

BUSINESS

Lessons from recession may be fading

WASHINGTON (AP) — Six years after the collapse of Lehman Brothers, the lessons of the financial crisis may already be fading from collective memory.

Just last week: ■ Congress acted to loosen the regulation of the high-risk investments that ignited the 2008 crisis.

■ Housing regulators cut minimum down payments on home loans.

■ The Institute of International Finance declared it “worrisome” that global indebtedness, as a share of world economic output, has reached record levels.

All this comes as sub-prime auto loans for financially stretched buyers are surging. And the so-called too-big-to-fail banks that needed a taxpayer bailout in 2008 now loom even larger than before the crisis: America’s five biggest banks account for 44 percent of bank assets, up from 38 percent in 2007, according to SNL Financial.

The trend toward pre-crisis lending practices worries analysts who favored far-reaching reforms to safeguard the system.

“We’re on a very dangerous trajectory,” said Simon Johnson, professor of global economics at the Massachusetts Institute of Technology.

Johnson said he fears that last week’s congressional vote shows that bank lobbyists still carry the political clout to dilute financial regulations.

By all accounts, the system isn’t as vulnerable as it was before the crisis. The Treasury Department’s Office of Financial Research, set up after the crisis to monitor risks, said this month that “threats to financial stability are moderate.”

U.S. banks have increased their capital defenses against loan losses by over 27 percent since 2007.

Richard Hunt, president of the Consumer Bankers Association lobbying group, rejects any notion that banks are weakening credit standards.

“If you’re a banker who survived over the last five years,” Hunt said, “the last thing you’re going to do is return to that period of time. We’re nowhere close to returning to the type of loans” issued just before the crisis.

Still, watchdogs fear the risks are accumulating. Despite its overall finding that threats are moderate, Treasury’s research office warned of “excessive risk-taking during an extended period of low interest rates.”

The Treasury office also worries that more lending and trading are occurring beyond the reach of regulators in the so-called shadow banking sector of hedge funds and other investment firms, “where threats could be significant, but are more difficult to assess.”

Recent developments have compounded the worries:

Risky bets

Congress voted last week to weaken a rule intended to reduce risks to taxpayers. Under the 2010 Dodd-Frank financial regulation bill, banks had to separate their federally insured banks from their riskiest trading operations — the ones that deal in derivatives.

Derivatives are used by farmers and companies to hedge financial risks. But they also let traders speculate on bonds, currencies and commodities such as oil. Bad bets in the derivatives market sank American

International Group, an insurer that needed a \$185 billion taxpayer bailout. The Dodd-Frank provision was meant to limit the risk that banks would use federally insured deposits to gamble on derivatives.

But last week, at the behest of bank lobbyists, the House slipped into a must-pass spending bill a repeal of the divide between traditional banks and derivatives trading. Banks say the move will preserve their ability to help farmers and businesses hedge against risks.

Sen. Elizabeth Warren, D-Mass., fought unsuccessfully to block the move.

“Wall Street has been working behind the scenes to open another loophole so they could gamble with taxpayer money,” Warren said. “Congress should not put taxpayers on the hook for another bailout.”

Thomas Hoenig, vice chairman of the Federal Deposit Insurance Corp., called the repeal “illogical.” He noted that Dodd-Frank didn’t prevent banks from trading derivatives and servicing farmers and businesses in operations not backed by federal deposit insurance. The 2008 crisis, Hoenig said, exposed “the economic consequences of conducting derivatives trading in taxpayer-insured banks.”

Lower down payments

Mortgage giants Fannie Mae and Freddie Mac issued guidelines last week allowing Americans to buy homes with down payments as low as 3 percent, down from the current 5 percent minimum. The new guidelines are meant to make houses more affordable for low-income families and first-time buyers.

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PUBLIC NOTICE

INTERNATIONAL FALLS ECONOMIC DEVELOPMENT AUTHORITY

PUBLIC HEARING

Monday, December 29, 2014-4:30 PM
Council Chamber, Municipal Building
600 4th Street, International Falls, MN

In accordance with Minnesota Statute 469.105, Subdivision 2, the International Falls Economic Development Authority will conduct a public hearing for the purpose of providing the public the opportunity to testify (in person or in writing) for or against the sale of 1.5 acres Northeast of CSAH 155 and the Moonlight Road intersection, (parcel A1) to Mariner Farms, LLC, for construction of a Closed Loop, Eco-System Food Production Facility in the Multi Modal District in the City of International Falls. The property is located in the Northwest corner within the International Falls Economic Development Authority’s Multi Modal District. Mariner Farms also requested first right of refusal for an additional 1.5 acres (parcel A2) immediately east of parcel A1 for the purpose of expansion.

The proposed Development Agreement, which offers a \$1.00 sale price, is available to the public at the International Falls Economic Development Authority office located in the basement level of the International Falls Municipal Building, 600 4th Street.