

*By Pat Cutler***Big on the Pig**

Pork is a symbol of progress and prosperity. That's why New Year's dinner traditionally includes pork. In the South, our New Year's meal includes ham hocks, hog jowls, or fatback cooked with black-eyed peas and collards to give these vegetables a fabulous smoky flavor. They (and all other vegetables) are cooked in the fatty pork for hours until they are mushy and all minerals and nutrients have been completely cooked out of them. That's the secret of southern cooking, and probably the reason the South leads the nation in potential candidates for "The Biggest Loser".

In the old rural South, the pig was the major source of meat. Southern families were generally poor, and ate every part of the pig. It's a practice many of us are starting to revisit due to heavy losses in our 401ks. If you're not familiar with ham hocks, pig jowls, pickled pig's feet or other southern delicacies, you need to pay a visit to the Southern grocery store chain, Piggly Wiggly. The Pig, as it is fondly known, was founded in Memphis, Tennessee in 1916 and is America's first true self-service grocery store. The store was the first to incorporate shopping baskets, branded products, and checkouts at the front. Removing unnecessary clerks, creating elaborate aisle displays, and rearranging the store to force customers to view all of the merchandise were just some of the characteristics of the early Piggly Wiggly stores. This style became the standard for the modern supermarket, proving that the South's reputation for clinging to tradition is not always accurate.

Every Southerner worth the name carries a PFC (Pig's Favorite Customer) card on their key chain and owns at least one promotional T-shirt blazoned with the promotional slogan "I'm Big on the Pig". That's a slogan that could also be appropriate for Congress, based on the members' long tradition of pork barrel spending. I wouldn't be surprised to see them wearing these shirts when President Obama signs the stimulus bill.

**Our Economic Pig is in the Ditch**

The Federal Reserve's efforts to mend the financial markets and restore economic growth will take on a new urgency at this week's FOMC meeting. Out of rate cutting ammunition, the Fed will have to reach deep into its economic bag of tricks to grab a stout rope to tie to the distressed swine. Recent data indicate the economy's descent into recession is accelerating, and the risk of a debilitating bout with deflation is rising. Companies are going out of business at a rapid pace. American icons Microsoft, Caterpillar, Home Depot, IBM and Texas Instruments plan to cut staff by 65,000 employees. State governments are cutting staff, furloughing employees without pay, and rolling back salaries. Citigroup and Bank of America have reported huge losses for the fourth quarter. The Bank of America takeover of Merrill Lynch is off to a disastrous start, as finger pointing and "toilet gate" have supplanted the synergies and positives of the deal. Consumer confidence is lower than a pig's belly.

**Hog Wild**

Mr. Obama faced a sea of admirers gone hog wild in anticipation of his vision for a new America. Presidential campaigns are all about selling the "sizzle". Successful campaigns require establishing a clear message that resonates with the voters. Mr. Obama proved to be as talented as anyone has ever been at doing just that. As a reader of presidential biographies, I find a recurring theme in all of them. All of our Presidents have a sincere belief in their ability to bring about change, and they all resolve to work in a bipartisan manner with Congress to achieve the common good. There is always a reference to this in a president's inaugural address. Now what? As President Obama is learning, it is decidedly harder to govern than to campaign.

**Bringing Home the Bacon (or can you say Pork?)**

Reality is there are a lot of "big pigs" rooting around in Washington. Already, we have Harry Reid pounding his chest and making sure everyone is aware that he calls the shots in the Senate. While Republicans are not expected to play nice, President Obama is going to have his hands full with the Democrats as well. Now that they have control of the House and Senate, they intend to strut their stuff. Mr. Obama asked for a \$725 billion package. Mr. Reid and a pack of Democratic governors wanted more. We are now at \$900 billion and

counting. Mr. Obama, fulfilling a campaign pledge and looking for Republican support, asked for \$300 million in tax cuts. Feinstein, Pelosi and Rangel said, "forget-about-it." Several prominent Democratic house members led a rebellion against the new president's ban on earmarks being included in the stimulus package. What good is a "big ole" government spending package if you can't add an ample serving of pork to garner votes back home? President Obama said no, sending them off to root for other delicacies.

### Hogwash

No doubt some of the Democratic rhetoric is political grandstanding for the folks back home. Some of it is to let the new president know that they too are big pigs. Whatever the reason, it is a challenging beginning for the president. Mr. Obama represents hope and a new beginning for our country. He has the backing of a solid majority of his countrymen. He cannot afford to succumb to ideas that are economic hogwash. Mr. Obama can afford some accommodation to appease a few long in the tooth pigs, but he cannot afford for them to set his agenda. Yet to come are the really difficult issues such as health care and a soaring budget deficit. President Obama must work diligently to find the leverage to get our economy going in the right direction. Setting up a bank to handle toxic assets administered by the FDIC and elimination of the alternative tax for middle income tax payers are promising steps in the right direction. The big pigs of the House and Senate need to be contained in the yard behind the barn.

### Mortgage Loan Pricing

Secondary market mortgage pricing has become unhinged. Certain aggregator best efforts pricing is more than 100 basis points worse than their mandatory pricing for like interest rates. Servicing premiums have been dramatically reduced at some shops, but remain the same at others. Large aggregators have been acquired or exited the market. Consistency has been ripped by the financial meltdown of the last 12 months. Market volatility is high. Aggregators are reluctant to price aggressively, fearing adverse price swings caused by the next market surprise. Counterparties are struggling to make sure that they are dealing with companies on a sound financial footing. The Fed is buying mortgage securities and assets. They plan to buy a lot more. This distorts pricing and adds noise to market activity that confounds even the most seasoned secondary marketing trader.

Examine your secondary marketing strategy. Make the necessary adjustments to maximize your profits and reduce your dependence on a particular investor. It has always been prudent to have numerous investors who are financially sound and fair to deal with when selling and delivering your mortgage loans. In today's environment, it is especially important to understand your secondary marketing alternatives. Market volatility has created arbitrage opportunities that offer the prepared lender additional profit opportunities and increased production. The events of the last year have been unprecedented. Once reliable investors are no longer buying loans or have become less competitive. Fannie and Freddie are government controlled. The number of places to sell your mortgage loans has been drastically reduced. Can you really afford not to know what all of your alternatives are? Cutler Consulting can help you develop and implement the right strategy for your company. Give us a call at 803-461-0168 and be prepared for whatever the future may bring.

*Th-th-th-that's all folks.... Porky Pig*

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