

Proper ECB QE.

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QE is not just quantitative, it is qualitative. Until underwriting standards are dropped, credit creation in the private sector Eurozone will be moribund. How can the ECB get it going again? Purchasing sovereign bonds will do nothing more than flatten term structures and tighten sovereign CDS spreads making it cheaper for governments to borrow. This is not the idea since fiscal rectitude is still expected even of the Club Med, at least by the Germans. At best it helps debt service a bit. Buying off the run corporate and covered bonds and ABS will not help either since it does not encourage new lending. In any case the market for covered bonds and ABS is too small for the ECB to be really effective. To be really effective, the ECB needs to be bold and reckless. It needs to underwrite blind pools of ABS and agree to purchase ABS printed on a TBA (to be announced) basis, where any collateral pool conforming to predetermined criteria are eligible. There is currently only one market which operates on this basis: **US** agency mortgage backed securities. QE there at least has kept mortgage rates down and spurred a durable housing recovery thus improving household balance sheets and reinvigorated HELOC origination. If the ECB abandons prudence and embarks on underwriting TBAs, private commercial banks will be converted into outsourced or third party credit underwriting agents, earning fees instead of spreads and deploying less scarce capital.