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Absent New Stimulus, Subprime Auto Loan Delinquencies Rise

By Dennis Tubbergen

Providing more evidence that the US economy has been fueled by central bank easy money and government stimulus, the delinquency rate on sub-prime auto loans is now rising rapidly.

This[1] from Wolf Richter:

> *Delinquencies of subprime auto loans have bounced off the stimulus-fueled low levels during the pandemic, when borrowers got caught up on their auto loans with the money they got from stimulus checks and extra unemployment benefits, and from not having to make mortgage payments because they'd entered their mortgages into a forbearance program, and from not having to make rent payments because of the eviction bans. Most of this has now ended, and the money is gone, and subprime delinquency rates are surging.*

Subprime delinquency rate rises, still below 2019 Good Times.

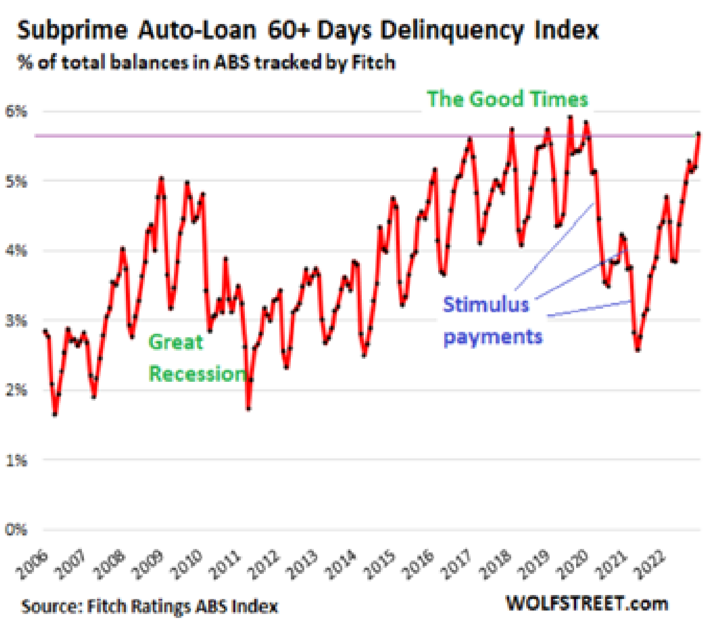
In December, the subprime auto-loan 60-days-and-over delinquency rate rose to 5.7% of total auto loan balances in the Asset-Backed Securities (ABS) rated by Fitch Ratings. The record in the 21st century was set in August 2019, the Good Times, of 5.9%.

Prime-rated auto loans are in pristine conditions.

Delinquency rates of "prime" rated auto loans are near record lows of a minuscule 0.2%, according to Fitch Ratings. During the worst moment of the Great Recession in January 2009, the prime delinquency rate rose to 0.9%, still minuscule. Prime auto loans are a low risk, low yield business.

Subprime-rated auto loans and Asset-Backed Securities (ABS).

Auto loans are rated subprime for the same reason a lot of bonds are rated "junk" (BB+ and below): the borrower has a much higher risk of defaulting on the debt.



Investors buy them because they get paid higher yields to compensate them for taking those higher risks. Subprime auto loans, just like junk bonds, are a high-risk business with potentially high profits and high losses.

Subprime loans on used vehicles come with interest rates on average of 15% to 20%, depending on how deep they're into subprime, according to Experian. Investors are willing to take high risks to get these kinds of juicy yields.

Much of the subprime lending is done by a coterie of specialized lenders. Most of the subprime auto loans are packaged into Asset-Backed Securities (ABS) that investors such as bond funds and pension funds purchase for their higher yields.

ABS are structured with the equity tranche and the lowest-rated tranches taking the first losses. As losses increase, higher-rated tranches are starting to take losses. The top-rated tranche of a subprime-auto-loan ABS, perhaps rated "AA" (my cheat sheet for credit ratings of corporate bonds), will only take losses if there is severe damage to the ABS from defaults.

Tranches with high credit ratings carry the lowest yields, and investors that are more risk-averse buy them. Low rated tranches are bought by risk cowboys. And the lowest tranche is usually retained by the subprime lender that originated the loan – the required skin in the game, which is one of the reasons why small specialized lenders can go belly-up.

Behind on Student Loan Payments? You Could Get Less Social Security

While many Americans with student loan debt were hopeful that their debt would be forgiven, that now seems a lot less likely. The new reality regarding student loans is that if you carry student loan debt with you into retirement, your Social Security benefits can be reduced to pay back your loan. This is essentially a garnishment of your Social Security benefits.

This[2] from "Insurance News Net":

> *While the promise of student loan debt relief seems to slip further out of reach, the prospects of the debt coming back to bite people in their retirement grows.*
>
> *That is because student loan debt delinquencies can be deducted from Social Security benefits to the tune of thousands of dollars per year. The number of debtors is rising, along with delinquencies, according to a recent study by Boston College's Center for Retirement Research. In fact, student loan delinquency rates have surpassed all other types of consumer debt delinquencies between 2012 and early 2020.*
>
> *That trend is accelerating, meaning more Americans will see their Social Security benefits shrink. The withholding amount is the lessor of 15% of the Social Security monthly benefit or the amount by which the benefit exceeds $750 per month. The deduction is an average of $2,500 annually, a 4% to 6% decrease in benefits, according to the study.*
>
> *"While these amounts are relatively small, for households that are just making ends meet, even a small decline in income can have significant consequences," according to the study. "Putting these numbers into context, the amount of withheld benefits could roughly pay off the average per capita credit card balance. Since delinquency rates are higher among younger borrowers, student loans may pose a bigger risk for this group's future retirement security."*

European Vacation? You Might Be Eating Crickets and Mealworms

While there has been a lot of talk about insects as a food source over the past couple of years, it is now a reality in much of Europe. Many in Europe may now be adding crickets and mealworms to their diet without even knowing it.

This[3] from "Summit News" (Editor's Note: the 'yesterday' referenced in the first paragraph of the article was January 24, 2023)

> *As of yesterday, a food additive made out of powdered crickets began appearing in foods from pizza, to pasta to cereals across the European Union.*
>
> *Yes, really.*
>
> *Defatted house crickets are on the menu for Europeans across the continent, without the vast majority of them knowing it is now in their food.*
>
> *"This comes thanks to a European Commission ruling passed earlier this month," reports RT.*
>
> *"As per the decision, which cited the scientific opinion of the European Food Safety Authority, the additive is safe to use in a whole range of products, including but not limited to cereal bars, biscuits, pizza, pasta-based products, and whey powder."*
>
> *But don't worry, because the crickets first have to be checked to make sure they "discard their bowel content" before being frozen.*
>
> *Lovely stuff.*
>
> *Critics suggested that once bugs become widely accepted as a food additive, their consumption will become normalized across the board.*
>
> *"The Liberal World Order has decided that the little people must eat bugs to prevent the climate from fluctuating, in accordance with ruling class ideology," writes Dave Blount.*
>
> *"Yet rather than mindlessly obey The Experts as most did with Covid policy, people have resisted. So our moonbat overlords are furtively sneaking insects into food."*
>
> *"This will allow them to reveal in the near future that we have already been eating bugs, so there is no reason to object to them shutting down farms and imposing a new diet."*
>
> *The European Union also recently approved the use of Alphitobius diaperinus, otherwise*

known as the lesser mealworm, for human consumption.

As we have exhaustively documented, globalist technocrats and climate change activists have consistently lobbied for people to start eating bugs to fight global warming, despite the practice being linked to parasitic infections.

I somewhat doubt that elitist technocrats who recently visited Davos will be switching to the bug diet, no matter how much they browbeat us about man-made climate change.

Back in November, the Washington Post advised Americans that instead of a traditional Thanksgiving dinner, which now is unaffordable for a quarter of families, they should instead look to eating bugs.

While livestock farmers in the Netherlands are being climate change regulated out of existence, school children are being indoctrinated to eat bugs, while another German school has banned meat entirely.

Trillion Dollar Coin?

Image credit: DonkeyHotey via Flickr

An idea that has often been floated over the past decade or so is that of a trillion-dollar coin. The government would create a $1 trillion coin and then write checks against it.

Of course, this is no different than creating currency from thin air via quantitative easing and it would create massive levels of new inflation. This[4] from Michael Maharrey on the topic:

> *Policy wonks and government people come up with some really dumb ideas. And a lot of those dumb ideas just won't go away.*
>
> *Now that we're in the early stages of the fake debt ceiling fight, a really dumb idea has been resurrected from the dead – the trillion-dollar coin.*
>
> *Last week, the federal government ran up against the debt ceiling. That means it either has to come to some kind of agreement to raise the borrowing limit or it will default.*
>
> *Now, we all know how this will end. After months of political theater and hand-wringing, Congress will raise the debt limit. But that just kicks the can down the road. Because before long, the government will run up against*

the debt ceiling again, and we'll have to watch another awful sequel to this awful movie.

The debt ceiling drama completely ignores the real issue — the US government has a spending problem. The current administration is blowing through about half a trillion dollars every single month and running massive budget deficits. The solution is simple. The federal government could stop spending so much money. Or it could raise taxes. Or, why not both?

But these are politically non-viable solutions. Nobody in Washington DC is willing to seriously contemplate spending cuts. Sure, Republicans will talk about it, but that's nothing but hot air. And nobody in Washington DC is willing to seriously contemplate raising taxes. Sure, Democrats will happily tax "the rich," but tax increases would have to go much deeper into the poor and middle class to actually address the spending problem. So, Democrats are full of hot air too.

But there are some people out there who think they have a simple, politically viable solution — a panacea if you will. It wouldn't require raising the debt ceiling. It wouldn't require spending cuts. And it wouldn't require raising taxes. (Except that it would — I'll get to that in a minute.)

All the US Treasury needs to do is mint a $ 1 trillion dollar coin.

Viola! Problem solved!

The government could mint the coin, deposit it at the Federal Reserve, and then it could write checks against that asset.

Now, that may sound a little bit like the government is just creating money out of thin air. And that's because it is. But hey, it's legal, they argue. So, why not!

Here's how it would work, as explained by Yale law professor Jack Balkin who promoted the idea back in 2011:

> *Sovereign governments such as the United States can print new money. However, there's a statutory limit to the amount of paper currency that can be in circulation at any one time.*
>
> *"Ironically, there's no similar limit on the amount of coinage. A little-known statute gives the secretary of the Treasury the authority to issue platinum coins in any denomination. So some commentators have suggested that the Treasury create two $1 trillion coins, deposit them in its account in the Federal Reserve and write checks on the proceeds…*
>
> *"The 'jumbo coin' [strategy works] because modern central banks don't have to print*

> *bills or float debt to create new money; they just add money to their customers' checking accounts."*

In effect, this would be no different than quantitative easing. The Federal Reserve buys bonds with money created out of thin air. Why not let Uncle Sam write checks to spend money created out of thin air? The central bank would be good for it. After all, there would be a coin with $1 trillion dollars stamped on it sitting in a Fed vault.

The platinum coin is really just a prop to create the illusion of legality. It's not like they would use $1 trillion dollars worth of platinum. That would weigh millions of pounds. In practice, they could just write $1 trillion on a napkin with a green crayon. Or as economist Bob Murphy explained, they could sell the Fed a paperclip.

> *The Federal Reserve has the power to buy whatever assets it wants at whatever price it wants. In principle, [the Treasury Secretary] could sell a paperclip to the Fed for $2 trillion. The Fed would simply write a check made out to the Treasury, drawn on the Fed itself.*
>
> *When the Treasury deposited this check with its own bank — which just so happens to be the Fed — then its own "checking account" balance would go up by $2 trillion. This money wouldn't come from anywhere in the sense that some other account would need to be debited $2 trillion. On the contrary, the system's total reserves (and what is called the "monetary base") would have swelled by $2 trillion. The Treasury would be free to start paying bills by writing checks on the $2 trillion in its account.*

But what if the Fed wouldn't take the coin? And what if the Supreme Court struck the scheme down on legal grounds?

Willamette University College of Law professor Rohan Grey, another big supporter of the trillion-dollar coin, doesn't think that would be a problem. He suggested that the government could just ignore the SCOTUS and send troops over to the Eccles Building to force the Fed to take the coin.

You do realize this is dumb, right?

This is a monetary disaster waiting to happen. It would put inflation on hyperdrive.

We just saw what happens when the Fed prints trillions of dollars out of thin air and injects it into the economy. The price of everything goes up. We're paying for pandemic stimulus every time we go to the grocery store.

I mentioned earlier that this scheme would raise taxes. This is how. It would jack up the inflation tax even higher. Minting a coin and pretending it is worth $1 trillion doesn't change the dynamics. When you boil it all down, it would do nothing but increase the money supply. That is, by definition, inflation.

But we're dealing with "smart" people here and they'll tell you "this is different." They'll offer all kinds of plausible reasons it will work. They'll talk about the dollar being the reserve currency. They show you some convincing-looking accounting tautologies. They'll babble and spin and suddenly you'll be thinking, "Hell yeah! A $1 trillion coin! That's the ticket."

No.

It's not.

Supposedly, they can keep this from being inflationary by just dribbling the new money out as they need it. But this is the federal government we're talking about here. Do you really think politicians will be restrained with $1 trillion in the bank? And when they blow through that, we can just mint another one of those puppies. So, they won't dribble. It would create an even bigger cascade of spending.

This is what you get when you have an entire school of economics that disconnects money from stuff. That's the real problem here. The government could create a $50 trillion coin. But it can't create stuff.

We've been snowed into thinking money makes the economy go, but ultimately it comes down to stuff.

And the Treasury can't create stuff out of thin air. Uncle Sam can't mint cars and food and clothing and commodities and oil and all of the other actual stuff we need. What happens when you create more money without creating more stuff? You get rising prices. That's where we are today. We are seeing this play out. But again, we have people who exercise zero self-reflection. They are coming up with dumb ways to solve problems they created in the first place.

Holter: Bullish on Silver and Gold

I have long advocated that many investors and aspiring retirees would be wise to consider adding precious metals to their portfolios. Bill Holter, financial writer agrees. Holter recently appeared as a guest expert on Greg Hunter's "USA Watchdog". Here[5] is a bit from an article written after his appearance on the program:

> *Precious metals expert and financial writer Bill Holter said last summer that the Fed rate increases would tank the economy. Everywhere you look you see the economy falling apart. House prices and sales are down. Banks are clocking record losses, vehicle prices are falling and unemployment is rising. The economy has not completely crashed, but it will. Holter explains, "There are over $2,000 trillion worth of derivatives outstanding on a global economy . . . that has maybe a little more than $500 trillion in asset values. So, you have this dog walking around with a gigantic tail that will shake the dog. When derivatives go, it's a 48-hour event. Who do you think holds all these derivatives? You've got the big banks, all the big brokers, all the big insurance companies*

and they are all going to go down. It's like one giant financial STD, and everybody is in bed together and everybody is infected."

Add to this the announcement from Saudi Arabia that it will now accept payment in currencies other than the U.S. dollar and you have the makings of a destabilizing hyperinflationary catastrophe for America. Holter says, "There will be other Arab nations to follow, and that is a huge hit to the artificial demand for the dollar. You had nations all over the world who were forced to buy dollars to buy oil, and that is no longer. Going one step further, these nations who have stockpiled huge dollar portfolios are no longer required to use dollars. What do you think is going to happen to them? Those dollars are going to come back to the U.S., and that will be a hugely inflationary event. It will add many multiples to the dollar pie that thus will dilute the value."

What is the Fed going to do? Holter says, "The Fed is in a box. . . . They will have to make a choice to save the dollar or save the financial system. They can't save everything. Something has to break. I have said this for years, and that is there are already losses out there, but somebody has to own up to them. Nobody has had to take the losses because everything has been papered over for so many years where losses were just kicked down the road, and there is no more road."

Holter goes on to say, "The best way to sum it up is the facade that we have lived our lives through is ending and will completely end. The reality is going to blow people's minds. That will be a depopulation event because people will be starving. . . . The Fed has always feared a deflationary collapse where it cannot inflate the system. Credit is the foundation to the whole system. If credit cracks and credits collapses, it means the foundation collapses and thus the entire house."

It everything is collapsing in price, what happens to gold and silver prices. Holter says, "Gold and silver are the only real money on the planet that cannot or will not default." Holter likes them both and adds, "Silver is the most undervalued asset out there right now."

Wealth Gap Widens

As I have often discussed, easy money policies lead to the widening of the wealth gap – the wealthy get wealthier while those struggling financially find themselves struggling even more.

A recent story[5] published by CNBC confirms this:

> *Over the last two years, the richest 1% of people have accumulated close to two-thirds of all new wealth created around the world, a new report from Oxfam says.*
>
> *A total of $42 trillion in new wealth has been created since 2020, with $26 trillion, or 63%, of that being amassed by the top 1% of the ultra-rich, according to the report. The remaining 99% of the global population collected just $16 trillion of new wealth, the global poverty charity says.*
>
> *"A billionaire gained roughly $1.7 million for every $1 of new global wealth earned by a person in the bottom 90 percent," the report, released as the World Economic Forum kicks off in Davos, Switzerland, reads.*
>
> *It suggests that the pace at which wealth is being created has sped up, as the world's richest 1% amassed around half of all new wealth over the past 10 years.*
>
> *Oxfam's report analyzed data on global wealth creation from Credit Suisse, as well figures from the Forbes Billionaire's List and the Forbes Real-Time Billionaire's list to assess changes to the wealth of the ultra-rich.*

February 2023 Special Report

The Case for Tangible and Tax-Free in Your Portfolio

This month only, we are making available a free report titled, “The Case for Tangible and Tax-Free in Your Portfolio”.

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month’s news-letter. You’ll notice that we’ve included three reply cards with this month’s newsletter; we’ve done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month’s special report, we will discuss recent global developments that bolster the case for tangible assets in your portfolio with many of these assets being tax-free.

This month’s report also discusses scheduled future tax rate changes and why many IRA owners and 401(k) investors could possibly benefit from implementing planning strate-gies presently.

This report is available only during the month of February.

Time Deposit Rates

At the time of publication, these rates were valid:

2-Year	4.30%
3-Year	4.75%
5-Year	5.40%

Call the office for details at

1-866-921-3613

Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: **www.RetirementLifestyleAdvocates.com**.

As previously mentioned in this month's "You May Not Know Report"™, the weekly "Portfolio Watch" newsletter is available on the Retirement Lifestyle Advocates website. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered
8 to 5 Monday through Thursday and 8 to Noon on Friday.

Sources

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