

Bubble, Bust, and Bailout

Alex J. Pollock

27th World Congress of Housing Finance

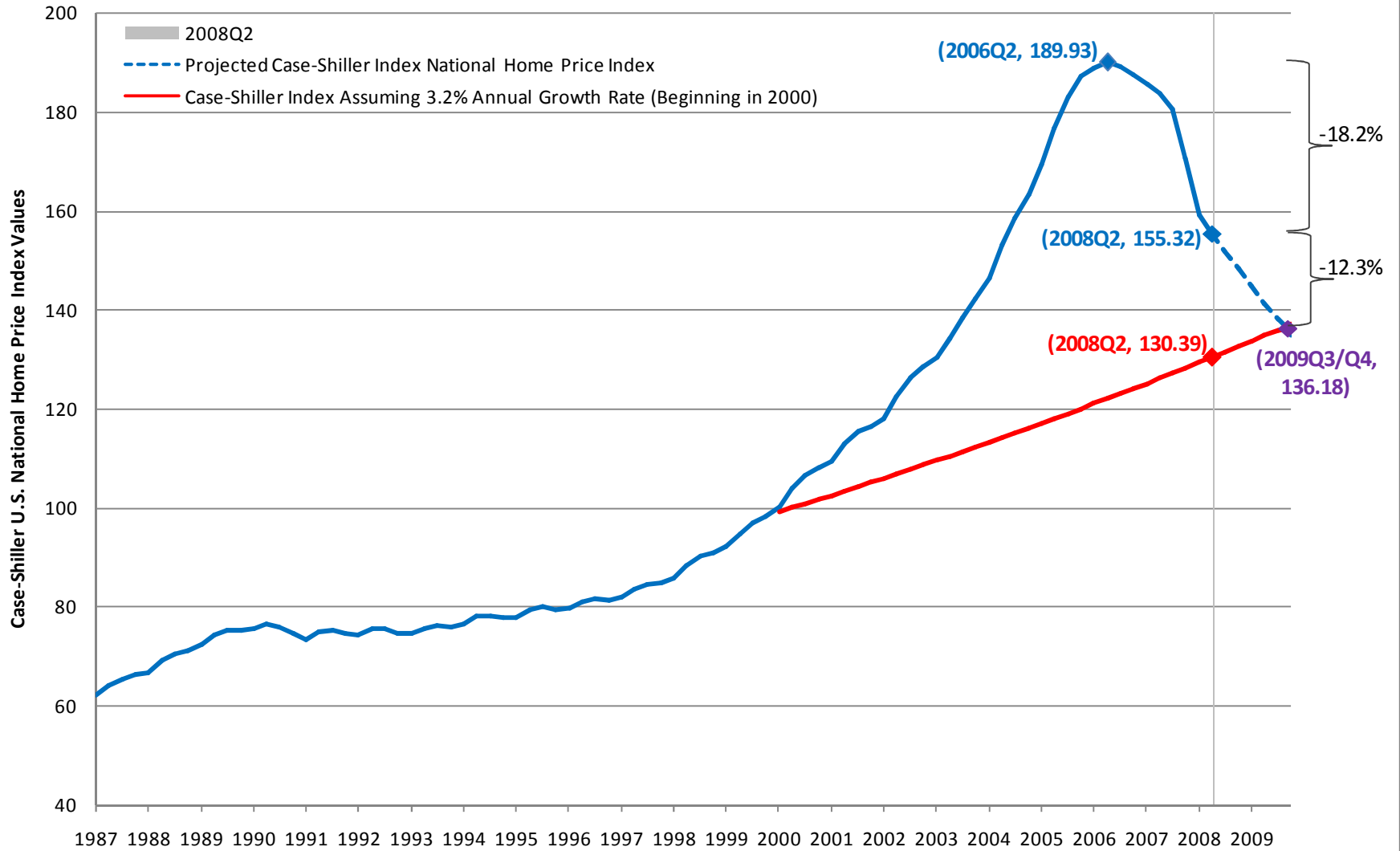
September 30, 2008

2006 World Congress

- Keynote Address:
 “Housing Bubbles and Bubble Markets”
 Professor Robert Shiller



Historical and Projected Case-Shiller National Home Price Index Values



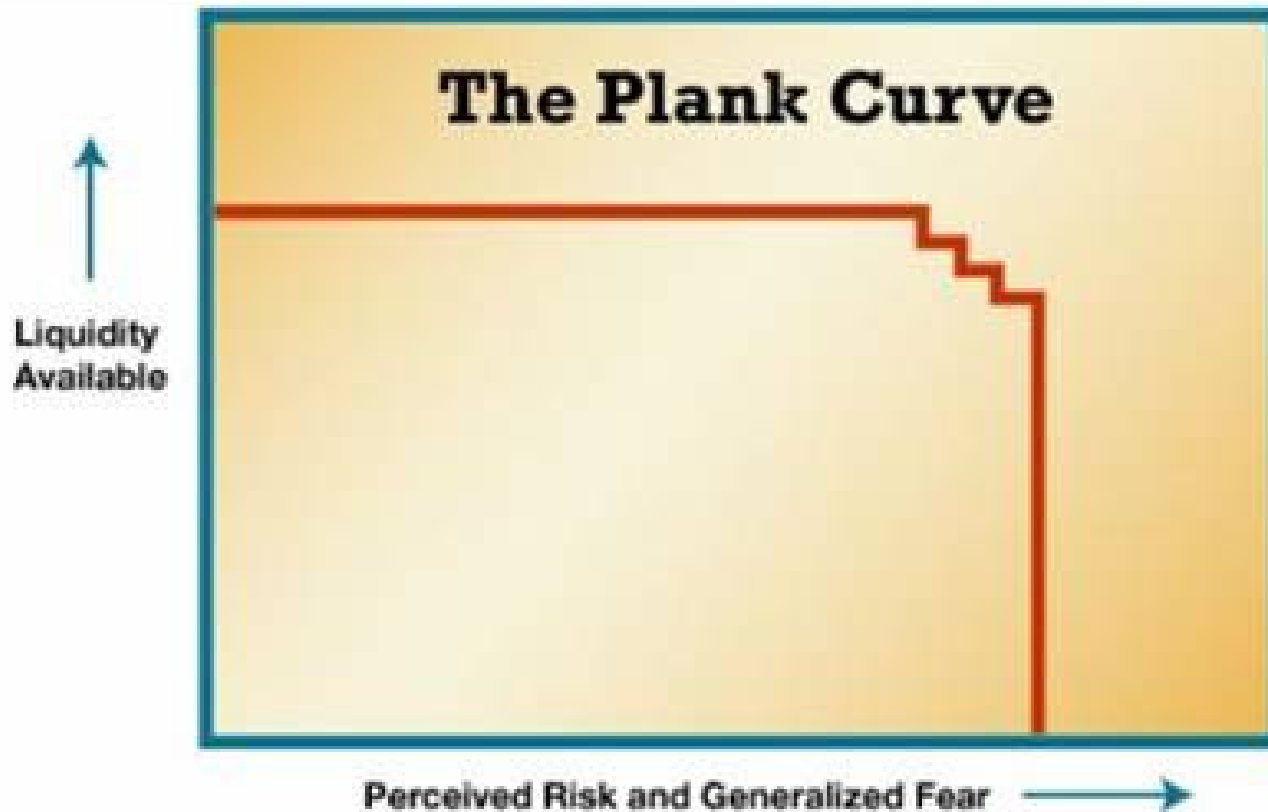
Total Housing Value

- \$22 trillion at peak
- -18% = \$4 trillion loss of household wealth
and negative equity
and worthless second liens

Surrounded by computers, mathematical models, and data...

“In HPA we trusted,
with HPD we busted”

The Bust



The source is Alan E. Grunewald and Alex J. Pollock, "Money Managers and Bank Liquidity," 1995.

Will there be bailouts in a housing bust?
Of course!

2006 World Congress

- “The Cincinnatian Doctrine”
 - “Adam Smith on the trend (90%) and Keynes in the crisis (10%)”
 - Assure sunsets



Bailouts

- Bear Stearns
 - Too interconnected to fail
- Fannie Mae and Freddie Mac
 - An intervention to save an intervention
- AIG
 - Punish the equity and protect the creditors
- Washington Mutual
 - Punish the creditors and save the FDIC fund
- Paulson Plan?
 - \$700 billion fund

Fannie and Freddie

- Nobody thought they'd be done in by credit risk
- They repeated the temptations of a government housing bank
- And now they are a government housing bank
- The future: back to being GSEs or what?

Pollock Plan

- Taxpayers are involuntary equity investors
- The equity approach: model on the RFC experience
- A dividend to taxpayers?

The 2010 World Congress

We'll know how it turned out