Scales of Justice

~~Do Not~~ Will Balance

By James McGuire

One would think, Credit Default Swap payments were to supplement the loss of the payment stream and enhance products to investors. If in fact, the banks had created asset backed securities secured by mortgage loans in non-compliance of law via MERS, which I have no doubt, there would be no need to pull the trigger on the CDS swap prior to the reaching the swap payment amount that would cover losses payable to the investor so long as the market remained high and the crime remain undetected.

Once property values fell and payment receivables fell, in opinion, it became imperative that the CDS Swap trigger had to be pulled so as the servicers would have a source of account receivables to supplement payments being made by the mortgage note servicers to the certificate servicer for disbursal to the investors.

In the Fannie Mae environment where Fannie Mae is Trustee & Guarantor, triggering the swap payment was the only option available until conservership came into play. We all are aware of what happened when the many triggers were pulled at once, hello AIG. Private label issuers took on the role in the private market that Fannie Mae held in the GSE market and the private label battle does not bring to bear federal backing, but the crimes are similar in nature.

Were property once had a value of $300,000, and such value is now $250,000, $250,000 would be on the negative side of the scale, recovery of the $250,000 value would not be enough to counter balance the positive side of the scale whose value could be in excess of 100% of the $300,000 value, and depending upon any subservient CDS swaps to supplement the Primary CDS swaps, if so, this would further imbalance the scales as current losses mount into the tens of trillions.

Attached is a rough chart, one based on cars and the other based on housing.

Not perfect, but, hope all get the jist.

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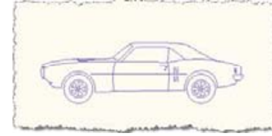
M-S=0

Car Dealer

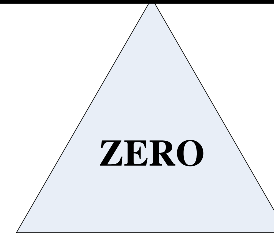
Manufacture

+$M(T)



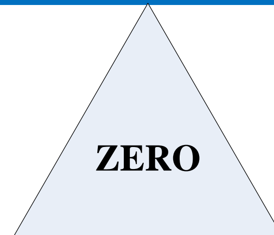
+$M(2)

+$M(1)



Financing Cost
Intangible Interest Payment

Intangible Interest Payment



Credit Default Insurance

Full Value Contract

Full Value Contract = (T)60
Trigger at (T)36 Intangible
Scale does not balance to Zero

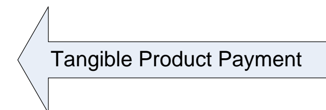
M=Manufacturing Cost S=Sellers Payments (Principle) T=Time/Months

M-S=0

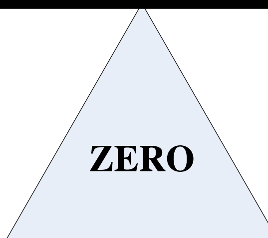
House

Mortgage Broker

+\$M(T)



+\$M(2)

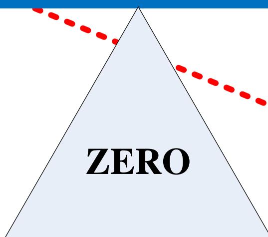


Default Collectable = Tangible + Collected Current (T) Intangible Interest

+\$M(1)

Financing Cost
Intangible Interest Payment

Intangible Interest Payment



Risk Hedging
Credit Default Swaps

Credit Default Insurance Intangible *Full Value Contract*

Full Value Contract = (T)360
Trigger at (T)36 Intangible
Scale does not balance to Zero

Scale Balance Non Zero

Credit Default Collectable = Future Non Collectable Intangible Interest (Insurance Payable)
Insurance Payable could Possibly Exceed House Value (House is a non recoverable asset to CDS carrier)

M=Building Cost S=Sellers Payments (Principle) T=Time/Months