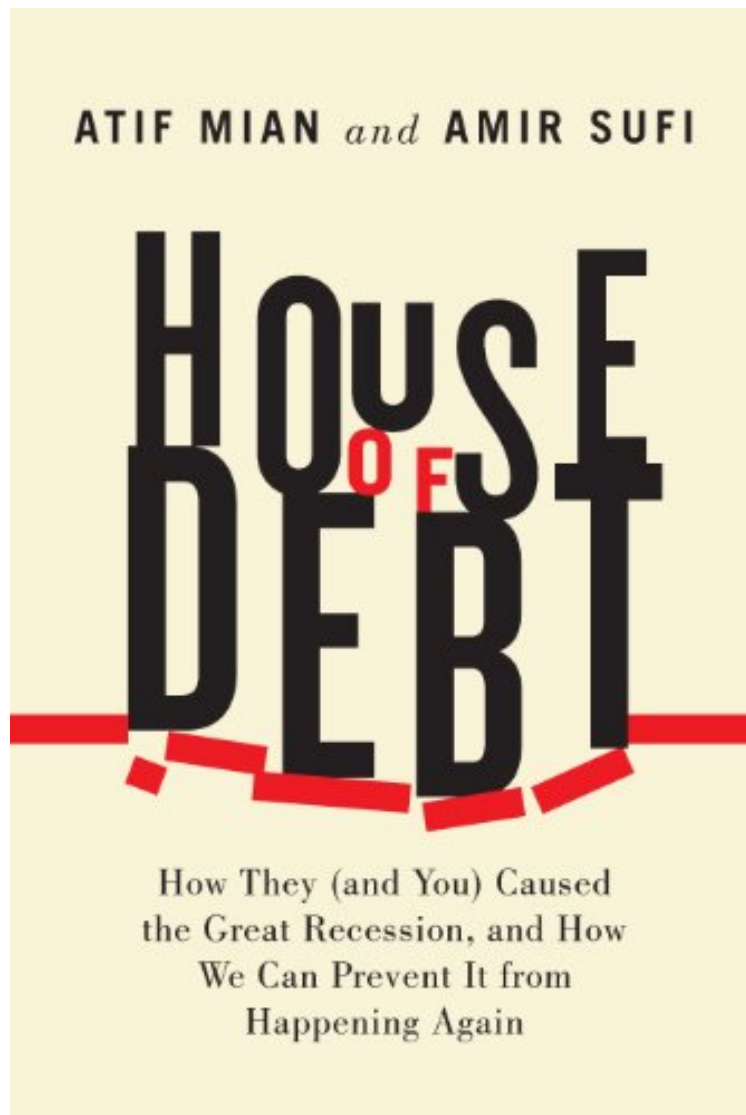


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## House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again

*Atif Mian, Amir Sufi*

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**Atif Mian, Amir Sufi : House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again** before purchasing it in order to gage whether or not it would be worth my time, and all praised House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again:

19 of 20 people found the following review helpful. The solution is pure fantasy.By Thomas A. BattanI found the

early chapters of the book to be well written and insightful. Essentially, the authors documented the rapid expansion of private debt to unsustainable levels, as the public chased home appreciation, caused by easy credit. The authors went on to avert that the collapse in housing prices had a greater adverse effect on the wealth and spending habits of the poorer cohorts of our society. They asserted further that the efforts of the government and the FED to mitigate the effects of the Great Recession were ineffective since they did not address the major cause, that being, the over leveraged private sector. They assigned most of the blame to lenders while leveling much milder criticism on the government, FED, Fannie and Freddie, and the American public. The final third of the book described the authors' solution to the problem. The authors assert that creditors did not absorb their fair share of the losses as a result of the collapse of housing. Their solution was a new mortgage contract they named a "shared-responsibility mortgage" (SRM) which essentially places the lender in a partial equity position. The lender could absorb future losses through reduction of mortgage principal if the underlining property fell in value and additional profits if the home appreciates. All the subtracting would result from changes in various indices that the authors claim can be developed. The additions would be recognized at the time of sale. (What happens if the owner does not sell his home? Is he presented with a bill by the mortgage holder at the time the mortgage is paid off? What happens if the owner dies does the note holder have a claim against the estate)? The authors were heavy on the positive macroeconomic effects of such a program and light on detail. The complexity of these products would be well beyond the ken of the vast majority of the American public, who couldn't understand the workings of a simple ARM, according to the media. I can not image the required regulations, new federal agencies, political demagoguery, and potential fraud by lenders and homeowners of such a complex product. The debt orgy that we experienced in the first decade of this century would not have happened a generation ago. Prior to the GSE's and securitization, lenders were much more prudent dispensing credit since they anticipated holding the mortgage until redemption. A far simpler solution would be to require lenders to maintain a significant stake in any mortgage originated by their institution. Adam Smith and Nassim Taleb would understand!

0 of 0 people found the following review helpful. Best explanation of housing boom/bust and how the bailout was mis-handled  
By Contrarian  
The "Great Recession" is too big and complicated to be fully covered in one book. But this one does an extremely good job of explaining one big piece of it -- the housing bubble, collapse and aftermath. They discuss why it played out the way it did, why the economic impact was so catastrophic and what should have been done to prevent or recover from it. They also give policy recommendations to avoid a future recurrence. I hope it has some impact on the policy debate. They base their assertions on excellent empirical work looking at where the economy was weakest and how that related to the housing bubble. They also discuss alternative theories and why they believe theirs fits the evidence best. While they discuss economic studies, they explain them very clearly and I think it will be understood by anyone willing to make the effort.

1 of 1 people found the following review helpful. Useful for me but kind of mediocre  
By D. P. S. Chubert  
This book was a useful read for me because it laid out the relationship between excessive mortgage debt, the collapse in demand and the depth of the great recession. They also make some interesting assertions about the impact of collapsing house prices on wealth inequality; the minor role played in the recession of a systemic threat to the banking system (as opposed to a liquidity crisis); and therefore the unimpactful wealth transfer from taxpayers to bankers, and bank shareholders and lenders. In general, such assertions are interesting but sloppy. As happens so often in these popularizing books, the writers spin a coherent logic but forget that logic and the real world are two different animals. As a result, empirical tests seem very thin. Countervailing explanations are not fairly considered before rejection. For example, isn't it possible that the taxpayer bailouts of the banking industry saved the banking system? Can't that explain the lack of impact on recession? I wouldn't say they are absolutely wrong so much as they don't give the lay person the tools to fairly evaluate their assertions. Finally, their preventative for a future housing price based recession addresses the moral hazard of mortgage forgiveness. But other than that it seems wholly unrealistic. They fail to address any issues relating to regulatory capture and excessive regulation.

The Great American Recession resulted in the loss of eight million jobs between 2007 and 2009. More than four million homes were lost to foreclosures. Is it a coincidence that the United States witnessed a dramatic rise in household debt in the years before the recession—that the total amount of debt for American households doubled between 2000 and 2007 to \$14 trillion? Definitely not. Armed with clear and powerful evidence, Atif Mian and Amir Sufi reveal in *House of Debt* how the Great Recession and Great Depression, as well as the current economic malaise in Europe, were caused by a large run-up in household debt followed by a significantly large drop in household spending. Though the banking crisis captured the public's attention, Mian and Sufi argue strongly with actual data that current policy is too heavily biased toward protecting banks and creditors. Increasing the flow of credit, they show, is disastrously counterproductive when the fundamental problem is too much debt. As their research shows, excessive household debt leads to foreclosures, causing individuals to spend less and save more. Less spending means less demand for goods, followed by declines in production and huge job losses. How do we end such a cycle? With a direct attack on debt, say Mian and Sufi. More aggressive debt forgiveness after the crash helps, but as they illustrate, we can be rid of painful bubble-and-bust episodes only if the financial system moves away from its reliance

on inflexible debt contracts. As an example, they propose new mortgage contracts that are built on the principle of risk-sharing, a concept that would have prevented the housing bubble from emerging in the first place. Thoroughly grounded in compelling economic evidence, *House of Debt* offers convincing answers to some of the most important questions facing the modern economy today: Why do severe recessions happen? Could we have prevented the Great Recession and its consequences? And what actions are needed to prevent such crises going forward?

“The most important economics book of 2014; it could be the most important book to come out of the 2008 financial crisis and subsequent Great Recession. Its arguments deserve careful attention, and its publication provides an opportunity to reconsider policy choices made in 2009 and 2010 regarding mortgage debt. *House of Debt* is important because it persuasively demonstrates that the conventional meta-narrative of the crisis and its aftermath, which emphasizes the breakdown of financial intermediation, is inadequate. . . . All future work on financial crises will have to reckon with the household balance sheet effects they stress. After their work, we can still believe in the necessity of financial rescues; however, we can no longer believe in their sufficiency. And after their work, we have an important new agenda of reforms to consider if future crises are to be prevented.”