

Dissent from the
Majority Report of the
Financial Crisis Inquiry Commission
Presented at the Chicago Fed Bank
Structure Conference
Peter J. Wallison
May 5, 2011

WTF??

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

DECLINE AND RUN-UP Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

BOOM TIMES Two gains in recent decades were followed by returns to levels consistent since the late 1950's. Since 1997, the index has risen about 83 percent.



Entities Holding Credit Risk of Subprime and Other High-Risk Mortgages

Entity	No. of Subprime and Alt-A Loans	Unpaid Principal Amount
Fannie Mae and Freddie Mac	12 million	\$1.8 trillion
FHA and other Federal	5 million	\$0.6 trillion
CRA and HUD Programs	2.2 million	\$0.3 trillion
Total Federal Government	19.2 million	\$2.7 trillion
Other (including subprime and Alt-A PMBS issued by Countrywide, Wall Street and others)	7.8 million	\$1.9 trillion
Total	27 million	\$4.6 trillion

GSEs' Success in Meeting Affordable Housing Goals 1996-2008

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Low & Mod Housing Goals	40%	42%	42%	42%	42%	50%	50%	50%	50%	52%	53%	55%	56%
Fannie Actual	45%	45%	44%	46%	50%	51%	52%	52%	53%	55%	57%	56%	54%
Freddie Actual	41%	43%	43%	46%	50%	53%	50%	51%	52%	54%	56%	56%	51%
Special Affordable Goal	12%	14%	14%	14%	14%	20%	20%	20%	20%	22%	23%	25%	27%
Fannie Actual	15%	17%	15%	18%	19%	22%	21%	21%	24%	24%	28%	27%	26%
Freddie Actual	14%	15%	16%	18%	21%	23%	20%	21%	23%	26%	26%	26%	23%
Underserved Goal	21%	24%	24%	24%	24%	31%	31%	31%	31%	37%	38%	38%	39%
Fannie Actual	25%	29%	27%	27%	31%	33%	33%	32%	32%	41%	43%	43%	39%
Freddie Actual	28%	26%	26%	27%	29%	32%	31%	33%	34%	43%	44%	43%	38%

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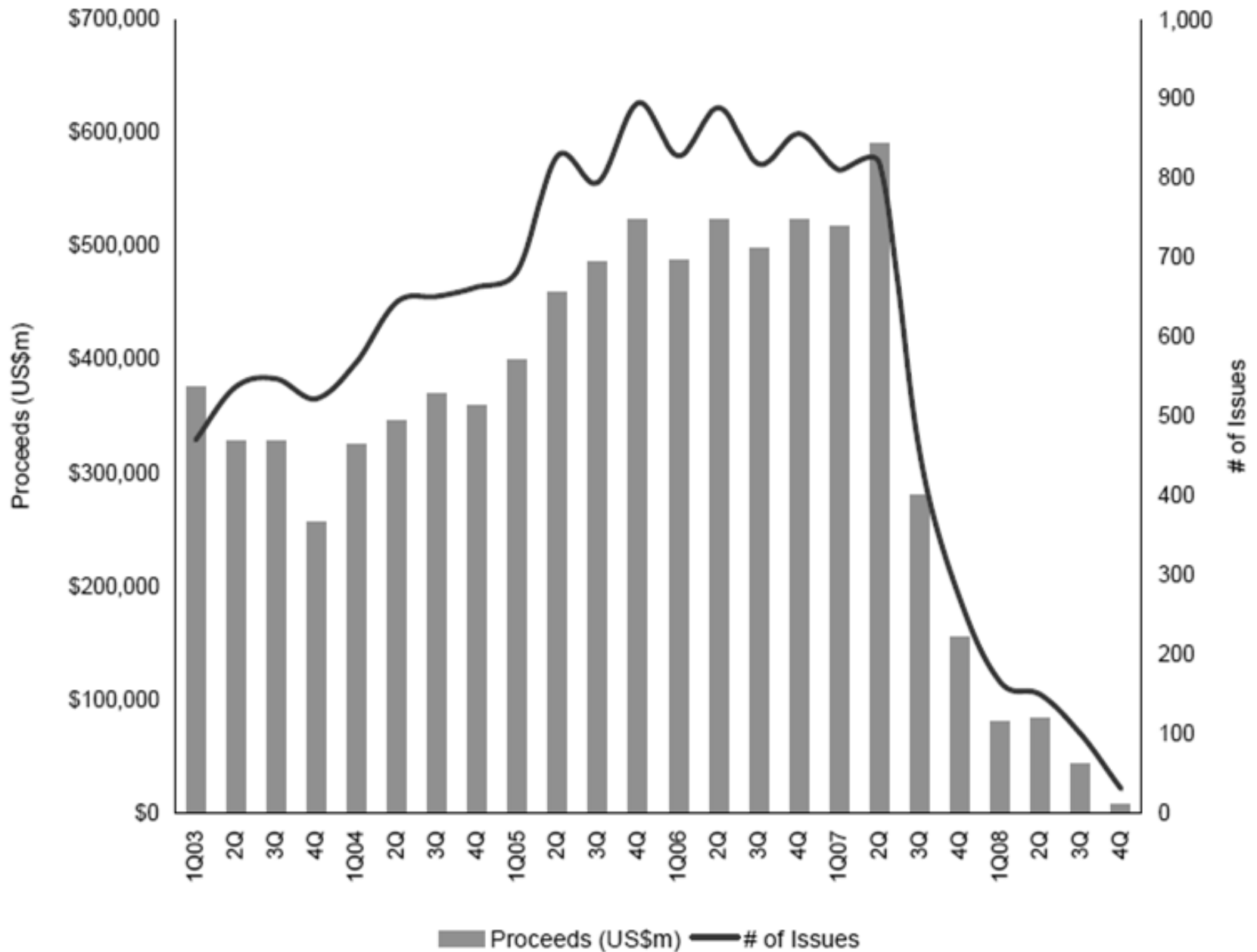
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Quarterly Residential ABS, MBS & CDO Volume



From Fannie's 2006 10-K:

[W]e have made, and continue to make, significant adjustments to our mortgage loan sourcing and purchase strategies in an effort to meet HUD's increased housing goals and new subgoals. These strategies include entering into some purchase and securitization transactions with lower expected economic returns than our typical transactions. We have also relaxed some of our underwriting criteria to obtain goals-qualifying mortgage loans and increased our investments in high-risk mortgage loan products that are more likely to serve the borrowers targeted by HUD's goals and subgoals, which could increase our credit losses.

Quarterly Residential ABS, MBS & CDO Volume

