excess of \$800 billion, without any corresponding reduction in spending.

With all the pork included in the bill, Santa's sled may need its own special mixture of bio fuels to get airborne. "Bubba" Clinton, the Democrats' favorite elf, was called in by the president to get house Democrats to tow the line. Despite all the howling and gnashing of teeth by Pelosi Democrats, the bill is expected to pass this week. Increasing the deficit by almost a trillion dollars is okay in the short term. However, it is critical that Obama and Republicans get serious about fixing our long term fiscal problems. Playing Santa Claus is no longer an option.

Merry Grinchmas

It is a Christmas tradition in my neighborhood for everyone to place inflatables in their front yards. The displays become grander every year. Each yard has at least two inflatables; many have moving parts and sound effects.

While retrieving my paper several days ago, I sensed something was terribly wrong. Looking to my left, I saw the lifeless forms of Polar Bear and Winnie the Pooh lying in my front yard. Across the street, Charlie Brown was a crumpled pile on my neighbor's front porch. Further down the road, the hillbilly band lay sprawled in the frosty grass, their music still playing. I heard the hum of running fans as I stared in silence at the carnage. The rising sun revealed the severity of the attack. All of the inflatables had been stabbed repeatedly. Santa, reindeer, elves and wise men lay dismembered up and down Portobello Road. Moms comforted hysterical children while Dads, turned vigilantes, roamed the neighborhood looking for the perps.

Several residents wondered if the attack was the work of disgruntled persons from surrounding neighborhoods, whose rows of lighted Christmas trees had been overshadowed by our inflatables. The police asked that everyone remain calm. They stressed it was likely a random

attack and a recurrence was highly unlikely. Neighbors disguised as Santa Claus now stand guard on their front porches until the wee hours of the morning, or until the peppermint schnapps and Jim Beam run out.

Fighting Deflation

Fed Chairman Ben Bernanke and other members of the FOMC are concerned that inflation has dropped to a level below that which they view "as conducive to a healthy economy in the long run." In Fed Speak, this means they believe we could be headed for a period of deflation. Bernanke has no intention of letting the Deflation Grinch steal the economic recovery. The fix is a simple one: stimulate economic activity and put people back to work. The trick is to accomplish this without significantly driving up prices for goods and services.

With short term rates near zero, the Fed is out of room to adjust rates lower. It must use other tools to stimulate the economy. Its current tool of choice is quantitative easing, which in layman's terms means printing money. The Fed will buy government bonds to increase the money supply, purchasing \$600 billion in long-term Treasuries over the next eight months. The initiative, dubbed QE2, is the Fed's second attempt to stimulate the economy through the purchase of securities and treasuries.

Many market pundits believe pumping money into the economy is of little value, given the large amounts of cash sitting idly on the balance sheets of banks and companies. Others think the Fed will be successful in re-inflating the economy, but will be unable to contain the level of the resulting price increases. Regardless, doing nothing is not an option. Until the Administration and Congress give us a tax policy and exhibit some semblance of fiscal restraint, Ben will be left to go it alone.

Polar Bear, Charlie Brown and the hillbilly band have been sewn back together and re-inflated. Bernanke hopes QE2 will re-inflate an economy slashed by the meltdown in mortgages and left for dead.

Risk Management - Policies and Procedures

One of the most important and often overlooked facets of a mortgage operation is its policies and procedures manual. A mortgage company's policy and procedures manual offers the regulator or auditor a snapshot of the organization's management of risk. Up to date policies and procedures closely followed by the mortgage company are indicative of a well managed organization.

Policies and procedures systemize the process of risk management. They lay out what people should do and what they should not do in a given situation. By reducing uncertainty, they promote action. Examples of policies and procedures include:

- **Board procedures** - Every board member should operate under a set of procedures which addresses conflicts of interest, clarifies personal responsibility, and facilitates the discussion and resolution of difficult issues.
- **Reporting lines** - Everyone in an organization should report to a single person. The line of reporting should be explicit.
- **Risk Limits** - Market, counter-party, and credit risk limits are all critical to managing risks.

A mortgage company should have a formal process for changing policies and procedures. It is easy for associates to enact changes without formally recognizing that the change is taking place. Informal practices evolve out of habit, instead of by deliberate process. Because they may be adopted out of necessity or convenience, without considering how they impact risk, they too become a source of risk. Companies should take the time to update their policies and procedures to conform to best practices, and properly address their tolerance for risks.

Next to a circus there ain't nothing that packs up and tears out faster than the Christmas spirit - Kim Hubbard

This article contains information gathered from numerous sources. The information is considered reliable but is not guaranteed as accurate. The opinions are my own and not deemed appropriate for any purpose other than to provide information to customers and potential customers.

CUTLER CONSULTING IS A FINANCIAL SERVICES CONSULTING FIRM PROVIDING MORTGAGE BANKING ADVISORY SERVICES TO MORTGAGE LENDERS. WE OFFER CUSTOMIZED SOLUTIONS TO INCREASE PROFITABILITY, IMPROVE PERFORMANCE AND MANAGE RISK. FOR MORE INFORMATION ABOUT CUTLER CONSULTING, VISIT WWW.CUTLERCONSULTINGGROUP.COM OR CALL 803.461.0168.