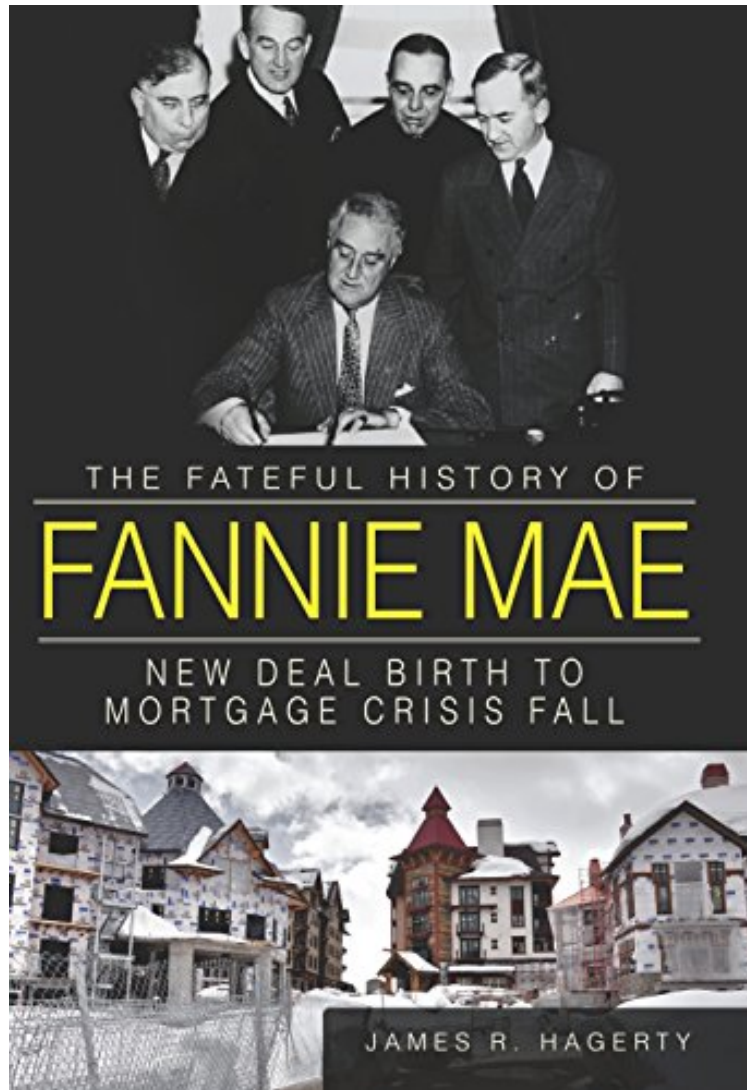


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# The Fateful History of Fannie Mae: New Deal Birth to Mortgage Crisis Fall

*James R. Hagerty*

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**James R. Hagerty : The Fateful History of Fannie Mae: New Deal Birth to Mortgage Crisis Fall** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Fateful History of Fannie Mae: New Deal Birth to Mortgage Crisis Fall:

7 of 7 people found the following review helpful. QuasiBy Stephen T. Hopkins Readers looking for a deeper understanding of the rise and fall of Fannie Mae will find a crisp account of the past seven decades of that organization's highlights and lowlights in James R. Hagerty's book, The Fateful History of Fannie Mae: New Deal Birth to Mortgage Crisis Fall. Bob Hagerty is a reporter for The Wall Street Journal who has covered the mortgage

business and the government sponsored enterprises (GSEs) extensively. He relates how a public purpose was paired with private capital to create a quasi-governmental entity that became the largest holder of residential mortgage debt. Political machinations over many years led to inadequate capital and a weak regulatory framework. Investors took gains in the good years and taxpayers are now covering losses. I worked at Freddie Mac from the mid-1970s to the late-1990s, so I know the subject of this book from an inside perspective. Hagerty gets all the headlines right in this book. There is more to each story than what he presents, but those nuances may be meaningful only to those who were immersed in the business. General readers will find in this book a cogent presentation of how Fannie Mae came to be, to grow and to generate huge losses. Any reader with an interest in public policy, especially relating to housing, will enjoy reading this book. Rating: Three-star (Recommended) 0 of 0 people found the following review helpful. The book which connects the dots. By Kim Usually, the best seller books about the Global Financial Crisis, GFC for short, tend to be much macro-economics. Although the macro-economic approach is essential to analyze GFC, it encourage us to overlook the relative small scale of the cause for the crisis which is one of the main wheel for the catastrophic event. This book, *The Fateful History of Fannie Mae: New Deal Birth to Mortgage Crisis Fall*, not only fill the gap between the macro-economic matter, but also give the insightful information on the historical lending system still existing trend. I almost wondered how much years he has got involved in the mortgage lending industry which is familiar to all American, but seems obscure at the same time. For the background, the mortgage market consists of two parts. First part is the first market where the mortgage is created from the Mortgage Broker, then independent Lender, and Second one is the secondary market where the mortgage created by the participants in the first market get sold to so called investors which securitize the loan with their own mortgage pools. On the top of Food chain, here it is Fannie Mae and Freddie mac which bought the loans not only directly from the lender but also from the investors at the below of Food chain. This system allowed the mortgage to be created with the fast fashion compared to Lend-and-hold system, but it lays the inherent risk. To make this system work smoothly, all the participants in the market has to depend on the short-term funding, and since they got the small premium when they sold the mortgage, they have the incentive to make the loans as big as they could, and as fast as they could. What Fannie Mae has done was the same thing. Using their position as GSE (Government Sponsored Enterprise) they borrowed short term money cheap, and bought the mortgage from other investors or lenders with the proceeds, then took the premium when they sold the MBS to the Wall Street. Although the mortgage regulation becomes way stricter currently compared to before Global Financial Crisis, the system which helped bring the GFC, still remains the same; Operating with short-term funding encourages the lender to create risky loans when ready. I cannot say that this system is inherently bad since this system, anyway, gives easier credit access to most people, but its own weakness lays the financial crisis like Daenerys Targaryen laying the eggs of Dragon which create new order for good, or destroy all good for bad. This book also illustrates descriptively the managerial misleading of Fannie Mae, aside the matter I mentioned above, it would explain how their managerial negligence, or that with intention help bloat the financial system. 1 of 1 people found the following review helpful. Good brisk journalism By MT57Books on current events and their issues tend to fall into two categories. One is academic, with the author exploring various hypotheses, usually favoring one, and doing so by presenting a good deal of data, often quantitative and often in tabular or graphic form. Such a book is usually organized thematically. The other type is journalistic, usually presenting a chronological narrative, with emphasis on the words and actions of a few key decisionmakers at each step in the narrative. Each has its merits and shortcomings. This book is a perfect example of the latter category. The author, a Wall Street Journal reporter who appears to have covered Fannie Mae for many years, has a firm command of the subject, a good perspective that enables him to distinguish myth from fact, and, as far as I can tell, has carried out his research and writing with the high standards you would expect a veteran of an elite news organization. There aren't any anonymous sources, reporting is separated from opinion quite overtly, multiple perspectives on the truth are noted, and so forth. The history of Fannie Mae is told crisply and in straightforward chronological fashion, in a Dragnet-style, "just the facts, ma'am" authorial voice. Each chapter tends, although not exclusively, to focus on a few key decisionmakers or other persons of influence and tells the story by reference to their decisions and statements. It is very similar to the kind of journalism that is done all the time for a daily paper like the WSJ. Sentences are short and rarely complex. So as an example of a journalistic account of the history of Fannie, it is a very good product. Of course that type of product has its limitations. The book is aware of the major issues surrounding the GSE's but touches on them only lightly until the end, when a couple of relatively brief chapters explore them and the major perspectives on them. If I were looking for a definitive analysis, this doesn't strike me as that book. For that, I recommend *Guaranteed to Fail* and *Engineering the Financial Crisis*. I don't think this book leaves anything out entirely, but Things that it underplays include, imo: (1) the extent to which the public policy mission of the GSE's drove/rationalized the fatal decision to expand into lower quality mortgages in the 05-08 time period, a motivation which was heavily emphasized in the company's conference calls with investors, investor materials and legislative oversight (whether you believe it was sincere or not); (2) insight into the reasons for the company's undercapitalization, particularly the extent to which the combination of the implicit federal guarantee and favorable bank capital regulations under BASEL egregiously incentivized the worldwide financial system to take up GSE paper and GSE-backed debt, without regard to the underlying deterioration of its

financial condition, enabling a much higher leverage ratio than a private actor subject to market forces would have had, with cataclysmic results; and (3) how the mission I mention in "(1)" is linked to the undercapitalization I mention in "(2)" by way of the federal guarantee: it had that guarantee because of its mission to acquire an ever-increasing mortgage portfolio, but that guarantee enabled it to fulfill that mission entirely through debt financing, leaving it woefully undercapitalized once it grew too big. But as I note above such shortcomings are inherent in the genre. Overall, it is a very good product of its type. As a final note, I was impressed by the fact that some of the favorable reviews here come from persons with knowledge of the facts who are willing to give their real name regarding this controversial topic.

In 1938, the administration of Franklin Delano Roosevelt created a small agency called Fannie Mae. Intended to make home loans more accessible, the agency was born of the Great Depression and a government desperate to revive housing construction. It was a minor detail of the New Deal, barely recorded by the newspapers of the day. Over the next seventy years, Fannie Mae evolved into one of the largest financial companies in the world, owned by private shareholders but with its nearly \$1 trillion of debt effectively guaranteed by the government. Almost from the beginning, critics repeatedly warned that Fannie was an accident waiting to happen. Then, in 2008, the housing market collapsed. Amid a wave of foreclosures, the company's capital began to run out, and the U.S. Treasury seized control. From the New Deal to the administration of President Obama, author James R. Hagerty explains this fascinating but little-understood saga. Based on his reporting for the Wall Street Journal, personal research and interviews with executives, regulators and congressional leaders, Hagerty charts the course of Fannie Mae. With *The Fateful History of Fannie Mae*, he explains the politics, economics and human frailties behind seven decades of missed opportunities to prevent a financial disaster.

"How did the U.S. economy get swept up in the madness of an unsustainable home-lending binge? How can we make sure such foolishness doesn't happen again? The best place to turn for answers is 'The Story of Fannie Mae,' a lucid and meticulously reported book by one of The Wall Street Journal's ace reporters, James R. Hagerty. His book epitomizes history with a purpose: showing how 70 years of good intentions, inertia and greed combined to create a financial catastrophe like no other." --George Anders, contributing writer at Forbes magazine and author of *The Rare Find*"Hagerty makes a valuable contribution to the lessons learned from the financial crisis with his untangling of the complex history of Fannie Mae. His treatment is clear, interesting and fair-minded without being wishy-washy." --Urban C. Lehner, former editor of the Asian Wall Street Journal" In a book that is rigorous, complete, and well-told, Hagerty explains how Fannie Mae evolved from its inconsequential birth during the Great Depression to a massive financial institution whose demise nearly took down the entire global economy." --Mark Zandi, chief economist, Moody's Analytics. About the Author James R. (Bob) Hagerty is a reporter for The Wall Street Journal. He also has worked as a reporter, editor and bureau chief for The Wall Street Journal and the International Herald Tribune in cities all over the globe. Hagerty worked on a Wall Street Journal team that won the Distinguished Business Reporting award for articles about the subprime mortgage crisis.