

# Bubble, Bust, and Bailout

Alex J. Pollock

27<sup>th</sup> World Congress of Housing Finance

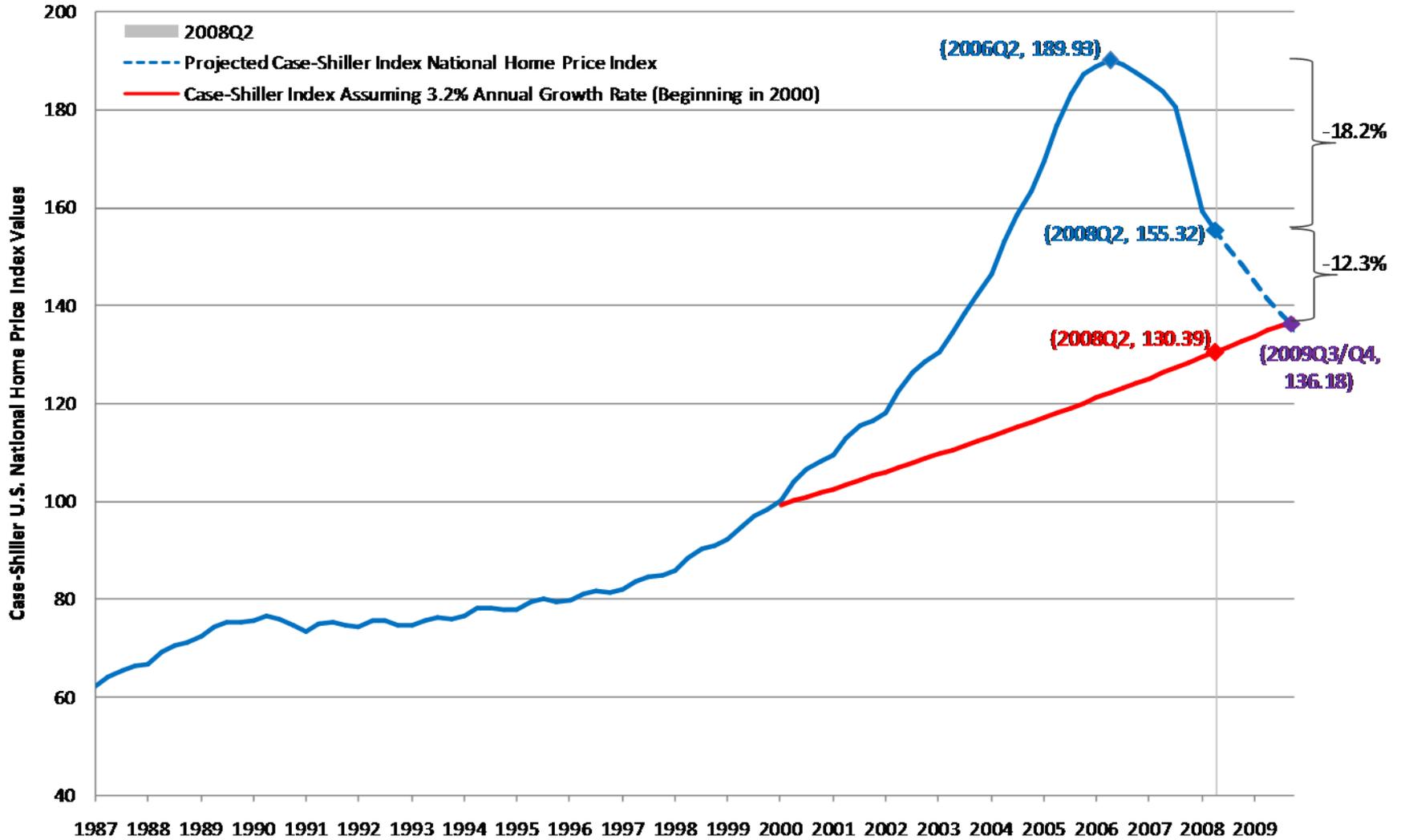
September 30, 2008

# 2006 World Congress

- Keynote Address:  
    “Housing Bubbles and Bubble Markets”  
    Professor Robert Shiller



# Historical and Projected Case-Shiller National Home Price Index Values



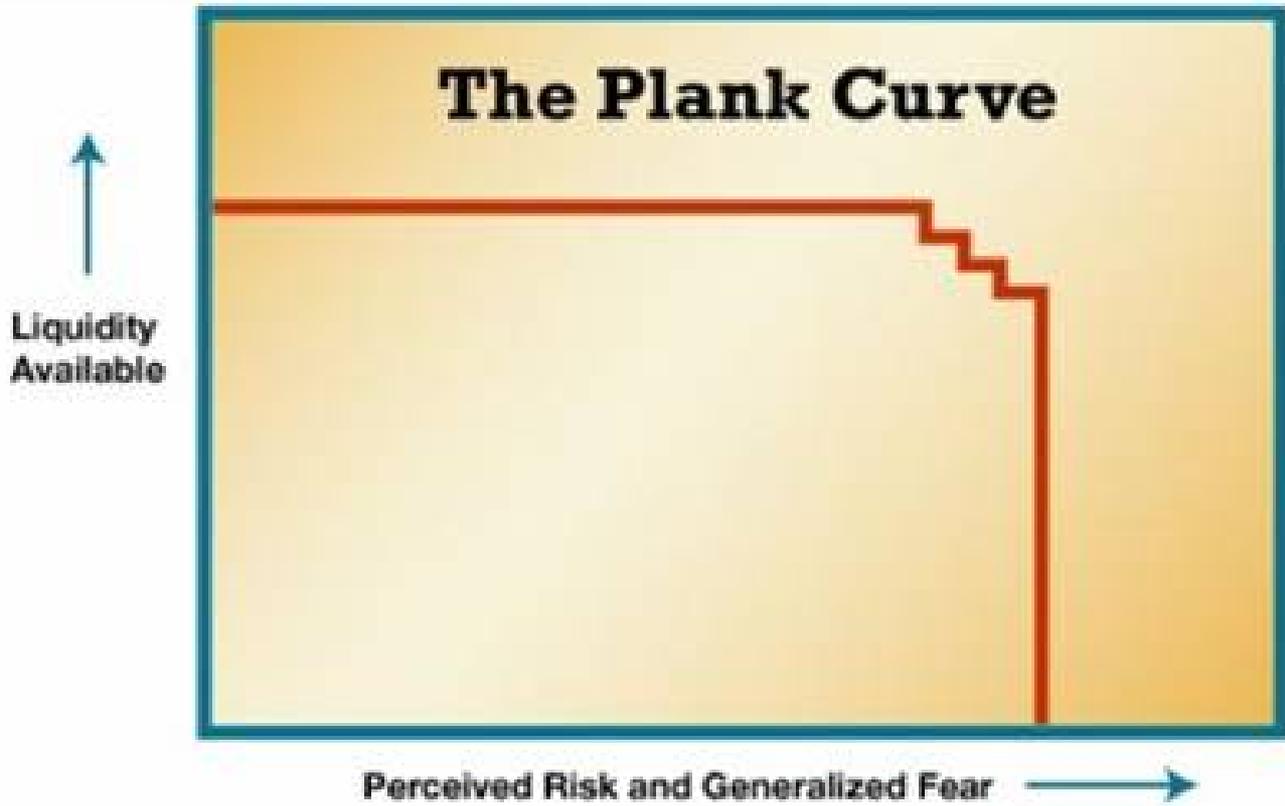
# Total Housing Value

- \$22 trillion at peak
- -18% = \$4 trillion loss of household wealth  
and negative equity  
and worthless second liens

Surrounded by computers, mathematical models, and data...

“In HPA we trusted,  
with HPD we busted”

# The Bust



The source is Alan E. Grunewald and Alex J. Pollock, "Money Managers and Bank Liquidity," 1995.

Will there be bailouts in a housing bust?  
Of course!

# 2006 World Congress

- “The Cincinnatian Doctrine”
  - “Adam Smith on the trend (90%) and Keynes in the crisis (10%)”
  - Assure sunsets



# Bailouts

- Bear Stearns
  - Too interconnected to fail
- Fannie Mae and Freddie Mac
  - An intervention to save an intervention
- AIG
  - Punish the equity and protect the creditors
- Washington Mutual
  - Punish the creditors and save the FDIC fund
- Paulson Plan?
  - \$700 billion fund

# Fannie and Freddie

- Nobody thought they'd be done in by credit risk
- They repeated the temptations of a government housing bank
- And now they are a government housing bank
- The future: bank to being GSEs or what?

# Pollock Plan

- Taxpayers are involuntary equity investors
- The equity approach: model on the RFC experience
- A dividend to taxpayers?

# The 2010 World Congress

We'll know how it turned out