My approach to everything I have written, studied and analyzed in this space is pretty straightforward: Start with the data and evidence and go forward from there. Figure out what the “Truth” is; try to get as close to the objective reality beneath the noise in order to make intelligent investing decisions for myself and my clients.

There are others who do not share this objective. Their goals are either political (winning the next election) or ideological (having their belief system become dominant). Truth is irrelevant to these people.

Not surprisingly, these folks — many of whom contributed to the crisis in a mighty way — are desperately trying to duck responsibility for what happened. Those who helped cause the crisis are engaged in an ongoing effort to rewrite its history.

Their goal? Exonerate their own bad behavior, throw off any responsibility for the collapse, blame anything but their own ideology and horrific decision making. They want to keep pushing their tired political agendas, despite the damage they may have caused.

When writing *Bailout Nation*[^1], I tried to steer clear of partisan finger pointing. I kept the focus on what actually occurred, what could be proven mathematically. I blamed Democrats and Republicans — not equally, but in proportion to their actions, and what they did. Unsupported theories, tenuous connection, loose affiliations were not part of the analysis.

To be blameworthy, every legislative change, each regulatory failure, any corporate action had to manifest themselves in actual mathematical proof. This led me to ascertain the following 30 year sequence:

- Free market absolutism becomes the dominant intellectual thought.
- Deregulation of markets, investment houses, and banks becomes a broad goal: This led to Glass Steagall repeal, unfettering of Derivatives, Investing house leverage exemptions, and a new breed of unregulated non bank lenders.
- Legislative actions reduce or eliminate much of the regulatory oversight; SEC funding is weakened.
- Rates come down to absurd levels.
- Bond managers madly scramble for yield.
- Derivatives, non-bank lending, leverage, bank size, compensation levels all run away from prior levels.
- Wall Street securitizes whatever it can to satisfy the demand for higher yields.
- “Lend to securitize” nonbank mortgage writers sell enormous amounts of subprime loans to Wall Street for this purpose.
- To meet this huge demand, non bank lenders collapse lending standards (banks eventually follow), leading to a credit bubble.
- The Fed approves of this “innovation,” ignores risks.
- Housing booms . . . then busts
- Credit freezes, the markets collapse, a new recession begins.

You will note that the CRA is not part of this sequence. I could find no evidence that they were a cause or even a minor factor. If they were, the housing bubbles would not have been in California or S. Florida or Las Vegas or Arizona — Harlem and South Philly and parts of Chicago and Washington DC would have been the focus of RE bubbles.

Nor do I blame Fannie and Freddie. Now understand, there is no love lost between myself and the GSEs. For years, I have called them "Phoney and Fraudy"[^2]. Since George Bush and Hank Paulson nationalized them, I have accused the government of using these two as a...
backdoor bailout for banks[^3] — a hidden PPIP/TARP used to buy all the garbage mortgages that banks are desperate to get off their balance sheets. Longtime readers will recall we very publicly shorted Fannie based upon their fraudulent practices and horrific balance sheet when FNM’s stock was in the $40s (it soon after collapsed).

But even I cannot reconcile reality with the movement to place all of the world’s troubles at the feet of the GSEs. Not, at least, according to the data.

That lack of evidence, however, doesn’t stop ideologues from trying. Consider this attempt at rewriting the causes of the credit crisis by Kevin Hassett[^4]:

“The worst financial crisis in generations was set off by a massive government effort, led by the two mortgage giants, to make loans to homebuyers no matter whether they could make the payments. Lenders were willing to lend money to just about all comers, no matter how low their income. Why? Because the lenders knew Fannie and Freddie would purchase the loans from them for a high price before bundling them into securities to sell to investors.”

Now, this makes for a fascinating narrative that plays into a number of different ideological beliefs. It exonerates the radical free market deregulators, it ignores what the private sector did, and it somehow ignores the fact that Congress was controlled by a very conservative GOP from 1994 to 2006 — the prime period of time covered leading up to and including the beginning of the crisis.

But worse than all of that, the data supporting Hassett’s position simply isn’t there.

Over the past 2 years, I have repeatedly asked the people who push this narrative to provide some evidence for their positions. I have offered a $100,000[^5] if they could prove their case.

Specifically, I have requested some data or evidence that DISPROVED the following facts:

- The origination of subprime loans came primarily from non bank lenders not covered by the CRA;

- The majority of the underwriting, at least for the first few years of the boom, were by these same non-bank lenders

- When the big banks began chasing subprime, it was due to the profit motive, not any mandate from the President (a Republican) or the the Congress (Republican controlled) or the GSEs they oversaw.

- Prior to 2005, nearly all of these sub-prime loans were bought by Wall Street — NOT Fannie & Freddie

- In fact, prior to 2005, the GSEs were not permitted to purchase non-conforming mortgages.

- After 2005, Fannie & Freddie changed their own rules to start buying these non-conforming mortgages — in order to maintain market share and compete with Wall Street for profits.

- The change in FNM/FRE conforming mortgage purchases in 2005 was not due to any legislation or marching orders from the President (a Republican) or the the Congress (Republican controlled). It was the profit motive that led them to this action.

These are data supported facts I pounded on in BN.

Of course, folks like Hassett hate this factual history, as it conflicts with their goals and politics. Rather than produce evidence, they create story lines unsupported by facts. But Monkeys love a good narrative, and so they give that to them.

However, as an investor, I demand evidence, data and facts. The blame Fannie & Freddie crowd have managed to remain blissfully data free. They have steadfastly ignored all calls for proof.
Its way past the time to call out their intellectual dishonesty. If you cannot show any data, if you cannot prove what you are alleging with actual facts, you need to be called out for what it is you actually are: Proponents of a failed philosophy.

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*See also:*

[Freddie Finances Scarier Than Bad Slasher Flick](http://www.bloomberg.com/apps/news?pid=20601039&sid=aJc8svVLQCVk) [6]

Kevin Hassett
Bloomberg, May 10 2010

http://www.bloomberg.com/apps/news?pid=20601039&sid=aJc8svVLQCVk