EMPYREAN
FUNDING AND MANAGEMENT

Wow, what a difference a day makes. Markets are reacting very positively to this morning's news that the Financial Accounting Standards Board (FASB) voted favorably to relax mark-to-market accounting rules to help financial institutions. The big change will allow financial companies to use alternate models, like cash flow analysis in determining the value of the assets they have on their books vs. the current mark to market rules. This will significantly reduce the write downs banks have been taking on investments like mortgage-backed securities as the resale market for these assets has caused a substantial reduction in price.

With the accounting changes, banks and financial institutions don't have to write down their assets to current market price which strains their balance sheet heavily. This should start to encourage financing and help money flow again in our economy as banks that are not looking to sell these assets can keep them on the books at much higher valuations keeping their balance sheets much stronger and healthier. The down side of the more relaxed rules is that if these assets don't perform and are not valued at market price, they may show artificial strength in the balance sheet of a bank. Theory being that the value of an asset is what someone would pay for it on the open market.

Since the March 12 Congressional hearing on mark to market, Stocks have risen 23% just on speculation a change in mark to market could be coming. Also helping Stocks is optimism that the G20 meeting underway in London will agree on ways to pull global economies out of the current recession.

Tomorrow's jobs report should show continued weakness in the employment sector. The number of people collecting state unemployment benefits reached yet another new record, jumping to 5.73 million - a level that is 96% greater than in the prior year. Continued weakness in the employment market will keep the recovery at bay until we can begin to create jobs and consumer demand recovers.

In the interim, interest rates continue to drop as Fannie, Freddie and the Govt continue to aggressively purchase mortgage backed securities. 30 year fixed rates are now trading between 4.75-5.25% for the lower loan amounts and 5-5.50% with the higher loan amounts.