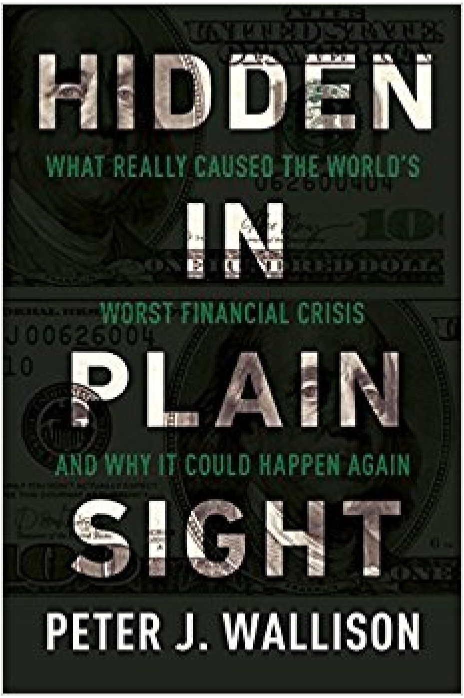
Hidden In Plain Sight: What Really Caused The World’s Worst Financial Crisis And Why It Could Happen Again



Synopsis

The 2008 financial crisis—like the Great Depression—was a world-historical event. What caused it will be debated for years, if not generations. The conventional narrative is that the financial crisis was caused by Wall Street greed and insufficient regulation of the financial system. That narrative produced the Dodd-Frank Act, the most comprehensive financial-system regulation since the New Deal. There is evidence, however, that the Dodd-Frank Act has slowed the recovery from the recession. If insufficient regulation caused the financial crisis, then the Dodd-Frank Act will never be modified or repealed; proponents will argue that doing so will cause another crisis.A competing narrative about what caused the financial crisis has received little attention. This view, which is accepted by almost all Republicans in Congress and most conservatives, contends that the crisis was caused by government housing policies. This book extensively documents this view. For example, it shows that in June 2008, before the crisis, 56 percent of all US mortgages were subprime or otherwise low-quality. Of these, 76 percent were on the books of government agencies such as Fannie Mae and Freddie Mac. When these mortgages defaulted in 2007 and 2008, they drove down housing prices and weakened banks and other mortgage holders, causing the crisis.After this book is published, no one will be able to claim that the financial crisis was caused by insufficient regulation, or defend Dodd-Frank, without coming to terms with the data this book contains.

Book Information

Hardcover: 432 pages

Publisher: Encounter Books (January 13, 2015)

Language: English

ISBN-10: 1594037701

ISBN-13: 978-1594037702

Product Dimensions: 1.5 x 6.5 x 9.2 inches

Shipping Weight: 1.8 pounds

Average Customer Review: 3.7 out of 5 stars 222 customer reviews

Best Sellers Rank: #527,497 in Books (See Top 100 in Books) #139 inÃ Â Books > Business & Money > Real Estate > Mortgages #374 inÃ Â Books > Law > Business > Franchising #446 inÃ Â Books > Business & Money > Processes & Infrastructure > Government & Business

Customer Reviews

Peter J. Wallison holds the Arthur F. Burns Chair in Financial Policy Studies and is co-director of

AEI's program on Financial Policy Studies. From June 1981 to January 1985, he was General Counsel of the United States Treasury Department, where he had a significant role in the development of the Reagan Administration's proposals for deregulation in the financial services industry. His most recent book is "Bad History, Worse Policy: How a False Narrative about the Financial Crisis Led to the Dodd-Frank Act" (AEI Press 2013). He testifies frequently before committees of Congress, and is a frequent contributor to the op-ed pages of the "Wall Street Journal" and other print and online journals. He has also been a speaker at many conferences on financial services, housing, the causes of the financial crisis, the Dodd-Frank Act, accounting, and corporate governance, and is a member of the Shadow Financial Regulatory Committee, the Council on Foreign Relations, the SEC Advisory Committee on Improvements to Financial Reporting (2008), co-Chair of the Pew Financial Reform Task Force (2009), and a member of the congressionally- authorized Financial Crisis Inquiry Commission (2009-2011). In May 2011, for his work in financial policy, Mr. Wallison received an honorary doctorate in Humane Letters from the University of Colorado.

The analysis here of causes of the 2008 financial crisis is wholly persuasive, well-documented, and clearly written. The crisis began with the Federal Government's desire to "help" low-income Americans borrow money in order to buy homes they could not afford, and it did so by making such loans directly through the FHA or through the government-sponsored entities (GSE) or banks Fannie and Freddie. The creation of these sub-prime loans accelerated in the 1990s through the efforts of various community activist organizations such as the now defunct ACORN, for which President Obama used to work, and the United States Department of Housing and Urban Development (HUD).HUD, spurred on by community activist organizations, began requiring Fannie and Freddie (and mainstream banks) to make an increasingly large percentage of their loans to individuals without any down payment, bad credit histories, and low income. Fannie and Freddie were fully complicit with these directives because they realized very early that the way to insure their special Government status and the resultant low-cost funding was by taking on sub-prime loans, thus making them untouchable to Congress, which wanted to encourage such loans for the purpose of "social justice"What makes Fannie and Freddie especially culpable in the crisis is that, because they were free to define a subprime loan using their own arbitrary definitions, their financial statements listed almost no such loans, when in fact about half their loans, many millions of loans, were subprime. They deceived the public and the government because they wanted to keep receiving the government funding that paid their rich salaries and profits, with no thought of the possible consequences.The ignorance of literally everybody outside of Fannie and Freddie about the vast number of subprime loans was the key factor that made the crisis possible.The easy money pouring into mortgages as a result of government policies also had the effect of stimulating housing prices and creating the housing price bubble. As long as prices were rising, there were comparatively few mortgage defaults, because it was easy for mortgage holders to sell the house at a profit or refinance. But when prices finally topped out in 2006, then the default rate rose in tandem with the sharp decline of home prices.The ignorance about the number of subprime loans resulted in a general panic and a variety of misguided government actions, the most consequential of which was the bail out of Bear Sterns, which made bankers and investors think that the government would act to prevent any bankruptcies. But government officials lost nerve and refused to bail out Lehman brothers, which then sparked the full-scale financial panic and resulting Great Recession. Wallison argues persuasively that had the government acted differently, the financial panic and recession would never have occurred; the actual economic impact of the fall in home prices and mortgage defaults was NOT sufficient to cause the Great Recession.The saddest part of this story is that the media, in hand with government officials and elected representatives, mainly Democrats, have shifted the blame to the supposedly greedy and reckless banksÃƒÂ¢Ã â ¬Ã â •a story which is prima facie ludicrous because anyone who knows anything about the financial industry knows that bankers are the most conservative investors in the world. A private (non-governmental) bank has absolutely no motivation to make a risky loan, or to even to make and then sell such a loan. The private banks and the GSEs were literally forced by the Government to make subprime loans or go out of business.

This book is must reading for anyone who continues to believe more and bigger government is the solution to all our problems. Until our leaders/politicians are willing to own up to and be honest about their own mistakes rather than trying to hide them through spin, Washington does not deserve our trust and confidence. This book is methodically researched and written to show the root causes of the 2008 mortgage crisis. It makes clear Washington’s own culpability in causing the crisis and that subsequent investigations covered that up. It also makes the valid point that until Washington is honest with itself about the causes of a problem, it will be incapable of legislating solutions to prevent them from reoccurring in the future. Dodd Frank was passed to carry out an political agenda and did not put in place laws that would have prevented the mortgage crisis from occurring in the first place.

Absolutely flabbergasting. This book is non-stop facts and stats essentially debunking the current 2008 Crisis narrative. Wallison, who was on the FCIC investigation into the crisis, has expanded his dissenting position and supplemented it with internal memos, quotes from speeches and promotions showing just how the housing bubble was created and why.Fannie Mae and the politicians and activists behind the housing bubble are convicted by their own mouths. They say explicitly what they intend to do, then congratulate themselves on having done it, in speeches, in memos, in documented self-promotion. They were pleased as punch that they undermined sound underwriting standards and forcibly spiked the housing demand. When everything came crashing down they blamed the usual suspects, wall street greed and lack of regulation. The hypocrisy is stunning.This book is essential reading for anyone who wants to understand the 2008 crisis and the 2007 housing bubble.

Excellent book, fully footnoted and referenced. That government housing policy is the root-cause of the 2007-2008 meltdown is indisputable and Wallison lays the case out very carefully and methodically, analytically. This government distortion of markets, such as in healthcare, college tuition, the Great Depression, and so on, starts with government programs designed to "aid" the less fortunate by redistributive programs. In this case, it begins with the CRA in the 70’s but takes off with full steam in the late nineties. Wallison thoroughly lays the case out and it is completely persuasive to anyone with an analytical mind.You can get the FCIC report (Wallsion was a minority member) but you will get no more out of it than you paid for it - nothing. It is in fact a white washing of what happened. And what happened is nothing more than a cover-up of government malfeasance, perhaps unintentional but utterly naÃƒÆ’Ã Â ve of economics and risk. This is what happens when so-called "progressives" are allowed to run the ship of state.I think one of the 1-star reviews claims that Wallison complained that there was too much regulation and then claimed he wanted more regulation. This is a complete fabrication - Wallison said neither. No amount of regulation could have done anything about the distortion inherent in a market where information is completely inaccurate for the sake of income redistribution - redistribution in the form of government housing policy design to sell homes to those who cannot afford them. Wallison makes this clear. As with all markets, good, truthful, accurate information is needed by all parties in a transaction, not lies and distortion.

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