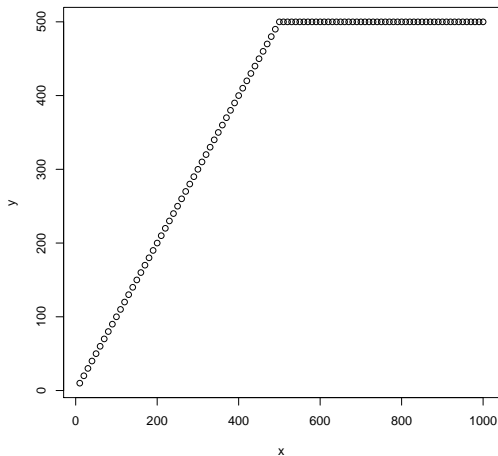


Housing and the Economic Crisis

- ▶ What went wrong?
 - ▶ A lot
 - ▶ Focus here on actuarial modeling
- ▶ What should we do to fix what's wrong?
- ▶ What should we do to avoid this in the future?

Wrong Model

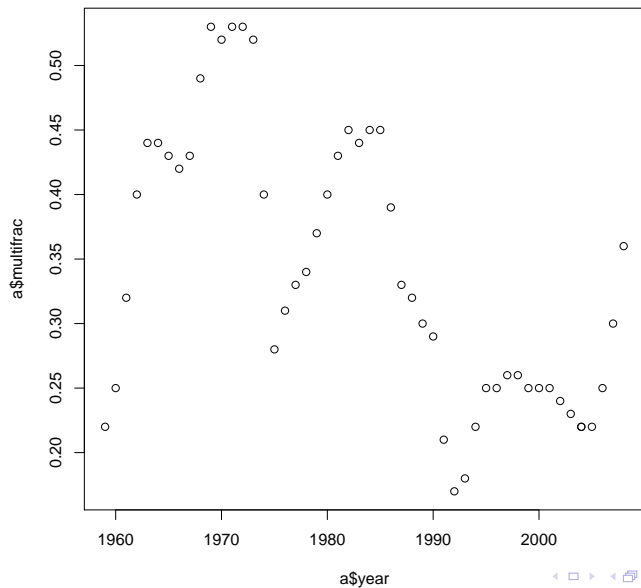


- ▶ “Conservative assumption” of low growth doesn't cut it

Wrong Model II

- ▶ Poor model of home price changes
 - ▶ Value of land in suburban Phoenix?
 - ▶ In suburban Vegas?
 - ▶ In Fresno? Modesto . . .
 - ▶ Levels vs differences
 - ▶ This distinction part, not all of problem.

Why the crisis in owner housing? Federal Tax policy?



What should we do to fix?

- ▶ A lot that I'm not qualified to judge
- ▶ Pick up loose bills
 - ▶ Mortgages
 - ▶ Student loans?
 - ▶ Auto loans?
- ▶ Bail out losers? Irony?
 - ▶ “Only geniuses at XXX know how to judge credit . . .”
 - ▶ “. . . that's why we need to bail out their bad credit bets.”
 - ▶ Tension: banks vs foreign entities and AIG
- ▶ Subsidize gambles on seasoned ABS?
 - ▶ vs reorganize banks?
 - ▶ Why such small upside for government?
- ▶ Subsidize workouts the right way
 - ▶ Keep subsidy small
 - ▶ Let banks figure out which loans are marginal

How to avoid next time?

- ▶ Tax too big to fail
- ▶ Don't subsidize owner housing quantity
 - ▶ Owner tax credit: lump sum
 - ▶ Then no mortgage or p-tax credit
- ▶ Encourage price index sharing in mortgages
- ▶ Crowd out private provision of risky mortgages?
- ▶ Understand financial entities' housing exposure

What can California do?

- ▶ Rationalize and reduce volatility of supply
 - ▶ Statewide auction of development rights
 - ▶ Compensate issuers
- ▶ Still doesn't solve: why Phoenix and Vegas?
- ▶ Hard question to answer: why not Houston and Dallas?