

Center for American Progress



1333 H Street, NW, 10th Floor
Washington, DC 20005
Tel: 202 682.1611 • Fax: 202 682.1867

www.americanprogress.org

The Obama Administration's Housing and Financial Policies

Housing Washington 2009

David Min

Associate Director for Financial Markets Policy

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Three broad areas

- 1) Addressing the “Great Recession”
- 2) Financial regulatory reform
- 3) GSE/housing finance reform

Addressing the Great Recession

- Stabilizing the broader economy (ARRA)
- Stabilizing the housing markets (MHA)
- Stabilizing the financial markets (TARP + Fed/FDIC supports)

Financial Regulatory Reform

- 1) Consumer Financial Protection Agency
 - 2) Systemic Risk Regulation
 - 3) Regulation of the private asset-backed securitization process (“shadow banking system”)
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GSE Reform

- Administration announced “due date” of February 2010.
- Massive reforms likely.
- Stakeholders already organizing around this—MBA proposal, GAO and CRS reports issued this month.

Housing Finance Reform Must Consider Private Securitization

- Steered consumers away from “good” loans towards “bad” loans
- Excessive capital in US housing fueled enormous price increases
- Perverse incentives to originate unsustainable loans at high volume
- “Shadow banking system” performed basic banking functions but without bank oversight.
 - Believed that it could self-regulate its risk.

Housing Finance Reform must Consider Private Securitization 2

- The shadow banking system's total implosion caused the downfall of the financial markets and the GSEs.
- GSE taken down because for 2 reasons
 - Portfolio exposure to PLS
 - As housing monolines, GSEs are highly exposed to price inflation/deflation

Risk Oversight Should Not be the Sole Goal of Housing Finance

- CAP leading a Mortgage Finance Working Group of leading stakeholders.
- This MFWG developed a set of principles we believe the housing finance system should serve, available at http://www.americanprogress.org/issues/2009/03/pdf/mortgage_finance_principles.pdf
- Broadly, they fall into liquidity, stability, affordability/access to credit.

