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FINANCIAL MELTDOWN: THE END OF A 300 YEAR PONZI SCHEME

Ellen Hodgson Brown

Panic struck on Wall Street, as the Dow Jones Industrial Average plunged a thousand points between July and August, and commentators warned of a 1929-style crash. To prevent that dire result, the U.S. Federal Reserve, along with the central banks of Europe, Canada, Australia and Japan, extended a 315 billion dollar lifeline to troubled banks and investment firms. The hemorrhage stopped, the markets turned around, and investors breathed a sigh of relief. All was well again in Stepfordville. Or was it? And if it was, at what cost? Three hundred billion dollars is about a third of the total paid by U.S. taxpayers in personal income taxes annually. A mere $188 billion would have been enough to repair all of the 74,000 U.S. bridges known to be defective, preventing another disaster like that in Minneapolis in July. But the central banks' $300 billion was poured instead into the black hole of rescuing the very banks and hedge funds blamed for the "liquidity" crisis (the dried up well of investment money), encouraging loan sharks and speculators in their profligate ways.

Where did the central banks find the $300 billion? Central banks are "lenders of last resort." According to the Federal Reserve Bank of Atlanta's Economic Review, "to function as a lender of last resort [a central bank] *must have authority to create money, i.e., provide unlimited liquidity on demand*."1 In short, central banks can create money out of thin air. Increasing the money supply ("demand") without increasing goods and services ("supply") is highly inflationary; but this money-creating power is said to be necessary to correct the periodic market failures to which the banking system is inherently prone.2 "Busts" have followed "booms" so regularly and predictably in the last 300 years that the phenomenon has been dubbed the "business cycle," as if it were an immutable trait of free markets like the weather. But in fact it is an immutable trait only of a banking system based on the sleight of hand known as "fractional-reserve" lending. *The banks themselves routinely create money out of thin air, and they need a lender of last resort to bail them out whenever they get caught short in this sleight of hand.*

Running through this whole drama is a larger theme, one that nobody is talking about and that can't be cured by fiddling with interest rates or throwing liquidity at banks making too-risky loans. The *reason* the modern banking system is prone to periodic market failures is that *it is a Ponzi scheme*, one that is basically a fraud on the people. Like all Ponzi schemes, it can go on only so long before it reaches its mathematical limits; and there is good evidence that we are there now. If we are to avoid the greatest market crash in history, we must eliminate the underlying fraud; and to do that we need to understand what is really going on.

The 300 Year Ponzi Scheme Known as "Fractional-Reserve" Lending

A Ponzi scheme is a form of pyramid scheme in which earlier players are paid with the money of

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Too Big To Be Bailed Out

Peter Schiff

Now that home mortgage defaults are spreading like wildfire from coast to coast, there is a growing sense of certainty that the government will attempt to bail out homeowners and lenders. The ideas put forward last week by President Bush may be the camel's nose pushing under the bottom of the tent. However, just as some things are too big to fail, this problem is far too big to fix.

First of all, one has to consider the moral hazards inherent in any bailout. Immediate relief in the form of debt reductions and more favorable loan terms will create a powerful incentive to default. Why would anyone stretch to make a burdensome mortgage payment while others are being rewarded for failing to make theirs?

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Even without the incentives of a government bailout luring more people into default, policy makers simply have no idea as to the scope of the problem. Before this home mortgage correction runs its course, nearly every homeowner in the country who had availed him or herself of an adjustable rate mortgage or a home equity loan will be in need of a bailout. Even a sizable percentage of those with traditional fixed rate mortgages will find themselves in danger. With millions, or perhaps tens of millions, of homeowners on the rocks, there is simply no way the government can structure a bailout without bankrupting the country or destroying the currency.

Bailout or not, the economy will still be in a prolonged and severe recession. Even if Federal aid prevents millions of foreclosures from happening, all of the home equity accumulated during the bubble years will be gone. Debt reduction and restructuring will not stop home prices from falling, and will not make homes easier to sell. After all, those looking to buy homes will no longer have access to the easy credit that made bubble prices possible in the first place. Home prices are a function of what future buyers can afford - not what past buyers paid. If new buyers are required to make 20% down payments, fully document their income, and fully amortize a fixed rate mortgage, they will not be able to pay nearly as much as what current owners paid during the bubble.

On the low end, any comprehensive government bailout would easily surpass the $1 trillion mark. Where will the Federal government get the

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later players, until no more unwary investors are available to be sucked in at the bottom and the pyramid collapses, leaving the last investors holding the bag. Our economic Ponzi scheme dates back to Oliver Cromwell's "Glorious Revolution" in seventeenth century England. Before that, the power to issue money was the sovereign right of the King, and for anyone else to do it was considered treason. But Cromwell did not have access to this money-creating power. He had to borrow from foreign moneylenders to fund his revolt; and they agreed to lend only on condition that they be allowed back into England, from which they had been banned centuries earlier. In 1694, the Bank of England was chartered to a group of private moneylenders, who were allowed to print banknotes and lend them to the government at interest; and these private banknotes became the national money supply. They were ostensibly backed by gold; but under the fractional-reserve lending scheme, the amount of gold kept in "reserve" was only a fraction of the value of the notes actually printed and lent. This practice grew out of the discovery of the goldsmiths that customers who left their gold for safekeeping would come for it only about 10 percent of the time. Ten paper banknotes "backed" by a pound of gold could therefore safely be printed and lent for every pound of gold the goldsmiths held in reserve. Nine of the notes were essentially counterfeits.

The Bank of England became the pattern for the system known today as "central banking." A single bank, usually privately owned, is given a monopoly over issuing the nation's currency, which is then *lent* to the government, usurping the government's sovereign power to create money itself. In the United States, formal adoption of this system dates to the Federal Reserve Act of 1913; but private banks have created the national money supply ever since the country was founded. Before 1913, multiple private banks issued banknotes with their own names on them; and as in England, the banks issued notes for much more gold than was in their vaults. The scheme worked until the customers got suspicious and all demanded their gold at once, when there would be a "run" on the banks and they would have to close their doors. The Federal Reserve (or "Fed") was instituted to rescue the banks from these crises by creating and lending money on demand. The banks themselves were already creating money out of nothing, but the Fed served as a backup source, generating the customer confidence necessary to carry on the fractional-reserve lending scheme.

Today, coins are the *only* money issued by the U.S. government, and they compose only about one one-thousandth of the money supply. Federal Reserve Notes (dollar bills) are issued by the privately owned Federal Reserve and *lent* to the government and to commercial banks. Coins and Federal Reserve Notes together, however, compose less than 3 percent of the money supply. The rest is created by commercial banks as loans. The notion that private banks have created virtually all of our money is so foreign to what we have been taught that it can be difficult to grasp, but many reputable authorities have attested to it. (See E. Brown, "Dollar Deception: How Banks Secretly Create Money," www.webofdebt.com/articles, July 3, 2007.)

Among other problems with this system of money creation is that banks create the principal but not the interest necessary to pay back their loans; and that is where the Ponzi scheme comes in. Since loans from the Federal Reserve or commercial banks are the *only* source of new money in the economy, additional borrowers must continually be found to take out new loans to expand the money supply, in order to pay the interest creamed off by the bankers. New sources of debt are fanned into "bubbles" (rapidly rising asset prices), which expand until they "pop," when new bubbles are devised until no more borrowers can be found, and the pyramid finally collapses.

Before 1933, when the dollar went off the gold standard, the tether of gold served to limit the expansion of the money supply; but since then, the Fed's solution to collapsed bubbles has been to pump more newly-created money into the system. When the savings and loan associations collapsed,

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Are the good times gone for good?

Mr Greenspan left the Federal Reserve in January 2006

Greenspan's outlook

One of the most influential figures in the world economy, former US central bank chairman Alan Greenspan, has warned that the good times are over for the world economy.

Mr Greenspan, who played a key role in managing the US economy as head of the Federal Reserve from 1986 to 2006, says that higher interest rates and higher inflation are more likely in the future, leading to slower economic growth and lower housing and share prices.

In a wide-ranging interview with BBC economics editor Evan Davis, he warns that the UK cannot escape from global economic pressures.

And he says that central bank governors, including the Bank of England's Mervyn King, face a far more difficult task in managing the economy in turbulent times.

Why is Mr Greenspan so gloomy for the world economy?

And why have his perceptions shifted so sharply, compared with his views when he was in charge of the Fed?

World slowdown

Mr Greenspan says that the outlook for the world economy over the next few years is highly uncertain.

The most credible worst-case scenario, he says, is a recession in the US, driven by further falls in US house prices as people feel less wealthy and spend less money.

Even in the best case, he predicts a substantial slowdown in the US, with repercussions across the globe.

In the long-term, he predicts that higher interest rates, greater pressures on public spending, and a revival of inflation through commodity prices could lead to a less affluent future for us all.

End of the "golden age' ?

In the 1990s, Mr Greenspan was one of the leading advocates of the concept of the "new economy", which was the belief that by using new technology such as computers, businesses could raise their productivity, and thus boost economic growth, without causing inflation.

As a result, the Fed kept interest rates low, and the US economy and stock market boomed.

Mr Greenspan now says that two other factors kept inflation and interest rates low: the rise of China as a source of cheap goods, which reduced inflation for US and European consumers, and the global glut of savings, again from Asia, which kept interest rates low.

But he argues that these have only given a temporary respite to the world economy, and he says that the price of Chinese goods is now beginning to rise.

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Nope, That's Not Money

John Rubino

Prudent Bear's Doug Noland has for years been pointing out that one of the drivers of the credit bubble has been the ever-broadening definition of money. As the global economy expanded without a hic-up, more and more instruments came to be used as a store of value or medium of exchange or even a standard against which to value other things—in other words, as money. Thus mortgage-backed bonds and even more exotic things came to be seen as nearly risk-free and infinitely liquid. In Noland's terms, credit gained "moneyness," which sent the effective global money supply through the roof. This in turn allowed the U.S. and its trading partners to keep adding jobs and appearing to grow, despite debt levels that were rising into the stratosphere. For a while there, borrowing actually made the world richer, because both the cash received and the debt created functioned as money.

With a few months of hindsight, it's now clear that debt-as-money was not one of humanity's better ideas. When the U.S. housing market—the source of all that mortgage-backed pseudo money—began to tank, hedge funds found out that an asset-backed bond wasn't exactly the same thing as a stack of hundred dollar bills. The global economy then started taking inventory of what it was using as money. And it began crossing things off the list. Sub-prime ABS? Nope, that's not money. BBB corporate bonds? Nope. High-grade corporates? Alas, no. Credit default swaps? Are you kidding me?

No longer able to function as money, these instruments are being "repriced" (a slick little euphemism for "dumped for whatever anyone will pay"), which is causing a

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money, particularly during a severe recession? My guess is raising taxes will be out of the question. If people are having trouble making their mortgage payments now, significant tax increases will only make it that much more difficult. Borrowing the money also seems like a difficult task, as our minimal domestic savings means we will have to do so from abroad. Given that the budget deficit will likely be exploding as a result of the recession, foreigners are not likely to foot the bill. If they do, it will require significantly higher interest rates, which will only compound the mortgage rate problems for current and potential homebuyers.

Unfortunately, the only realistic way to "pay" for such a massive bailout would be for the Fed to monetize it. If that were to happen, the value of the dollar would plunge, and consumer prices would go through the roof. Now that the dollar Index has finally broken below the key 80 support level, an event that I have been forecasting would eventually occur for years, a run on the greenback may already be in motion. Ultimately, long-term interest rates will soar as a result, and we will experience unprecedented stagflation and a substantial decline in our collective standard of living. This week's serge in the price of gold, which traded above $700 per ounce for the first time since May of 2006, reveals that some investors are finally beginning to figure this out.

Ironically, in a recession induced by the burst housing bubble, housing itself will not be among our most pressing problems. One of the few "benefits" of the housing bubble is that we now have a lot of houses,

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precipitating a recession in the 1980s, the Fed lowered interest rates and fanned the 1990s stock market bubble. When that bubble collapsed in 2000, the Fed dropped interest rates even further, creating the housing bubble of the current decade. When lenders ran out of "prime" borrowers, they turned to "subprime" borrowers - those who would not have qualified under the older, tougher standards. It was all part of the structural imperative of all Ponzi schemes that the inflow of cash must continually expand to pay the people at the top. This expansion, however, has mathematical limits. In 2004, the Fed had to begin raising rates to tame inflation and to support the burgeoning federal debt by making government bonds more attractive to investors. The housing bubble was then punctured, and many subprime borrowers went into default.

The Subprime Mess and the Derivatives Scam

In the ever-growing need to find new borrowers, lending standards were relaxed. Adjustable rate mortgages, interest-only loans, no- or low-down-payment loans, and no-documentation loans made "home ownership" available to nearly anyone willing to take the bait. The risks of these loans were minimized by off-loading them onto unsuspecting investors. The loans were sliced up, bundled with less risky mortgages, and sold as mortgage-backed securities called "collateralized debt obligations" (CDOs). To induce rating agencies to give CDOs triple-A ratings, "derivatives" were thrown into the mix, ostensibly protecting investors from loss.

Derivatives are basically side bets that some investment (a stock, commodity, etc.) will go up or down in value. The simplest form is a "put" that pays the investor if an asset he owns goes down, neutralizing his risk. But most derivatives today are far more difficult to understand than that. Some critics say they are impossible to understand, because they were intentionally designed to mislead investors. By December 2006, according to the Bank for International Settlements, the derivatives trade had grown to *$415 trillion*. This is a Ponzi scheme on its face, since the sum is nearly nine times the size of the entire world economy. A thing is worth only what it will fetch in the market, and there is no market anywhere on the planet that can afford to pay up on these speculative bets.

The current market implosion began when investment bank Bear Stearns, which had been buying CDOs through its hedge funds, closed two of those funds in June 2007. When the creditors tried to get their money back, the CDOs were put up for sale, and there were no takers at anywhere near their stated valuations. Panic spread, as increasing numbers of investment banks had to prevent "runs" on their hedge funds by refusing withdrawals by investors concerned about fraudulent CDO valuations. When the problem became too big for the investment banks to handle, the central banks stepped in with their $300 billion lifeline.

Among those institutions rescued was Countrywide Financial, the largest U.S. mortgage lender. Countrywide has been called the next Enron, not only because it was facing bankruptcy but because it was guilty of some quite shady practices. It underwrote and sold hundreds of thousands of mortgages containing false and misleading information, which were then sold in the market as "securities." The lack of "liquidity" was blamed directly on these corrupt practices, which had frightened investors away from the markets. But that did not deter the Fed from sending in a lifeboat. Countrywide was saved when Bank of America bought $2 billion of its stock with a loan made available by the Fed at newly reduced interest rates. Bank of America also got a nice windfall, since when investors learned that Countrywide was being rescued, the stock it just purchased shot up.

Where did the Fed itself get the money? Chris Powell of GATA (the Gold Anti-Trust Action

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Are the good times gone for good?

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Mr Greenspan now says that globalization was more of a double-edged sword than he once believed, leading to growing inequality of income and wealth and growing protectionist pressures, as well as more efficient allocation of resources.

Bursting asset bubbles

In 1996, Mr Greenspan famously warned that the stock market was suffering from 'irrational exuberance', but the stock market boom continued.

And when the stock market crashed in 2000, the house price boom began, both in the US and the UK.

Mr Greenspan now says that he was perhaps a little too cryptic in his warnings about the 'frothy' nature of these asset bubbles.

But, he argues, there is little central bankers could have done to prevent asset bubbles from forming in the economy.

He says the bubbles were a side-effect of their successful efforts to keep interest rates low.

Even when the Fed raised short-term interest rates in 2004, the long-term money markets did not respond with higher rates, because the global downward pressures on interest rates were too strong.

Now that the bubbles seem likely to burst, there is little bankers can do to prevent them because it all depends on human psychology.

He says it is inevitable that house prices will fall or stabilize as global interest rates continue to rise, and he fears a sharp correction is possible.

Limits of intervention

Overall, Mr Greenspan - who was often characterized as the 'Maestro' - is now more humble about his role in shaping the world and US economy.

He says that financial panics and reverses, like the one we are experiencing at the moment, may be inevitable, and the best that policy-makers can do may be to wait for them to finish.

He argues, in fact, that attempts at further regulation by governments often have perverse effects, like the Bank of England intervention to help Northern Rock, which triggered the run on the bank.

He clearly believes that governments often do more harm than good.

He is surprisingly critical of the Bush administration, and deeply disappointed that it increased spending while also cutting taxes, thus boosting the budget deficit and adding to inflationary pressures.

Of course, it was Mr Greenspan's endorsement of the tax cuts in 2001 that proved crucial in getting them through a divided Congress, which is something he now regrets.

He now argues that the Clinton Administration, which put tackling the budget deficit at the top of its priorities, had a sounder approach.

With Hillary Clinton now the leading candidate for the Democratic nomination for the US Presidency, Mr Greenspan's words are likely to be influential for some time to come.

Article by:
Steve Schifferes
Economics reporter, BBC News
October 4, 2007

Credit crunch 'hits world growth'

The International Monetary Fund (IMF), which supervises the world financial system, says an economic slowdown is likely due to the global credit crunch.

The IMF warned in its global stability report that the "downside risks [to growth] have increased significantly".

IMF Managing Director Rodrigo Rato said that the biggest impact of the crisis will be on the US economy in 2008.

His comments came soon after a former Federal Reserve chairman said there was a 50% chance of a recession in the US.

"We're heading towards a slowdown," Alan Greenspan said on Sunday. "Whether that actually leads to a recession is dependent on things we can't forecast at this moment."

World growth slowdown

The IMF said that even if credit markets recover, the turbulence may have "far reaching and significant" consequences.

The potential consequences of this episode should not be underestimated and the adjustment process is likely to be protracted
IMF Global Financial Stability Report

While world economic growth should remain high next year- driven by the buoyant Asian economies - it will be lower than the levels of 2006 and 2007, said Mr Rato.

The longer financial markets remain in crisis, the greater the risk of a further slowdown, he added - and the strong euro could be a particular problem.

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Committee) commented, "[I] In central banking, if you need money for *anything*, you just sit down and type some up and click it over to someone who is ready to do as you ask with it." He added:

> *If it works for the Federal Reserve, Bank of America, and Countrywide, it can work for everyone else.*
>
> For it is no more difficult for the Fed to conjure $2 billion for Bank of America and its friends to "invest" in Countrywide than it would be for the Fed to wire a few thousand dollars into your checking account, calling it, say, an advance on your next tax cut or a mortgage interest rebate awarded to you because some big, bad lender encouraged you to buy a McMansion with no money down in the expectation that you could flip it in a few months for enough profit to buy a regular house.

Which brings us to the point here: if *somebody* is going to be "reflating" the economy by typing up money on a computer screen, it should be Congress itself, the publicly accountable entity that alone is authorized to create money under the Constitution.

The Way Out

Economic collapse has been the predictable end of all Ponzi schemes ever since the Mississippi bubble of the eighteenth century. The only way out of this fix is to reverse the sleight of hand that got us into it. If new money must be pumped into the economy, it should be done, not by private banks for private profit, but by the people collectively through their representative government; and the money should be spent, not on bailing out banks and hedge funds that have lost speculative market gambles, but on socially productive services such as rebuilding infrastructure.

When deflation is tackled by creating new money in the form of debt to private banks, the result is a spiraling vortex of debt and price inflation. The better solution is to put *debt-free* money into consumers' pockets in the form of *wages earned*. Workers are increasingly losing their jobs to "outsourcing." A government exercising its sovereign right to issue money could pay those workers to build power plants using "clean" energy, high-speed trains, and other needed infrastructure. The government could then charge users a fee for these services, recycling the money from the government to the economy and back again, avoiding inflation.

Other considerations aside, we simply cannot afford the bank bailouts coming down the pike. If it takes $300 billion to avert a market collapse precipitated by a few failing hedge funds, what will the price tag be when the $400-plus trillion derivatives bubble collapses? Rather than bailing out banks that have usurped our sovereign right to create money, we the people should skip the middlemen and create our own money, debt- and interest-free. As William Jennings Bryan said in a historic speech a century ago:

[The bankers] tell us that the issue of paper money is a function of the bank and that the government ought to go out of the banking business. I stand with Jefferson . . . and tell them, as he did, that *the issue of money is a function of the government and that the banks should go out of the governing business*. . . . [W]hen we have restored the money of the Constitution, all other necessary reforms will be possible, and . . . until that is done there is no reform that can be accomplished.

Ellen Hodgson Brown
www.webofdebt.com
September 3, 2007

Credit crunch 'hits world growth'

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The IMF will publish its world economic forecast next month, but some independent forecasters have suggested that the US economy might only grow by 1% to 1.5% next year, half its current rate, while the UK could slow to between 1.5% and 2%, compared to the 2.8% expected this year.

Credit turmoil

The IMF report says that the collapse of credit markets, and concerns about the location and size of potential losses, "has led to disruptions in some money markets and funding difficulties for a number of financial institutions".

And it warns that despite the "extraordinary" injection of cash by central banks to ensure the orderly functioning of markets, "the potential consequences of this episode should not be underestimated and the adjustment process is likely to be protracted".

What should be done?

The report says that although it is too early to draw definitive policy conclusions about how to prevent future crises of this type, there are several key lessons:

- **Uncertainty and lack of information:**
  Financial markets have seized up partly because they lack information about the underlying risks of complicated financial instruments. Greater transparency is needed if markets are to function properly in pricing risk.

- **Unintended consequences of globalisation:**
  While financial innovation, such as "securitisation" of risky mortgage lending, has spread risk more evenly around the financial system, it has also made more institutions vulnerable to those risks.

- **Role of credit agencies:**
  Banks have relied on rating agencies to tell them how risky their involvement in these exotic new financial instruments might be, but they may not have been up to the job.

The IMF says that "policymakers now face a delicate task" of tightening up on regulations while being mindful that "households and firms have benefited greatly from financial innovation and sold growth and financial stability of recent years."

Tough debate

The issue is likely to dominate the IMF's annual meeting in Washington next month, with France and the US clashing on whether too much regulation of the world financial system would discourage financial innovation.

The US faces its own issues in this area - as the lax lending practices of mortgage companies, who were only lightly regulated by the US Federal Reserve, was a key factor contributing to the crisis.

The Bush administration is now discussing how to tighten up such regulations, amid predictions of up to 500,000 foreclosures on sub-prime mortgages next year.

Article by:
BBC News
September 24, 2007

Nope, That's Not Money

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cascade failure of the many business models that depend on infinite liquidity. The effective global money supply is contracting at a double-digit rate, reversing out much of the past decade's growth.

But here's where it gets really interesting. The reaction of the world's central banks to the freezing-up of the leveraged speculating community has, predictably, been to create massive amounts of new fiat currency and hand it to the banking system. They're not dropping twenties out of helicopters yet, but functionally it's the same thing. By swapping dollars, euros and yen for no-longer-money bonds that are plunging in price, creating some paper profits where there once were catastrophic losses, the Bankers hope to revive the animal spirits of the leveraged speculators. Specifically, they hope to stop the financial community from going further down the moneyness checklist and eliminating any more instruments.

But you don't forget a brush with death that easily. The process of debt reclassification has a momentum that a few hundred billion new dollars won't stop. And once corporate bonds and agency bonds and emerging market bonds have been crossed off the list, the system will start eyeing the dollar. Is it really a store of value after falling by half against oil and gold in the past five years? Didn't the Fed just create a tidal wave of new dollars and promise to create infinitely more if needed? Isn't the U.S. economy hobbled by the implosion of housing and mortgage finance and hedge funds and (soon) derivatives? Don't Americans owe more per capita than any people in human history? And a realization will begin to dawn: Maybe the paper currency of an over-indebted country isn't money either…

Article by:
John Rubino
DollarCollapse.com

Too Big To Be Bailed Out

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many of them vacant. Therefore, few former American mortgage holders will go homeless. However, the real problems for Americans, whether they own or rent their homes, will be maintenance costs (heating oil, electricity, etc.) and keeping their kitchens stocked with food.

One thing is for sure: homeowners will certainly not be buying new furniture for their living rooms, big screen TV's for their media rooms, granite counter tops for their kitchens, or new cars for their garages. The costs associated with the housing bubble will be huge. However, the price tag for a government bailout designed to prevent it from deflating will be much higher. Even those who get "bailed out" will ultimately be in worse shape as a result.

Let's hope that cooler heads prevail and that the rest of the camel never makes it into the tent. However, just in case they don't, make sure to get rid of any remaining dollar denominated assets before it's too late.

Article by:
Peter Schiff
September 7, 2007

The Outstanding Public Debt

National Debt:
9,064,003,833,252.49
The estimated population of the United States is **303,172,271**
US citizen's share of this debt is
$29,897.21
The National Debt has continued to increase an average of
$1.50 billion per day
Business, Government and Financial Debt exceeds
$45 Trillion

Investment banks 'to lose $30bn'

World investment banks are set to reveal they have lost about $30bn (£15bn) from bad debts linked to the global credit crunch, a report says.

Analysts are predicting the firms - many of which report quarterly results this week - will have to write-off 10% of the $300bn loans they have agreed. In some cases profits will be almost wiped out, the Sunday Times said. The report comes ahead of a Federal Reserve meeting, which is expected to see a cut US interest rates.

The Fed is tipped to reduce rates from 5.25% by 0.25 or 0.5 percentage points in a move that would be aimed at preventing the downturn in the housing market and the credit crunch from severely denting the US economy.

By making money cheaper to borrow, it is hoped that people would spend and invest more, revitalizing the economy.

'Zero profits'

The results from investment banks including Merrill Lynch and Bear Sterns will provide the first real insight into the impact of the crisis on some of the world's biggest banks. "The hits will essentially mean that some investment banks will have made almost no money over the last quarter," said Khan Abouhossein, an analyst at JP Morgan. "Profits will be close to zero".

As well as their involvement in bad debt, most are expected to reveal their exposure to commercial paper - short-term debt issued by large corporations and financial institutions. The paper is not used to finance large-scale investments but provides short-term money - or cash flow - to these businesses. When they mature, these short-term loans are generally rolled over and re-financed but the current crisis in the debt markets has led to unwillingness among investors to do this for some loans.

The credit crunch has been brought about largely by troubles in the US housing market where people with low incomes were given mortgages that they have been unable to repay, and have therefore defaulted on. But because these so-called sub-prime loans have been sold on to banks and other institutions, it has been difficult to gauge who has exposure to the losses, and to what extent they threaten various companies.

Former Fed chairman Alan Greenspan has told CBS's 60 Minutes programme that during his tenure he "didn't get" how the surge in sub-prime lending might dent the economy, saying he had no notion of how large it had become until he was about to leave office. BBC News.

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Views and Analysis on the economy and Precious Metals

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