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Expertise { GSE  
Mtg finance  
BKR chain

supply side of Housing  
Rules + Regs of STATES of Calif + Fla  
where short-term supply constraints drove  
up prices until the point where supply caught  
up. In Calif. there are many restrictions  
regarding building houses; supply & demand  
initial demand. Calif. was never 45% of  
all national Housing sales. The Bubble  
was Fla, Calif, Nevada. Calif, in places, were  
\$600K to \$700K housing value. No Calif, NO  
Housing Bubble!

High LTV ratios:

Some of Bubble increase was caused by product:  
ARMs, No docs, ~~etc~~ 327, Alt-A etc. Used to stretch

In 2006 Dick Syron: Too much risk!  
But ~~a~~ a year earlier he fired Andrew Kenis for  
having sold the very same thing.

Sen. Richard Durbin -

Pat Fowler OFHBO Chief Econ

It was not until 2007 Freddie/Fannie  
used their own underwriting standards to review  
the mortgages booked since August 2006

International Capital flow: low fed funds rate  
drives intl investor to AAA MBS which yield 300 to 400 bps  
more.

monetary policy: low fed funds rate

long term mortgages purchased from short-  
term ~~and~~ proceeds of loans. mismatched

Fannie/Freddie w/ buying much of the reg. amount.

2002 - 2005: exploring alternative documentation,  
during Fannie's and Freddie's says working fund. No doc loans.

JIM BERTH: AUBURN: get in touch w/ him.

GET IN TOUCH W/ HIM - JAMES BRADY

OVER 150% of Tier 1 Capital of Banks were Freddie &  
Fannie securities either Bonds/MBS. The MMDA funds  
also held huge amounts of Preferred  
Fannie/Freddie preferred stock/Bonds.

Banks sold Secs - loans to Nat'l Banks for  
CRA purposes. Peter Brenton, genl Counsel  
abud Pollock - rent a loan program i/cw CRA reqs.  
There is a shallow market. Repo agreements w/ Wells Fargo or  
WAMU.

BS turned itself into an S&L w/ insured deposits