

Notes by  
Adam Paul

• Arnold Kling • 7/28/10 • 10:00

- 03 typical

↳ reinforce cycle had to break

Mort I Cash-out Refi - no market trans, all appraisal  
+ incentives to inflate

III Non-owner occupied

5% (00) → 15% (05-06)

→ possibly underreported

Ed standards → ↓ down payments

↳ create instability - removes caps involved

in the fixed high down

"I cannot picture crisis if typical borrower had  
to put 10% down" - restricted amount of low down payment

"w/o housing bubble it hard to imagine the <sup>low</sup>  
crisis."

CRA - not too bad

"pressure that Fannie + Freddie felt at  
exactly wrong time"

GIG - CDS pullout slow-down w/o GSE

GSE "inexperience at the top"

↳ old examples of Texas (oil prices) or

30x multi-family

- not a lot of confidence in staff - believed  
they were too cautious

"felt market was running away from them"

Down  
lower

Yes

"people who know are not the people in power"

Basel  
ILBAs  
Capital  
Require

"buckets" - favor GSEs securities - lower cap require  
lower caps on securitized mortgages  
O2-Recourse Rule - if rating reaches  
Trip-A-B then capital requirement falls  
↳ did not apply to held mortgages  
↳ so a lot of securities

"with securities Trip A solely for regulatory  
purposes no one asking rating agency  
for real mark"  
↳ Warning - Shadow Fin Reg. Comm

Knowledge  
Power

thinking did not rise

GSE - law doc out of hand

GSE experience - "CEO was a finance geek" / Bensen  
"options do strange things"

"Impossible for CEO to know everything"  
"Too complex for CEO to understand"

Design

→ Encourage smaller institutions

"History of gov always making creditors

made them bigger than they'd have been"  
"stay in letter of law & avoid spirit of  
law"

Basel

→ Need to add to MFR

Rating Not a problem if investor watches ratings

"Not much of an active market"

Need to learn → what the loans are like, when worst loans

↳ occupancy rates

- Securities traded (share) → even bespoke stuff
- People w/ lots of experience not up to the top

"Not what they had in mind"  
Chess game of Fin Regulation"