

# **Lessons Learned from the Global Financial Crisis**

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International Union for Housing Finance  
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The logo for the Mortgage Bankers Association (MBA) is displayed in a large, bold, white serif font against a black background. The letters 'M', 'B', and 'A' are significantly larger than the 'a' which follows them. The logo is positioned in the bottom right corner of the slide, above a thin gold horizontal line that spans the width of the slide.

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# The Financial Crisis – A Systemic Event **MBA**

- U.S. Housing Finance Icons Fell – 2007 & 2008
- Structural Stress and Uncertainty
- U.S. & World Economies Shaken
  - Crisis of Confidence
  - U.S. Home Values Dropped 33% from Peak in 2006
    - \$7 Trillion of Lost Household Wealth
    - 7 Million Families Lost their Homes
- Collective Failure – Industry & Policymakers Failed to Anticipate Crisis
  - Unrealistic Expectations re: Home Price Appreciation
  - Misplaced Faith in “Self-Correcting” Markets

## FHFA Expanded House Price Index

(Quarterly, SA, 1991Q1 = 100)

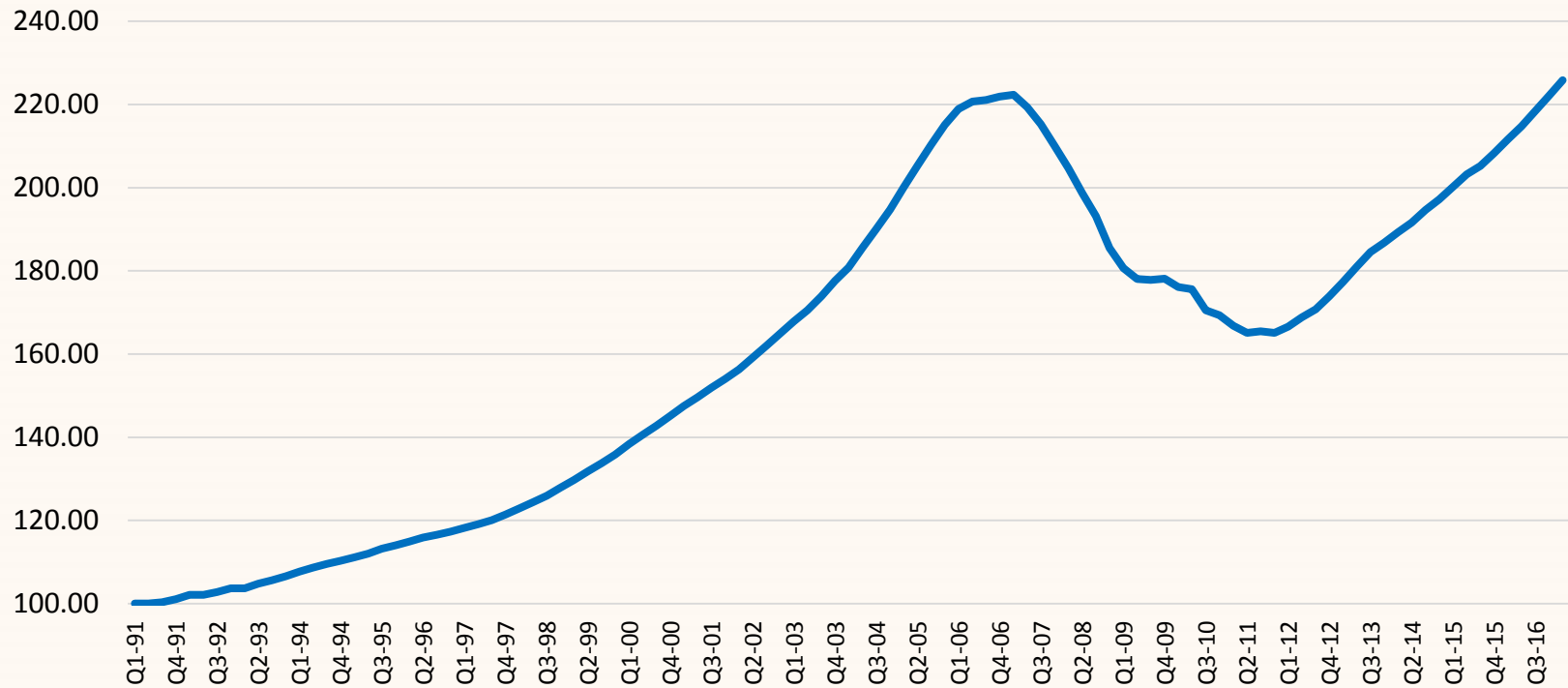
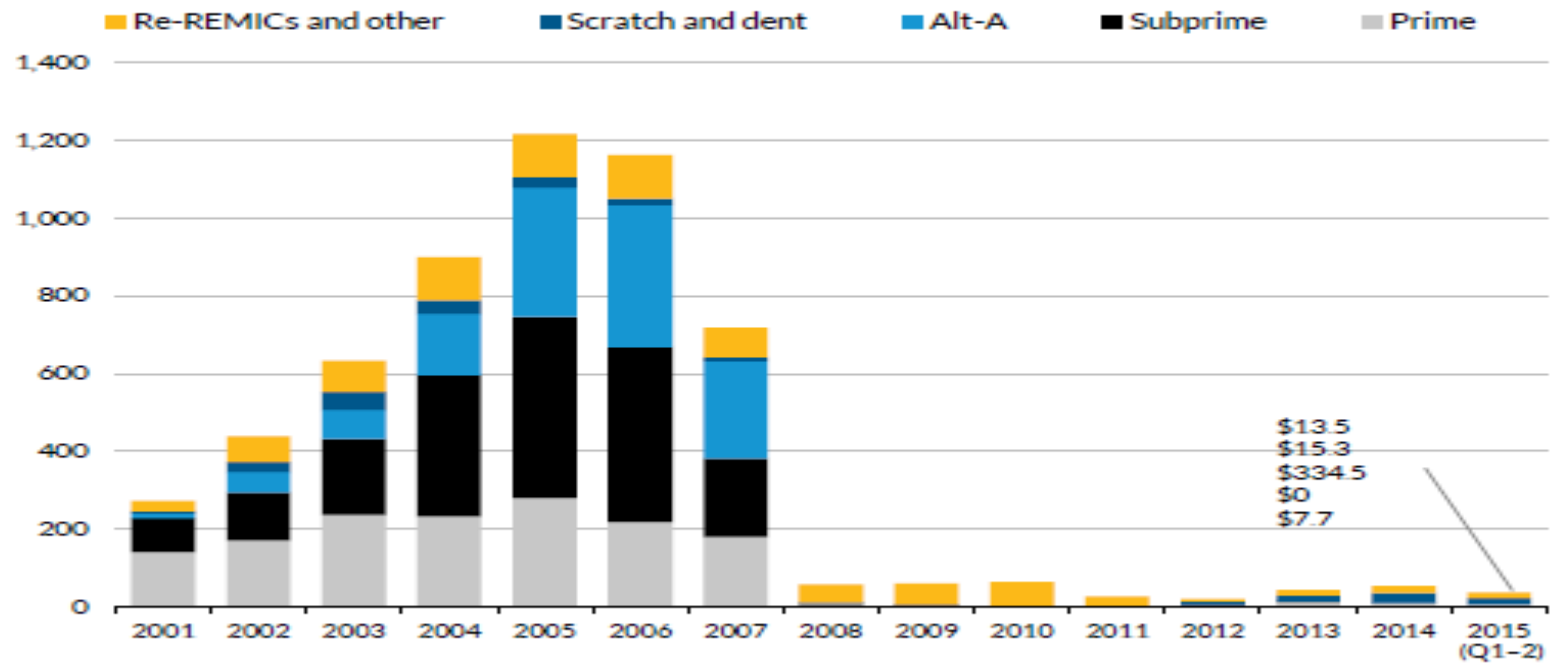


FIGURE 2

Private-Label Residential Mortgage-Backed Securities Issuance, 2001–15

Billions of dollars

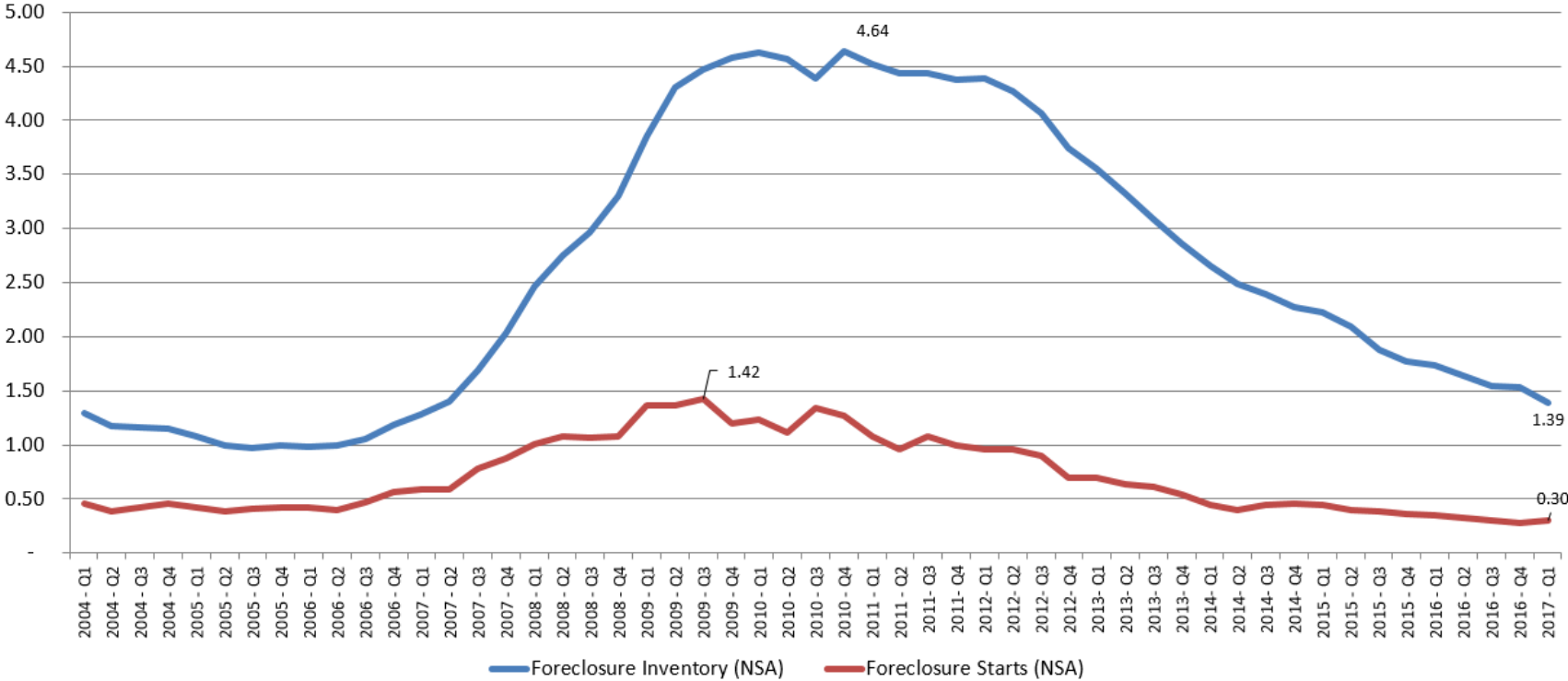


Sources: Inside Mortgage Finance and Urban Institute.  
Note: REMIC = real estate mortgage investment conduit.

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### Loans in Foreclosure and New Foreclosures Started

Non-seasonally adjusted, percent



- Dodd-Frank “Wall Street Reform and Consumer Protection Act of 2010”
  - 815 Pages
    - National Bank Act (1864) – 29 pages
    - Glass Steagall (1933) – 37 pages
    - GLBA (1999) – 145 pages
  - Calls for Hundreds of New Regulations
  - Complete Overhaul of U.S. Mortgage Rules
  - Two Key Areas:
    - Protect Financial System
    - Protect Consumers

- Risk Layering
- Misuse of Products
- Misaligned Incentives
- Asymmetrical Information
- Low-Income and Less Sophisticated Consumers – Vulnerable Targets

- New Rules – Close Gaps in Regulation of Entities & Practices
  - Supervise Less Regulated Entities
  - Target Common Abuses
- Accountability – Consequences for Breaking Rules
  - Align Incentives between Borrower & Lender/Investor
  - Effective Enforcement
- Transparency – Clear Disclosures & Better Information
- Balance – Preserve Access to Affordable Mortgage Credit
  - Robust & Competitive Marketplace
  - Responsible Innovation & Risk Taking



- Balancing Consumer Protection with Market Efficiency & Innovation
- Dynamic versus Static Regulation – Pros and Cons
- Importance of Legal Clarity & Certainty – Costs to Consumers
- Structural/Design Flaws versus Marketplace Failures
- Access to Credit, Affordability, and Sustainable Homeownership