

Sarah Hanks - COP - (Red Stealy in Hawaii)

Background - Undergrad degree speech path & aud.
Univ. of Houston

- taught public school

NI Rutgers - Law degree 1976
Solo practitioner - civil law

Teach class Rutgers

Univ. Houston

" Texas

Mich

Penn

Hawaii since 1995 -

Leo Gottlieb prof. of law -

Track One - Consumer perspective causes +
consequences -

Too way to work @ it

100,000 feet - imp to think abt incog. fragility - families

1970s - flat wages for fully empl. men

Rising housing health care Transp. costs -

premium on families -

Both parents in workplace -

Took on more debt - to deal w/ emergencies

stopped savings -

hit late 1990s - families taking on
more debt -

absence of
Usury laws are the tent pole of consumer
regulation — knocked out for
1979 credit cards
1980 — by Congress on mortgages

Adapt new biz models — takes a decade —
Old idea — lend to those who can repay
Gave way to profitable model —
lend widely ~~at~~ in large amounts —
To ppl who have managerial ability to repay

When there were usury ceilings — not worth the
products very complex — didn't make it —
Compare one to another —

Once cap gone — products bec. complex —
Consumers can't compare notes

Ex. 1980 credit card agreement
700 words — interest rate was the variable
by 2000s — agreements 30 pp. of largely
incomprehensible text — can't tell full
pricing — you can see this in revenue streams

the computer

Feb — 2007 — Congressional trip
universal default — into credit card
agreements —
effect — you kept making payments 79%

79 to 2970 → . a penalty rate of interest "

> Citibank said it was doing away w/ universal default -

6 mos. late - they were adding it back in -
statement VP - we made our card a
little clearer -

All we did was give up revenue -
going back to old way of doing biz -

@ Gary C. - pp. of card statements -
response to market or regulation?
(Both + Both) - Yes + Yes.

The product itself became complicated.

Nominal int. rate ↓, but cost of credit product ↑

Credit cards = innovators, but mortgage lenders were
not far behind -

Shift from careful screening

More profits to be made from the marginally solvent -

Tom -
@ When did this happen?

Credit cards → mortgages

Late 1990s

One off. @ Freddie Mac told her

as long as Fannie + Freddie were market makers,
they defined what was a "company loan"

Callo - softer twist to keep "company loan"

The guy wld say "No"

"One day the phone stopped ringing" → The market went to securitization instead of GSEs

Fannie & Freddie given a choice: lose mortgage share

Standards vs. Profits

→ Fannie + Freddie decided to drop their standards

Q KD -
When? - late 1990s into early 2000s -
1 by 2003 - GSEs have lost that market

Q TS - What's wrong w/ losing market share?
What was the role of Fannie & Freddie's?
Depends on your definition.

Q TS - Consumer Credit market - contributing to fin. Crisis

- 1) In part the credit card - contributed in two enormous ways -
- 2) Consumer credit market charges made families so much more fragile - even little changes ^{would} send them into econ. failure

Q DATA - Her writing debt
bankruptcy defaults
contact by debt collector
Country doesn't collect quite the same data
correlation, NOT CAUSE

link betw rise credit card debt ↑
+ bankruptcy -

Prof. Ronald Mann - Columbia - "Charging Ahead"
5 ctuis
US
Canada
Japan
2 Eur. ctuis

Credit card debt + other econ. failure

show for whole popul. - consumer credit rises -
bankruptcy - short term borrowing
patches families tog., but assoc. costs
of that debt end up sinking families

⊗ Mortgage Transaction itself - ?

lending up until end of 1990s was
a "virtuous circle" - up until Fannie + Freddie
steps in

Banker decides - market rewards the smart
on risk vs. reward -

How to get diversification ^{of risk?} who losing the virtuous circle
Fannie + Freddie did that -

↓
when his standards went down - no penalty
for bad decisions - "That's where the
Crisis comes from. Right @ that
pt. "

Banker eat the losses if wrong - perfect market
gets the funding @ the 1st place

Fanni + Freddie offer liquidity - but less touch
w/ borrowers - if rt. standards -

"That breaks down entirely w/ the securitization market"

lenders - if tradit. banker relationship -
wld have been harder to emulate credit card eos.

Q - Mortgage Transactions As vms
"Tricks + Traps" "Did it so much faster"

Tricks in mortgages - as academic - I didn't keep up
w/ it -

Mortgages for older generation = stability - solidity

Credit reports + car loans anchored off the
house loans

first student bankruptcy

1981

Mortgages were a stabilizer in market -
"Enforced savings devices"

Home + SS = retirement plan
equity much more than investments

balloon etc.
Most people didn't understand -

"The dog becomes a bear" -

That shift occurred so fast - most people did not understand

☒ Five big sheets: Soph. analysis - the price in the trenches - "Is that legal"

☒ - Fed clues? "I found myself hrg to explain this everywhere I went"

By early 2000s - talking to anyone who would listen how the mortgage market changed + changed the econ. of the family

Big \$ inflows = housing bubble
"if even mildly suspicious that mortgage - there was the roar of a hog bubble in your ears -"

"Ordinary suspicion becomes overridden by hrg. bubble that inflated"

☒ DATA - late 1990s → ?
Susan Wachter / Wharton
Adam Mour. &

#4 - Tape rec. #2 -

"The customer's had bullseyes painted on their backs & didn't know it"

or Blindsided -

"If they were blindsided it was because they had their eyes closed"

We knew

We were doing blog posts -

I did warnings 2003 - 2 - 1 more tracks

Harvard - Govt officials 2004.

Brig School 2004 - 2005 -

presented

Michael Barr

Pete Tefano -

Eric Betsky -

Everyone in here - PhD -

if we don't know what people -

Q TS - Consumer goes to broker - fraud
This is a tough one - plz respond.
for saying things that are true -

Anecdotes

Mortgage broker changed the #s

Just it in for me -

presumption into system -

Too costly to have an advocate

Q TS - Consequences of crisis:

Costs of crisis to consumer -

→ look @ foreclosures - these are the death cases -
"Following the Econ. prudent thing -"

Troubles me: Remember like unempl.

Short sales - hand over keys -

are showing up in foreclosure #s -

Data sign. underrepresenting

Foreclosures - cumulatively - if at all
(Tawana data)

did of loan - no one tracking

→ Phila. Fed - data on foreclosures -
Inclusion database on foreclosures
→ 30 - 40 - 60 day default - 270
" 270 days ↑ huge magn.

Not Jingle mail -

Kristin
Q NY - DC - Bakerfield - Las Vegas -
80% loans in Nevada - underwater
50% zip codes in Fla. - delinquent

Projections - NOT good.
→ Businesses walk away when they're underwater

Everything priced into the loan - to expect homeowners to behave differently is naive -
Not every homeowner will walk away.

Rising market not going to produce
Sumo

Q Gay? Anti-deficit states
vs. anti-recourse states
→ Even in non-deficiency state dsnr
mean borrower has any assets -

"No"
data good

"The legal right dsnr always produce \$"

3 good studies that ^{No} state outperforms
lending laws - ^{1990s 2000s} higher foreclosure rates
than others

↳ bigger on credit cards -

TEXAS study - VT -

→ Center for Respons. Lending (NC) ?

Their studies tend to be really good.

① IS - Impact of foreclosure -

"JUST Walk Away" I mt as well move out of
this house I'm renting +
so rent another one -

Terrible emotionally

There are more + more families to take
care of themselves first

② What are the conseq. - ? In part it depends on
where you are in the curve -

Suicides in Nevada - 6 murders - suicides -
in August -

↳ Old foreclosures - the guy who foreclosed had
to look @ you - tell you himself -

③ WARNINGS ?

Op-Ed - yield spread premium
conseq. '07 -

> Her email jammed < then -

Q Innovation wasn't supposed to
mean that the sophisticates
Ald put the pockets of
the unsophisticated

unwelcome - it was regarded
as not just stupid - but
subversive, inappropriate

Improving

ex. - Bankruptcy laws - premise
a company goes bankrupt -
automatic stay to protect assets -
Eg. to rescue or liquidate to max. return
to investor + creditors

Law If belly up - can't collect for some pd. of time
"lock the doors + windows"

1990s (1994) Small techn. amendments to
bank. laws - some instruments trade even
if bankrupt - hmmm!

Late 1990s - series of amendments -
Consumer bankruptcy

Exempt from auto. stay in bankruptcy -

(she)
Risk vs. (costs)
adopted 2005 -

(injected more risk
into the fin. system)

Expert
Jay Westbrook
UTexas law school -
Served on
Citizens - Nat'l
Bankruptcy
Conference

Lehman - choos - now we watch -
picking through the rubble -

- leading that wld have been secured credit -
wld trade for a few more
basis pts -

Employees, trade creditors - who never
in the opportunity

Lobbying!

"It's just not a level playing field"

Q - Did that provision change the way
they behaved -

Euron collapsed - Remster vehicle - "Bankruptcy Remster vehicle"

Clinton vetoed last act in office -

Euron explodes - Am public steps in -
to capture attention - Called NYT
provision - wld say what Euron
did was OK & retroces wld have
gotten no assets if law passed -

nyj - front page article -

Bull printed next time - that one
dense removed, it has been Euron-ized -

^{per ni}
High Finance - bankruptcy remote vehicles -
full out of favor -
shift risk - so the market works -

→ Securitization gains a comparative adv. -

→ What scares me

Lehman - risk among visible cos.

A market segment we identify -

COP
panel

How many other cos are being effectively
fin. sources co. - Guy from Corning -

1 1/2 yrs. ago spring 2009 -

Crisis in full force -

Access to capital questions - Executive of Co. -

" We don't use banks -

" We go to capital markets -

" And we lend \$ to all of our suppliers "

Manufacturing glass + mg. the flow of \$
to markets -

" A bank that produces glass "

raises questions about risk
What happens when a manufacturer -
wld have been fully protected -
now looks like a bankruptcy -

KD -
① - Good biz reason -
Innovation

Aversion to regulation - Chicago school
of economics ?

" Belief that markets wld always
regulate themselves

has been proven deeply
deeply wrong "

" No one wanted to talk about risk "

equity
debt

risk that this biz won't make it -

" don't change by capital structure "

Troubles - no one wanted to talk
about risk -

" Risk game has been very very good
for the financial intermediaries
& bad for the families "

Crisis - Blow up -

> How many of the decision makers
lost their homes -

④ Loan modifications -
adam levittor.