

Subprime Solution

How Today's Global Financial Crisis Happened and What to Do about It

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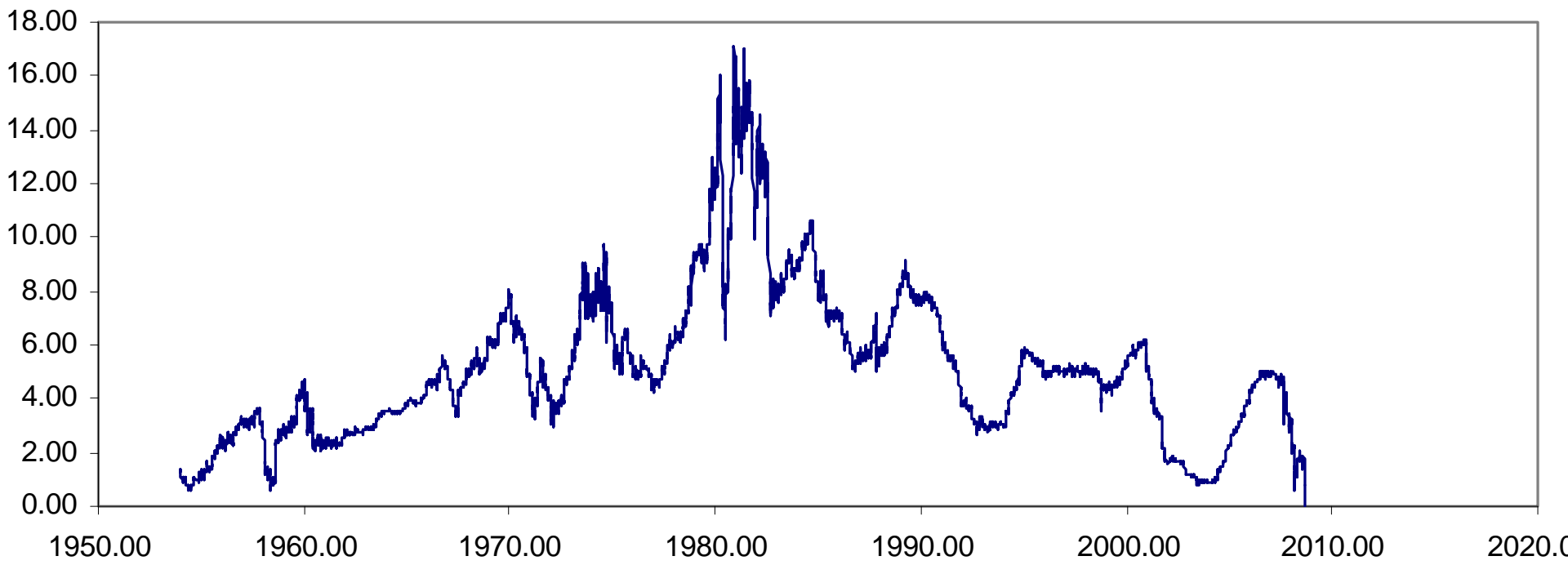
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Events since *Subprime Solution* Book

- Official publication date: September 1, 2008
- September 7, 2008 James Lockhart, FHFA announces Conservatorship of Fannie and Freddie
- September 14, 2008, WSJ announces sale of Merrill Lynch to Bank of America
- September 15, 2008 Lehman Brothers files for bankruptcy
- September 17, 2008 3-month Treasury bill rate falls virtually to zero, TED spread widens to nearly 500 basis points
- September 21, 2008 Paulson and Bernanke advance proposal to spend \$700 billion to buy distressed securities
- September 29, 2008 U.S. House of Representatives votes down the Emergency Economic Stabilization Act which would have created a Troubled Asset Relief Program (TARP)

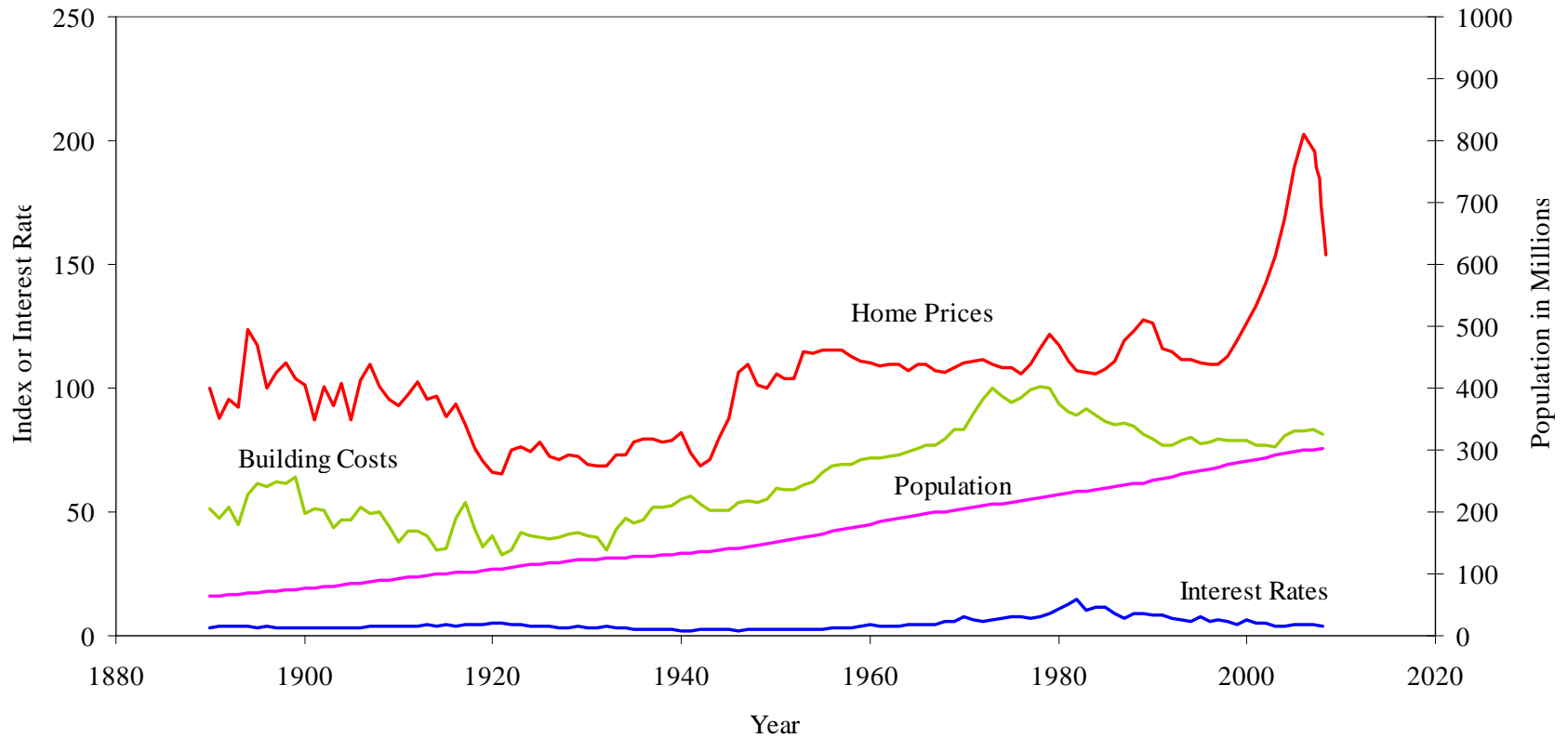
Daily Treasury Bill Rate 1951-2008

**Daily 3-Month Treasury Bill Rate, Secondary Market, Jan 4 1951
to September 17, 2009**



US Home Prices 1890 to 2008 Q2

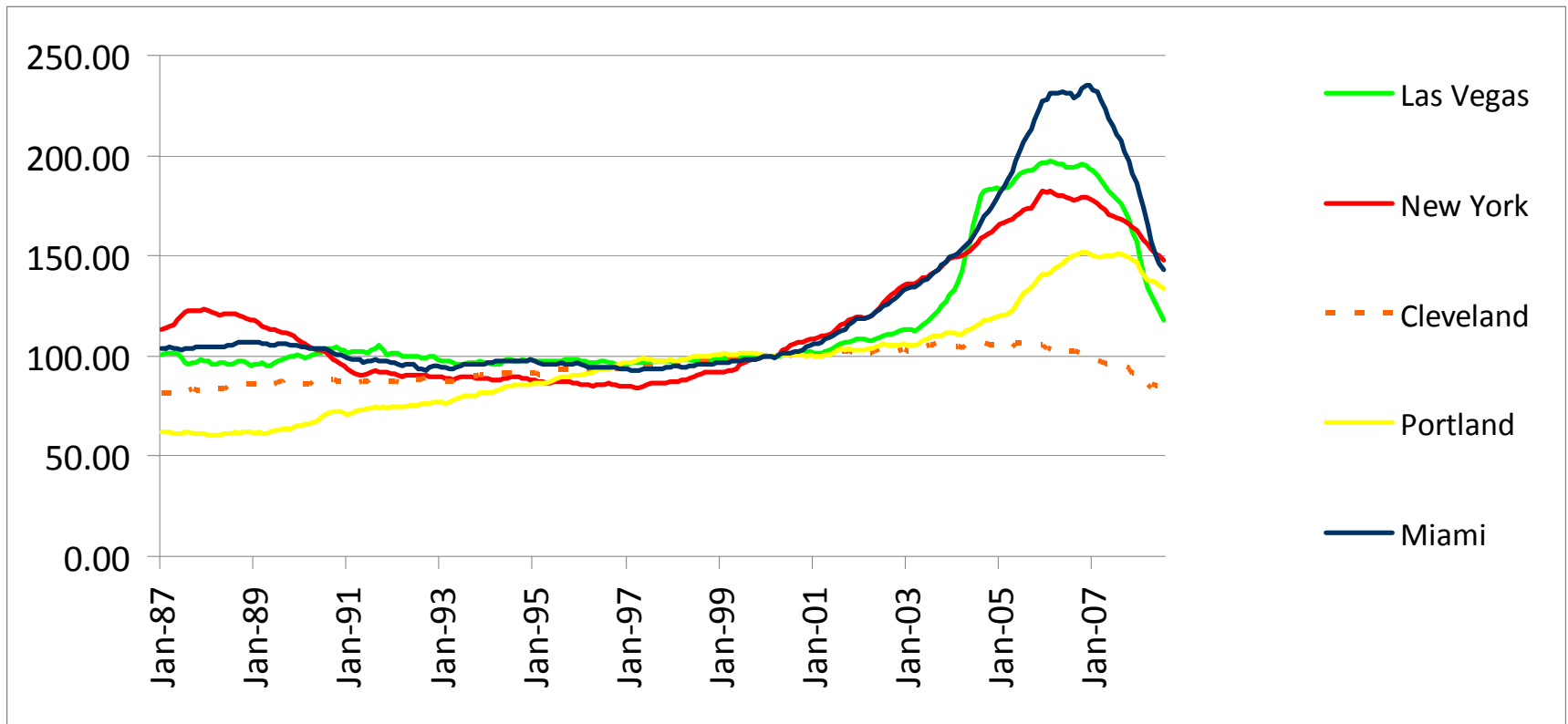
With Annual Building Costs, Population, Ten-Year Treasury Yield



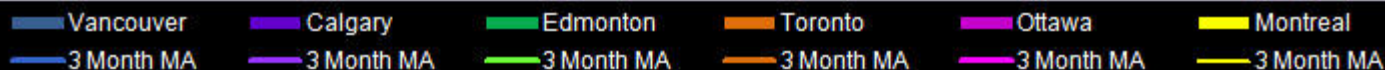
Real Home Prices in Five US Cities

Jan 1987 to July 2008

(S&P/Case-Shiller Indices w/ Inflation Correction)

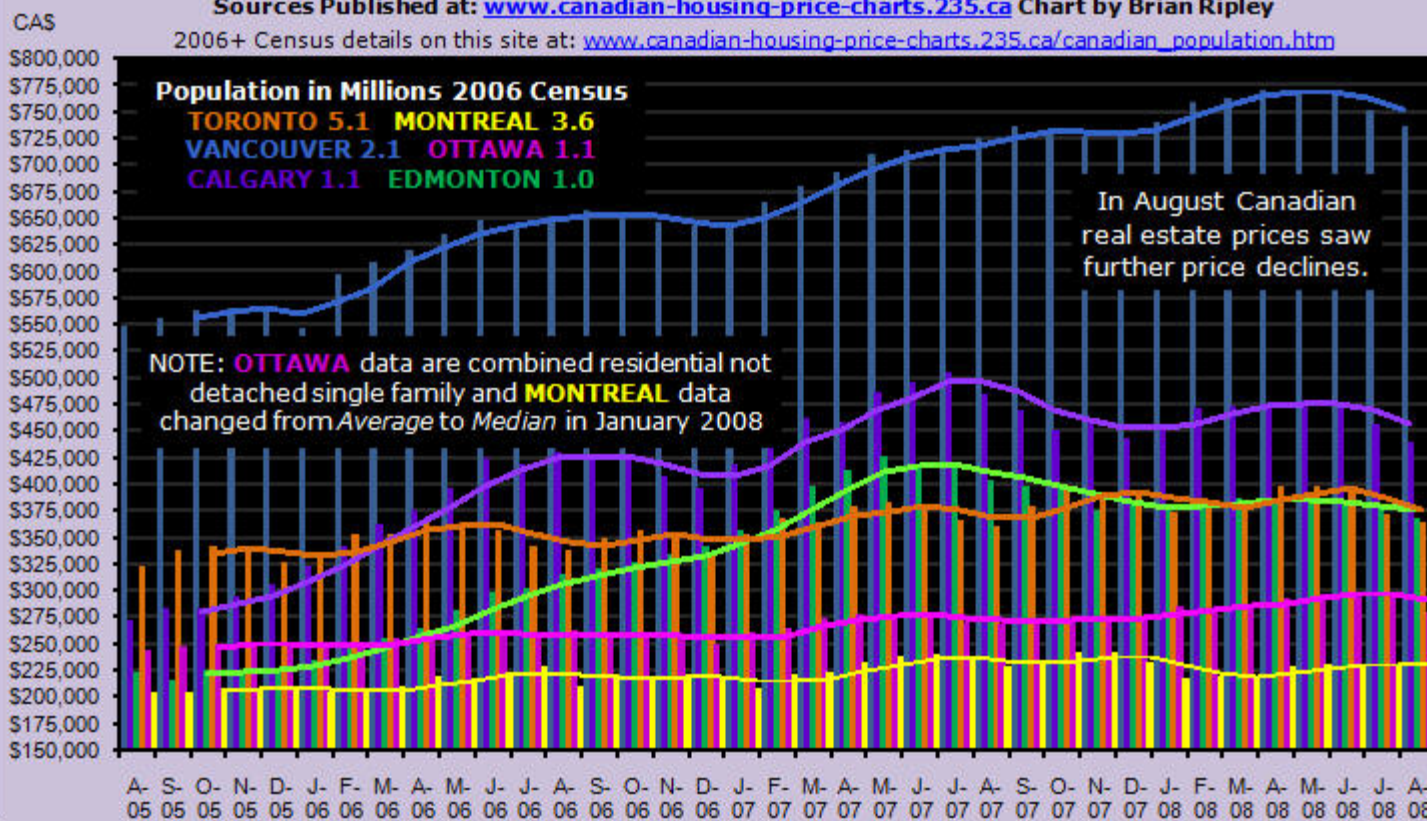


Vancouver, Calgary, Edmonton, Toronto, Ottawa & Montreal Detached Housing Prices (Last 37 Months)

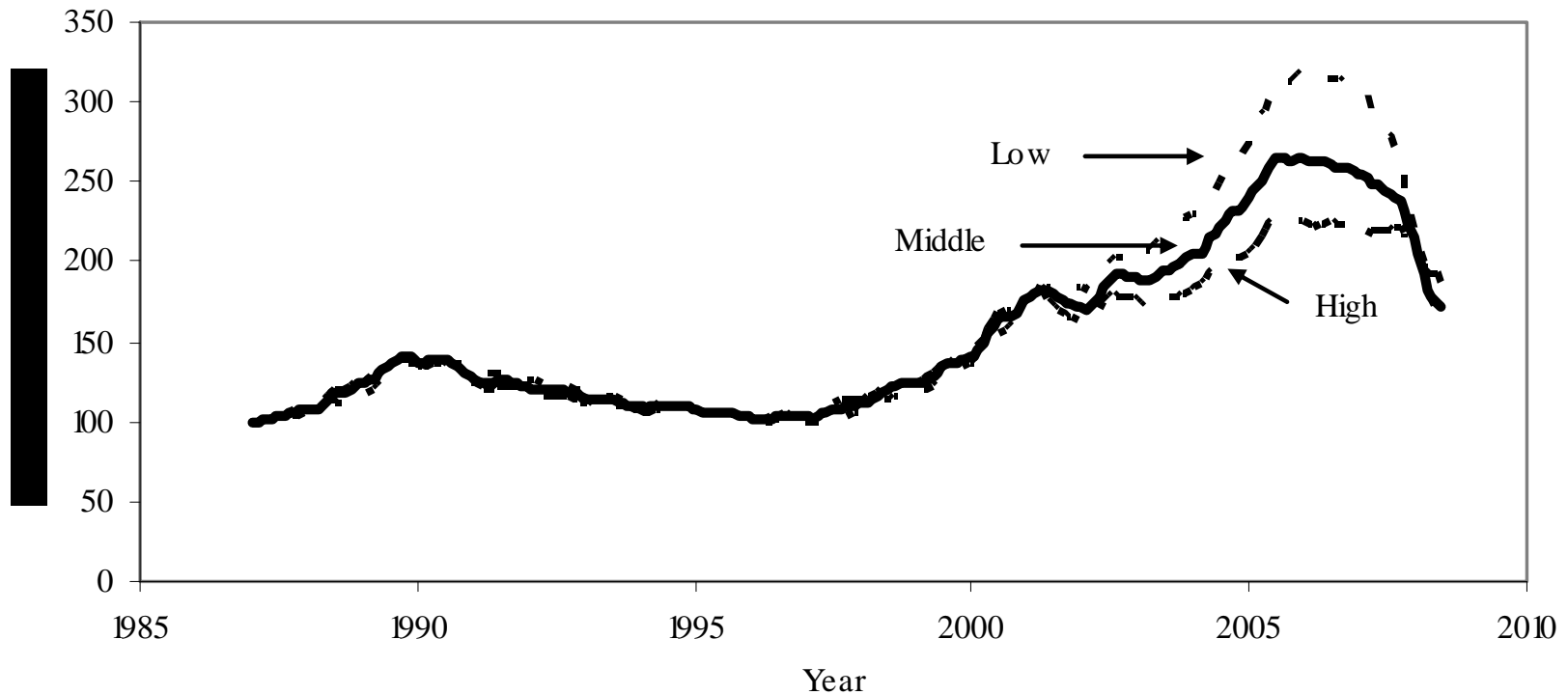


Sources Published at: www.canadian-housing-price-charts.235.ca Chart by Brian Ripley

2006+ Census details on this site at: www.canadian-housing-price-charts.235.ca/canadian_population.htm

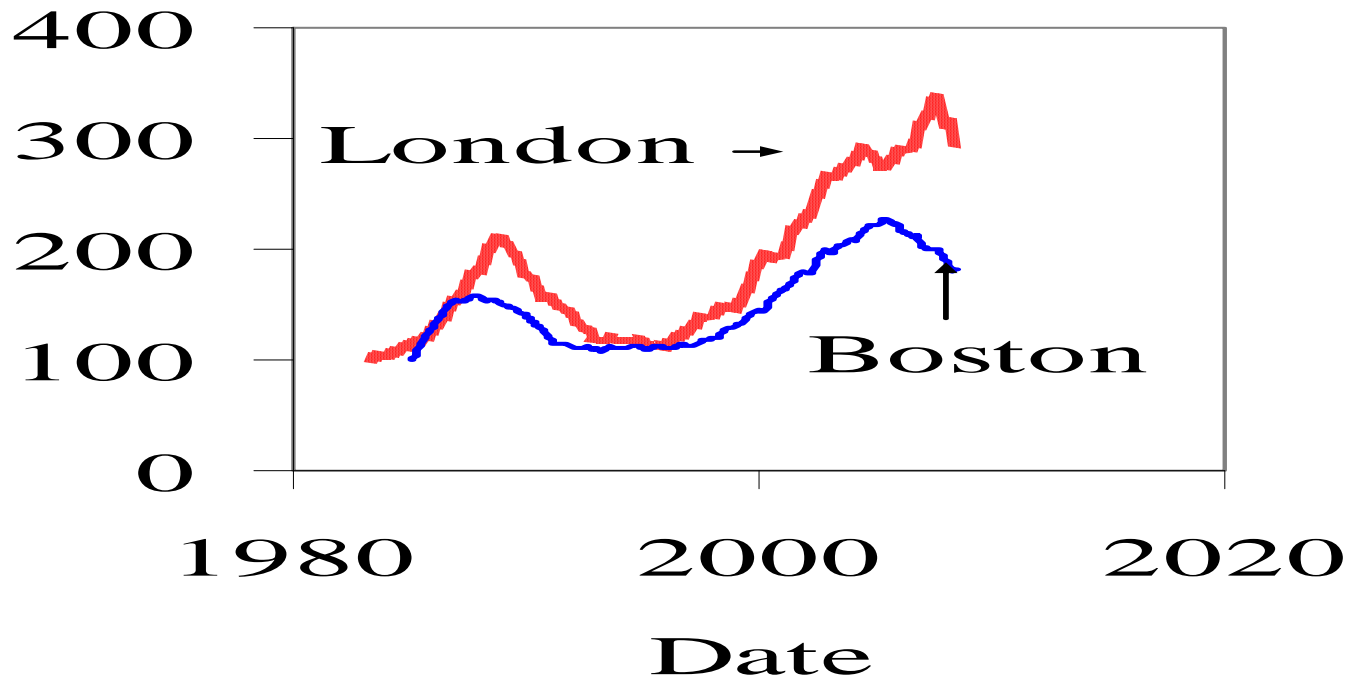


San Francisco Three-Tiered Indices Jan 1987-June 2008 (S&P/Case-Shiller Indices)

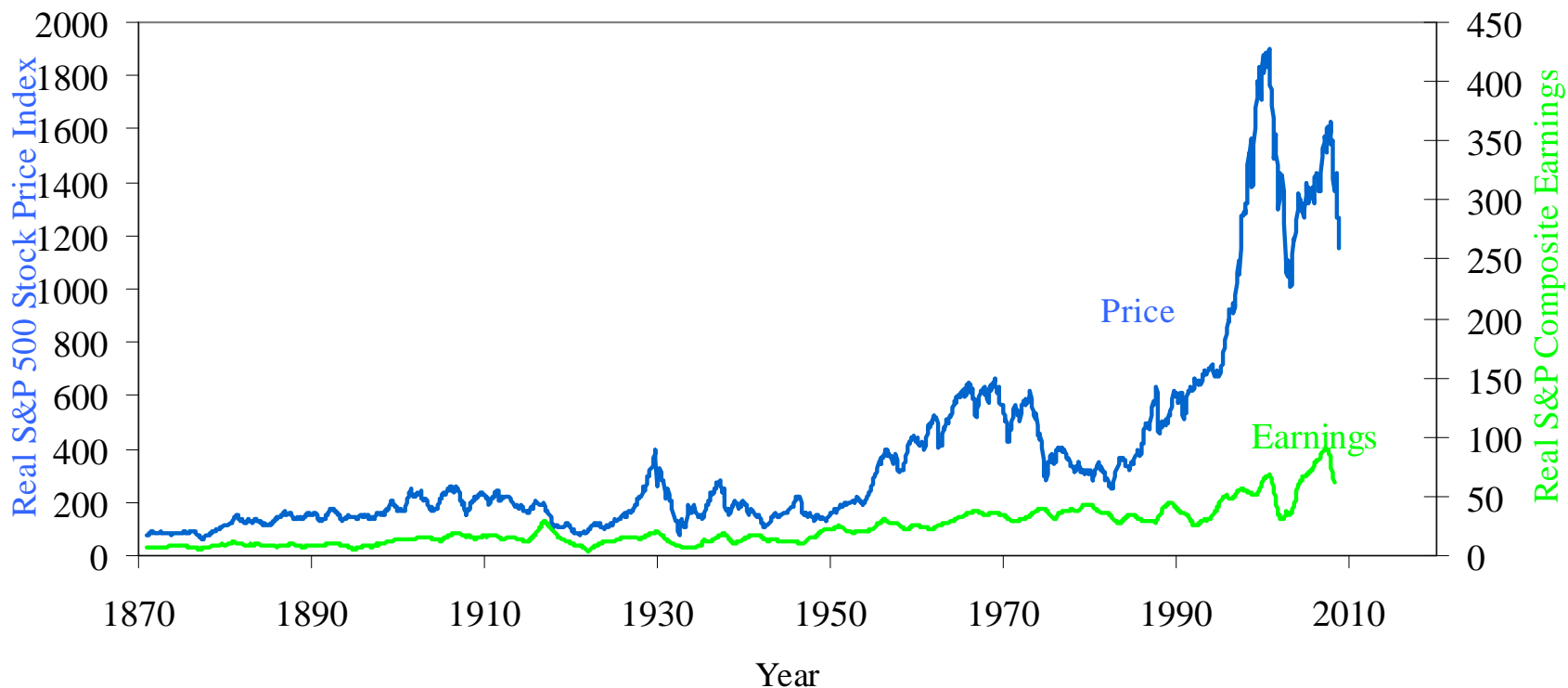


Real Home Prices in London and Greater Boston 1983-2008 (Halifax & S&P/Case-Shiller with Inflation Correction)

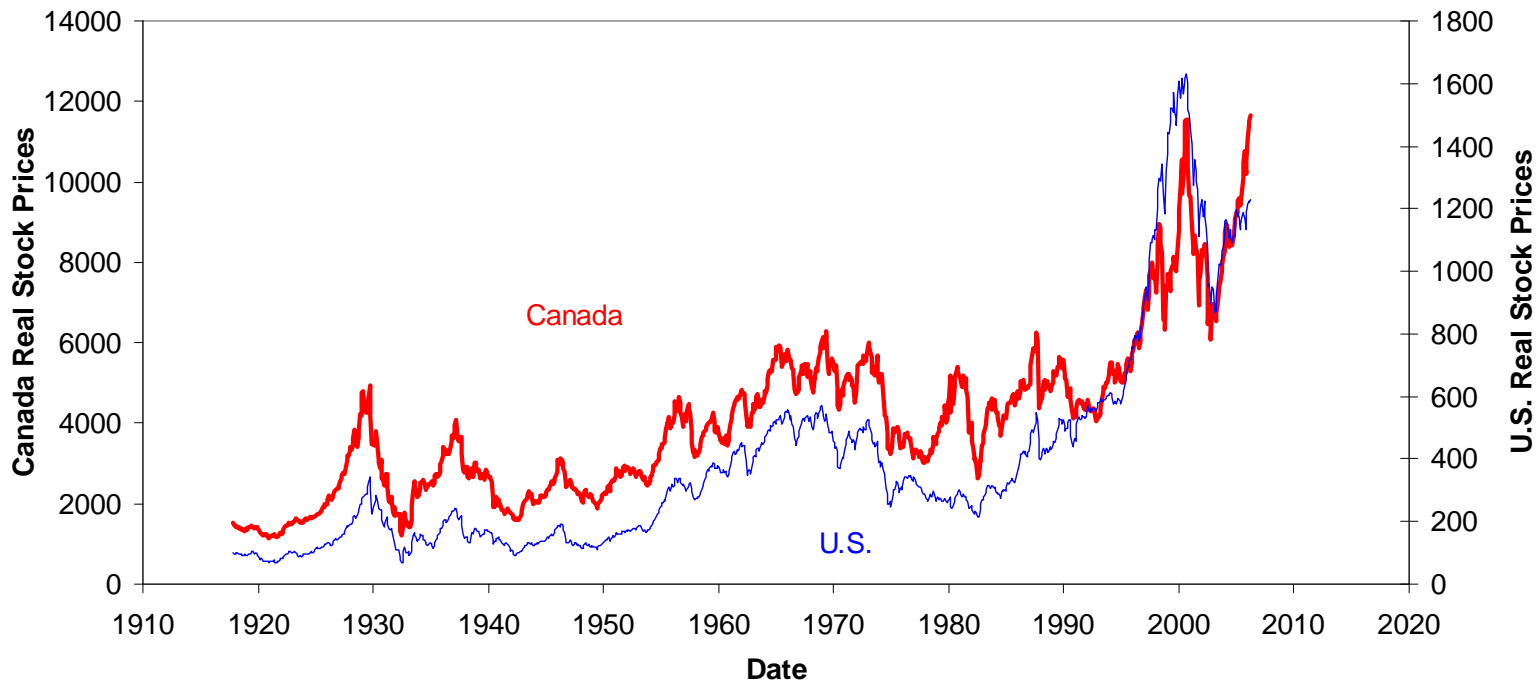
Real Price Index



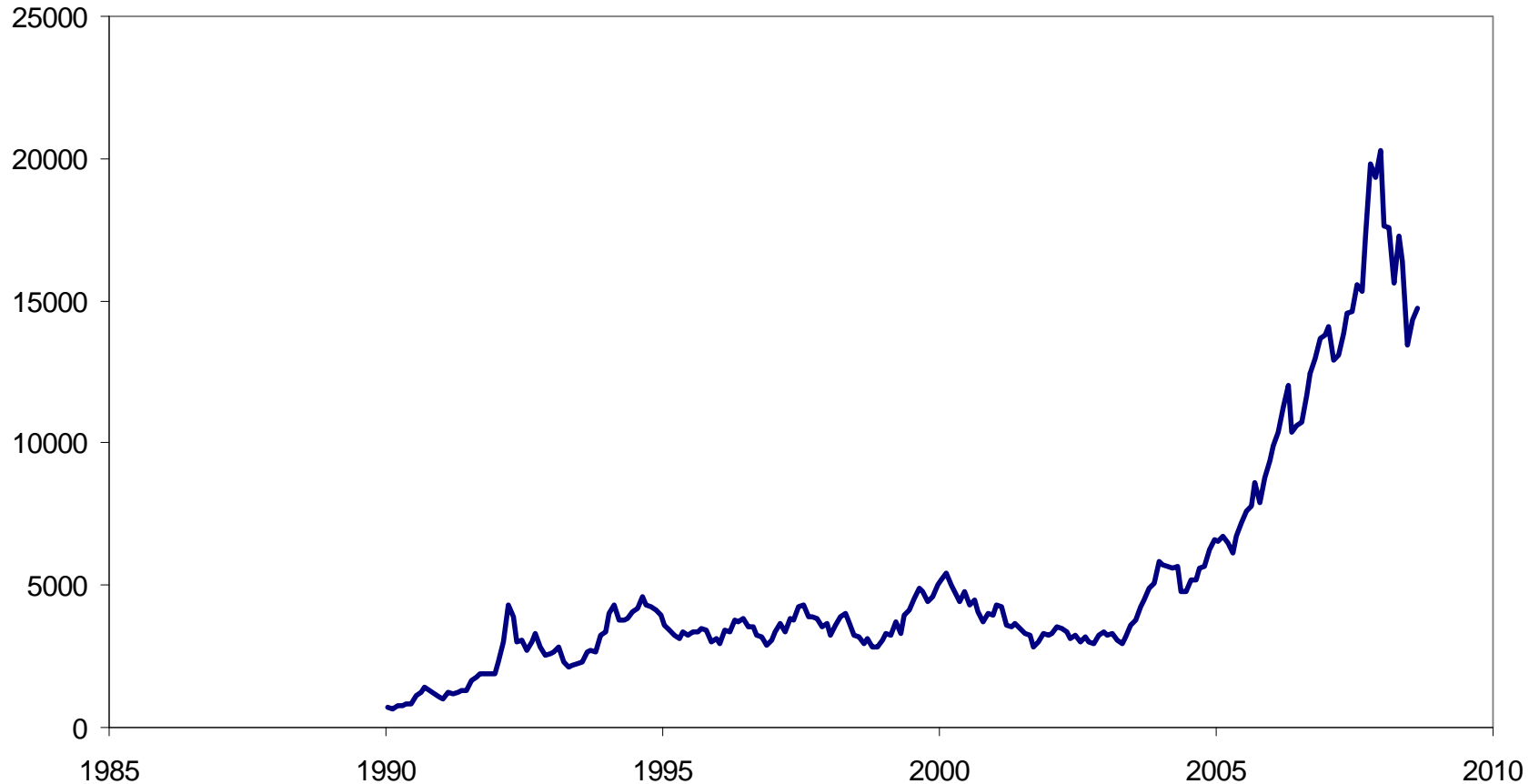
Real S&P Composite Stock Price Index January 1871 to September 17 2008



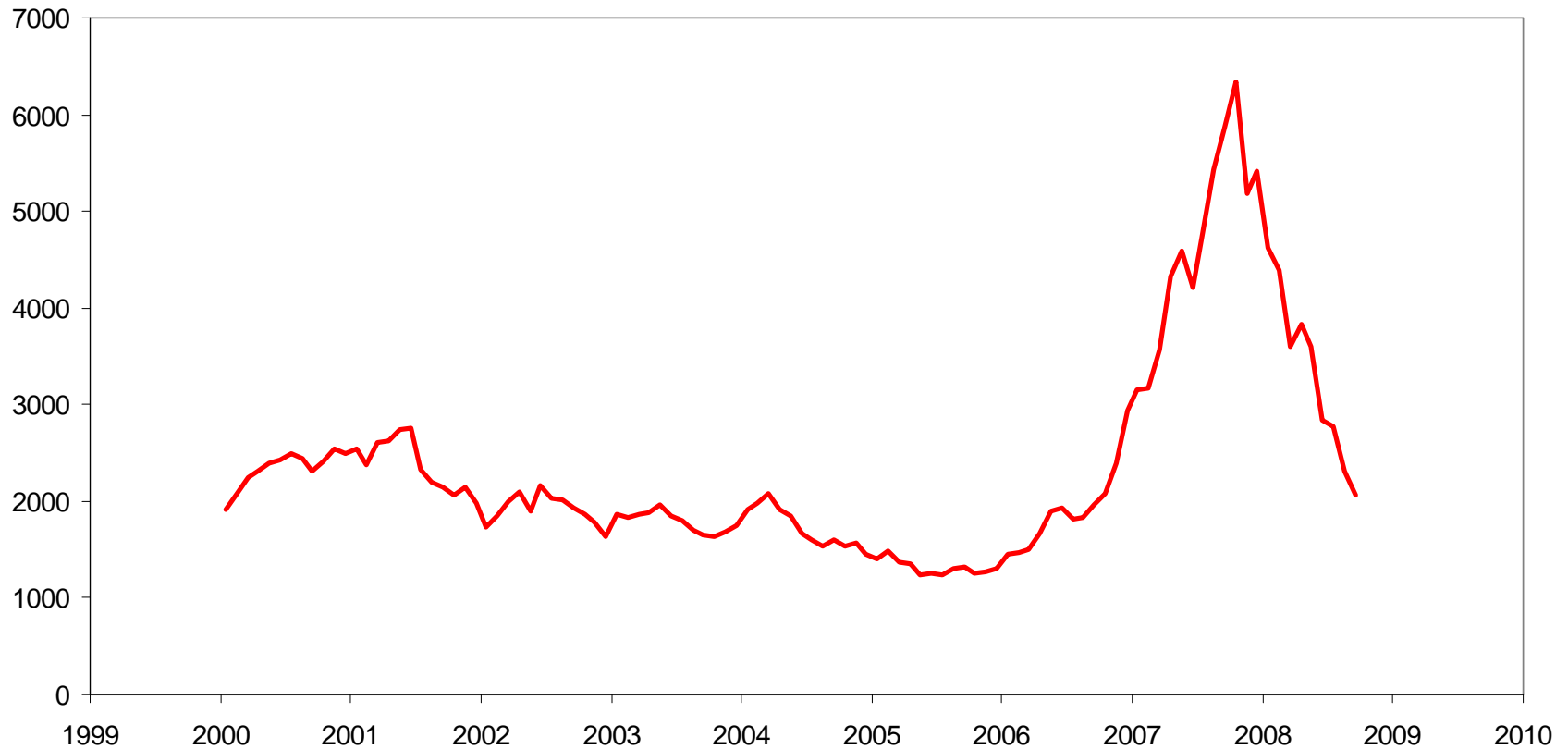
Comparing US and Canada Real Stock Prices 1917-2006



India, SENSEX Stock Price Index, Monthly, Jan 1990 to Aug 2008



China, Real Shanghai Composite, January 2000 to Aug 2008



Sources of the Bubbles (R. Shiller Irrational Exuberance 2000, 2005)

- Precipitating factors
- Amplification mechanisms
- Cultural factors
- Psychological factors

Short-Run Solutions

- The need for short-term bailouts
- In US, the Housing and Economic Recovery Act of July 2008 was an important first step
- But we need more: that act will help no more than 400,000 homeowners
- FHFA Conservatorship only promises to “modestly increase” GSE support of housing market in 2008 and 2009, then reduce by 10% a year
- Approximately ten million homeowners are under water, and more is needed, a long-term problem
- TARP program has been voted down completely!

Long-Run Solutions

- New information infrastructure
 - Comprehensive financial advice
 - New financial watchdog
 - Default-option financial planning
 - Improved financial disclosure
 - Improved financial databases
 - New system of economic units of measurement

VI Long-Run Solutions Cont.

- Fundamentally expanding financial markets to cover more risks that really matter
 - Real estate risk markets
 - Long-term claims on incomes
 - GDP and trills

VI Long-Run Solutions Cont.

- New retail risk management institutions
 - Continuous-workout mortgages
 - Home equity insurance
 - Livelihood insurance