

To understand today's financial crisis, you must understand the long history of government interference and subsidies for housing and housing debt.

Since the New Deal, the federal government has passed law after law attempting to shape U.S. housing markets. The U.S. today compels banks to lend to risky borrowers, skews the cost of housing debt and benefit of housing-related capital gains through the tax code, and operates several enormous government lending programs and taxpayer-backed corporations.

The net result is a wild, multi-trillion dollar overinvestment in America's housing stock, the encouragement of dangerously overleveraged consumers and banks, and a massive new tab for taxpayers. The market is currently trying desperately to correct government-created housing bubble, but the federal government's response is to actually expand the government intervention that created the problem.



Here is the timeline of the actions that led to the current crisis.

**1913 – The federal income tax is created.** The new law allows taxpayers to deduct their mortgage interest, among other interest expenses. This deduction was capped in 1986, but still exists today. Under the mortgage interest deduction, taxpayers are allowed to deduct interest from their primary residence, their second homes, and most home equity lines of credit. This deduction, which amounted to nearly \$90 billion in 2008, increases the value of homes to borrowers by reducing the amount of taxes they have to pay, but also increases home prices, largely offsetting the potential benefit. Still, it creates a strong incentive to buy multiple homes and to use maximum leverage to do so.

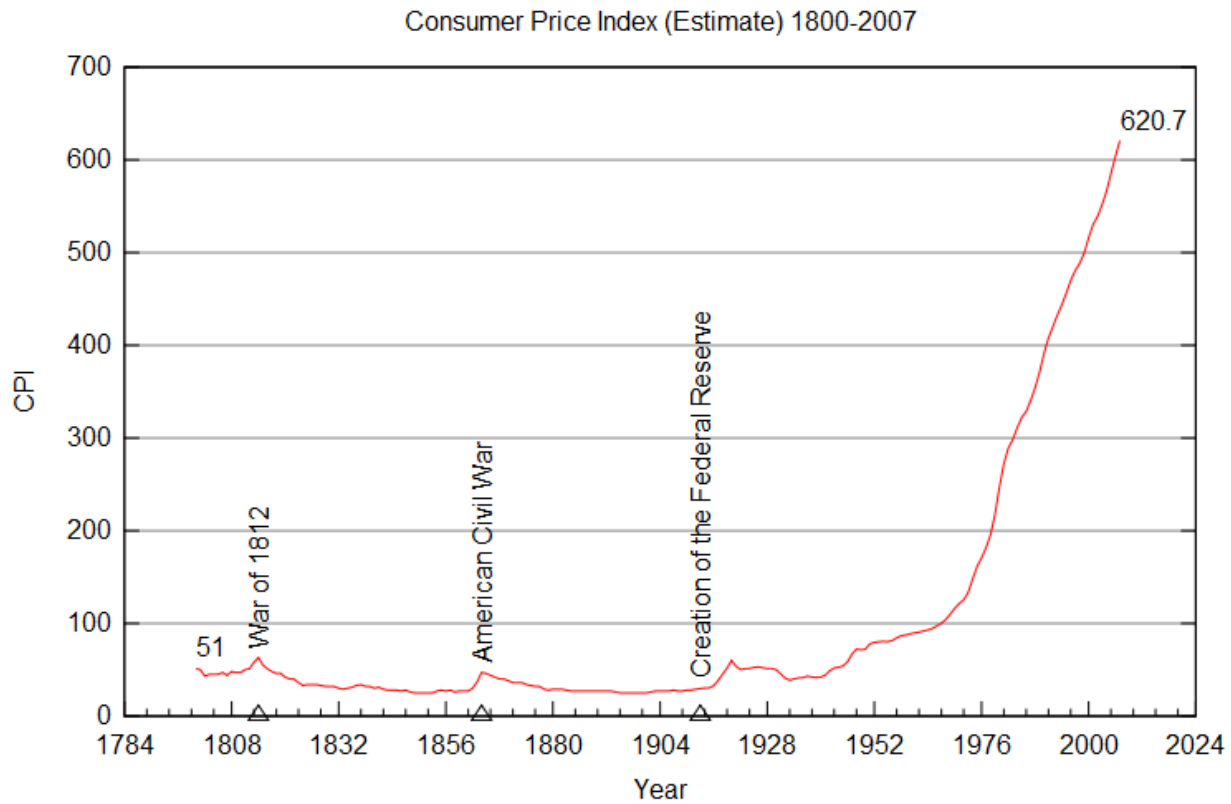
**1913 – The Federal Reserve is created,** with [the power to control](#) the money supply.



**1929 – The Wall Street Crash** marks the beginning of the Great Depression. The stock market bubble that leads to the crash was caused, in part, by a 63 percent increase in the size of the money supply driven on by the Federal Reserve over the previous eight years. [1a](#)

**1933** - President Franklin Delano Roosevelt issues an Executive Order **banning the private ownership of gold** coins and bullion under

penalty of imprisonment. The government is released from redeeming dollars for gold which makes inflating the money supply much easier.



## 1934 – The Federal Housing Administration (FHA)

is created by the National Housing Act to increase home ownership in the United States. FHA insures mortgages to encourage banks to loan more money for housing.

## 1937-1938 – Deepening depression

prompts Congress to expand and overhaul New Deal programs. The Federal National Mortgage Association, the precursor to Fannie Mae, is created at the request of President Franklin Roosevelt. It is authorized to buy FHA insured mortgages from banks. It then repackages and sells them as securities to investors.

**"The Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy."**

*-- Milton Friedman*

**1951** – President Harry Truman forms an agreement between the U.S. Department of the Treasury and the Federal Reserve known as the Accord. Truman replaces Chairman of the Federal Reserve Marriner Eccles with William McChesney Martin Jr. after Eccles shows reluctance to inflate the government out of debt. Martin serves as Chairman of the Federal Reserve until 1970. [39](#)

**1965 – The Department of Housing and Urban Development (HUD) is created.** HUD and FHA insure loans for borrowers with insufficient credit, thereby driving down interest rates for low-income borrowers and artificially increasing the amount of housing produced and sold.

**1968 – Fannie Mae** separates from the FHA, becoming a Government Sponsored Enterprise (GSE). Making Fannie Mae a GSE enables Lyndon Johnson, worried about the budget deficits from his "Great Society" policies, to remove Fannie Mae from government balance sheets, while continuing to expose taxpayers to its risks. [1](#)

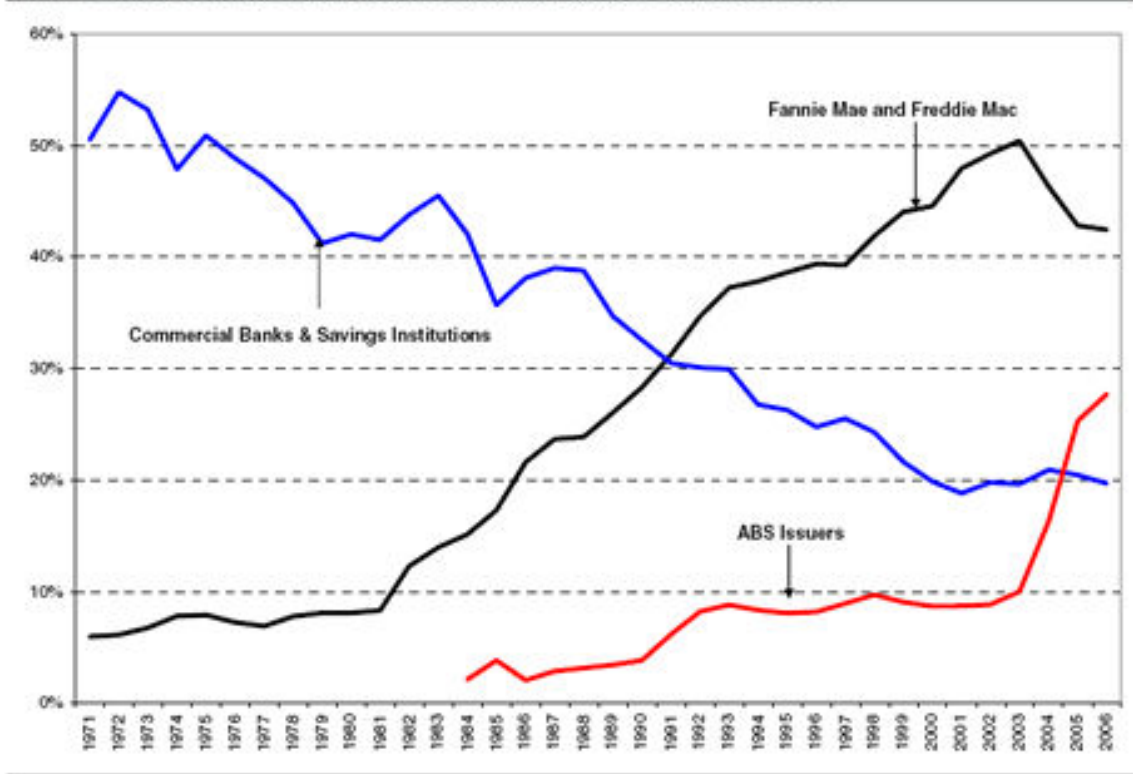


**1970 – Freddie Mac,** then known as The Federal Home Loan Corporation, is created to serve the same purpose as Fannie Mae – expanding the secondary market for mortgages in the United States. The two companies do so by purchasing mortgages from banks. They then compile the purchased mortgages into securities, guarantee them, and sell them to investors. By paying banks money for mortgages, they bring more liquidity to the banks, which are then able to loan the money to another applicant. Both GSEs are implicitly backed by the government. [2](#)

Because the GSEs are chartered by the government, investors believe that the government will not allow them to default on loans. As a result, GSEs are able to borrow at lower rates than private companies, giving them a competitive advantage over fully private mortgage-backed security vendors. [3](#) They crowd out the competition and ultimately hold over 50% of the over \$7 trillion mortgage market in the United States in 2003. [4](#)

The graph below shows Fannie Mae and Freddie Mac's market share of mortgage debt as they crowd out commercial bank and saving institutions holdings of mortgage debt. [5](#)

Exhibit 4: Percentage Held of Household Mortgage Debt, 1971–2006



Source: OFHEO, Federal Reserve, Company data, Credit Suisse analysis.

**1971 – The Undermining of Bretton Woods.** President Richard Nixon, burdened with high government expenditures from social programs and war, undermined the Bretton Woods agreement and ended the system of fixed rates of exchange between the dollar, gold, and foreign currencies. The result was a decade of dollar devaluation, instability, and inflation.



**1975 – Ratings Agencies Formalized.**

The Securities and Exchange Commission (SEC) creates rules that form Nationally Recognized Statistical Rating Organizations (NRSRO). These companies are paid by a securities issuer such as Fannie Mae to provide a rating on a security (i.e. a 'AAA bond') that

helps investors price the security. This market structure is both highly regulated and contains an inherent conflict-of-interest. The bond rating system is vastly different from the private rating system for equities, where dozens of analysts compete to rate stocks.

**1977 – The Community Reinvestment Act (CRA)** becomes law and requires banks to loan to the areas where the banks are located, regardless of the eligibility of potential borrowers. To enforce the statute, government agencies take the information they gather on the banks into consideration when deciding to approve applications for new bank branches or for mergers or acquisitions.

**1978 – The Humphrey-Hawkins Full Employment Act** . President Jimmy Carter signs the Humphrey-Hawkins Full Employment Act into law modifying the Employment Act of 1946. It gives the government the power to use economic policy to manipulate fluctuations in the business cycle through the Federal Reserve and the Executive beyond that initially granted by the Constitution. [40](#)

**1989** – The CRA is modified by the Financial Institutions Reform Recovery and Enforcement Act (FIRREA) to increase pressure on banks to make CRA loans – loans that banks deem too risky to give, but which they must to meet politically determined CRA requirements.

**1991 – CRA crackdown.** The Home Mortgage Disclosure Act (HMDA), enacted in 1975 is expanded to discover if financial institutions are complying with CRA regulations. HMDA has the effect of lowering underwriting standards and pushing banks to give loans they otherwise would not. Economist Tom DiLorenzo explains that with the rules from the CRA, certain community action groups “...essentially extort money from banks with the following ruse: Whenever a bank proposes a merger, expansion, or building of a new branch, it is subject to regulation by the Fed, the Comptroller of the Currency, and the FDIC. If *anyone* files a complaint to any of these agencies accusing the bank of making too few CRA loans, the merger or expansion is halted. So-called community groups frequently lodge such complaints and do not withdraw them until the banks give *them* or other groups which they designate large sums of money, sometimes in the tens of millions of dollars.”[6](#)

## 1992 The Clinton Presidency Begins

---

**Government weakens bank lending standards.** A now-discredited study published by the Boston Federal Reserve enables Government Sponsored Enterprises Fannie Mae and Freddie Mac to accept lower underwriting standards for mortgages they are seeking to purchase, so they may expand their portfolios, enable private banks to make more loans, including risky CRA loans, and influence the housing sector.[78](#)

At the same time, the **Democrat-controlled Congress weakens Fannie and Freddie standards.** The Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA) is passed into law. This act mandates that the GSEs increase their acquisition of bank loans made to risky and lower income borrowers. GSE Fannie Mae announces a trillion dollar commitment. Banks know they can meet CRA requirements by giving these loans, and that they will be able to pass the risk of such loans on to the implicitly taxpayer-backed Government Sponsored Enterprises, so they make lower quality loans.

Also in 1992, **Countrywide, Wachovia**, and others pushed by Federal Reserve publications and other regulations begin loaning to clients with no or bad credit. Lenders are able to pass

on the added risk of these loans by selling them to the GSEs, who guarantee, repackage, and sell them as securities with the implicit backing of the government in the case of default. [9](#)

**1995** – Regulatory changes to the CRA make all banks' CRA ratings available to pressure groups. When a bank plans to merge or start a new branch, they are evaluated according to the CRA. Economist Tom DiLorenzo writes, "Regulatory extortion via the CRA was on display on national television during Bill Clinton's summer 1999 'poverty tour.' One of the corporate executives who accompanied Clinton on his tour of economically depressed areas was the CEO of NationsBank, which was at the time in the process of merging. Before granting NationsBank permission to merge, Clinton required the bank to commit to \$150 million in low-interest loans to individuals and businesses in areas chosen not by the bank, but by the Clinton administration."[10](#)

**1997** – Bear Stearns and First Union Bank (later merged into Wachovia) issue the first CRA-loan mortgage-backed security.[11](#)

**1997** – [Tax Payer Relief Act](#) is passed into law, [repealing capital gains taxes](#) on home sales unless the gain is over \$250,000. Since capital gains taxes are present on most other forms of investment; lifting taxation on housing distorts the investment market toward housing and away from alternatives.

**1999** – **Bill Clinton expands the reach of the CRA** through the Gramm-Leach-Bliley Act. The act applies CRA regulations to more banks by preventing them from expanding into mortgages or securities unless they comply with CRA rules – which is to say, unless they make more subprime loans, which they did.[12](#) According to Investopedia, subprime refers to "A type of loan that is offered at a rate above prime to individuals who do not qualify for prime rate loans. Subprime borrowers are often turned away from traditional lenders because of their low credit rating or other factors that suggest that they have a reasonable chance of defaulting on the debt repayment."[13](#)

**1999** – **Franklin Raines**, former Office of Management and Budget Chief under President Clinton, becomes CEO of Fannie Mae.

**2000** – Government Sponsored Enterprises Fannie Mae and Freddie Mac's lobbying and campaign contributions exceed \$25 million this election cycle.[15](#)

**2000** – Home ownership rates in the United States reach 67.7%. 71.6 million American families own their own home – a record in American history.[16](#)



**2001 – The Federal Reserve begins lowering interest rates** to counter the possibility of recession after the September 11th attacks, dropping the rate from 6% to 1.75%.

**2002** – The Fed continues rate cuts taking them from 1.75% to 1.25%.

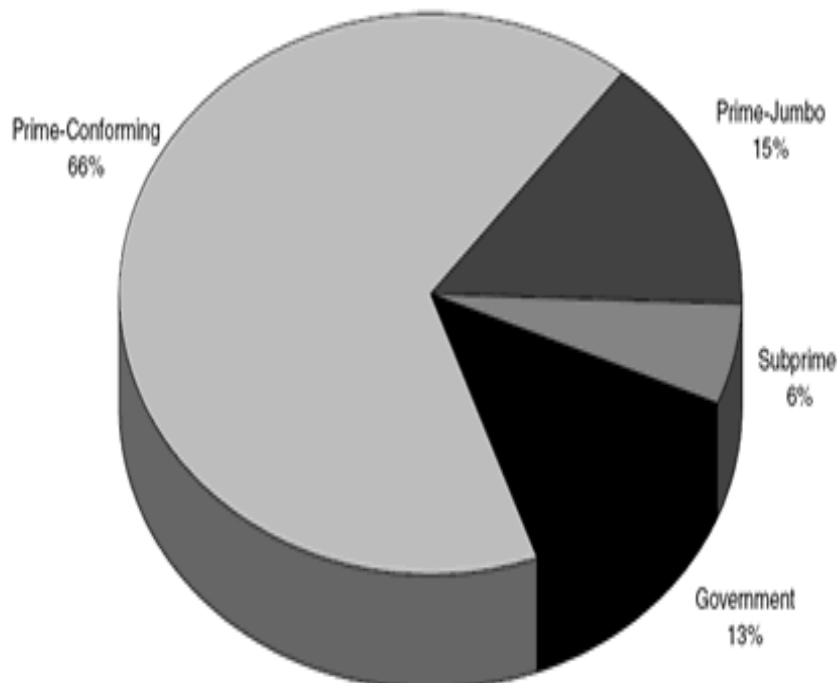
**2002** – Government Sponsored Enterprises Fannie Mae and Freddie Mac's lobbying and campaign contributions exceed \$37 million this election cycle.



**"True, governments can reduce the rate of interest in the short run. They can issue additional paper money. They can open the way to credit expansion by the banks. They can thus create an artificial boom and the appearance of prosperity. But such a boom is bound to collapse soon or late and to bring about a depression."**

*-- Ludwig von Mises, Omnipotent Government*

Exhibit 2: Estimated Purchase Dollar Originations, 2002



Alt-A exposure was approximately 5% of purchase originations in 2002, and was grouped in Prime-Conforming, Prime-Jumbo and Subprime.

## 2003 Corruption at Fannie and Freddie

---

In 2003, the Federal Reserve lowers interest rates to 1% – the lowest since the 1960s. The rate allows borrowers to borrow at an interest rate lower than the rate of inflation, effectively subsidizing borrowers, encouraging banks and individuals to borrow as much as possible.

President Bush calls for reforming Fannie Mae and Freddie Mac by increasing their capital-reserve requirements, the percentage of liquid assets lending institutions must keep on hand in case of financial trouble.<sup>17</sup> Third-party groups call for the two Government Sponsored Enterprises to be fully privatized, rather than the current status which privatizes profits but socializes risk. Congress, heavily lobbied by

Fannie Mae and Freddie Mac to oppose the reform, opposes reform.



**"I do not think we are facing any kind of a crisis. That is, in my view, the two government sponsored enterprises we are talking about here, Fannie Mae and Freddie Mac, are not in a crisis. . . . I do not think at this point there is a problem with a threat to the Treasury.**

*-- Rep. Barney Frank (D-Mass.), at a hearing in 2003*

Fannie Mae discloses a \$1.2 billion accounting "error". It is later revealed the former political appointees who head the Government Sponsored Enterprises manipulated the numbers to bring themselves bigger bonuses.

Countrywide Financial, which sells many of its loans to the Government Sponsored Enterprises Fannie Mae and Freddie Mac, makes a special **VIP loan** to President Bush's Secretary of HUD Alphonso Jackson for a below market rate under the program now known as "Friends of Angelo", named after the CEO of Countrywide, Angelo Mozilo.

Franklin Raines, former Clinton OMB Budget Chief and current CEO of GSE Fannie Mae, makes \$20 million in 2003 alone. He also receives almost \$2 million in loans from the "Friends of Angelo" Countrywide Financial program for politically connected borrowers this year.<sup>19</sup>

**James Johnson**, one-time advisor to Barack Obama's presidential campaign, receives nearly \$4 million in loans from "Friends of Angelo."<sup>20</sup>

**2003** – Senate Committee on Banking, Housing and Urban Affairs member Christopher Dodd (D-CT), elevated to Committee Chairman in 2007, saves thousands of dollars by refinancing his home with a below market rate loan from “Friends of Angelo.”<sup>21</sup> Dodd receives over \$780,000 in loans below the market rate of interest. The Senate Banking Committee, according to its website, “has a broad jurisdiction over the operation of our nation’s financial institutions, housing and mass transit programs.”



## 2004 Wall Street Derivative Markets Expand

---

The Federal Reserve finally begins interest rate increases in 2004, taking the rate from 1% to 5.25% by June 2006.

In 2004, the [SEC allows five primary dealers](#) (Lehman Brothers, Bear Sterns, Merrill Lynch, Goldman Sachs, and Morgan Stanley) to more than triple their leverage, the amount of borrowed money they use for investments.<sup>22</sup> This little-noticed decision dramatically increases the riskiness of firms with systemic importance and accelerates the growth of the worldwide asset bubble. Of the five companies, only two remain in business by November, 2008, and both require taxpayer funding through the TARP and other regulatory interventions to survive.

Government Sponsored Enterprises Fannie Mae and Freddie Mac’s **lobbying and campaign contributions** exceed \$51 million in the 2004 election cycle. Congress, heavily lobbied by Fannie Mae and Freddie Mac to oppose reform, opposes reform.

Franklin Raines, CEO of Fannie Mae, goes into “early retirement” as his company is investigated for accounting irregularities. Raines was paid more than \$90 million between 1998 and 2003 by Fannie Mae. The company paid record high fines for cooking the books to bring Fannie Mae quarterly profits that paid high ranking management millions of dollars in bonuses, including Raines.

Also in 2004, Sen. Kent Conrad (D-ND) receives loans from Countrywide Financial through the “Friends of Angelo” program. The June 16, 2008 Wall Street Journal reads, “Mr. Conrad had called Mr. Mozilo and asked for a loan. The result was a discounted loan on his million-dollar beach house and a separate commercial loan of a type that residential lender Countrywide did not even offer to other customers, regardless of the rate.”<sup>23</sup> Conrad receives \$1.07 million in loans from Countrywide at below-market rates.

## 2005 Democrats Block Reform

---

Fannie and Freddie began adding to their portfolios more than \$1 trillion dollars in unpaid principal balance on subprime and Alt-A mortgages.[24](#)

In 2005, Alan Greenspan voices concerns over Fannie Mae and Freddie Mac saying, "The Federal Reserve has been unable to find any credible purpose for the huge balance sheets built by Fannie and Freddie other than the creation of profit through the exploitation of the market-granted subsidy."[25](#)

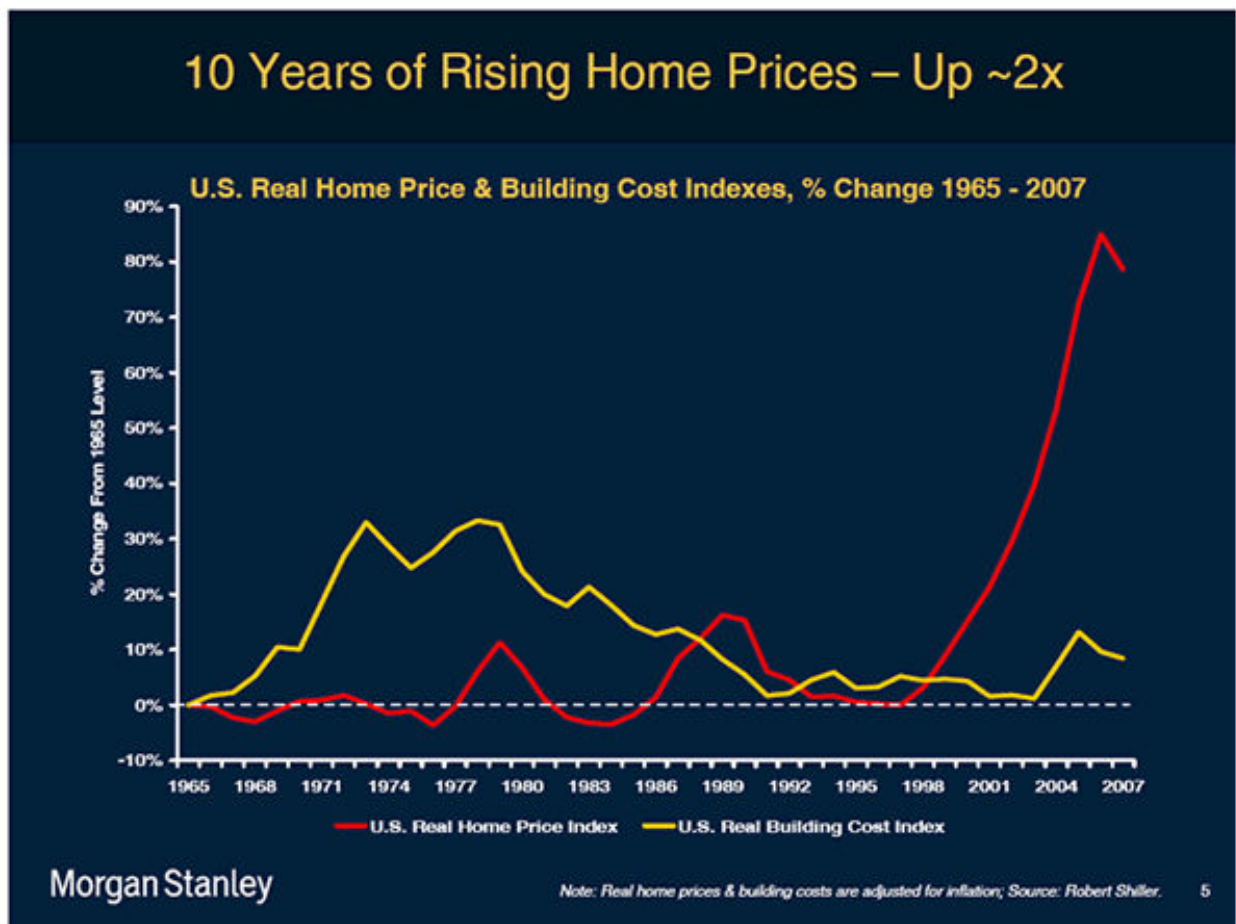
**"Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts, or other credit accommodations, the Federal reserve bank shall give consideration to such information."**

*- U.S. Code Title 12, Chapter 3, Subchapter 7, Section 301. Powers and duties of board of directors; suspension of member bank for undue use of bank credit*

Senate Banking Committee member Chuck Hagel (R-NE) sponsors **another bill to reform** and regulate the Government Sponsored Enterprises Fannie Mae and Freddie Mac.[26](#) The bill is passed out of the Senate Banking Committee. "All GOP members of the committee supported it; all Democrats opposed it" according to the Associate Press.[27](#) Twenty six Republican Senators plead in a letter to Senate Majority Leader Bill Frist (R-Tenn.) to allow a full Senate vote saying, "If effective regulatory reform legislation ... is not enacted this year, American taxpayers will continue to be exposed to the enormous risk that Fannie Mae and Freddie Mac pose to the housing market, the overall financial system and the economy as a whole." GSE Freddie Mac ramps up its aggressive lobbying against reform, and a full Senate vote is not called.

## 2006 The Housing Market Peaks

**Housing prices peak** and start to decline. Nominal housing prices drop just 1.4% during the second and third quarters of 2006. Foreclosure rates increased by 43% during the third quarter.<sup>28</sup> The graph below shows a percent change in number of foreclosures from the same period in the previous year.<sup>29</sup>

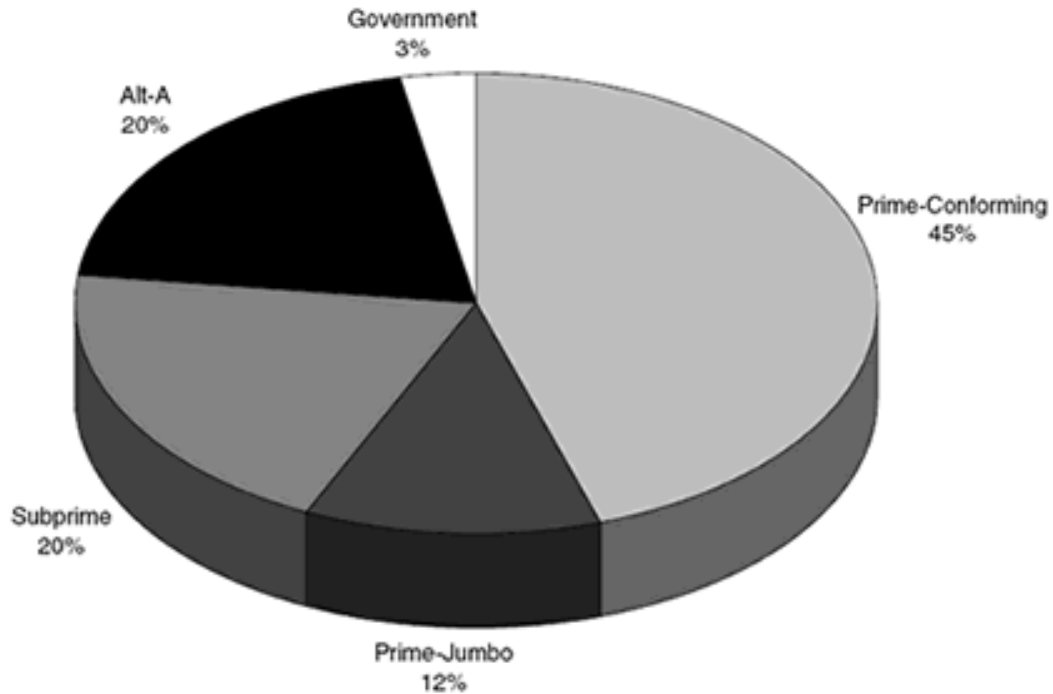


Government Sponsored Enterprises Fannie Mae and Freddie Mac's lobbying and campaign contributions exceed \$43 million this election cycle. Congress, heavily lobbied by Fannie Mae and Freddie Mac to oppose reform, opposes reform.

**2006** – As the two graphs below show, subprime lending increased from 6% of the total mortgage market in 2002, to 20% in 2006.<sup>30 31</sup>

**Exhibit 1: Estimated Purchase Dollar Originations, 2006**

---



---

*Source: Inside Mortgage Finance, MBA, LEHC, Credit Suisse U.S. Mortgage Strategy, Credit Suisse analysis.*

## 2007 A Year of Denial

---

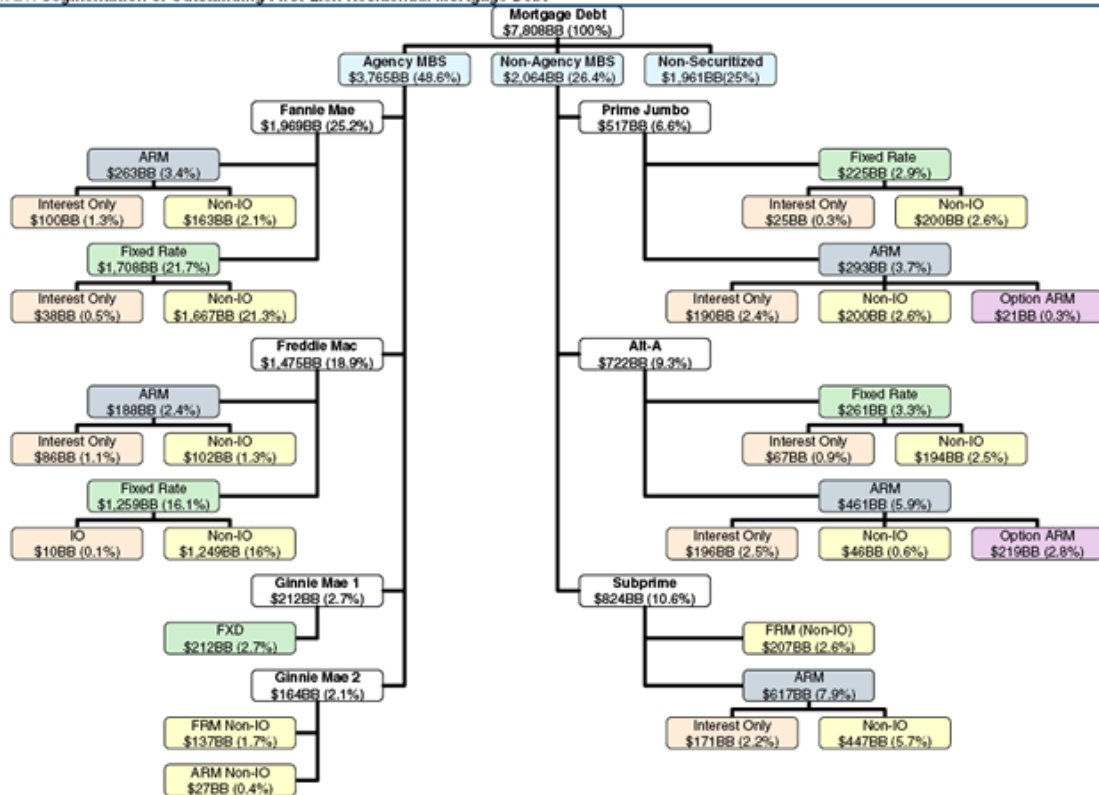
This year, Countrywide Financial alone originates 23% of Fannie Mae and Freddie Mac's total volume of mortgages.[32](#)

In 2007, GSE Freddie Mac pays its Chairman and CEO Richard Syron nearly \$20 million this year[33](#) and Fannie Mae's CEO Daniel Mudd is paid over \$12 million.[34](#)

In 2007, Fannie and Freddie [leverage exceeds a staggeringly risky 130 to 1](#). Normal banks operate on 10 or 12 to 1 leverage ratio.

2007 – The graph below shows which types of companies hold which type of mortgage debt and how the mortgages are classified.

Exhibit 21: Segmentation of Outstanding First-Lien Residential Mortgage Debt



Assumptions: Securitization rate 75%; Loan Performance Reporting rate: Prime and All-A: 75%, Subprime: 65%  
 Source: Credit Suisse U.S. Mortgage Strategy

\*For a key, see note 35.

## 2008 The Crisis Deepens, the Government Responds

**March – Bear Stearns Bailout.** The Federal Reserve Bank of New York guarantees \$29 billion in toxic assets from Bear Stearns as part of a deal to [merge the insolvent company](#) with rival J.P. Morgan. Bear Stearns was one of the major originators and holders of mortgage backed securities.

**“We have a good deal of comfort about the capital cushions at these firms at the moment.”**

*-- Christopher Cox, chairman of the SEC, when asked about Bear Stearns on March 11, days before its collapse.*



Also in March, the Bush Administration regulator James Lockhart [reduces the capital reserve requirements](#) of Fannie and Freddie by one-third, setting the stage for their final collapse and hundreds of billions of dollars in eventual losses for taxpayers.

**May** - Treasury Secretary [Hank Paulson tells the Wall Street Journal](#), "The worst is likely to be behind us."

**June** – Countrywide Financial Corporation, a major beneficiary of the GSE’s loan purchase program, and its Chief Executive, Angelo Mozilo are exposed for loaning at lower than market rates to key politicians and other executives involved with regulation and oversight of Countrywide Financial through a group called the “Friends of Angelo”. He had loaned at lower than market rates to Senator Christopher Dodd, Senator Kent Conrad, former Secretary of HUD Alphonso Jackson, former Secretary of Health and Human Services Donna Shalala, and former U.N. ambassador assistant Secretary of State Richard Holbrooke, CEO of Fannie Mae Franklin Raines, and former Barack Obama campaign advisor James Johnson.

**June** – Senate Banking Committee Chairman Chris Dodd (D-Conn.) admits knowing he was a “special” customer of Countrywide Financial, but still announces he will bring to the Senate floor a housing bailout sure to help Countrywide, allowing mortgage lenders to dump up to \$300 billion of their worst loans on to taxpayers.[37](#)

**September** – The federal government seizes insolvent Government Sponsored Enterprises Fannie Mae and Freddie Mac and places them into conservatorship. The two are now regulated by the Federal Housing Finance Agency (FHFA). Substantial reform of the failed GSEs is not a contingency of the bailout, which could end up costing taxpayers anywhere from \$200 billion to \$1 trillion. Under direct Treasury control, the GSEs are actually expanding their lending operations, adding to the taxpayer risk.

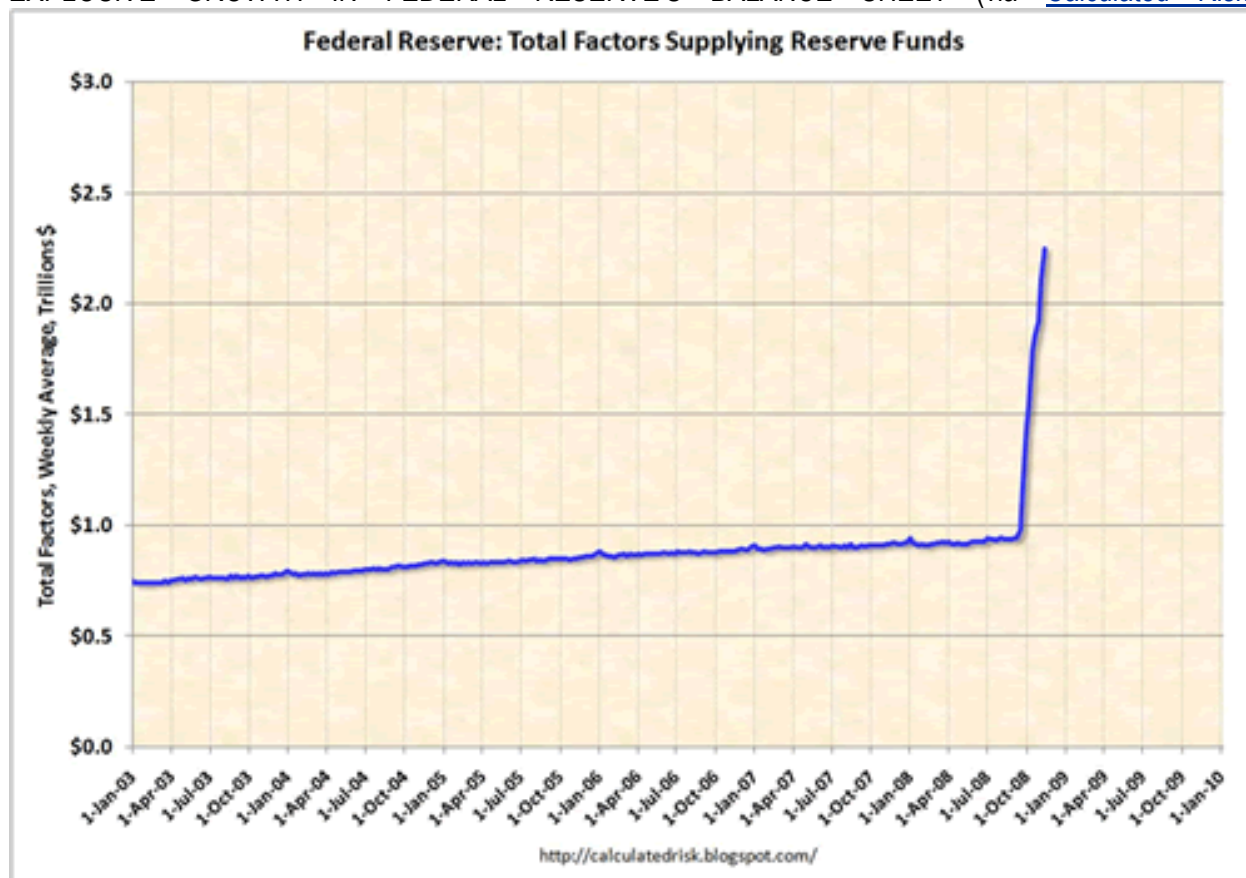


Also in September, **American International Group, Inc. (AIG)** receives an \$85 billion in loan from the government in exchange for 79.9 percent of the company (interest payments on corporate debt are tax deductible unless they are to an entity that controls 80 percent or more of the shares, hence 79.9 percent).[38](#) The company sold insurance on credit default swaps involving mortgage backed securities from subprime loans, including many sold by GSEs Fannie Mae and Freddie Mac. The money is not enough to keep the company solvent and the government gives AIG a second loan for \$37.8 billion in October. That additional money is still not enough and the government expands the loan to \$150 billion total in November.

**October** – The Emergency Economic Stabilization Act of 2008 creating the Troubled Asset Relief Program (TARP) is passed to buy underperforming assets from banks. The Treasury is authorized to buy primarily mortgage backed securities from banks. Treasury Secretary Henry Paulson, however, uses some

of the \$700 billion to directly purchase shares of stock in banks. The government also announces plans to use Fannie Mae and Freddie Mac to buy assets from banks before TARP comes into effect.

EXPLOSIVE GROWTH IN FEDERAL RESERVE'S BALANCE SHEET (via [Calculated Risk](#))



## FOOTNOTES

<sup>1</sup> Surowiecki, James, "Sponsoring Recklessness," The New Yorker 28 June, 2008. Available at [http://www.newyorker.com/talk/financial/2008/07/28/080728ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2008/07/28/080728ta_talk_surowiecki)

<sup>2</sup> Surowiecki, "Sponsoring Recklessness"

<sup>3</sup> Weiss, N. Eric and Michael V. Seitzinger, Congressional Research Service, "Fannie Mae and Freddie Mac: A Legal and Policy Overview," 28 Feb., 2008.

<sup>4</sup> Ivy L. Zelman et al., "Mortgage Liquidity du Jour: Underestimated No More," Credit Suisse 12 March 2007

<sup>5</sup> This graph is from page 14 of "Mortgage Liquidity du Jour: Underestimated No More" by Credit Suisse.

<sup>6</sup> DiLorenzo, Tom, "Regulatory Sneak Attack," \*Presentation prepared for the Mises Institute's conference, "Austrian Economics and the Financial Markets," Toronto, Canada, September 16-17, 1999. <http://mises.org/story/297>

7 Liebowitz, Stan J. "Anatomy of a Train Wreck: Causes of the Mortgage Meltdown," Independent Policy Report, The Independent Institute 3 Oct., 2008, p. 6-10 and Day, Theodore, and Stan J. Liebowitz. "Mortgage Lending to Minorities: Where's the Bias?" Economic Inquiry January 1998: 1-27.

8 "Closing the Gap: A Guide to Equal Opportunity Lending," Federal Reserve Bank of Boston. 1992. <http://www.bos.frb.org/commdev/commaff/closingt.pdf>

9 Housing prices over time, adjusted for inflation in 1983 dollars - Graph from Liebowitz, "Anatomy of a Train Wreck: Causes of the Mortgage Meltdown"

10 DiLorenzo, "Regulatory Sneak Attack"

11 "First Union Capital Markets Corp., Bear Stearns & Co. Price Securities Offering Backed By Affordable Mortgages," *Wachovia Press Releases*, Media Contact: Mark Folk 20 Oct. 1997 [http://www.wachovia.com/inside/page/textonly/0,,134\\_307%5E306,00.html](http://www.wachovia.com/inside/page/textonly/0,,134_307%5E306,00.html)

12 Holmes, Steven A, (1999, Sept. 30) "Fannie Mae Eases Credit To Aid Mortgage Lending," New York Times. 30 Sept., 1999 <http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260>

13 Dictionary entry on "subprime" from the Investopedia online dictionary found at <http://www.investopedia.com/terms/s/subprimeloan.asp>

14 Holmes, "Fannie Mae Eases Credit To Aid Mortgage Lending" 2.

15 Data found at [www.opensecrets.org](http://www.opensecrets.org)

16 HUD's History from their website at <http://www.hud.gov/library/bookshelf12/hudhistory.cfm>

17 Labaton, Steven. "New Agency Proposed to Oversee Freddie Mac and Fannie Mae," New York Times, 11 Sept. 2003 <http://query.nytimes.com/gst/fullpage.html?res=9E06E3D6123BF932A2575AC0A9659C8B63&sec=&spon=&pagewanted=print>

18 Labaton, "New Agency Proposed to Oversee Freddie Mac and Fannie Mae"

19 Simpson, Glenn R. and James R. Hagerty, "Countrywide Friends Got Good Loans," Wall Street Journal. 7 June 2008 [http://www.wsj.com/public/article\\_print/SB121279970984353933.html](http://www.wsj.com/public/article_print/SB121279970984353933.html)

20 Simpson and Hagerty, "Countrywide Friends Got Good Loans"

21 "Dodd and Countrywide," Wall Street Journal. 10 Oct. 2008 <http://online.wsj.com/article/SB122360116724221681.html>

22 Satow, Julie, "Ex-SEC Official Blames Agency for Blow-Up of Broker-Deals," The New York Sun, 18 Sept., 2008 <http://www.nysun.com/business/ex-sec-official-blames-agency-for-blow-up/86130/>

23 "Beltwaywide Financial," Wall Street Journal 16 June 2008

[http://online.wsj.com/article/SB121357125417575867.html?mod=opinion\\_main\\_review\\_and\\_outlooks](http://online.wsj.com/article/SB121357125417575867.html?mod=opinion_main_review_and_outlooks)

[24](#) Wallison, Peter J. and Charles W. Calomiris, "The Last Trillion-Dollar Commitment," American Enterprise Institute, 30 Sept., 2008

[25](#) Hays, Kathleen. "Greenspan steps up criticism of Fannie," 19 May, 2005 CNNMoney.com [http://money.cnn.com/2005/05/19/news/economy/greenspan\\_fannie/](http://money.cnn.com/2005/05/19/news/economy/greenspan_fannie/)

[26](#) United States Senate, S. 190 [109th] Federal Housing Enterprise Regulatory Reform Act of 2005 Congressional Record 25 May 2006. <http://www.govtrack.us/congress/record.xpd?id=109-s20060525-16>

[27](#) Yost, Peter. "Mortgage firm arranged stealth campaign," 19 October, 2008, Associated Press <http://ap.google.com/article/ALeqM5j-G-fDVnv0WN1pXdMWjXX43CjyeAD93TM5Q00>

[28](#) Data from Case Shiller National, graph found in Liebowitz, Stan J. "Anatomy of a Train Wreck: Causes of the Mortgage Meltdown," Independent Policy Report, 3 Oct., 2008

[29](#) Zelman et al., "Mortgage Liquidity du Jour: Underestimated No More"

[30](#) Zelman et al., "Mortgage Liquidity du Jour: Underestimated No More"

[31](#) From "Mortgage Liquidity du Jour: Underestimated No More," "Alt-A exposure was approximately 5% of purchase originations in 2002, and was grouped in Prime Conforming, Prime-Jumbo and Subprime."

[32](#) Shenn, Jody, "Fannie, Freddie Subprime Spress May Add to Bailout," 24 Sept. 2008. Bloomberg <http://www.bloomberg.com/apps/news?pid=20601109&sid=a.6kKtOoO72k&refer=home>

[33](#) Davis, Julie Hirschfeld, "Lawmakers Move to Curb Fannie Mae, Freddie Mac Pay," USA Today, 22 July 2008. [http://www.usatoday.com/news/washington/2008-07-22-2995747604\\_x.htm](http://www.usatoday.com/news/washington/2008-07-22-2995747604_x.htm)

[34](#) Davis, Julie Hirschfeld "Lawmakers Move to Curb Fannie Mae, Freddie Mac Pay"

[35](#) \*Notes for "Segmentation of Outstanding First-Lien Residential Mortgage Debt"

Alt-A: The mortgage is rated between prime and subprime

ARM: Adjustable Rate Mortgage

Fixed Rate: The interest rate for the mortgage is fixed

Interest Only: The borrower is allowed to pay only interest for some period of the loan

Option ARM: The borrower decides how much to pay per month over some minimum, usually less than an interest only payment

Non-IO: The borrower must pay interest plus principle for the entire period of the loan

[36](#) Taken from the FHA website at [www.fha.gov](http://www.fha.gov).

[37](#) Review & Outlook. "Angelo's Angel," 19 June, 2008 WSJ.com. [http://online.wsj.com/article/SB121383295591086669.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB121383295591086669.html?mod=googlenews_wsj)

[38](#) US Internal Revenue Code Title 26163, available here: [http://www2.law.cornell.edu/uscode/uscode26/usc\\_sec\\_26\\_00000163----000-.html](http://www2.law.cornell.edu/uscode/uscode26/usc_sec_26_00000163----000-.html)