

Chapter 1

The Financial Crisis

“**Y**ou’ve picked the wrong people. I don’t understand how you could do this. You’ve picked the wrong people!”¹ Senator Byron Dorgan (D-North Dakota) shouted at President-elect Obama in a private meeting shortly after Obama announced his economic team back in December 2008.

Dorgan—along with many other Democrats—was upset about Obama’s choice of Larry Summers as director of the National Economic Council, and Tim Geithner as Treasury Secretary.² Dorgan blamed these two men for having helped cause the crisis by persuading President Clinton to deregulate banks.

Summers and Geithner did play a big role in creating the crisis, but not because they once supported deregulation.³

Summers and Geithner bore responsibility for the crisis in another, much more direct and obvious way. They had a hand in encouraging risky home-mortgage lending and ensuring that the federal government would cover any losses Fannie Mae and Freddie Mac would bear. And with a loss of \$141 billion as of October 2011, these two organizations were at the center of the mortgage collapse.⁴

Fannie and Freddie are government-sponsored enterprises—corporations created by the government but run, for profit, as private enterprises. They provide extreme examples of what happens

when private companies are allowed to gamble with taxpayer money. If Fannie and Freddie won, they got to keep the money. If they lost, taxpayers picked up the bill.

As Alan Greenspan, the former Federal Reserve chairman, testified before the Financial Crisis Inquiry Commission on April 8, 2010, about the events back in 2008: “While the roots of the crisis were global, it was securitized U.S. subprime mortgages that served as the crisis’s immediate trigger. The surge in demand for mortgage-backed securities was heavily driven by Fannie Mae and Freddie Mac, which were pressed by the Department of Housing and Urban Development and the Congress to expand affordable housing commitments.”⁵

Greenspan also witnessed, firsthand, this pressure on banks during the 1990s and 2000s to issue mortgages to people they thought were too risky to lend to: “I sat through meeting after meeting in which the pressures on the Federal Reserve—and on, I might add, all of the other regulatory agencies—to enhance lending were remarkable.”

Unfortunately, Fannie and Freddie’s problems didn’t just end with them pressuring banks to make risky loans. They also committed fraud. As one academic journal, the *Journal of Business & Economics Research*, put it: “In 2003, the Office of Federal Housing Enterprises Oversight (OFHEO) investigated Fannie Mae and found a culture of corruption, arrogance, and pervasive accounting violations in the company. Executives at Fannie Mae cooked books to pocket an extra twenty-seven million dollars in bonuses.”⁶

Fannie and Freddie’s job has been to purchase and repackage a large share of all private mortgages in the country into mortgage-backed securities—they put lots of mortgages together into bundles that are then resold. Why bundle the mortgages? It is too risky to hold mortgages from just one community. For example, if a major employer goes out of business, all home mortgages in the area could be adversely affected. It is much safer to hold a diversified bundle of mortgages from many different places together.

But it was not done right. To help sell high-risk home mortgages, Fannie and Freddie mislabeled a large number of risky mortgages as safe ones, and got them rated them as AAA. Even when the fraud began to be clear, investors still purchased these mortgages because they thought that Fannie Mae and Freddie Mac, with the financial

support of the federal government, stood behind the mortgage-backed securities they issued.

Fannie and Freddie worked alongside the Federal Reserve to gut mortgage-lending standards. The goal was deemed by both Republican and Democratic administrations as a noble goal—making homeownership something everyone could afford. But they did this by gutting mortgage-underwriting standards.

“When we boost the number of homeowners in our country, we strengthen our economy, create jobs, build up the middle class, and build better citizens,” President Clinton said in a speech at the White House in June 1995, advocating an increase in homeownership.⁷ In virtually identical remarks eight years later, President Bush announced: “This administration will constantly strive to promote an ownership society in America. We want more people owning their own home. It is in our national interest that more people own their own home. After all, if you own your own home, you have a vital stake in the future of our country.”⁸ Bush was particularly proud of the increase in homeownership by minority and poor individuals and committed his administration early onto this path.⁹

Fannie and Freddie accomplished this by financially rewarding mortgage lenders who provided loans to borrowers who traditionally would have been rejected, such as welfare recipients, the unemployed, and those lacking a credit history.¹⁰ Lenders in urban areas were pushed to use inflated appraisal standards to inflate the perceived value of the home relative to the amount being borrowed.¹¹ Other special programs were also offered to encourage homebuying by lower-income individuals.¹² This was a politically winning solution for Fannie and Freddie since it gave politicians something they could boast about—expanded homeownership.

It was a give-and-take relationship. In return for Fannie and Freddie giving politicians what they wanted, Fannie and Freddie got to keep their special status with the Federal government. Backed by the full faith and credit of the United States, Fannie and Freddie were able to borrow money at about half a percentage point lower than that paid by private companies.¹³ Fannie and Freddie also enjoyed many other privileges compared to normal banks: a low interest rate on a line of credit directly from the U.S. Treasury, exemption from state and local

taxes, and exemption from many government regulations imposed on private banks. These subsidies have made it very difficult for private companies to compete against them and gave Fannie and Freddie—as well as Ginnie Mae, another wholly owned government-sponsored enterprise—over 95 percent of the U.S. market for mortgage-backed securities.¹⁴

Lacking these subsidies, private mortgage bundlers in a competitive market could never have spent money on subsidizing politically desirable loans for risky homebuyers. Those companies would have quickly gone out of business.

These changes in lending standards started back in 1992, when a Boston Federal Reserve study *claimed* to find evidence of racial discrimination.¹⁵ People were outraged. The finding was significant: Out of every 100 blacks and Hispanics applying for mortgages, 17 were rejected but only 11 of these could be explained by conventional underwriting data; the other 6 could not. The lead author, Alicia Munnell, claimed: “The study eliminates all the other possible factors that could be influencing [mortgage] decisions.”¹⁶ At a quickly called Senate hearing, Maryland Democrat senator Paul Sarbanes asked representatives of the Federal Reserve: “Gentlemen, the first question I want to put to you is that, clearly, these practices are taking place. Does anyone contest that statement? Well, why aren’t we doing more to try to get at them? What’s the problem?”¹⁷

By April 1993, just months later, the Federal Reserve had issued *a manual* for mortgage lenders warning: “Discrimination may be observed when a lender’s underwriting policies contain arbitrary or outdated criteria that effectively disqualify many urban or lower-income minority applicants.”¹⁸

So what was on the list of the Fed’s “outdated criteria”? It included such discriminatory factors as the borrower’s credit history, income verification, and the size of the mortgage payment relative to income. Failure to heed these criteria carried significant risk to the lender. The manual warned:

“Failure to comply with the Equal Credit Opportunity Act or Regulation B can subject a financial institution to civil liability for actual and punitive damages in individual or class actions. Liability for punitive damages can be as much as \$10,000 in individual actions

and the lesser of \$500,000 or 1 percent of the creditor's net worth in class actions."

The penalties were very serious, and would ensure that banks would follow the new rules.

But that was only a small part of the penalties. At the same time that the Federal Reserve was releasing its manual, 10 government agencies under the Clinton administration were responding to the Boston Fed study with their own 20-page "Policy Statement on Discrimination in Lending."¹⁹ The agencies included the Department of Housing and Urban Development, the Department of Justice, the Office of Thrift Supervision, the Federal Trade Commission, and the Federal Housing Finance Board, among others.

The document was quite clear: Applying the same "policy or practice equally to credit applicants" will be defined as having a "disparate impact" if it "has a disproportionate adverse impact on applicants from a group protected against discrimination." Examples included treating income from welfare differently from other income or denying loans based on credit histories or debt ratios.

In case mortgage lenders hadn't picked up the hints from the Federal Reserve manual, the policy statement warned "The Department of Justice is authorized to use the full range of its enforcement authority . . ." and the Department of Housing and Urban development is asked to consider "suspension, probation, reprimand or settlement, against lenders found to have engaged in discriminatory lending practices."

Worse, the study that led politicians to destroy banks' lending standards in the name of ending discrimination turned out to be flawed. Economists discovered that there were *errors in the Boston Fed data* that were used, presumably just due to someone carelessly typing in the data.²⁰ Some black applicants were listed as having wealth up to hundreds of times greater than they actually had, making it look like wealthy minorities were inexplicably being turned down for loans. Some loans were erroneously listed as having negative interest rates, where the mortgage lenders were supposedly paying the homeowner each month to borrow the money. Some listings showed people receiving mortgages even though they supposedly owed millions of dollars more than they had. Still other loans were shown as being rejected when they were not. The data were a mess.

When the many data errors were corrected, the results reversed: There was no evidence of systematic racial discrimination. Minorities with the same financial background as whites faced slightly lower rejection rates.

But with relaxed lending rules to poorer individuals, there was an expected consequence: Minorities were hit by *higher foreclosure rates*.²¹ Ironically, people who point to these higher rates as evidence of discrimination or so-called predatory lending don't understand that the very regulations set up to make it possible to get loans without the qualifications also meant that minorities are more likely to default.

Indeed, the two academics back in 1998, Professors *Ted Day* and *Stan Liebowitz* at the University of Texas at Dallas, found the errors in the Boston Fed study and warned: "After the warm and fuzzy glow of 'flexible underwriting standards' has worn off, we may discover that they are nothing more than standards that lead to bad loans. . . . [T]hese policies will have done a disservice to their putative beneficiaries if . . . they are dispossessed from their homes."²²

And it wasn't just Democrats who created this problem. One of the prime defenders of the study was Larry Lindsey, a Republican appointed to the Board of Governors of the Federal Reserve by George H.W. Bush and later director of the National Economic Council under George W. Bush. He wanted to make loans based on "fairness" and "not . . . limited to safety and soundness."²³ In an interview, Liebowitz told us that Lindsey "was warned about these errors in this study but the Fed ignored them."²⁴ Lindsey declined to discuss with us why he didn't follow through on this information.²⁵

Unsurprisingly, the lower standards did increase homeownership and inflate prices. As long as housing prices kept rising, the lower standards didn't pose a problem. But with so many people having little or no equity in their houses, as soon as prices started to fall and mortgages were worth more than the value of the house, people would walk away from their homes. Indeed, as more and more people were forced to sell their houses, the effect snowballed and soon enough, prices fell further, causing still more homes to be worth less than their value and forcing even more people to walk away. It is easy to see in the accompanying figure how home prices started falling in the beginning of 2006, well before the recession, and that once they started falling, they really

plummeted (see Figure 1.1). With increased foreclosures and declining property values, mortgage specialists, such as Countrywide and IndyMac, as well as major finance and banking firms, such as Citicorp and Merrill Lynch, were financially ruined. Fannie and Freddie became insolvent and were rescued only at a huge cost to taxpayers.

Let us get back to the role of Larry Summers. In 1996, when he was the deputy secretary at Treasury, Fannie Mae and Freddie Mac faced a real threat of losing their perks. At the time, the issue was whether these two organizations should be privatized. The Democratically controlled House and Senate had mandated that a study be done as part of the 1992 Federal Housing Enterprises Financial Safety and Soundness Act's regulations. The report that was scheduled for release was about to show that Fannie and Freddie had a lot of special favors given them

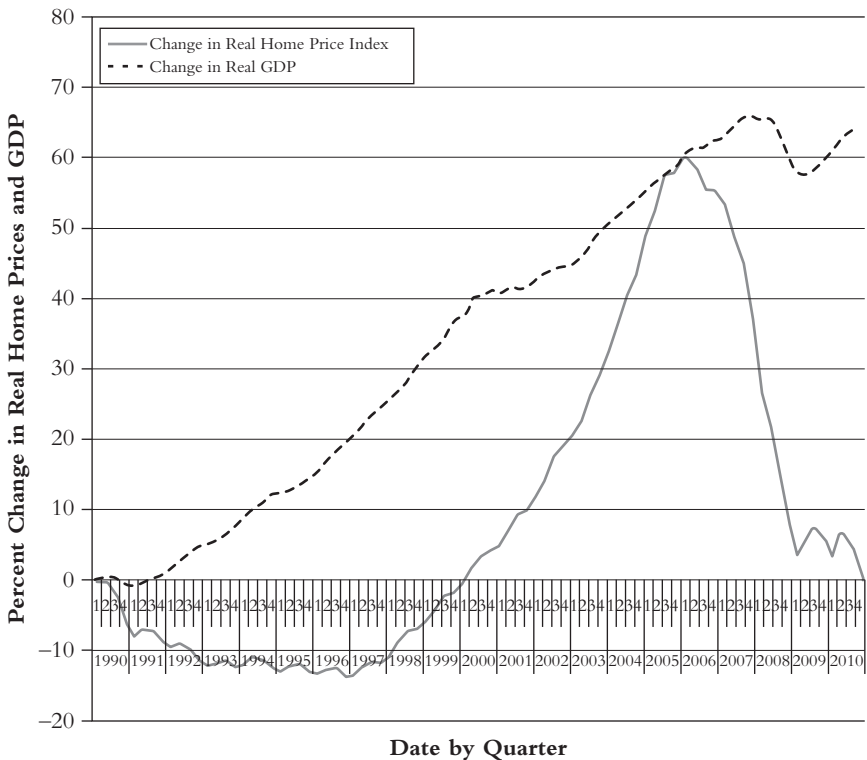


Figure 1.1 How the Drop in Housing Prices Preceded the Recession

by the government. A third of their subsidy was each year disbursed to executives and shareholders, as well as to various friends in Congress.²⁶ Eliminating these perks would not only dry up this gravy train, it would make it much easier for private companies to compete against Fannie and Freddie.

In their book *Reckless Endangerment*, *New York Times* reporters Gretchen Morgenson and Joshua Rosner reveal that just a couple of weeks before the Treasury report was scheduled to be released in May, Summers was given oversight of it.²⁷ Before his takeover, the report was indeed slated to recommend a path toward privatization.

But the fix was in. As one staffer explained: “Nobody has bullied me in my adult life the way that Larry [Summers] did on this one.”²⁸ Summers ordered the staff to rewrite the report. Summers and Robert Zoellick, Fannie’s executive vice president, met later privately, and, according to Morgenson and Rosner, Zoellick was seen “floating with euphoria” down the halls of the Treasury department.²⁹

Another push to end the government’s responsibility for any liabilities that Fannie and Freddie might incur came in 2000. Hearings in the House, headed by Louisiana congressman Richard Baker, tried to push legislation to tighten oversight of the two mortgage giants. Gary Gensler, the undersecretary of the Treasury, unexpectedly gave testimony that shocked everyone. Gensler had been a wonder boy at Goldman Sachs, having become, at the age of 30, one of the youngest partners in the firm’s history. Almost immediately after becoming a partner, he left to join the Clinton administration.

While praising Fannie and Freddie for the work they had done, Gensler’s testimony noted his concern over the huge \$1.4 trillion debts they had already acquired by 2000, and he supported Baker’s attempt to revoke their open line of credit from the Treasury.³⁰ Within 24 hours, with Larry Summers now the secretary of the Treasury Department, the Clinton administration made it clear that they disowned Gensler’s remarks. Perhaps it isn’t too surprising that former *Wall Street Journal* reporter Ron Suskind wrote that, according to Gensler, Summers and Geithner “often appeared to understand the financial markets better than they actually did.”³¹

The Bush administration pushed again to reform Fannie and Freddie. But Timothy Geithner, then president of the New York Federal Reserve, was there to help by providing the right kind of studies to stop reform.

The battle lines were shown in a hearing before the House Financial Services Committee on September 10, 2003. Treasury Secretary John Snow was greatly concerned about the risk that Fannie and Freddie represented, and advocated “a strong world-class regulatory agency to oversee the prudential operations of the [government-sponsored enterprises] and the safety and the soundness of their financial activities.”³² But Democrats on the committee were having none of this. Massachusetts congressman Barney Frank, the top Democrat on the committee, responded:

Fannie Mae and Freddie Mac are not in crisis. . . . The more people, in my judgment, exaggerate the threat of safety and soundness, the more people conjure up the possibility of serious financial losses to the Treasury, which I do not see. I think that we see entities that are fundamentally sound financially and withstand some of the disastrous scenarios. . . . But the more pressure that there is there, then the less I think that we see in terms of affordable housing.³³

Soon thereafter, in 2004, Greg Mankiw, chair of the president’s Council of Economic Advisers, put the warning about Fannie and Freddie most prophetically: “Because the housing [government-sponsored enterprises (GSEs)] are so large, the risk they face is important for the entire financial system. GSE debt is widely held by other financial institutions. Even a small mistake in GSE risk management could have ripple effects throughout the economy.”³⁴

Geithner responded with a report that bolstered opponents of reform. At the end of 2004, the New York Federal Reserve published claims that there existed “little evidence to support the existence of a national home price bubble.”³⁵ This assertion received wide coverage in the popular press and helped calm concerns about potential risk in the housing market. It was used as support for those opposed to privatizing Fannie and Freddie.³⁶

But Summers obviously had little respect for the likes of Greg Mankiw or others who had served during the Bush administration.

Referring to the transition from Bush to Obama, Summers noted: “We’ve gone from a moment when we’ve never had a less social-science–oriented group, to a moment when we’ve never had a more social-science–oriented group. So . . . we’ll see what happens.”³⁷

Obama’s connections with the very people most responsible for the financial crisis extended well beyond Larry Summers and Tim Geithner. Another close adviser during the 2008 presidential campaign was James Johnson, who headed Obama’s search for a vice presidential running mate.³⁸ But in June 2008, documents exposed that Johnson was one of two former Fannie Mae CEOs who had received large below–interest-rate mortgages from Countrywide, with Fannie Mae being the biggest buyer of Countrywide’s mortgages. Johnson received one subsidized loan from Countrywide while he was still the CEO of Fannie Mae, and two more loans afterward. All told, they totaled \$2.7 million. The apparent conflicts of interest forced Johnson to resign from Obama’s campaign.

Johnson ran Fannie Mae from 1991 to 1998, dramatically changing it from a conservatively managed operation to an organization that aggressively pushed homeownership to low-income people, both as a way to grow and as a way to generate political goodwill. Under Johnson, Fannie found an ally in ACORN, the left-wing community-organizing group where Obama obtained success as a community organizer. They joined forces to ease traditional mortgage underwriting standards. The two organizations found success in the 1992 Federal Housing Enterprises Financial Safety and Soundness Act. Instead of the traditional 20 percent down payment that banks had required for houses, the 1992 Act encouraged loans with only 5 percent or less down.

ACORN was also credited with introducing what became known as the “Special Affordable Goal” in the 1992 Act.³⁹ The provision mandated that a certain percentage of Fannie and Freddie’s mortgage purchases in an area had to be done specifically for low-income families. For example, from 2001 to 2003, in most areas, at least 20 percent of the houses financed by Fannie and Freddie’s mortgage purchases had to be for those with incomes no greater than 60 percent of an area’s median income.⁴⁰

The 1992 Boston Fed study that sparked an effort to end perceived discrimination against minorities and the poor was tailor-made

for ACORN. The organization was also deeply involved in generating attention for the results when they came out. ACORN had put out its own study in 1991 claiming that minority applicants were 1.6 to 3.4 times more likely than whites to have their mortgage applications rejected.⁴¹ The organization continued to work closely with Fannie and Freddie for years. Even more than a decade after the 1992 Act, ACORN organizers demonstrated in front of the homes of executives at Household International, a private competitor to Fannie and Freddie.⁴² Similar demonstrations were held against many banks across the country.

Of course, Obama's links to ACORN are deep.⁴³ In 1995, Obama was ACORN's attorney in a case that forced Illinois to implement the federal "motor voter" law. When he ran for the Illinois State Senate in 1996, he filled out a questionnaire listing key supporters by listing ACORN first. During a 2007 speech to ACORN, Obama reminded the group's leaders: "I've been fighting alongside of ACORN on issues you care about my entire career. Even before I was an elected official, when I ran Project Vote in Illinois [1991–1992], ACORN was smack dab in the middle of it, and we appreciate your work."

As mentioned in the beginning of the chapter, Senator Dorgan and many other Democrats might not have liked Summers or Geithner, but with the president's track record, these two individuals were natural choices.

Other Obama economic advisers shared Summers's and Geithner's views. Austan Goolsbee, a long-time Obama friend from the University of Chicago who served as Obama's economic adviser ever since his successful U.S. Senate campaign in 2004, typified these views. When the Democrats moved into regulating financial markets during Obama's first two years in office, Goolsbee dismissed the notion that the legislation should deal with Fannie and Freddie, saying: "I think that's a total red herring to say that [that] ought to be in a bank reform bill."⁴⁴ He spoke as if Fannie and Freddie were totally irrelevant to the financial market crisis. Instead, Goolsbee directed his anger more toward U.S. banks. In an edgy comedy routine he gave in late 2009, banks were singled out as the "ungrateful bastards" who "bankrupted your grandma."⁴⁵

Notes

1. Ron Suskind, *Confidence Men: Wall Street, Washington, and the Education of a President* (New York: Harper, 2011).
2. A wide range of Democrat senators from Virginia's moderate Jim Webb to Vermont's socialist Bernie Sanders, along with others such as Iowa's Tom Harkin, Michigan's Carl Levin, and California's Dianne Feinstein, expressed the same concerns about these appointments. Ron Suskind writes: "The reason Dorgan and others in his group wanted to meet directly with the president was precisely because they felt that it was Summers, Geithner, and Gensler who had been instrumental in creating the antecedents of the current financial crisis." See Suskind, *Confidence Men*.
3. The senators faulted them for persuading President Clinton to reduce regulation on banks in 1999 by repealing the Depression-era Glass-Steagall Act. Repealing the act allowed any one bank to offer multiple services. Now, one bank could operate retail banks, sell insurance, and provide investment services. It also allowed them to invest in other types of investments—previously they had been limited primarily to mortgages. The repeal of the Glass-Steagall Act was thus a good move, a deregulation that not only increased competition for customers but also served to make banks' portfolios more diverse and hence less risky. Diversification was a no-brainer for Summers. If banks had kept most of their assets in mortgages, the collapse of the mortgage market would have swept away much more of our banking system.
4. Nick Timiraos, "Fannie, Freddie Bailout Costs Revised Lower," *Wall Street Journal*, October 28, 2011, <http://online.wsj.com/article/SB10001424052970203687504577001653467422674.html>.
5. John McKinnon and Randall Smith, "Greenspan Grilled Over Role in Financial Crisis," *Wall Street Journal*, April 8, 2010, http://online.wsj.com/article/SB10001424052702303720604575169650914317956.html?mod=WSJ_hps_LEFTWhatsNews.
6. RamMohan R. Yallapragada, "There Is No Accounting for Fannie Mae," *Journal of Business & Economics Research* 5, no. 7 (2007): 65–69.
7. President William J. Clinton, "Remarks on the National Homeownership Strategy," Speech delivered at the White House on June 5, 1995, www.presidency.ucsb.edu/ws/index.php?pid=51448#axzz1dTH2SDYk.
8. The White House, President George W. Bush, "Expanding Home Ownership," The White House, December 16, 2003, <http://georgewbush-whitehouse.archives.gov/infocus/achievement/chap7.html>.
9. The White House, Office of the Press Secretary, "President Hosts Conference on Minority Homeownership," October 15, 2002, www.policyalmanac.org/social_welfare/archive/wh_minority_housing.shtml.

10. Susan E. Rodburg and Richard C. Walker III, "Closing the Gap: A Guide to Equal Opportunity Lending," Federal Reserve Bank of Boston, April 1993, 15, www.bos.frb.org/commdev/closing-the-gap/closingt.pdf.
11. *Ibid.*, 14, 22.
12. *Ibid.*, 17.
13. Gregory Mankiw, "Keeping Fannie and Freddie's Houses in Order," *Financial Times*, February 24, 2004.
14. Deborah Lucas, "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market," Congressional Budget Office, December 2010.
15. The original Boston Fed study was published as an academic article. Alicia Munnell, G. Tootell, L. Browne, and J. McEneaney, "Mortgage Lending In Boston: Interpreting HMDA Data," *American Economic Review*, March 1996, 25–53.
16. Paulette Thomas, "Boston Fed Finds Racial Discrimination in Mortgage Lending Is Still Widespread," *Wall Street Journal*, October 9, 1992, A3.
17. Robert Stowe England, "Washington's New Numbers Game," *Mortgage Banking*, September 1993, http://findarticles.com/p/articles/mi_hb5246/is_n12_v53/ai_n28630169/pg_6/.
18. Rodburg and Walker, "Closing the Gap," 6.
19. A copy of the "Policy Statement on Discrimination in Lending" is available from the April 15, 1994, Federal Register, www.federalregister.gov/articles/1994/04/15/94-9214/policy-statement-on-discrimination-in-lending-notice-department-of-housing-and-urban-development.
20. Stan J. Liebowitz, "Anatomy of a Train Wreck: Causes of the Mortgage Meltdown," in *Housing America: Building Out of a Crisis*, eds. Benjamin Powell and Randall Holcomb (Transaction Publishers, 2009), http://johnrlott.tripod.com/Liebowitz_Housing.pdf; Theodore E. Day and Stan J. Liebowitz, "Mortgage Lending to Minorities: Where's the Bias?" *Economic Inquiry* 36, no. 1 (1998): 3–28.
21. Juliana Barbassa, "Report: Minorities Hit by Foreclosures," *USA Today*, March 6, 2008, www.usatoday.com/money/economy/housing/2008-03-06-minority-foreclose_N.htm.
22. Day and Liebowitz, 3–28. It should be clear that one of the authors of this book was the editor at *Economic Inquiry* who accepted this paper.
23. Rodburg and Walker, "Closing the Gap," 15.
24. John R. Lott Jr., "Analysis: Reckless Mortgages Brought Financial Market to Its Knees," Fox News, September 18, 2008, www.foxnews.com/story/0,2933,424945,00.html.

25. A call was made to Lawrence Lindsey's office on November 8, 2011.
26. Gretchen Morgenson and Joshua Rosner, *Reckless Endangerment: How Outsized Ambition, Greed, and Corruption Led to Economic Armageddon* (New York: Times Books, 2011), 19.
27. Morgenson and Rosner, *Reckless Endangerment*.
28. *Ibid.*, 80–81.
29. *Ibid.*, 81.
30. *Ibid.*, 164–165.
31. This isn't a direct quote by Gensler, but Suskind's summary of what he said; see Suskind, *Confidence Men*.
32. Treasury Secretary John Snow, "The Treasury Department's Views on the Regulation of Government-Sponsored Enterprises," U.S. House of Representatives, Committee on Financial Services, Washington, DC, Wednesday, September 10, 2003, http://commdocs.house.gov/committees/bank/hba92231.000/hba92231_of.htm.
33. Fox News Special Report with Brit Hume, September 25, 2008, www.youtube.com/watch?v=LPSDnGMzIdo.
34. Gregory Mankiw, "Keeping Fannie and Freddie's houses in order," *Financial Times*, February 24, 2004.
35. Jonathan McCarthy and Richard W. Peach, "Are Home Prices the Next 'Bubble'?" *FRBNY Economic Policy Review*, December 2004, 12, www.ny.frb.org/research/epr/04v10n3/0412mcca.pdf.
36. According to Morgenson and Rosner, this study had an impact even before its official release in December 2004. They also argue: "The paper also gained traction among mass audiences and was cited in the popular press as evidence that real estate prices were not, in fact, bubblicious." Morgenson and Rosner, *Reckless Endangerment*, 228–229.
37. Suskind, *Confidence Men*.
38. Two CEOs for Fannie Mae, James Johnson and Franklin Raines, received large below-interest-rate mortgages from Countrywide. All four of Raines's loans, totaling almost \$4 million, came while he was CEO. See Glenn Simpson and James Hagerty, "Countrywide Friends Got Good Loans," *Wall Street Journal*, June 7, 2008, <http://online.wsj.com/article/SB121279970984353933.html?loc=interstitialskip>; John Broder and Leslie Wayne, "Obama Aide Quits Under Fire for His Business Ties," *New York Times*, June 12, 2008, www.nytimes.com/2008/06/12/us/politics/12veep.html?pagewanted=all.
39. Robert Stowe England, *Black Box Casino: How Wall Street's Risky Shadow Banking Crashed Global Finance* (Santa Barbara, CA: Praeger, 2011), 42.

40. The rule was actually slightly more complicated than this: “At least 20 percent of the dwelling units financed by each GSE’s mortgage purchases should be for very–low–income families (those with incomes no greater than 60 percent of AMI) or for low–income families (those with incomes no greater than 80 percent of AMI) in low–income areas. The corresponding goal was 14 percent for 1997–2000.” Issue Brief, “HUD’s Affordable Lending Goals for Fannie Mae and Freddie Mac,” Office of Policy Development and Research, U.S. Department of Housing and Urban Development, January 2001, www.huduser.org/publications/pdf/gse.pdf.
41. Morgenson and Rosner, *Reckless Endangerment*, 32.
42. *Ibid.*, 241.
43. John Fund, “ACORN Who?” *Wall Street Journal*, September 21, 2009, <http://online.wsj.com/article/SB10001424052970204488304574427041636360388.html>. See also Stanley Kurtz, “Inside Obama’s Acorn,” *National Review Online*, May 29, 2008, www.nationalreview.com/articles/224610/inside-obamas-acorn/stanley-kurtz.
44. Kendra Marr, “Goolsbee: ‘Total Red Herring,’” *Politico*, April 22, 2010, www.politico.com/politico44/perm/0410/goolsbee_total_red_herring_77fa3584-8e70-4151-9a52-094f28f9ba02.html.
45. Patrick Gavin, “Austan Goolsbee Takes the Prize,” *Politico*, October 1, 2009, www.politico.com/click/stories/0910/austan_goolsbee_takes_the_prize.html.

