

Subprime Tsunami: What Next?

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Confidential

Improve our Indexes of House Prices

Three ways to measure house price changes:

Case-Shiller: ***house prices down 9% in 2007***

repeat sales

covers 20 cities

treats foreclosure sales like all others

OFHEO (now FHFA) ***house prices down 1/2 % in 2007***

repeat sales

covers the nation, sub-jumbo

throws out foreclosure transactions

The Middle Way

Use repeat sales (more informative than average sale prices)

Use all transactions, including foreclosures and jumbo

Adjust the foreclosure transactions appropriately

	Case-Shiller	OFHEO	Middle Way
2007	-9%	-.5%	-4%

Things are not as bad as newspapers make them look.

Can the crisis possibly be less severe from reporting worse-than-actual price declines?

Fix Fannie Mae and Freddie Mac

Losses: much **less** stressed than other mortgage holders.

Capital: **more** stressed, because they were more thinly capitalized.

Role: Still essential for providing liquidity

If we did not have them, it would be in the interest of all lenders to create something similar.

But doing this is difficult because of the tension between large vs. small banks. So fix the ones we have.

Fannie and Freddie did NOT cause the crisis.

F&F cannot originate or securitize subprime loans.

F&F can and did buy better-rated pieces of subprime MBS from others.

Boom in prices provoked by subprime lending spilled into rest of market.

	<u>Portfolio</u>	<u>MBS</u>	<u>Subprime</u>
Fannie	\$900 bn	\$1.8 trillion	\$50 bn
Freddie	\$800 bn	\$1.8 trillion	\$175 bn

What to change?

Charter as special purpose banks, explicitly guaranteed

Insured deposits are not part of federal debt, nor will this guarantee be

No industrialized country has a laissez-faire mortgage market

No effort to get the 30-year fixed-rate loans out from under the Federal umbrella has ever succeeded. (1968, 1989)

Capital requirements parallel to those of banks (phased in)

Supervision like that of banks

New Topic

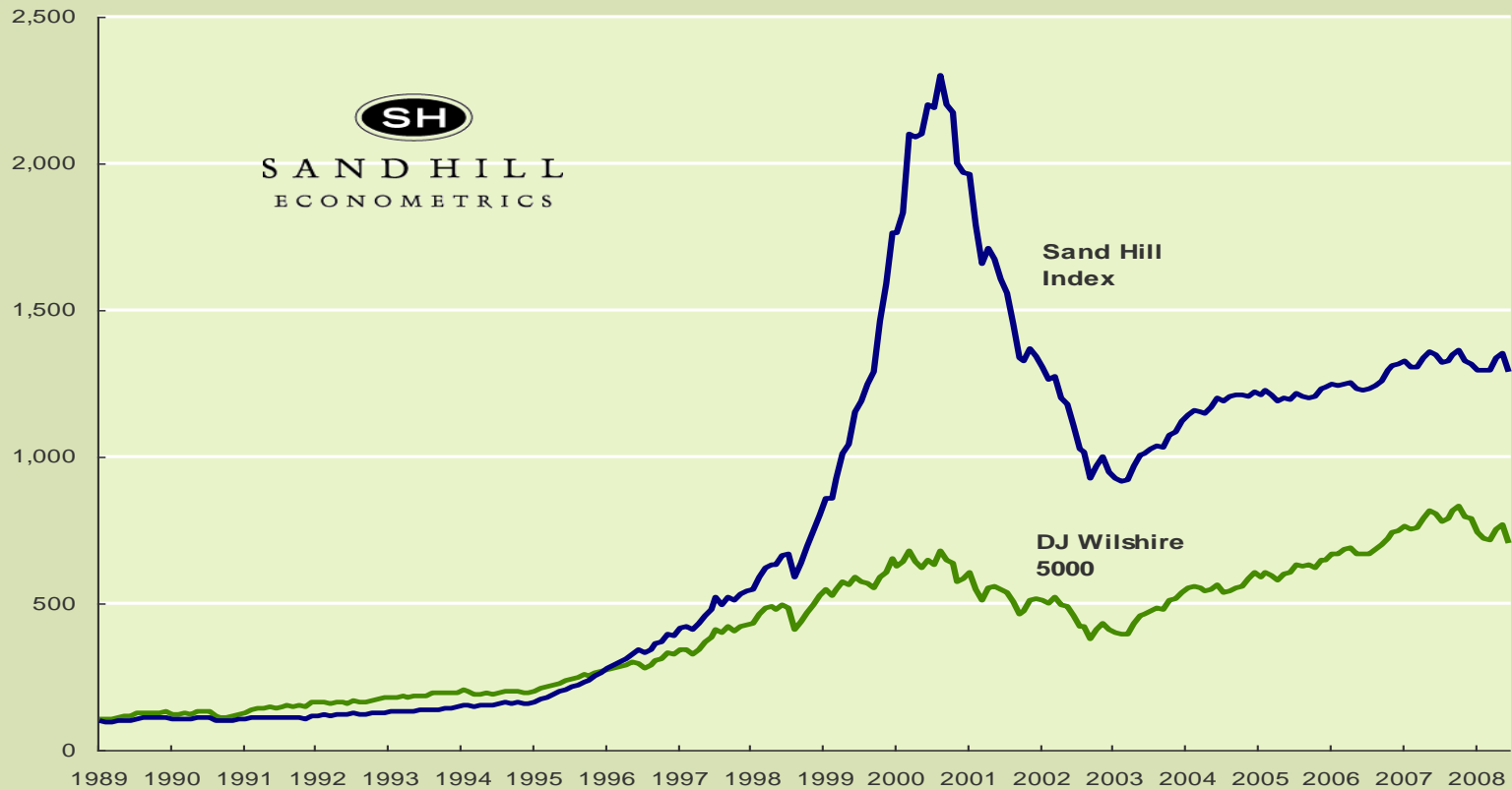
Venture Capital

Recent Figures for Venture Capital

	<u>\$ invested</u>	<u># of rounds</u>	<u># of acquisitions</u>
2007	\$29 bn	3925	436
2008 (1 st half)	\$30 bn	3600	350
2008 Q3	\$30 bn	2804	360

All figures at annual rates

Some good news: venture capital



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