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ECONOMIC UPDATE

Marine Bank provides quarterly economic updates as a service to its customers. If you would prefer to receive this newsletter electronically, please contact:

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About John J. Terril

John "Joe" Terril is the president of Terril & Company, an independent wealth management firm based in St. Louis, Missouri. Terril & Company oversees retirement plans, IRAs and individual investment portfolios for corporate executives, successful professionals, professional athletes, and small business owners. After 27 years in business, an important cornerstone of Terril & Company's philosophy remains ensuring that no conflicts of interest exist between the company and its clients.

Joe Terril and Marine Bank's Annette Piper team up to provide outstanding investment management services with a *personal touch* that is classic Marine. For a free, unbiased and totally objective analysis of how your own assets can be most effectively managed call Annette Piper today at 217.726.0661.

DANGER AHEAD?

By John J. Terril

We are on record from several speeches, quotes in business papers, interviews on TV and comments on our website as being mildly bullish on the future of the economy. January retail sales figures confimed our beliefs. Sales rose 1%; they did not fall as many predicted. Retail auto sales also rose 1.6%. The figures are actually much better than reported due to the lower prices of fuel and other commodities. To achieve this gain in dollar terms, unit sales must have increased at an impressive rate. We continue to believe the economy is not anywhere close to the "near depression" levels the media, and now most importantly, the politicians are telling people.

Prior to this week, the largest hurdle facing the economy was the vicious circle into which the regulators had forced the banking industry. The mandating of massive write-downs on bank assets and then using that as a reason to demand the banks raise more capital makes no sense. Banks should be allowed to value assets at a prediction of "ultimate recovery value." History records examples of how sensible accounting rules work in the best interest of the economy. In the early '80s, banks all over the world loaned considerable sums to the Latin American countries. That turned out to be a bad decision and the loans soured. At the worst of this banking crisis, a few banks threw in the towel and sold their loans at 10 cents on the dollar, while many other banks continued to carry their loans at higher values. Banks ultimately recovered more than predicted, and the banks that continued to carry their loans at higher values turned out to be correct in their valuations.

The purpose of this trip down memory lane is to point out the fact that if, in the 1980s, banks had been forced to write down their loans to a few cents on a dollar (as current mark to market accounting rules mandate), all of those banks would have disappeared into bankruptcy. The Latin American credit crisis did not create large scale bank failures, as the markets were allowed greater latitude in alleviating the crisis while regulators exercised discipline.

Resolution of the existing financial crisis is not difficult. By merely permitting financial institutions to value assets at their anticipated ultimate recovery value, regulators could restore far-reaching stability to the financial system. Forcing banks to carry mortgages at 20 to 40 cents on the dollar carries the corresponding implication that housing prices in the U.S. are down by 60 to 80 percent across the board, which is simply not the case.

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Recently the new Treasury Secretary Timothy Geithner was scheduled to outline the Obama Administration's policy towards financial institutions. Pre-released excerpts from Geithner's speech called for relief from the mark to market accounting standards. On Sunday, February 8th, news came out that the Geithner speech had been postponed. On Tuesday, February 10th, a confused and dazed Geithner presented an empty plan devoid of anticipated details and markets tanked in response.

The story has now come out that Geithner and Council of Economic Advisors head Larry Summers were blindsided by politicians within the Obama Administration. White House political operatives over-ruled Geithner and Summers, as they view the financial system crisis as an opportunity to seize control of the largest banks. Ergo, Geithner referenced the necessity to subject those same banks to some new and horribly vague "stress test." Banks failing the yet-to-be-described "stress test" would be subjected to new capital requirements. In the meantime, the Obama Administration is forcing the banks to accept 8% money from the government in return for options to own 10 to 20 percent of the company. Forcing banks to borrow government money at 8% when they can make loans at 5% is inane, and an obvious recipe for disaster. It is as though the Obama Administration wants these large money center banks to fail in order to lend credence to the Administration's takeover arguments.

Banks must already meet numerous capital-related requirements. It is completely unnecessary to subject those institutions to a new government "stress test". Why was there no acknowledgement of the existing capital requirement regulations? As a source explained, the full push towards socialism is now in high gear.

Perhaps that explains the resignation of certain Obama Administration appointees. The President has explained that away as just good democratic debate and disagreement. The truth is that no one outside the hard left wants any part of a socialist move. A move towards government control of the financial system is a disaster in the making. Do the American people want politicians, who seem to get indicted on a nearly daily basis, in control of our major banks? The same political elements that induced this crisis to begin with would now be in control of the nation's financial system.

The behavior of the Obama Administration and its hard left allies in the Congress forces us to reassess our formerly optimistic view of the economy. Government action is forcing us to adopt an otherwise unnecessary bearish stance on both the economy and our markets. The politicians gamble is set in place. Will the American people let them get away with their reach for nationalization? The politicians believe the answer is "yes." They believe their talking down of the economy and the markets is convincing people of a need to have government save them from economic horror and all those cruel, greedy, and evil business people out there.

Are you ready to surrender freedom for a politician's promise of free health care and easy terms on a loan? Think about it and let us know your thoughts. You can e-mail us at joe@terrilco.com or apiper@ibankmarine.com.

Save the Date!

Please plan to join us on June 6th for our LPGA Par-Tee.

Details to be announced.

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