

Saturday Night at Minsky's



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Understanding Minsky's financial instability hypothesis

Hyman Minsky's theories about debt accumulation received revived attention in the media during the subprime mortgage crisis of the late 2000s

Minsky argued that a key mechanism that pushes an economy towards a crisis is the accumulation of debt by the non-government sector. He identified three types of borrowers that contribute to the accumulation of insolvent debt: hedge borrowers, speculative borrowers, and Ponzi borrowers.

The "hedge borrower" can make debt payments (covering interest and principal) from current cash flows from investments. For the "speculative borrower", the cash flow from investments can service the debt, i.e., cover the interest due, but the borrower must regularly roll over, or re-borrow, the principal. The "Ponzi borrower" (named for Charles Ponzi, see also Ponzi scheme) borrows based on the belief that the appreciation of the value of the asset will be sufficient to refinance the debt but could not make sufficient payments on interest or principal with the cash flow from investments; only the appreciating asset value can keep the Ponzi borrower afloat. Because of the unlikelihood of most investments' capital gains being enough to pay interest and principal, much of this type of finance is fraudulent.

If the use of Ponzi finance is general enough in the financial system, then the inevitable disillusionment of the Ponzi borrower can cause the system to seize up: when the bubble pops, i.e., when the asset prices stop increasing, the speculative borrower can no longer refinance (roll over) the principal even if able to cover interest payments. As with a line of dominoes, collapse of the speculative borrowers can then bring down even hedge borrowers, who are unable to find loans despite the apparent soundness of the underlying investments.

http://en.wikipedia.org/wiki/Hyman_Minsky

Minsky, my kind of a guy!

(HB) = Hedge Borrower (SB) = Speculative Borrower (PB) = Ponzi Borrower
(CO) = Consumer Obligor (Pf) = Profiteer

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U.C.C. - ARTICLE 9 - SECURED TRANSACTIONS

§ 9-102. DEFINITIONS AND INDEX OF DEFINITIONS. (a) [Article 9 definitions.]

"Account debtor" means a person obligated on an account, chattel paper, or general intangible. The term does not include persons obligated to pay a negotiable instrument, even if the instrument constitutes part of chattel paper.

"Authenticate" means: (A) to sign; or (B) to execute or otherwise adopt a symbol, or encrypt or similarly process a record in whole or in part, with the present intent of the authenticating person to identify the person and adopt or accept a record.

"Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

"Collateral" means the property subject to a security interest or agricultural lien. The term includes: (A) proceeds to which a security interest attaches; (B) accounts, chattel paper, payment intangibles, and promissory notes that have been sold; and (C) goods that are the subject of a consignment.

"Consumer obligor" means an obligor who is an individual and who incurred the obligation as part of a transaction entered into primarily for personal, family, or household purposes.

"Debtor" means: (A) a person having an interest, other than a security interest or other lien, in the collateral, whether or not the person is an obligor; (B) a seller of accounts, chattel paper, payment intangibles, or promissory notes; or (C) a consignee.

"Electronic chattel paper" means chattel paper evidenced by a record or records consisting of information stored in an electronic medium.

"Encumbrance" means a right, other than an ownership interest, in real property. The term includes mortgages and other liens on real property.

"Fixtures" means goods that have become so related to particular real property that an interest in them arises under real property law.

"General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

"Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

"Lien creditor" means: (A) a creditor that has acquired a lien on the property involved by attachment, levy, or the like; (B) an assignee for benefit of creditors from the time of assignment; (C) a trustee in bankruptcy from the date of the filing of the petition; or (D) a receiver in equity from the time of appointment.

"Mortgage" means a consensual interest in real property, including fixtures, which secures payment or performance of an obligation.

"Obligor" means a person that, with respect to an obligation secured by a security interest in or an agricultural lien on the collateral, (i) owes payment or other performance of the obligation, (ii) has provided property other than the collateral to secure payment or other performance of the obligation, or (iii) is otherwise accountable in whole or in part for payment or other performance of the obligation. The term does not include issuers or nominated persons under a letter of credit.

"Payment intangible" means a general intangible under which the account debtor's principal obligation is a monetary obligation.

"Promissory note" means an instrument that evidences a promise to pay a monetary obligation, does not evidence an order to pay, and does not contain an acknowledgment by a bank that the bank has received for deposit a sum of money or funds.

"Record", except as used in "for record", "of record", "record or legal title", and "record owner", means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

"Secured party" means: (A) a person in whose favor a security interest is created or provided for under a security agreement, whether or not any obligation to be secured is outstanding; (B) a person that holds an agricultural lien; (C) a consignor; (D) a person to which accounts, chattel paper, payment intangibles, or promissory notes have been sold; (E) a trustee, indenture trustee, agent, collateral agent, or other representative in whose favor a security interest or agricultural lien is created or provided for; or (F) a person that holds a security interest arising under Section 2-401, 2-505, 2-711(3), 2A-508(5), 4-210, or 5-118.

"Security agreement" means an agreement that creates or provides for a security interest.

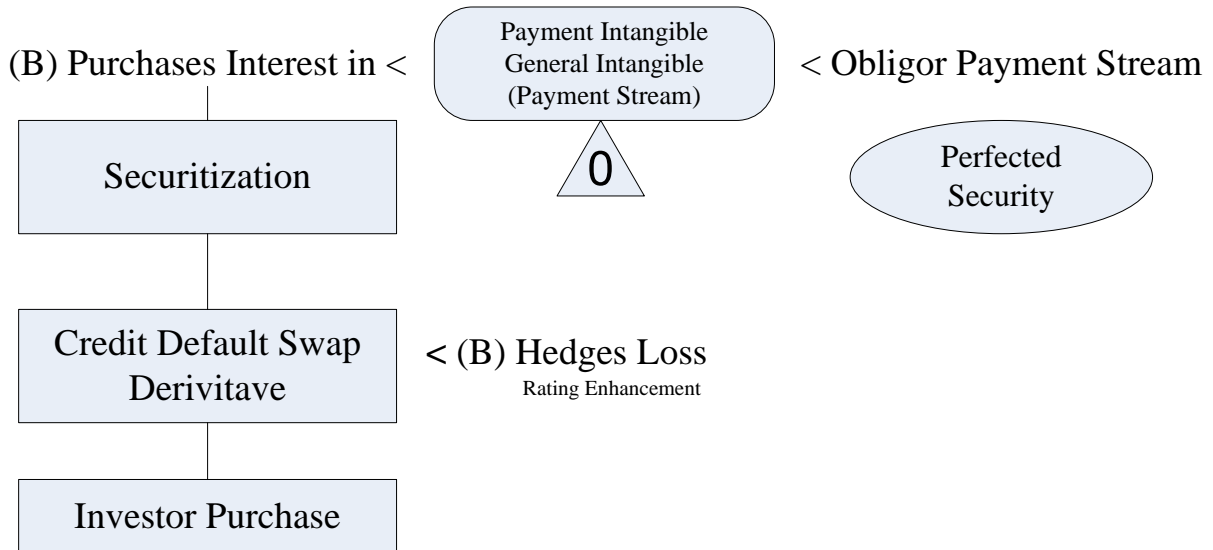
(b) [Definitions in other articles.] The following definitions in other articles apply to this article: "Holder in due course" Section 3-302. "Negotiable instrument" Section 3-104. "Note" Section 3-104. "Prove" Section 3-103.

Profiteer's Saturday Special

(B) = (HB) Hedge Borrower or (SB) Speculative Borrower or (PB) Ponzi Borrower

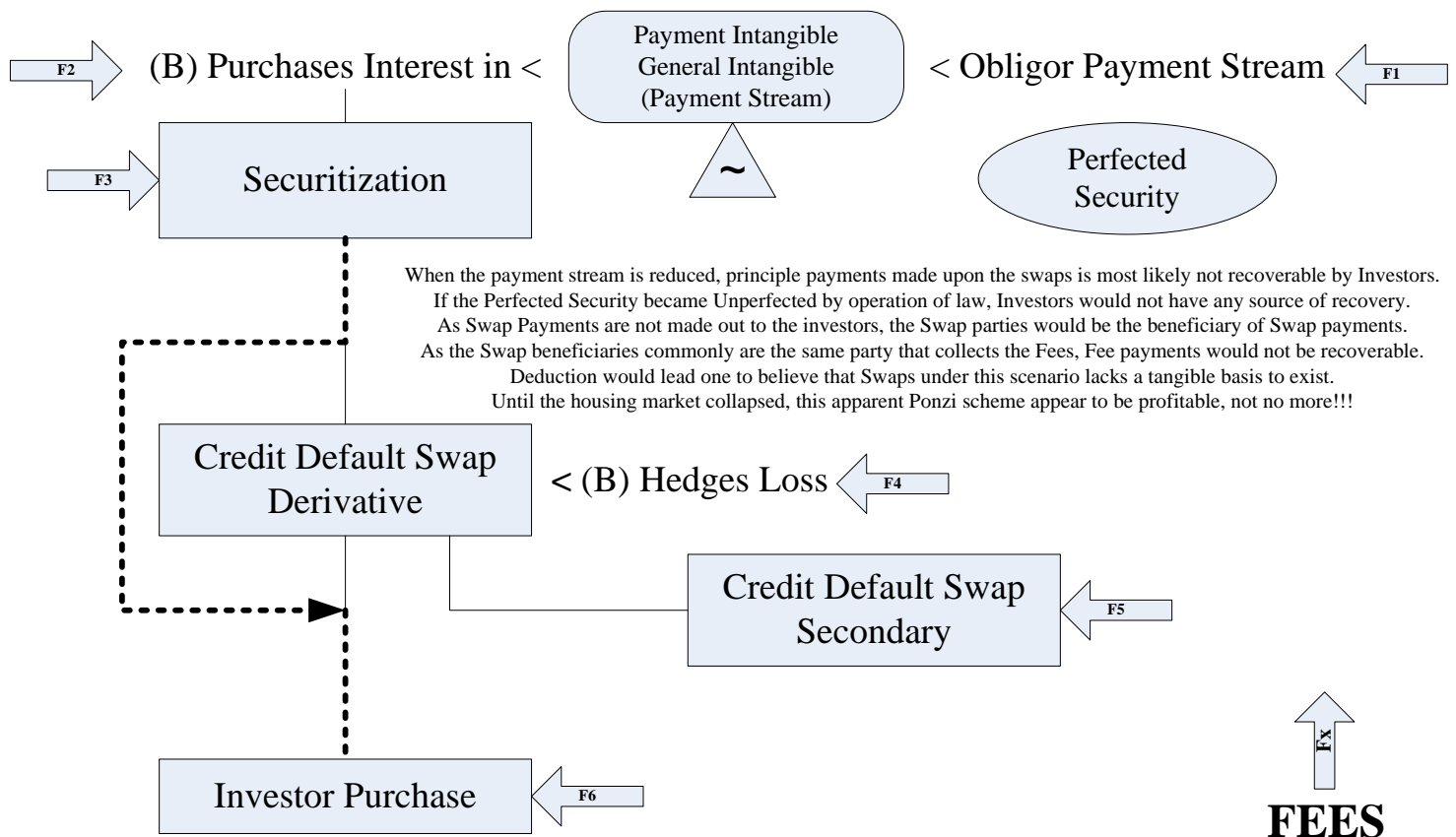
What Should Be

Scales will balance if all securitization obligations equal obligor's payment obligation.



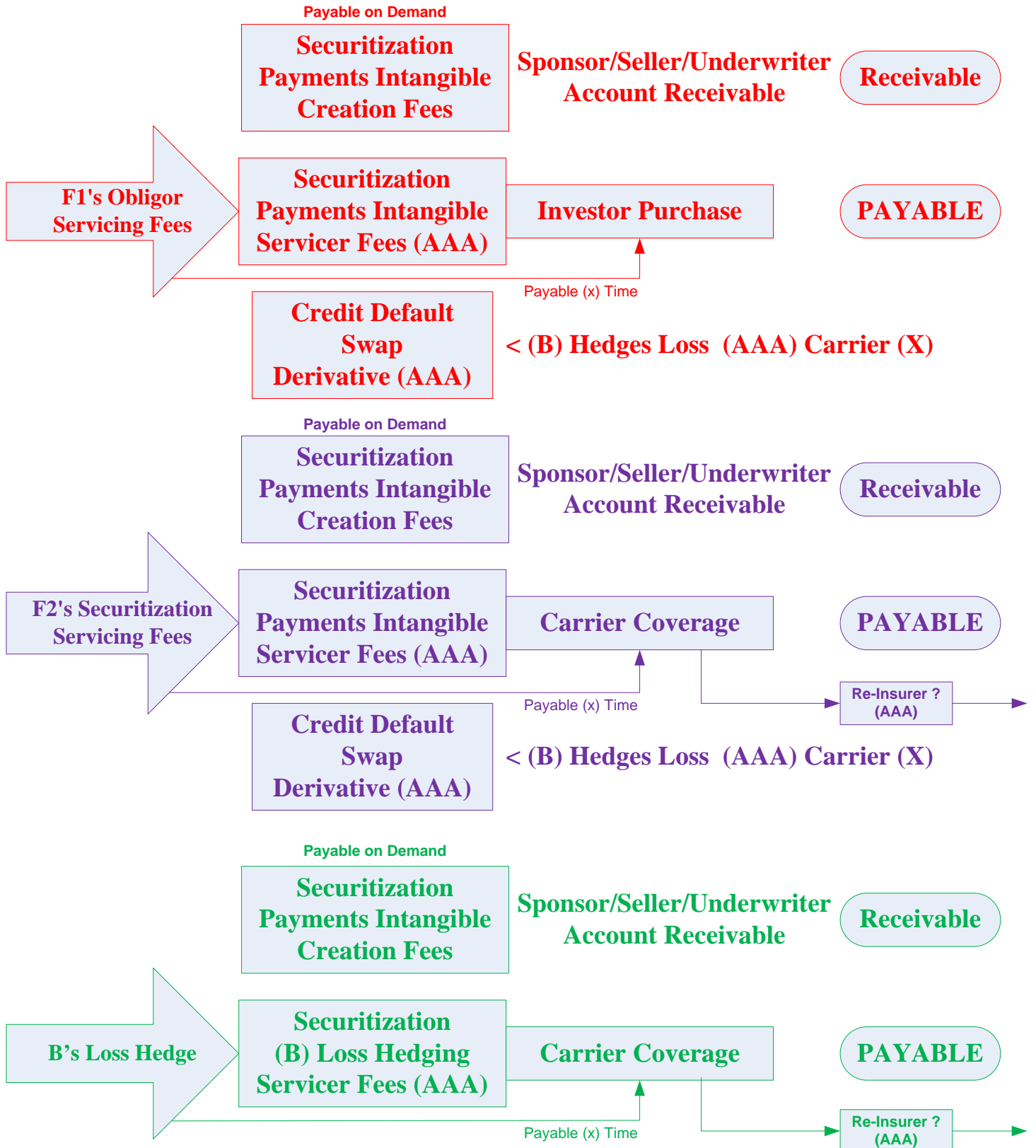
Saturday Night Ponzi Scheme

Scales out of balance with F4 and F5 Fees added to the equation.



F1 – F2 Saturday Special i.e. * (x)

Saturday Night Triple AAA Rating



		Gross Domestic Product (nominal) [2015-2050] (in 2006 US\$ millions)					(Primary Earnings)			
Country?	2015?	2020?	2025?	2030?	2035?	2040?	2045?	2050?		
1	United States	16,194,000	17,978,000	20,087,000	22,817,000	26,097,000	29,823,000	33,904,000	38,514,000	
2	China	8,133,000	12,630,000	18,437,000	25,610,000	34,348,000	45,022,000	57,310,000	70,710,000	
3	Japan	4,861,000	5,224,000	5,570,000	5,814,000	5,886,000	6,042,000	6,300,000	6,677,000	
4	Germany	3,326,000	3,519,000	3,631,000	3,761,000	4,048,000	4,388,000	4,714,000	5,024,000	
5	United Kingdom	2,835,000	3,101,000	3,333,000	3,595,000	3,937,000	4,344,000	4,744,000	5,133,000	
6	France	2,577,000	2,815,000	3,055,000	3,306,000	3,567,000	3,892,000	4,227,000	4,592,000	
7	Italy	2,072,000	2,224,000	2,326,000	2,391,000	2,444,000	2,559,000	2,737,000	2,950,000	
8	Russia	1,900,000	2,554,000	3,341,000	4,265,000	5,265,000	6,320,000	7,420,000	8,580,000	
9	India	1,900,000	2,848,000	4,316,000	6,683,000	10,514,000	16,510,000	25,278,000	37,668,000	
10	Brazil	1,720,000	2,194,000	2,831,000	3,720,000	4,963,000	6,631,000	8,740,000	11,366,000	
11	Canada	1,549,000	1,700,000	1,856,000	2,061,000	2,302,000	2,569,000	2,849,000	3,149,000	
12	Mexico	1,327,000	1,742,000	2,303,000	3,068,000	4,102,000	5,471,000	7,204,000	9,340,000	
13	South Korea	1,305,000	1,508,000	1,861,000	2,241,000	2,644,000	3,089,000	3,562,000	4,083,000	
14	Turkey	572,000	740,000	965,000	1,279,000	1,716,000	2,300,000	3,033,000	3,943,000	
15	Indonesia	562,000	752,000	1,033,000	1,479,000	2,192,000	3,286,000	4,846,000	7,010,000	
16	Iran	415,000	544,000	716,000	953,000	1,273,000	1,673,000	2,133,000	2,663,000	
17	Nigeria	218,000	306,000	445,000	680,000	1,083,000	1,765,000	2,870,000	4,640,000	
18	Philippines	215,000	289,000	400,000	582,000	882,000	1,353,000	2,040,000	3,010,000	
19	Pakistan	206,000	268,000	359,000	497,000	709,000	1,026,000	1,472,000	2,085,000	
20	Egypt	171,000	229,000	318,000	467,000	718,000	1,124,000	1,728,000	2,602,000	
21	Vietnam	157,000	273,000	458,000	745,000	1,169,000	1,768,000	2,569,000	3,607,000	(In Millions)
22	Bangladesh	110,000	150,000	210,000	304,000	451,000	676,000	1,001,000	1,466,000	35yr added total
	Totals	52,325,000	63,588,000	77,851,000	96,318,000	120,310,000	151,631,000	190,681,000	238,812,000	\$991,516,000
0.25	% above cost	\$13,081,250	\$15,897,000	\$19,462,750	\$24,079,500	\$30,077,500	\$37,907,750	\$47,670,250	\$59,703,000	\$247,879,000
0.35		\$18,313,750	\$18,313,750	\$27,247,850	\$33,711,300	\$42,108,500	\$53,070,850	\$66,738,350	\$83,584,200	\$343,088,550
0.45		\$23,546,250	\$23,546,250	\$35,032,950	\$43,343,100	\$54,139,500	\$68,233,950	\$85,806,450	\$107,465,400	\$441,113,850
0.50		\$26,162,500	\$26,162,500	\$38,925,500	\$48,159,000	\$60,155,000	\$75,815,500	\$95,340,500	\$119,406,000	\$490,126,500
0.55		\$28,778,750	\$28,778,750	\$42,818,050	\$52,974,900	\$66,170,500	\$83,397,050	\$104,874,550	\$131,346,600	\$539,139,150
0.60		\$31,395,000	\$31,395,000	\$46,710,600	\$57,790,800	\$72,186,000	\$90,978,600	\$114,408,600	\$143,287,200	\$588,151,800
0.65		\$34,011,250	\$34,011,250	\$50,603,150	\$62,606,700	\$78,201,500	\$98,560,150	\$123,942,650	\$155,227,800	\$637,164,450
0.75		\$39,243,750	\$39,243,750	\$58,388,250	\$72,238,500	\$90,232,500	\$113,723,250	\$143,010,750	\$179,109,000	\$735,189,750

	2010	2015	2020	2025	2030	2035	2040	2045	2050	
Secondary DRV Market * 3% yr increase	600	696	806	935	1,084	1,256	1,456	1,688	1,957	(In Trillions)
					Quadrillion					
Secondary DRV Market at current rate of exponential increase (11.6839)	600	7,010	81,908	957,006	11,181,565	130,644,282	1,526,434,728	17,834,710,717	208,378,976,543	(In Trillions)
	Trillion	Quadrillion					Quintillion			