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No shelter from the housing storm

Money-market funds aren't looking like an investor safe haven from Wall Street's credit crisis after all. Meanwhile, a judge's ruling gives home lending another reason to seize up.

By [Bill Fleckenstein](#)

For any folks out there still branding our credit problems "contained," Mr. Money Market has one word for them: not.

In one of the first instances that I am aware of, **General Electric** ([GE](#), [news](#), [msgs](#)) announced last week that it was going to "break the buck" on its Asset Management money-market fund, a nearly unprecedented event. To do that instead of shoring up the fund, one wonders: How bad does GE think things are going to get?

Writer Andrew Bary, on Barron's Online on Wednesday, reported that the fund has "suffered losses in mortgage- and asset-backed securities and is offering investors the option to redeem their holdings at 96 cents on the dollar."

The risk in money funds is a theme I've been noting for a while. Regular readers might recall my cautionary comment [in August](#): "As we get further down the road, I think we'll discover that some money-market funds owned commercial paper issued by a conduit whose assets may not be up to snuff. So folks with a lot of assets in money-market funds might want to double-check that they know what's in them."

Treasury-only money markets are the way to go.

This brings me to last Tuesday, when **Legg Mason** ([LM](#), [news](#), [msgs](#)) said it would add \$100 million to one of its money funds and provide \$238 million in credit for two others. The 10 largest managers of U.S. money funds have a good deal of special-investment-vehicle debt, some of which was issued by Cheyne Capital Management, which has already defaulted due to losses from securities linked to subprime mortgages.

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Then more financial institutions announced money-market problems Wednesday, not least of which was GE. That day, a New York Times story headlined "Investor safe haven has become a concern," cited issues at Legg Mason, **SunTrust Banks** ([STI](#), [news](#), [msgs](#)) and **Wachovia** ([WB](#), [news](#), [msgs](#)), which have stepped in to make sure their money funds don't break the buck.

In the homes-as-collateral department, for folks who own paper based on that, there's a new reason to worry. In another Times story, "Foreclosures hit a snag for lenders," reporter Gretchen Morgenson wrote: "A federal judge in Ohio has ruled against a longstanding foreclosure practice, potentially creating an obstacle for lenders trying to reclaim properties from troubled borrowers and raising questions about the legal standing of investors in mortgage securities pools."

Federal Judge Christopher Boyko of Cleveland ruled that the mortgage investors had failed to prove they owned the properties they were trying to seize. "The institutions seem to adopt the attitude that since they have been doing this for so long, unchallenged, this practice equates with legal compliance," Boyko ruled. "Finally put to the test, their weak legal arguments compel the court to stop them at the gate."

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In some parts of the country, housing prices are falling at double-digit rates. That's a bad situation for homeowners but a possible opportunity for investors.

So what has been looming for a while is now upon us, and it's liable to create a real tug of war between homes as collateral and the lending sector. That is another reason why lending in the housing sector will seize up.

I'm not a lawyer, so I don't know how this will work out, but it's starting off rather poorly for those investors in mortgage pools who think that lenders will be able to sell the underlying assets. It's just another problem for the dark-matter universe to contend with. If Boyko's ruling stands and is used as a model in other states, life is going to get very complicated indeed.

The latest on Nastech

Finally, for anyone with an interest in **Nastech Pharmaceutical** ([NSTK](#), [news](#), [msgs](#)), I wrote about the company Wednesday in my daily column on my Web site. Rather than reprise the commentary here -- because its detailed nature conflicts with the format of this column -- I am making my daily column free for one week. To access the Market Rap, [click here](#) and use NSTK as the user name and password.

At the time of publication, Bill Fleckenstein owned shares of Nastech and Nastech call options.

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