

THE UNIVERSITY OF FINDLAY

ECONOMIC SUMMIT



NEW CHALLENGES • NEW SOLUTIONS



The Making of a Credit Crisis

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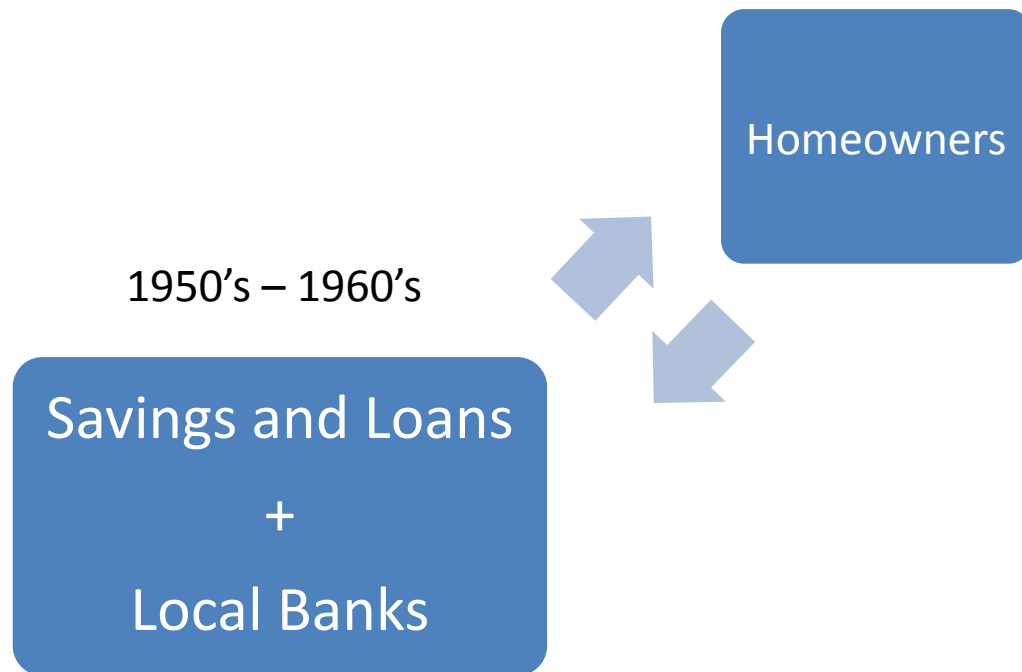


A Credit Bubble: How We Got Here

- The current crisis has its roots in a mortgage finance system that functioned well for 28 years and then went terribly wrong
- Credit was made “too available” and “too cheap”. Then human nature and greed took over
- Mistakes were made by regulators (Clinton and Bush), Wall Street firms, risk managers, and consumers



The Making of a Credit Bubble: Rooted in The Mortgage Market





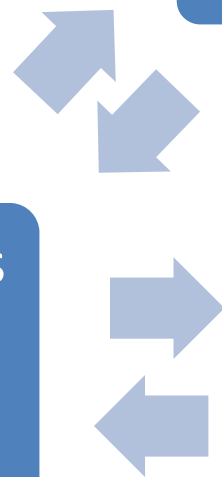
Homeowners

1950's -1960's

1970's

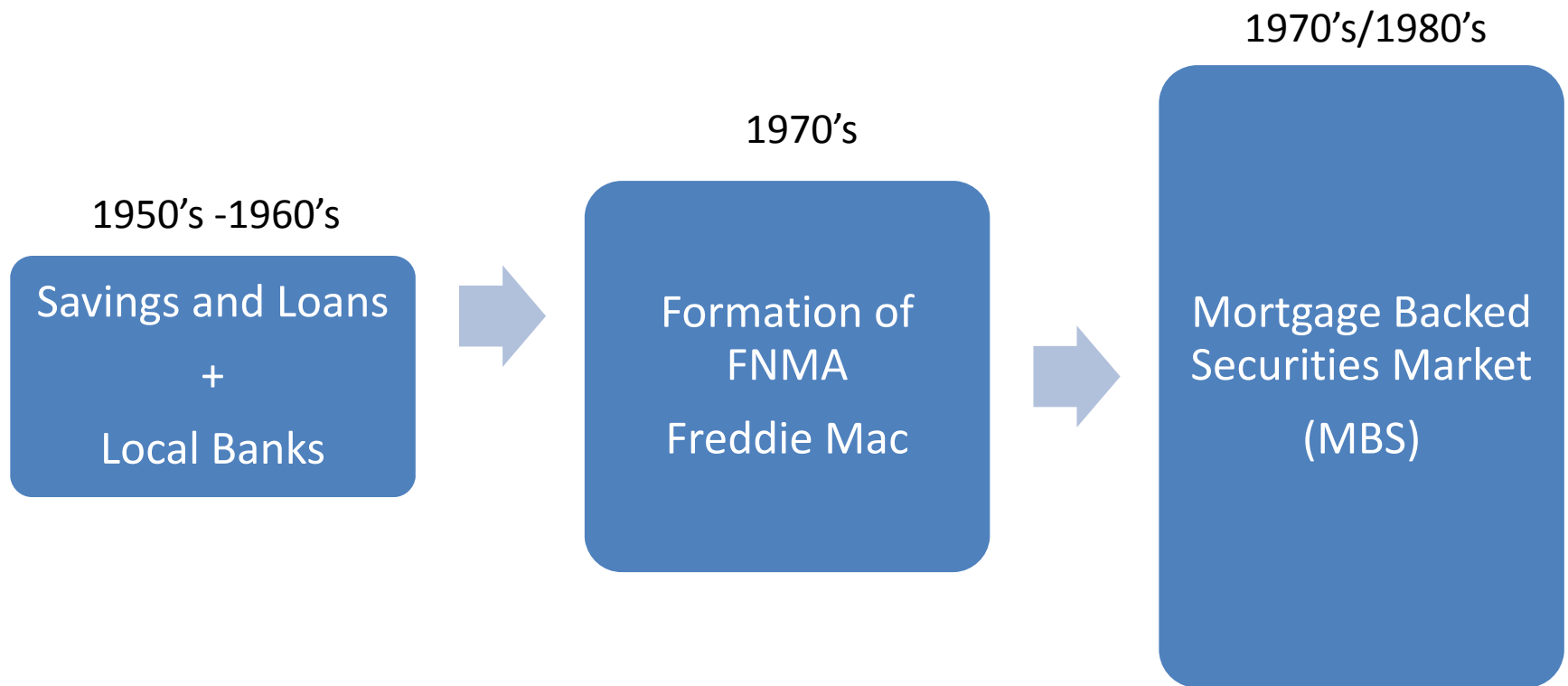
Savings and Loans
+
Local Banks

Formation of
FNMA
Freddie Mac



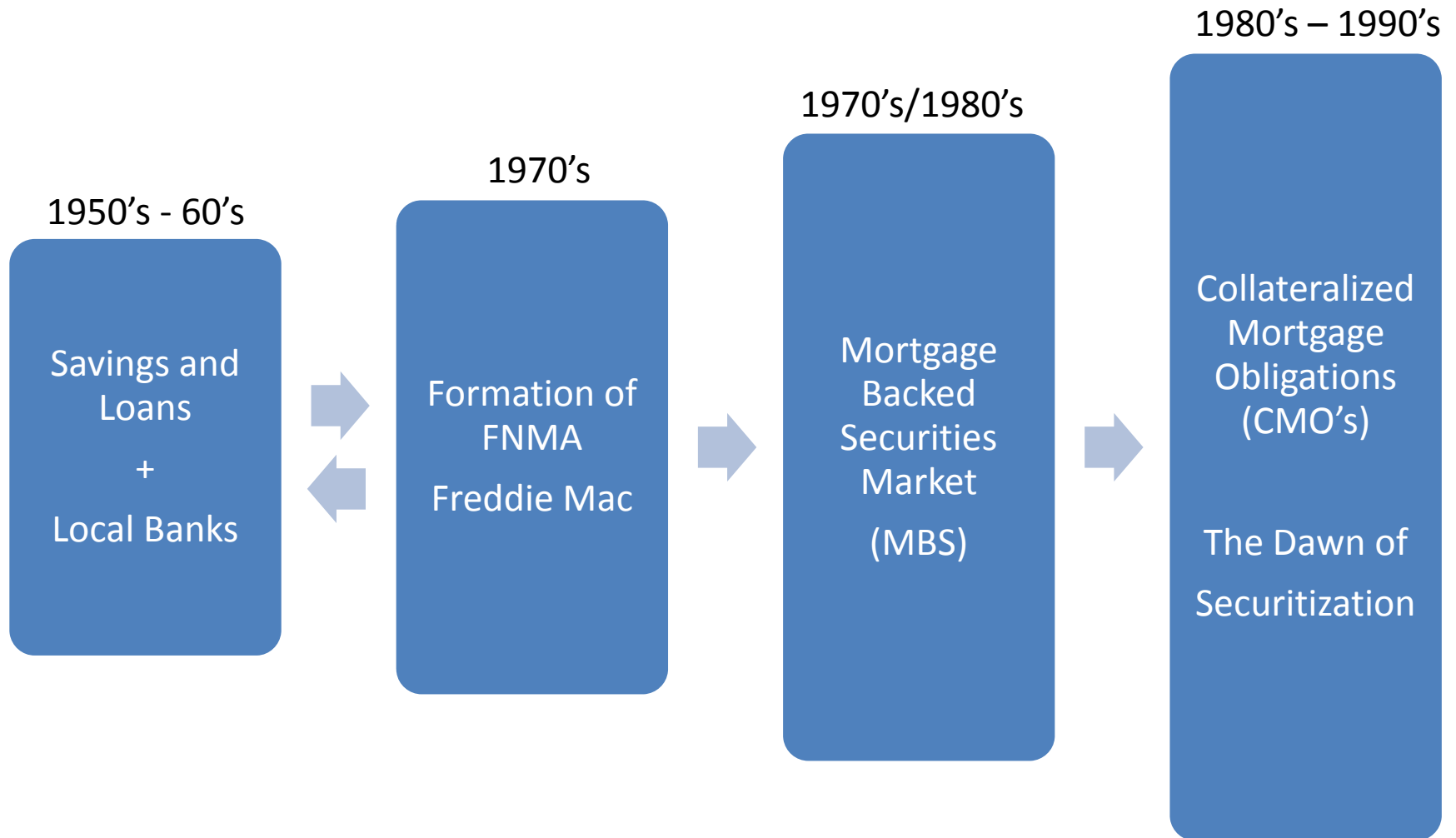


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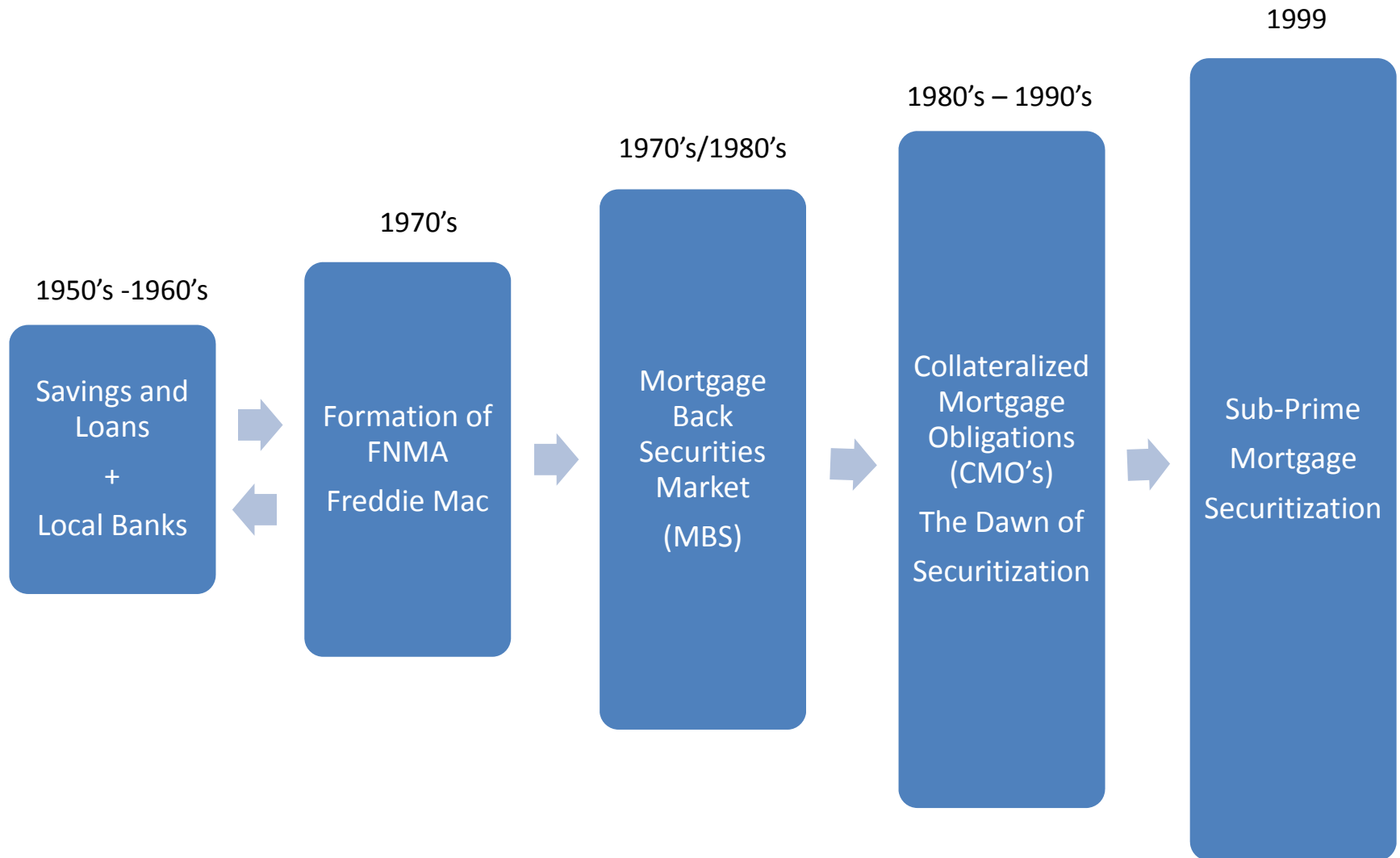


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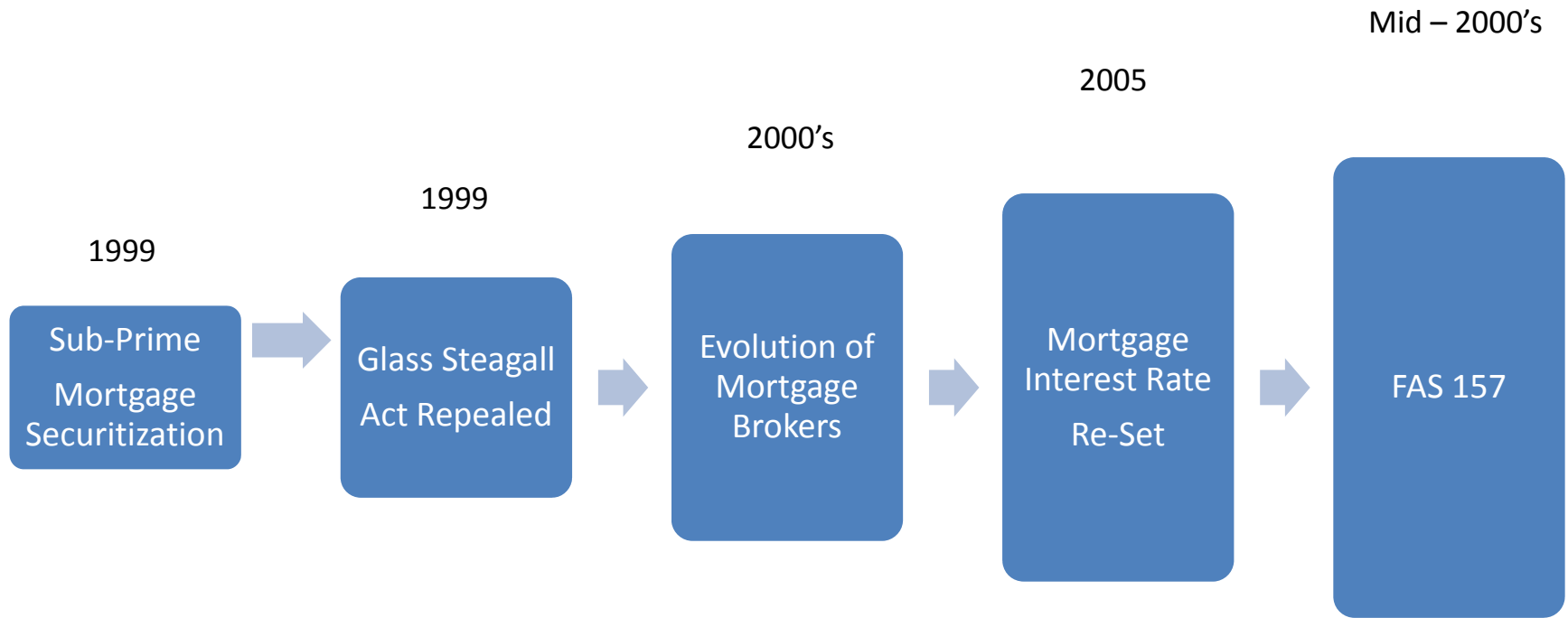


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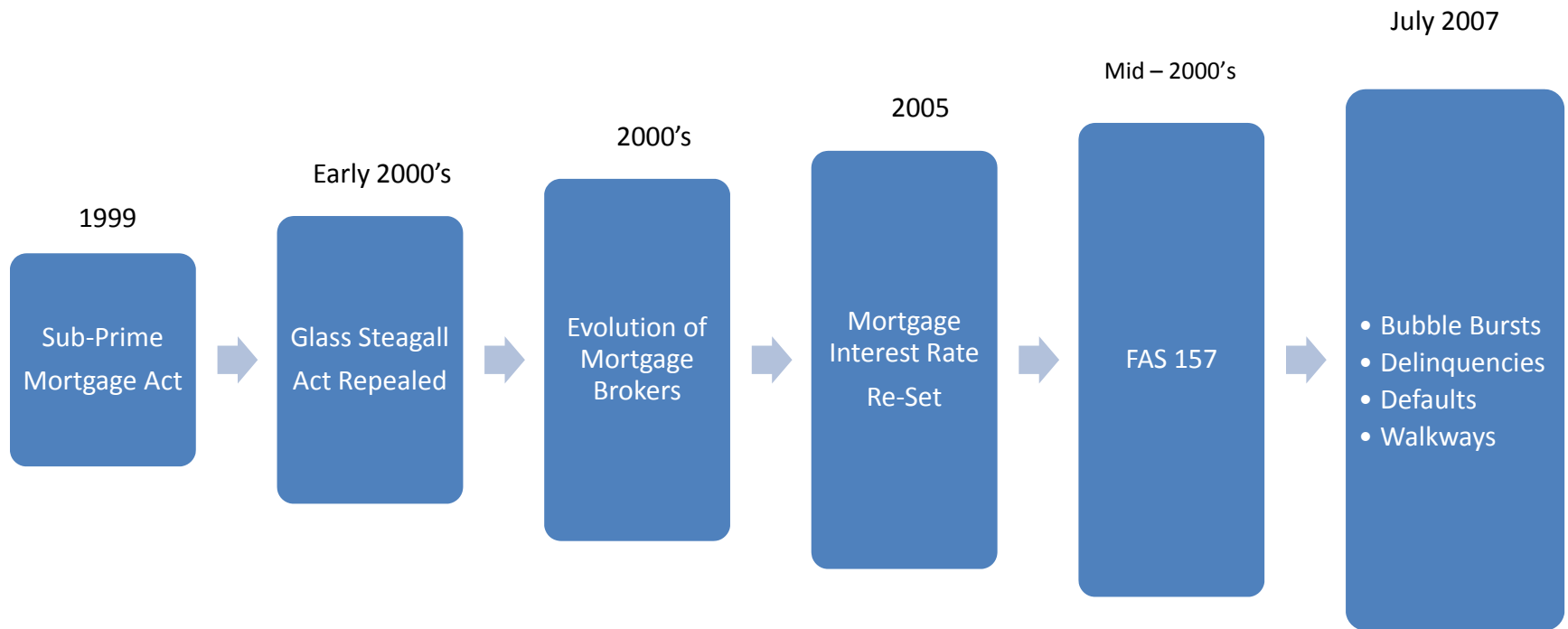


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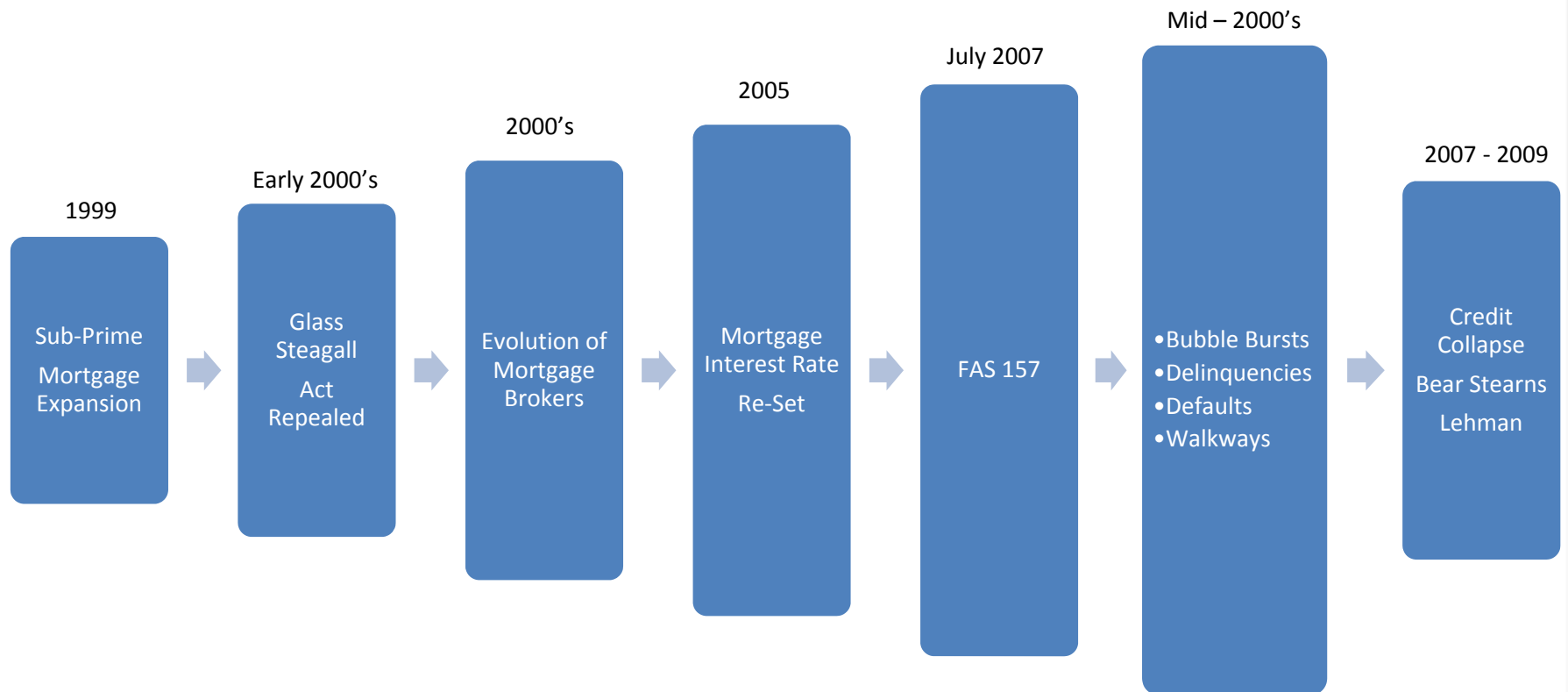


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Results

- Securitization, which created liquidity and risk distribution, has completely stopped
- Banks are left with billions in toxic fixed income assets on their balance sheets.
 - Credit counterparties no longer trust one another
 - No one is lending to anyone
- Due to increasing risk premiums, poor market performance, and lack of savings, baby boomer retirement plans have been severely impaired
- The world has some serious economic challenges



What can be done?

- Guarantee the loans originated by FNMA and Freddie Mac
 - Housing has to be revived
- Nationalize problem banks or form a “Bad Assets Bank” for the toxic securities
 - Find creative ways to incent banks to begin lending again
- Through fiscal policy stimulus , create jobs that increase spending



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