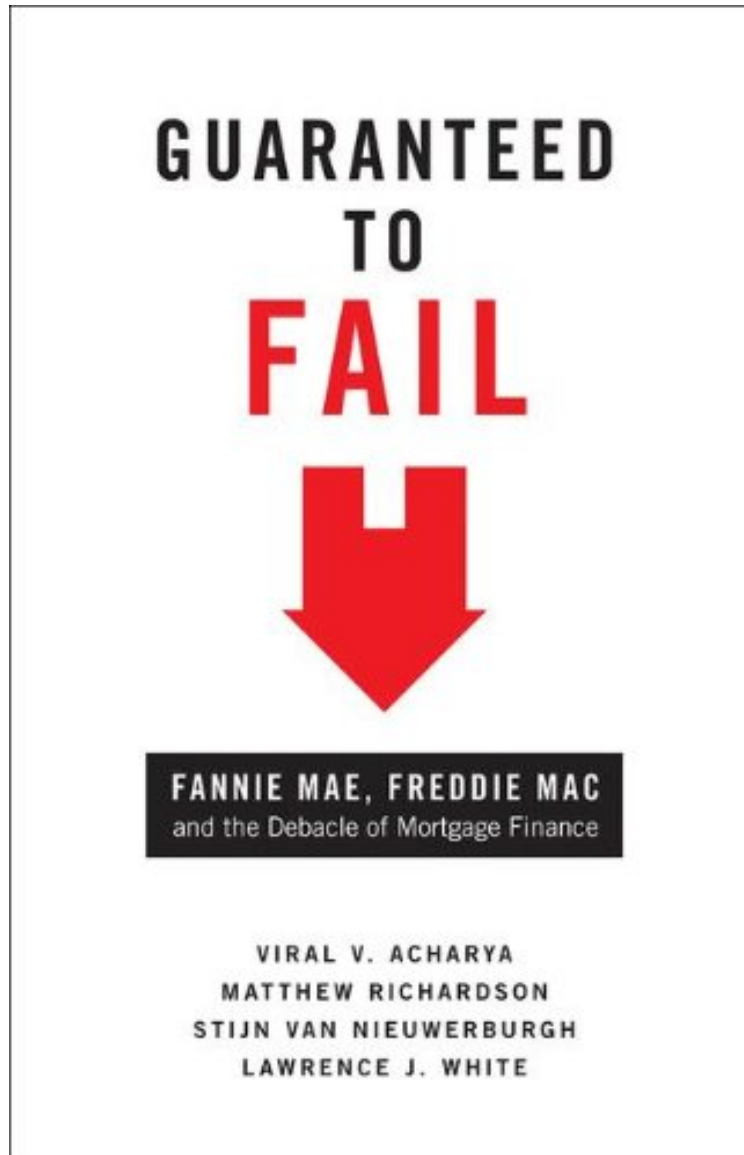


(Mobile library) Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance

Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance

Viral V. Acharya, Matthew Richardson, Stijn van Nieuwerburgh, Lawrence J. White

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Viral V. Acharya, Matthew Richardson, Stijn van Nieuwerburgh, Lawrence J. White : Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance before purchasing it in order to gauge whether or not it would be worth my time, and all praised Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance:

15 of 15 people found the following review helpful. Not Guaranteed to PleaseBy Michael HenryGuaranteed to Fail

falls in that difficult genre of book at once trying to appeal to a broader non-specialist audience and as well to a more informed reader seeking expert examination. This is a difficult middle ground and unfortunately I think the authors do not deliver. There is certainly no doubting the breadth of material. The reader is presented with a dizzying array of facts and figures - something that could have been well presented in better tables. Furthermore, there is no shortage of historical and policy analysis. Nevertheless I think the book comes up short. The real weakness I think is structure which is something an informed editor could have helped iron out. The introduction should have presented what exactly would be covered and the aim of the book. In missing this essential step the authors really failed to see that the text becomes a potpourri of information about the GSEs and anecdotes - issues on which they certainly have a wide breadth of expertise - but the book also fails to really set the issues in proper context. Chapter 5, for example, is just a mish mash covering the period leading up to the financial crisis and as far as I can tell provides no real insight. This could have easily been summarized in a table and appended to the first chapter which to be fair was a good introduction to the history of Freddie and Fannie. But the chapter also wanders into a non-essential description of the effects of housing on the economy, household spending and household balance sheets. It also delves into the literature surrounding the FHLB system. Again, this is testament to the depth of the authors' understanding of the issues but veers quite a bit off course. It would be a useful bit of analysis in the broader context of the housing market but does not seem on point in discussing why Freddie / Fannie were destined to fail and what should be done. At times the authors also fail to substantiate their case. Chapter 6 goes into a discussion of the Fed's balance sheet and how the ballooning of it has complicated monetary policy. A more precise analysis is really needed here. Some very simple calculations, for example, might make the point that higher interest rates would lead to ongoing losses creating a quasi-fiscal loss that ultimately would need to be addressed. But the idea that capital losses on MBS positions would constrain the Fed is flatly dubious since the positions are valued on a hold-maturity-basis and short of defaults not covered by the GSE or Treasury would be irrelevant. In any event the authors fail to discuss the implications of central bank equity or why this would matter (inflationary finance). Nor do they highlight the ample literature on the subject or other international examples where central bank losses are relevant. This is an area where a broader analysis might be warranted but would extend the scope of the book even more. *Guaranteed to Fail* also goes very quickly over topics that would seem to warrant further analysis. There is a passing reference to a rule change to the Securities Exchange Act of 1934, in August 2004, that allowed investment banks to apply greater leverage. This would seem to be a highly relevant topic since the greater investment banks gearing and expansion into mortgages - by their own hypothesis - was a precipitating factor in the housing bubble and subsequently led to catastrophic failures during the collapse. There is also little mention of the use of SPVs by commercial banks and the regulatory lapses of the Fed in allowing these vehicles which served to lever their balance sheets as well. Meanwhile the authors fail to address the more vexing question as to why there were concurrent housing bubbles globally (and some that are still inflating such as in Australia) even though Freddie and Fannie played no role there. They simply pass off any government influence in housing as somehow wasteful or counter-productive though Canada would seem to be an excellent counter-example. I think it would serve the readers to illustrate the difference in regulatory structure and how this might or might not have led to problems. After all Ireland and Spain have suffered through a similar mess but government subsidies of their mortgage markets is not the apparent culprit. I do think *Guaranteed to Fail* gets some footing in discussing possible reform solutions for the GSEs. Here the authors apply their expertise and provide some very credible solutions. I would have preferred a more focused analysis and less of the breezy superficial points used throughout the book. I was frankly surprised with the narrow set of solutions: for example they did not even discuss applying the covered bond model in the US despite its apparent success in Europe which is highlighted earlier in the text. As with other sections of the book the footnotes are helpful but I think this chapter in particular warrants a full bibliography and recommendations for further reading organized by topic. In the end I find it hard to recommend *Guaranteed to Fail*. There is certainly a lot of information and the authors seem highly qualified to present the information. Unfortunately I think they do a particularly poor job of presenting what they have to offer and the reader can walk away feeling no more clear - albeit they will have a broader appreciation of the numbers involved. Lastly as regards one other issue which a previous reader critiqued and to which Professor Acharya responds and that is the reference to the GSEs being a giant hedge fund. While Fannie and Freddie took plenty of risk, employed derivatives and operated much like an investor (and at times like a speculator) the idea that these were hedge funds is nothing more than trite hyperbole and is completely unnecessary. The term hedge fund refers to a very specific type of alternative investment vehicle which restricts the type of investors involved - generally high net worth individuals and qualified investors such as large institutions. Of course these two entities at the time of their collapse were broadly held by the public and listed on the stock exchange. Their shares were held by professional investors and well as individuals - often through listed mutual funds. This in itself precludes them from being hedge funds. That they employed leverage, used derivatives, took credit and interest rates risk or had financing advantages over their commercial bank rivals due to government sponsorship is completely irrelevant. This would simply make them well-funded, poorly regulated and incentivized investors that also failed to see what many investors and analysts failed to see. Only they did it on the public dime. That sentiment should be brought to bear in the book but is not done so well enough.

review helpful. Best Book on the GSEs (So Far)By K. AkinAs an investment professional that actively trades mortgage and real estate backed debt, I keep an eye on the books pertaining to my markets. With respect to the GSEs, I have been continually amazed how they have basically escaped public scrutiny. Executives have walked away with millions in bonuses for taking risks that they have now left on taxpayer's door step. Viral has written a fabulous book that unearths some of the worst excesses of the "public-private" partnership in housing. While, you can argue with his proposed reforms, he doesn't miss the big point: the GSEs and housing subsidies more broadly aided in crippling this country's financial health. Chapter 9 is particularly salient in elucidating this point. All and all, a book and cause definitely worth learning about and reading. Understanding the dynamics of mortgage finance and the trajectory of reform may well prove the key to the economy for the next decade.0 of 0 people found the following review helpful. Good for understanding the general pictures of the situation.By Huey TsaiThe book points out the structural issues with good metaphors.However I think the issue is it's not well translated to specific reader groups. For the readers outside the industry, the book brought up so much numbers that are simply overwhelming and lost the readers. For the readers in the industry, the book only shows how severe the problem is which most of us already know.

The financial collapse of Fannie Mae and Freddie Mac in 2008 led to one of the most sweeping government interventions in private financial markets in history. The bailout has already cost American taxpayers close to \$150 billion, and substantially more will be needed. The U.S. economy--and by extension, the global financial system--has a lot riding on Fannie and Freddie. They cannot fail, yet that is precisely what these mortgage giants are guaranteed to do. How can we limit the damage to our economy, and avoid making the same mistakes in the future? *Guaranteed to Fail* explains how poorly designed government guarantees for Fannie Mae and Freddie Mac led to the debacle of mortgage finance in the United States, weighs different reform proposals, and provides sensible, practical recommendations. Despite repeated calls for tougher action, Washington has expanded the scope of its guarantees to Fannie and Freddie, fueling more and more housing and mortgages all across the economy--and putting all of us at risk. This book unravels the dizzyingly immense, highly interconnected businesses of Fannie and Freddie. It proposes a unique model of reform that emphasizes public-private partnership, one that can serve as a blueprint for better organizing and managing government-sponsored enterprises like Fannie Mae and Freddie Mac. In doing so, *Guaranteed to Fail* strikes a cautionary note about excessive government intervention in markets.

.com '[Guaranteed to Fail] is more multi-dimensional and nuanced than most other books on the bloody crossroads where real estate and banking meet. . . . [The] authors show convincingly that the GSEs' subprime lending was not a noble idea that eventually went wrong or drifted into excesses--it was a fool's errand from the beginning.'--Financial Times'[A] valuable book on how two quasi-public companies became 'the world's largest and most leveraged hedge fund'. . . . A balanced study, [Guaranteed to Fail] rises above a clash between partisans on the right--who call the companies 'ground zero' in the meltdown--and those on the left who blame deregulation and Wall Street excess. . . . Part primer, part policy prescription, the text explains in simple language what these entities are, how they got so big, and why we must fix them.'--James Pressley, Bloomberg News'In *Guaranteed to Fail*, a quartet of New York University professors from its Stern School of Business, focus on the 'debacle of mortgage finance' that Fannie and Freddie helped create, and offer a plan for reform. In clear language, and with plenty of data to support their arguments, the authors provide a concise but comprehensive history of the GSEs--which alone makes their book worth reading.'--Barron's "[Guaranteed to Fail] is more multi-dimensional and nuanced than most other books on the bloody crossroads where real estate and banking meet. . . . [The] authors show convincingly that the GSEs' subprime lending was not a noble idea that eventually went wrong or drifted into excesses--it was a fool's errand from the beginning."--Financial Times"[A] valuable book on how two quasi-public companies became 'the world's largest and most leveraged hedge fund'. . . . A balanced study, [Guaranteed to Fail] rises above a clash between partisans on the right--who call the companies 'ground zero' in the meltdown--and those on the left who blame deregulation and Wall Street excess. . . . Part primer, part policy prescription, the text explains in simple language what these entities are, how they got so big, and why we must fix them.'--James Pressley, Bloomberg News"'"In *Guaranteed to Fail*, a quartet of New York University professors from its Stern School of Business, focus on the 'debacle of mortgage finance' that Fannie and Freddie helped create, and offer a plan for reform. In clear language, and with plenty of data to support their arguments, the authors provide a concise but comprehensive history of the GSEs--which alone makes their book worth reading."--Barron's"*Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance*, stands out among all the others. . . . [I]t is one of the very few books to focus squarely on the ultimate cause of the crisis: US government housing policy and the role of the two government-backed mortgage giants Freddie Mac and Fannie Mae in giving effect to that policy."--Stephen Kirchner, *The Conversation* (Australia)"[T]hought-provoking."--Gillian Tett, *Financial Times*"[T]he authors provide a detailed template for reform."--*The Economist*"No one can accuse the authors of failing to offer solutions to the problems they so thoroughly document. . . . One can only hope that some trace of the constructive approach of *Guaranteed to Fail* will inform the ongoing debate in Washington on the vitally important question of the future structure of the U.S. mortgage market."--Martin S. Fridson, *Financial Analyst*

Journal "This book should, without question, play an important role in the policy discussion of how to reform the mortgage market. Its accessible explanation of the GSEs' growth and behavior, and its detail and care in suggesting the direction for housing finance to go--and how to get it there--are its strengths. In terms of audience, the book seems more oriented toward policy discussions than academic ones. . . . As a whole, it provides a useful overview of the rise and fall of the GSEs, and is a worthwhile read for those interested in understanding the recent crisis."--Daniel K. Fetter, *Journal of Economic Literature* "[T]he scholarly NYU tome focuses on policy mistakes and perverse incentives. . . . The Stern School economists [highlight the] 'race to the bottom' among mortgage lenders . . . [who] responded by 'moving down the credit curve of increasingly shaky mortgage loans.' . . . Bad lending begat worse lending."--Robert J. Samuelson, *Claremont of Books* "They combine in an ideal way research and political consulting, resulting in an easy-to-read book that nevertheless has the necessary in-depth analysis. The book is rich with quotes from the past suggesting that everybody should have seen the imminent disaster."--Rico von Wyss, *Financial Markets and Portfolio Management* "Guaranteed to Fail is one of the more comprehensive and informative books on the financial crisis. In addition to its relevance to the policy debate on homeownership and government guarantees, the book has numerous pedagogical strengths. Each chapter is well-organized, contains numerous charts and graphs, and has incredible detail regarding legislation, announcements, and media reports that impacted the housing market since the 1930s. The appendix, with a timeline of US housing finance milestones and a 32-page blueprint for reform, highlight the great effort that went into the creation of this work."--Cynthia Bansak and Peter Carpenter, *Eastern Economic Journal* "The [authors] combine in an ideal way research and political consulting, resulting in an easy-to-read book that nevertheless has the necessary in-depth analysis. The book is rich with quotes from the past suggesting that everybody should have seen the imminent disaster."--Rico von Wyss, *Swiss Society for Financial Market Research*

From the Back Cover "Guaranteed to Fail is a down-to-earth analysis of why Fannie Mae and Freddie Mac collapsed and why housing finance is broken. The authors provide clear solutions to fixing this complex problem. This is a timely and important book."--Nouriel Roubini, coauthor of *Crisis Economics: A Crash Course in the Future of Finance* "Guaranteed to Fail is a comprehensive and well-written study of the role played by Fannie and Freddie in the events leading up to the financial crisis. It also suggests the way forward. This book is timely as well as insightful, and will be an influential contribution to the debate on the role of government-sponsored enterprises."--Raghuram G. Rajan, author of *Fault Lines: How Hidden Fractures Still Threaten the World Economy* "This is an excellent book. Guaranteed to Fail presents a cogent proposal for the resolution of the current conservatorship of Fannie Mae and Freddie Mac. It documents the historical, economic, political, and financial issues that led to the current crisis, and presents all the issues in a fair and informative manner."--Dwight Jaffee, University of California, Berkeley