THIRD WAY

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The Revolution in Housing Finance

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Introduction;

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Featured Speaker:

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JIM KESSLER: Good morning, everybody. Wow, we have a huge crowd on hand today. Thank you so much for coming. I'm Jim Kessler, the vice president for policy at Third Way. Continue grabbing food now and throughout. Welcome to – I guess this is our fifth CMI, Capital Markets Initiative lecture series, here in the capital. This one is featuring Bethany McLean, who's a brilliant writer, and I know you're going to love listening to her and asking questions.

It's an interesting day to gather. Front page of The Wall Street Journal today: "J.P. Morgan's $2 billion blunder." And here is the quote from Jamie Dimon on the offending bad trade: It was flawed, complex, poorly reviewed, poorly executed and poorly monitored, an egregious, self-inflicted wound. This trade doesn't violate the Volcker rule, but it violates the Dimon principle.

Now, the interesting thing is, this – 2 billion (dollars) – 2 billion (dollars) is a lot of money. J.P. has $2 trillion in assets. It's one-tenth of 1 percent of what they hold. I'm thinking, in my own life, if I lost one-tenth of 1 percent of, you know, my entire assets, you know, that's dinner at a nice restaurant – (chuckles) – for me. So stay tuned. J.P. was one the heroes and bedrocks during the financial crisis, but this is obviously getting a lot of attention.

Third Way's Capital Market(s) program is designed to accomplish really one thing, and it's to increase the understanding on Capitol Hill about how capital markets work. And we believe that healthy capital markets help create a healthy economy, we believe that a better-informed staff creates better laws, and we believe there is a bipartisan hunger – and I can see this is a bipartisan group here today – looking for fresh perspectives and an unbiased source of information that helps kind of remove the veil of opacity that surrounds capital markets. And with that, we feel the rest is left to you to decide what's best.

A few quick reminders: Bethany is going to speak for about 30 minutes, and then there is going to be time for questions, and your questions – think of them. Your questions are important; it's – it makes these events really worthwhile. Second, on Monday we're going to be releasing this, which you've received. It's our banking primer, and it shows how the banking system – it really gets underneath it, how it really works. You'll get an electronic version. Feel free to pass along.

And moving along – also introducing Bethany McLean today is Andrew Feldstein. And Andrew is a Third Way trustee. And he was actually on the ground floor when we started the Capital Markets Initiative. And really, we couldn't have found a better adviser for starting the CMI program than Andrew because first of all, professionally, he's just really at the top of the heap here. He's co-founder, CEO and chief investment officer at Blue Mountain Capital Management. That's a multibillion fund with over a hundred employees. He's a leading philanthropist, very much involved in the charter movement and also co-founder of the Darfur Project. In his professional field, he's just really looked up to on Wall Street. He's made integrity, you know, a watchword in his career but also at Blue Mountain, demanding that returns aren't enough but investor confidence in what they're doing and integrity and the information that they're putting out. As an adviser to CMI, Andrew has read through every one of our papers that we've put out, and he's provided really, really good advice and made our papers better and more accurate and provided real clarity and, I'd say, intellectual integrity behind our work, and for that work, we're very, very thankful. So with that, grateful to our friend and Third Way adviser, Andrew Feldstein. (Applause.)

ANDREW FELDSTEIN: Thank you, Jim. That was really nice.

So I met Bethany through my friend Joe Nocera, who is her co-author on the book that Jim mentioned. And you know, I have to admit, given my line of work where facts and truth are really, really important, I sometimes have some skepticism and can be a harsh critic of financial writers. You know, you've got – on the one hand, you've got the sensationalizers and the scandal-mongers, folks with, you know, sort of a disregard for the facts and truth. And then on the other hand, you've got your hero-worshippers, your epic spinners, folks with a real disregard for the facts and the truth.

And you know, what a breath of fresh air Bethany is. She's smart, she's insightful, she's relevant and, most importantly, committed to the facts and to the truth. I really admire her ability to boil down issues to their essentials. And you know, they say that envy is a terrible thing, but I will admit to being quite envious of her ability to take complicated subjects and distill them into simple words.

Her book with Joe Nocera, "All the Devils Are Here," is in my opinion the very best widely accessible window into the 2008 financial crisis. I think it's important as historical record, but it succeeds as well as social science. Not only is Bethany a fantastic journalist, but in my view, successful in analyzing things from the standpoint of political science, behavioral psychology and economics.

And this isn't the first time she's done it. Back in 2001, she was the – one of the very first in the financial community to spot problems at Enron. And her book that she co-authored, "The Smartest Guys in the Room," is the seminal narrative on that company's collapse.

She began her career in 1995 as an investment banker at Goldman Sachs – I'm sorry, in 1992 as an investment banker at Goldman Sachs, after having graduated from Williams College with dual degrees in mathematics and English. In 1995, she began her career as a reporter at Fortune Magazine, where ultimately she rose to editor-at-large. In 2008 she joined Vanity Fair, where she still is as a contributing editor. She is also a columnist for Reuters and a contributor to CNBC. So I think we're in for a real treat, and help me welcome Bethany. (Applause.)

BETHANY MCLEAN: Well, thanks for the lovely introduction, and thanks to all of you for thinking that I'm qualified to be here, which is – which is somewhat debatable. I was going to say that I think there are a lot of people who understand housing finance better than I do, but then I thought, well, those people are probably even wonkier than I am.

There is this widespread perception about the housing finance in particular that it's incredibly boring. I remember, in 2005 I wrote this very negative big piece for Fortune, where I worked at the time, on Fannie Mae. And somebody said to me afterwards, wow, I could actually read that story. I didn't think I could ever stand to read about that company. And I thought, well, that's damning with faint praise. But – (laughter) – this stuff is not boring. It's actually incredibly fascinating. But there is also this perception that housing finance is incredibly complicated, and that part is true. It is incredibly complicated.

And this really depressing thing to me, one of the most depressing things that's happened in the wake of the financial crisis is how politicized the diagnosis of it has become. And this is overly simplistic, but if you're a Republican, basically, it's all the fault of the government; namely, Fannie Mae, Freddy Mac and affordable housing policies. If you're a Democrat, it's all the fault of Wall Street. If you're a banker, it's all the fault of homeowners. And Joe and I titled our book "All the Devils Are Here," because in my view, all of the above. So I think one of the things I hopefully can offer is a somewhat nonpoliticized view of this.

And I wanted to start with a big point about the housing market, which is, at least in modern history, since the Great Depression, the government has always been involved in the housing market. That's when the phrase the American dream was coined. It became synonymous with home ownership in a way that isn't true in most other countries. Home ownership is something that the vast majority of Americans aspire to. It suggests upward mobility, opportunity, a stake in something that matters. Homes weren't just supposed to be an appreciating asset or having a roof over one's head; it's also supposed to be a statement about values.

And there are all sorts of ways in which the government has encouraged home ownership. There is the FSA – there is the FHA. There is the 30-year fixed rate pre-payable mortgage, which doesn't exist in any other country save Denmark. There is the mortgage interest tax deduction. For a long time, federal law gave the savings and loan industry a small interest advantage; that was called the housing differential. And there is Fannie Mae and Freddie Mac, of course, who, for decades, were really the primary instruments of government housing policy. And all of this support for the housing market was insulated from criticism because it was in the name of home ownership, and who could possible criticize home ownership?

So Fannie Mae, the older of the two companies, was born during the Great Depression, and its original role was to buy up mortgages that were made by the – by the VA and the –

and then the FHA. And the idea was that if Fannie bought these mortgages, then that would free up capital to allow for more government-insured loans to be made.

In 1968 Fannie was split into two companies. One, which was nicknamed Ginnie Mae, continued to buy up government-insured loans and remained firmly a part of the government. Fannie was allowed to do a couple of new things. It was allowed to buy conventional mortgages, ones that weren't backed by the government, and it was allowed to issue mortgage-backed securities – securities backed by – backed by mortgages. And in this – and eventually Fannie Mae sold shares to the public.

And in this process, Fannie Mae became this really odd creature. It was half government enterprise, with this vaguely defined, for a long time, social mandate to make housing more available to low- and middle-income Americans, and it was half private enterprise with shareholders, a board of directors and, really, the structure of a typical corporation – and this is really important – the demands from Wall Street and investors that go with a typical corporation.

The government never stood behind Fannie Mae's debt, but many people believed, and correctly, as that turns out, that the government would have to step in if there were a problem. And in all of this kind of weird stew lies the seeds of the – of the disaster that came.

But before we get to that, Congress also created Freddie Mac to buy up mortgages from the thrift industry. And again, the idea was that Freddie Mac's purchases of these mortgages would free up capital so that the thrifts could go out and make – and make more mortgages. People in Washington, as you all know, came to call Fannie and Freddie the GSEs, which stood for government-sponsored enterprises.

In a fascinating bit of history, Fannie actually almost went bankrupt in the early – in the early 1980s. And the guy who saved it, he's still a figure in Washington, a great tennis player and ferocious businessman named David Maxwell, and he made Fannie into this business machine.

But what he never changed, and this is another important point about Fannie Mae, was this incredible controversy that always hovered around Fannie, both because of its – Fannie's own actions and because of its very existence. In a lot of quarters, or at least in some quarters, and this would kind of come and go in waves, there was this ideological opposition to the – to the very existence of Fannie Mae, to the idea that government should be involved in the – in the housing market. Maxwell told me that there was what he called tremendous disdain toward Fannie, and he said all over Washington, there were people doing stressful, important jobs for not a lot of money, and here was this place, this grand place on Wisconsin Avenue where people didn't do work that was any more challenging and, by Washington standards, any more important, but by Washington standards, they made huge sums of money. He said he remembered taking his wife to a dinner party when he arrived in town, and he said, by the time she left, by the time they left, she was in tears and he was close. And Fannie does have these pretty grand headquarters. They've moved from these modest digs to this building that really resembles a giant mansion. And because the front section had been occupied by an insurance company, to build a back to match perfectly, Fannie had a brickyard open specifically just to supply the proper brick. And Maxwell said to me that to many people, it was a living symbol of power and arrogance.

One of the things that surprised me the most in the research for the book is that mortgage-backed securities were not a creation solely of Wall Street. And I always thought they were. There was these great stories – Lew Ranieri, Liar's Poker, Salomon Brothers back in the 1980s, this enormous source of profits and gambling on the street.

But for Wall Street to create mortgage-backed securities, they needed Fannie Mae and Freddie Mac. And this, to me, is a really key point about the housing market. They needed

Fannie Mae and Freddie Mac because investors never wanted to take credit risk, the credit risk that came with mortgages. They wanted – investors were willing to buy mortgage-backed securities, but they wanted to know that Fannie and Freddie guaranteed that the – that they would be paid, so they didn't have to do the analysis on these thousands of mortgages to make sure people could pay them. And that's one form of risk that comes with mortgages, is credit risks.

And the other form of risk that comes with mortgages is interest-rate risk, the risk that if you make a mortgage at one interest rate and rates change dramatically, you're going to end up with this big mismatch. And that interest-rate risk is basically what ended up killing the S&L industry.

Someone described mortgages to me as the most dangerous product in financial history, and that's actually true. And it's kind of an odd thing, because we all know what a mortgage is. Most of us have them. They seem kind of boring. But really, they're these fascinating, very difficult to value and to – and very, very dangerous, very dangerous creatures.

Anyway, when Fannie Mae – when the GSEs and Wall Street together had to change a bunch of laws in order to enable mortgage-backed securities back in the 1980s, it was this big battle between Fannie and Wall Street where Wall Street kind of tried to do Fannie in, and Fannie, which already was becoming politically powerful, emerged victorious from this – from this scuffle and went on to really dominate what was known as the conforming mortgage market. And it was the conforming mortgage market because it conformed to the standards that Fannie and Freddie – that Fannie and Freddie set.

But with this came this kind of attitude on the part of Fannie more so than Freddie that its critics were always out to kill it. And their – Fannie's former lobbyist, a guy named Bill Maloney (ph), told me that this was the vampire issue because it would sort of rear its nasty head up every once in a while, and so Fannie people always felt that they were – they were under siege. And their motto became, it's better to throw one brick too many than one brick too few.

And I think as part of that Fannie for a long time became one of the most feared companies, both on Wall Street and in Washington, for the – for the immense power it wielded. Maxwell's successor was a Democratic power player named Jim Johnson. The Washington Post once called him the chairman of the universe. (Chuckles.)

And as – and as Fannie Mae became ever more profitable and powerful, it also became more arrogant and high-handed. Years later, Dan Mudd, who was really Fannie's last CEO of Fannie in its old forms, said about the Johnson years, the old political reality was that we always won, we took no prisoners and we faced little organized political opposition. One guy who was a long-time critic who was former Republican Congressman Jim Leach said to me that Johnson built the greatest, most sophisticated lobbying operation in the modern history of finance. And some of Fannie's former lobbyists used to compare Fannie to the Oakland Raiders whose motto in the '70s was "just win, baby." (Laughter.) And it's hard to imagine now, given Fannie and Freddie's mounting losses, but Fannie became this incredibly political powerful financial machine, too.

And by the way, I talk mostly about Fannie; Freddie has its own story, but for a lot of years, Freddie was kind of Fannie's smaller sibling. So in the development of this market, I often tend to focus on Fannie to the – to the exclusion of Freddie just to – just to simplify things.

By the end of the decade, by the end of the 1990s, Fannie Mae was America's third-largest corporation ranked by assets, and Freddie was close behind. When you combine the two, the two GSEs had combined assets that exceeded in dollar terms the GDP of any nation except the U.S., Japan and Germany. There was even talk that 30-year GSE debt would replace 30-year U.S. Treasury debt. The companies were ranked number one and two on Fortune's list of the most profitable companies per employee. Fannie's stock price had soared. Its market value was $70 billion.

And to understand this, you have to understand a little bit about Fannie Mae's business model. The GSEs basically earn money from two sources. They got paid a fee for guaranteeing mortgages, for guaranteeing that the principal and interest would be – would be repaid on mortgages, and they started to amass this huge portfolio of mortgages. And it basically earned – because there was this perception that the government stood behind the GSEs, they could finance themselves very cheaply. And then they'd earn the interest rate that the mortgage paid, usually higher, and just basically collect the difference. And Alan Greenspan once referred to this as the big fat gap for sort of the kind of absurdly simple yet powerful moneymaking operation that this became.

And I think – and herein lies some more of the seeds of two companies' downfalls. They both became like a lot of companies in the United States that are publicly traded: extremely focused on pleasing Wall Street. That was meeting Wall Street's earnings expectations, plus the way to get your stock price to go higher; if you got your stock price to go higher, then you could earn a fortune from your stock options, so the whole market became oriented toward this game of pleasing Wall Street.

And there is this great quote from Frank Raines, who was – who was Fannie's CEO from 1998 until the end of 2004, and he said that – he promised that Fannie would be able to double its earnings per share between 1998 over the next five years. And it – Fannie's chief internal auditor said, by now everyone of you must have this number branded in your brains. You must be able to say it in your sleep; you must be able to recite it backwards and forwards; you must have a raging fire in your belly that burns away all doubts; you must live, breathe and dream $6.40, which was – which was the earnings targets. He said, after all, thanks to Frank, we have a lot of money riding on it, about which he was referring to the company's stock options.

But it's really strange when you pause to think about all of this, that these creatures could exist in what was supposedly the rational world of American business. And I say supposedly because American business and finance is often anything but rational. But there is something about this whole conception that never – this whole existence of Fannie and Freddie that never made any sense. I mean, who in their right mind would establish a company whose competitive advantage was based on a guarantee that wasn't written down anywhere and that no one could say for sure existed? And that's the premise on which Fannie and Freddie built these really huge profit machines. Their advantages were based in large part on the belief that – by investors that governments would never, ever let the GSEs default on their debt. And of course that didn't turn out to be true.

But there – under the surface there was – even during this decade of the 1990s when Fannie and Freddie were so powerful and profitable, there was this huge resentment against them and this growing resistance to them. But to criticize them was to be accused of being anti-home ownership. And no politician could be accused of being anti-home ownership. So it resulted in this really strange – this really strange dynamic, where by the early part of this – of the previous decade there were a group of people who were determined to take them on, from the Clinton Treasury, oddly enough, to Alan Greenspan to the Bush White House.

And it was – but their – the central part of their criticism was this belief that the interest rate risk in this huge portfolio and the derivatives that Fannie and Freddie used to manage it was going to end up taking the two companies down. And that criticism, by the way, turned out to be wrong. Nobody at that time was talking about credit risk, which is what did end up taking Fannie and Freddie down. But nonetheless, people are – were brave and ready to take them on.

The White House mounted this really – the Bush White House mounted this really stunning campaign against Fannie. I don't think there's anything like it in the history of

American business and politics, where the government becomes determined basically to destroy a single company. And some of the White House aides actually even called the operation against the GSEs "Operation Noriega," after the strategy that the U.S. used to roust Manuel Noriega from his safe house by playing really loud rock music. (Laughter.) Anyway.

But this wasn't because – and it's an important point here – it wasn't because the Bush White House was opposed to home ownership. Bush actually came out and said – he released right after 9/11 his Blueprint for the American Dream, of course, and it stressed the need for increased home ownership among minorities. And the administration's goal was to raise the number of minority home owners by 5.5 million by the year 2010. And Bush said part of be – part of being a secure America is to – is to encourage home ownership. So I make that point just to point out that on either side of the aisle, there – it's really hard to find anybody who came out and raised a question about the notion of – the notion of home ownership.

Anyway, this relentless focus on earnings growth really ended up costing Frank Raines his job. Fannie Mae ended up having to restate billions of dollars in earnings. And it was one of the largest accounting scandals in American history. Raines ended up being forced out of his – out of his job. And kind of a mark of how politicized and controversial this whole history is, you will still find people at Fannie and Freddie who basically say the whole scandal was made up by the government in order to bring – try to bring down Fannie Mae. And then there are other people who call this an absolute fraud and think there must be some conspiracy theory, that nobody at Fannie Mae or Freddie Mac ended up being criminally prosecuted for this. And it was really kind of this great divide of truth. And I find these sorts of situations really fascinating.

So I think you can and should conclude from all of this that Fannie and Freddie were deeply problematic companies. I think it's really problematic to have companies that have the imprimatur of the government but are still supposed to exist according to the demands of the market. But where I've never been able to get to, based on the facts, is the idea that they were responsible for the enormous growth in subprime lending. I did this really negative story on Fannie Mae in Fortune in 2005, as I had mentioned. And believe me, if I could have said after this that I was right, and I predicted the financial crisis, and Fannie Mae caused all of this, and tooted my own horn, I would have done so very happily. But I – but I never been able to get there among facts.

If you go back to the early 1990s, there were these – a lot of real changes, including the creation of mortgage-backed securities. And this really enabled a private market in mortgages to begin, a whole bunch of upstart entrepreneurial companies that began making mortgages that weren't guaranteed by Fannie and Freddie that they then sold to Wall Street and turned in – and Wall Street then turned these into securities.

And one of the first companies which – I love this story because a regulator at the – at the Office of Thrift Supervision later said about this company, called Guardian Savings and Loan – he wrote to a colleague in fall 2008 as the world was blowing up. He said: It started at Guardian; ground zero, baby. And this company was run by this flashy, aggressive couple called Russell and Rebecca Jedinak. And they told the Orange County Register at one point that their motto was: If they have a house, if the owner has a pulse, we'll give them a loan. (Laughter.)

And the idea was that if there was value in the home, it didn't matter if the person could pay their mortgage or not, because as the lender you could just take the home and sell it. And that kind of turned into this belief that you could make a loan to anybody under any circumstances, because hey, home prices only went up. So if the person couldn't pay, who – either they could always refinance into a new mortgage, or you had the value of the home. So this was risk-free lending, until it wasn't.

Anyway, so the Jedinaks sold the first mortgaged-backed securities that didn't have Fannie and Freddie's involvement. They ended up defaulting in spectacular ways, but problems in this market never really seemed to make a difference. By early 1991, federal regulators forced the Jedinaks out. The government later fined them 8.5 million (dollars). The Jedinaks went on to start another mortgage company called Quality Mortgage. This was sold to a company called Amresco, which was eventually sold to Lehman Brothers and became part of Lehman's subprime lending operation.

And right behind the Jedinaks there was this guy named Roland Arnall, who was this charismatic, secretive man. He started out selling flowers on the streets of Los Angeles. And he made his fortune from subprime lending. By 2005 he was one of the richest men in America, with a fortune estimated at $3 billion. And Roland Arnall's first company was a company called Long Beach Mortgage, that again made mortgages to people with less-than-stellar credit histories. And then those mortgages were securitized through Wall Street. And Long Beach Mortgage was sold to Washington Mutual in the late 1990s and later became kind of the engine of that company's destruction.

And again, just to pause here, investors – even with these less-than-credit-worthy mortgages, investors – without Fannie and Freddie's guarantee, investors still never wanted credit risk. And the way this worked is that Wall Street came up with a whole bunch of methods called credit enhancements: everything from getting insurance involved to, later, tranching mortgages so that you could create a whole bunch of classes of securities, from the supposedly very safe, rated AAA by the credit rating agencies, to the – to the not-so-safe. And that – the reason this worked was that it – the large majority of investors thought they were buying something that didn't – that didn't have any credit risk.

People have made a lot – and later (I have ?) a 1999 New York Times article that said Fannie was diving into subprime lending. But I think in – by Fannie's definition at the time, they started to do slightly riskier loans, but not the kind of loans that the private – purely private-sector companies were making on Wall Street.

You also hear a lot of talk that Fannie began to make these loans in order to satisfy these government-imposed affordable housing regulations. And starting in 1992 a regulator was set up for Fannie, and they had certain criteria – qualitative criteria about the number of mortgages they needed to guarantee that were made to people with lower incomes. But the truth of the matter is that these requirements were really easy to game. People at Fannie used to refer to the methods that they used to get around – get around really making these types of loans as "stupid pet tricks."

And if you go back to the late 1990s, there was actually this alliance between some Republicans and housing activists who said, wait, Fannie and Freddie don't deserve their special privileges because they don't do enough to help – to help affordable housing. And the funny thing about this was this morphed to become: Fannie and Freddie caused the crisis because they were doing so much for affordable housing. So there is – if you try to follow these trains of thought, there's actually very little consistency in them.

But what did happen is that the GSEs began losing market share to Wall Street really dramatically. They went from dominating this business – their share of the market was almost 60 percent in 2003. And their market share almost halved by 2006. As the housing bubble grew larger, more and more mortgages were being securitized straight through Wall Street, bypassing Fannie and Freddie. And Fannie and Freddie were earnings-driven, profit-driven companies. And they were under enormous pressure by investors to not let this market pass them by.

And it's fascinating – you can trace this through the history of one lender, which was Fannie's relationship with Countrywide, which became the largest mortgage originator in the country. In 2002 Fannie Mae bought over 80 percent of the mortgages that the Countrywide made – ended up being guaranteed by Fannie. By 2004 that had shrunk to only about 20 percent as Countrywide increasingly just went straight through Wall Street.

Shortly after Dan Mudd, who replaced Franklin Raines, became Fannie's CEO, he went to see Angelo Mozilo, and Mozilo told him, you're becoming irrelevant. You need us more than we need you, and if you don't take these loans, you'll find you could become even more irrelevant. So the strategy at Fannie became really to gain back market share. And in 2006, right at the peak of the housing bubble – the worst timing possible – they launched a strategy called Say Yes.

And they never did what Fannie Mae – (chuckles) – they never – Fannie and Freddie never did what they defined as subprime mortgages. But part of the tricky nature of housing finance is that there never was a definition as to what constituted a subprime mortgage. And what's risky in one person's eyes can be not-risky in another person's eyes. So this whole – this whole argument over what's subprime or not was always – was always a gray area.

But what Fannie and Freddie unmistakably did was two things. They began to buy the AAA-rated tranches, supposedly the safest tranches of the securities Wall Street was creating. And they did this really in order to gain their housing goals. Their housing goals over time became ever more onerous. And by buying these securities Wall Street had created, Fannie and Freddie were able to meet their affordable housing goals. And that whole thing is just such a shocking scam that it was able to happen. It's horrifying.

But the other thing Fannie and Freddie did was they started guaranteeing so-called Alt-A mortgages. And these were mortgages that were supposed to be safer than pure subprime mortgages. They were often low-doc or no-doc mortgages. And they were made to people who supposedly had better credit rating – better credit ratings than pure subprime, but they were, you know, just all sorts of funky stuff. And they ended up defaulting at, I think, pretty much – pretty much the same – the same rate.

But it's always been pretty clear to me that Fannie and Freddie didn't get involved in the worst of the worst mortgages. They did – they did the best of the worst. And I found this bit of testimony by a big subprime executive on Wall Street that I thought was fascinating. And it's a guy from New Century, which became the second-largest subprime lender. And he told Congress in 2004 that the country needed subprime lenders like New Century because he said that over 40 percent of New Century's loans were made on a stated-income basis. And he said, Fannie and Freddie have more stringent income-documentation guidelines.

And he also continued that, for transactions where people were just refinancing their mortgages, Fannie and Freddie Mac generally do not permit borrowers to exceed a 90-percent loan devalue ratio. We and other nonprime lenders allow borrowers to take out much more cash.

And so I thought that's kind of an interesting thing that sums up who was doing the worst of the worst, and the – and who was doing the best of the worst. And I tend to think of Wall Street and Fannie and Freddie's relationship as one of mutually assured destruction. If it hadn't been for Wall Street, the mortgage market probably wouldn't have changed the way it is. And the GSEs wouldn't have piled into these terrible loans.

But if it weren't for Fannie and Freddie, maybe Wall Street wouldn't have pushed so aggressively into this market in the first place because there would have been room for Wall Street in the – in the – in the conforming mortgage market. And without the GSEs buying up all these – all these tranches of the Wall Street-created product, the market might have created fewer bad loans. So that's why I get back to this – it's

– the crisis is everybody's fault. If you want to try to find a single actor and a single point – a point of blame, I just – I've never thought that the facts justify that. Of course, I always offer the caveat that I could always be wrong. (Chuckles.) There could always be an explanation I'm missing.

Anyway, but there's a little bit more sort of analytical proof that Fannie and Freddie didn't make the worst of the worst loans. And if you look at various categories of risky loans, the default on – the default rates on Fannie and Freddie back loans are often a quarter of the default rates on the purely private loans, which again would enforce or sort of reinforce this notion that Fannie and Freddie did the best of the worst, not the worst of the worst.

But I – but I think that, you know, too many people want to then sort of use this to exonerate Fannie and Freddie. And you know, in the end it doesn't really matter. They moved into risky mortgages, and by doing so they began to blur the line between what was considered a safe mortgage and what was – and what was considered a riskier mortgage. The whole definition of subprime used to be the stuff Fannie and Freddie wouldn't go near.

But one more – one more topic which I sort of want to pause on before we end is that this other – this other notion about the crisis that's become conventional wisdom is that somehow it was a crisis about home ownership. And so many people say to me when I give talks, this is what happens when you give people homes who can't afford them. But I think this is really important, that most other risky loans that were made were not about home ownership. These early companies that I talked about, like Guardian and Roland Arnall's Long Beach Mortgage – Arnall then went on to create a company called Ameriquest, which by 2004 was the largest subprime lender in the country. Ameriquest never actually offered home purchase loans.

And New Century, Long Beach Mortgage, all these companies – what they specialized in was cash-out refinancings, in which a borrower refinances their mortgage and takes out a larger mortgage and withdraws the difference in cash – cash that they can then use for medical bills, for spending, for home improvement, for whatever. And there's this fascinating email from Angelo Mozilo, the former CEO of Countrywide, and it's late December, 2006, just when the housing bubble is about to metastasize into this worst financial crisis since the Great Depression. And Mozilo sent an email to the board and his top lieutenants and he, you know, complained about the stunning disintegration in Countrywide's lending standards. And he also said that the purchase loans – loans that were used to actually buy a home – were just one-third of Countrywide's subprime business in 2006. This New Century executive actually told Congress in the mid-2000s that two-thirds of its business were cash-out refinancings.

And this continued. Overall, I found this fascinating analysis by a guy named Jason Thomas, who was a finance guy at George Washington University, that from 2000 to 2007, only one-third of subprime mortgages that were turned into mortgage-backed securities were used to purchase homes. And the rest of them, almost close to 60 percent, were used for cash-out refis. And the same general statistics hold true in the all-day (ph) mortgage, this category of mortgages that were supposed to be better than subprime mortgages. And economists at the Federal Reserve Bank of St. Louis noted that the percentage of borrowers who were using all-day (ph) mortgages to extract equity from their homes doubled between 2000 and 2006 to about 40 percent. And he wrote in a paper: In short, the growth in nonprime mortgages since 2000 has been fueled largely by households seeking to extract home equity during a period of appreciating home prices.

Then if you actually try to strip out – which is a much harder number, because nobody knows what this is – but the percentage of risky mortgages that were used not by first-time homebuyers but were used to speculate on the – on the increase in home prices – you get an even smaller number. And this guy who was the assistant attorney general in Iowa said that – and he did some analysis, and he said that in

2006, only between 10 (percent) and 15 percent of nonprime mortgages were used by first-time homebuyers.

So, in an admittedly totally nonscientific, sloppy journalistic assessment, my view is that if we had – if we had limited risky loans to first-time homebuyers, we never would have had a financial crisis. So stressing home ownership may or may not be a good idea. But saying that the financial crisis proves that it isn't, that's just not what the facts tell you.

What – so anyway, that brings us to where we are now, which is no one knows where we are now. (Laughs.) Not entirely clear. It's kind of fascinating. I was reading some stuff on the way down here, and the GSE's conservator, FHFA, says that it's basically mathematically impossible for the GSEs ever to earn their way out of conservatorship. And FHFA predicts that by the end of 2014, the taxpayers will be in the hole between 220 billion (dollars) and $311 billion. But separately, the president's budget actually predicts that by 2022, the GSE's black hole will only be $28 billion; that they'll have earned back a lot of this. So are the GSEs a black hole? Are they not? It depends on (games of ?) math and what you do in terms of your prediction of home prices in the future and lots of other – lots of other variables.

And it's really – you know, in some ways it's almost unfathomable that here we are almost four years after the grand finale of the crisis, and we still have no real sense of where to go with housing market reform either. But in some ways, I think that's actually totally understandable because it's really hard to figure out what the right solution is. Fannie and Freddie always said that if there were a problem in the mortgage market, the private market would desert the mortgage market. And I think that turned out to be true. I mean, where we are today is that over 90 percent of the mortgages that are made are guaranteed by the government, and there's no real sign that that's changing. And I really believe that if anybody tells you they know what will happen with certain directions we could go with housing market reform, they're lying, because no one knows.

I did an op-ed for The New York Times a few years ago on what might happen with housing market reform, and I said it would probably lead to the demise of the 30-year fixed-rate mortgage if we didn't have any government involvement in the housing market. And I got a bunch of responses from investors, people in the housing market, from absolutely right and that's a great thing to absolutely right and that's a terrible thing to absolutely wrong, that's not what's going to happen. And I realized there's just – there's really – there's no consensus around this. And it's unknowable for two reasons, and that's that the government has always been involved in the housing market in modern times, since the Great Depression. So how do we know what it would look like if the government isn't? And how do we know what appetite the private market really has for the interest rate risk, and more importantly, the credit risk associated with mortgages? Because they've never wanted that in history.

The other, you know, really – and so there's this, you know, great big question that hovers over the mortgage market. Do you need some kind of government guarantee, some kind of government involvement to have a well-functioning mortgage market? And the other thing I think you have to keep in mind when you listen to people talk about this: This mortgage market is a $10 trillion market. There's a reason that Fannie Mae and Wall Street fought back in the 1980s over the creation of mortgage-backed securities, and that's because there's a lot of money at stake in this market. And lots of people who talk and say they have a solution, have skin in the game. They – you know, they're talking their own book. And you add to that people talking their own ideology – and we all have it somewhere – and it becomes incredibly difficult to figure out sort of truth with a capital T underneath this.

There's definitely an argument to be made, I think, for a mortgage market that's devoid of government involvement, but I think we saw during the run-up to the crisis that the private market isn't always so great at policing the extension of credit either. And in the aftermath, with the scandals surrounding robo-signing and the fact that securitizations might not even have been done properly because the mortgages might not have been properly signed over to the trust, I mean, this is incompetence with a giant – with a giant "I" almost on the scale of Freddie and Fannie's involvement in the subprime market.

And then if you, you know, take this one step further and you say, if we put the mortgage market into the hands of "too big to fail" banks, how is that no government involvement in the mortgage market? I thought this was really fascinating when I read FHFA's latest report on Fannie and Freddie. They said there's actually no private sector infrastructure that's even capable of securitizing the hundred billion dollars in new mortgages that are being originated every month. I mean, we're really in some ways at square one in this. But I think if you do keep some government involvement in the mortgage market – and there are lots of different ideas out there, whether it's in the form of a utility function or in the form of, you know, explicit guarantees, it just lends itself to the risk that we'll repeat history all over again and that this will become politicized and that there will be pressure for loans to be made that shouldn't be made, that the companies that are doing this will gain political power. And I'd love to say that we learn from the lessons of the past, but that really has not been the history of the mortgage market.

So I think it's – I think it's just a really interesting conundrum and it's right now just centered on the (poor ?) Federal Housing Finance Agency. And I don't know if any of you in this room work there, but I think that would be just a thankless task and an extremely difficult one. (Chuckles.) I love this line from the FHFA's recent report: The lack of guidance about the outcome of conservatorship has been difficult for the agency and becomes harder with each passing day. (Laughter.)

And the – and you know, Congress needs – Fannie and Freddie are congressionally chartered. Congress needs to take action for something to change. But it's this nexus of all these complicated things. The FHFA has laid out steps to wind down the companies by increasing the fees that are charged to borrowers and shrinking the size of the mortgage that can be guaranteed. And the idea is that more borrowers will turn to private lenders. But as I noted, we don't know what the appetite of private lenders are for these loans. And then you have this other pressure coming from – coming at FHFA to get actually more involved in the mortgage market, more taxpayer money at risk, forgive principal – forgive principal, help do refinancings. And so it's just all these really fascinating crosscurrents.

On that note, I'll open it up to whatever questions you all might have. (Applause.)

MR. KESSLER: We have a microphone so – if you want to ask question. Any questions from – don't be shy.

MS. MCLEAN: I see him back there.

MR. KESSLER: Yeah, go ahead.

Q: It may be that I need to read The New York Times piece, but as far as the – whether there is a future for the 30-year fixed rate, do you have an opinion as to whether it is sensible for us to remain one of the two countries that has such a rate? Or do you see – and if not, do you see – what do you see as the way of alternatives?

MS. MCLEAN: You know, I don't know. It depends on what role we all think housing – what role home ownership should play in creating a better society. And there's never been – despite this great belief in home ownership, there's never been anything scientific that actually really says – I mean, it's appealing on all sorts of levels, right, that home ownership will lead to more stable communities and a more stable country and, you know, give people a stake in something. But there's nothing scientific that determines this is the case.

But if it is the case that you want more home ownership, then you probably do want a 30-year fixed rate mortgage, because that is by far – that's the most affordable way to purchase a home until it isn't – (chuckles) – until you have taxpayers having to bail out – bail out Fannie and Freddie, or some other government institution. But I think you – we definitely do become more a society of renters without a 30-year fixed rate mortgage. Is that a good thing? I'm not sure I can – I'm not sure I can answer that. So I'm afraid that's a fairly – a fairly – a fairly lame answer.

But I guess I think that government put money into all sorts of things that are in the name of creating a more stable society. And if this is something that actually does create a more stable society, maybe it's a good – maybe it's a good place for government's investment. But structuring that in a way that it doesn't become another monstrosity, I don't know.

MR. : I think the average 30-year mortgage is – I think they last nine years, I think.

MS. MCLEAN: Yeah. But that's another – it's another fascinating thing, because the last budget decades have been a period of falling interest rates. So in many ways you haven't needed a 30-year fixed rate mortgage. People have refinanced. But there's always this danger in taking history and extrapolating to the present. I'm not sure the next 30 years are going to be a period of falling interest rates. That's kind of difficult from where we – where we are today. And so that's going to change the dynamics in the mortgage market going forward too. So you draw on the lessons of the past – draw on the past to say, well, this is what the future is going to be. And I'm not sure that's – I'm not sure that's right.

MR. : Let me ask –

MS. MCLEAN: I see a hand up over there.

MR. : Oh, you know, go ahead – (inaudible) –

Q: Thanks. Hi. I imagine there are a lot of policymakers in the room or people who think very hard about policy solutions. And I hear a lot of doubt about what the best prescription would be right now to all of those problems. There are dozens of pieces of legislation that are introduced now being refinanced and – (inaudible) – principal reduction – all kinds of tactics that we can take. What suggestions would you have for policymakers, given all of the doubt that I'm hearing you articulate, if any?

MS. MCLEAN: So I – as a journalist, I specialize in coming to the scene of the accident after the accident and then saying, oh, here's what went wrong. (Chuckles.) In terms of predicting the future and advocating for policy solutions, I'm not – I'm not so good at that.

But I do – I guess I do think there are lots of smart people out there with lots of good ideas, but lots of people have – are talking their book, whether its investors who would like to keep the government involved in the mortgage market in some way so that they don't have to evaluate credit risk, or big banks who would like to have a bigger share of this business than they were able to have during the era – the era of Fannie and Freddie, smaller lenders who are terrified that without Fannie and Freddie, they'll have – or some sort of government involvement in the market – that they will be squeezed out of the market by the big banks. And there's just so many conflicting interests.

And then there's ideology, at base, about do you want the government involved in the market, or don't you? Is that – is that the right thing and the practical thing? So I guess I think that the – that the policy solutions are really complicated. And I kind of like this gradual FHFA approach that they're trying, which is to just sort of slowly increase the guarantee fee and shrink the size of the mortgages that Fannie and Freddie can guarantee and see what happens with the private market. And that feels like a sort of good way to start testing out where the – where the market goes.

In terms of the principal reduction issue, I think it's – I think it's really – it's really complicated. I tend to subscribe to all the analysts who say that with loan devalues over a certain ratio – I think it's 130 percent – that that's the biggest predictor of default that there is and that if we don't have some form of principal reduction, these defaults are going to plague us for years to – for years to come. And you layer on top of that this sense that people have rightly or wrongly that something very unfair happened during the bailout and you get political anger at a time when there's already a lot of anger. But how you do that in a way that a huge otherwise swath of the population doesn't say, but what about me? I think it’s really complicated. How’s that for a – (chuckles) – for a – for a no easy answer?

But I do think – I guess what I’m trying to get at is that nobody really – we are in unchartered territory in terms of – in terms of the housing market. So no one really knows what will happen with any direction that we take. But I do think it’s time for some kind of clarity. And if you establish clarity in a framework and you start going in that direction, then at least you’re not just in this morass, which is where we are today.

MR. : You talked – when you started, you talked about all the things that government has done historically to encourage home ownership and creating the GSEs, mortgage interest tax deduction, the special rates that SNLs would get. Do you think that if – turning back the way-back machine, if there wasn’t a mortgage interest tax deduction – let’s say, for example, there was a mortgage principal tax reduction –

MS. MCLEAN: Right.

MR. : -- so there was – that there was – if there was a subsidy anywhere in the – the government was providing to homeowners, it was about putting equity into your home rather than debt.

MS. MCLEAN: Yeah.

MR. : Do you think that that would have then changed the incentive structure so that maybe you wouldn’t have had people doing these cash outs, refis or you wouldn’t have even had some of these instruments created by the Countrywides, et cetera that were going to be, you know, very low on the down payments or interest-only loans. And do you think that would have mitigated the crisis?

MS. MCLEAN: I actually do. And back to this notion, which answers also your question in a better way about policy, I just don’t understand the synonymous existence of home equity loans that are encouraged by the government through the mortgage interest tax deduction and this focus on home ownership as a good thing. I mean, they’re completely at odds with each other. Either home ownership is a good thing that we should encourage, and then why encourage people to take debt out against your house? That's the opposite of home ownership. Or a home should be just a pure investment vehicle, in which case why have this government focus – (inaudible) – focus on home ownership?

So I do think it should be – it should be one or the other. And I'm not a big believer in the mortgage interest deduction for repeated – for repeated refinancings. I just – I don't understand why that – why that should play – should play any role. And I think that would go a long way toward fixing some of the problems that we – that we saw in the past.

You know, but in terms of the underlying issues here, I think there is a deeper one, which is that, you know, a large swath of the population needed to cash out equity from their homes in order to live and to contribute to the consumer spending that has driven our economy for a long time. And so there is this deeper issue underlying all of this of jobs and the future of the middle class and how you have a consumer-driven – a consumer spending-driven economy where a wide swath of people can't afford to spend unless they're withdrawing equity from something like their home. So all this ties into, I think – I think, much deeper issues.

MR. KESSLER: Thank you.

Yes.

Q: Thank you. So the news yesterday of J.P. Morgan and its $2 billion trading loss – I think that creates a sentiment up here that all of our actions or all of Congress's actions over the last couple of years may not have really changed very much at all. And I know this is broadening the discussion a little bit beyond just the housing market, but to financial reform generally. I know you think about that a lot. What's your view? I mean, has the culture of risk-taking, has that changed at all on Wall Street? Has what happened and the steps that Congress has taken in the last couple years, has that changed the practices and culture and risk-taking on Wall Street and then the financial system?

MS. MCLEAN: I don't – I mean, I'm not a big believer in the Volcker rule, at the risk of offending probably some in the room and perhaps Paul Volcker himself. (Laughter.) I think it's – I think it's a half measure. And I think it should be either-or. I think either let's have Wall Street as it is or let's go back to the days – you don't even have to go back to Glass-Steagall – go back to the days of so-called Section 20 subsidiaries, where banks had to keep their brokerage operations in a legally separate subsidiary. And to my mind, that seems like a great fix, because it would also remove this other sort of pervasive issue in the capital markets, which is the mispricing of loans so that banks can win other business, whether it's derivatives business or M&A business, so they misprice the loans they make and offer cheap money. And I think that's another sort of perversion in the markets that exist.

But I think a measure like the Volcker rule that, by definition in modern finance, has to be insanely complicated, is just going to lead to gaming of the rules. And that's precisely what J.P. Morgan was doing. They found a way to game the rules by having their office of the CIO engage in these trades that were supposedly a hedge for their (book ?) of business so it didn't violate the Volcker rule. But oh, my God, it turns out is it any different than proprietary trading when you could lose $2 billion? I don't – I don't think so. And you can bet that every firm on Wall Street was figuring out how to copy what J.P. Morgan was doing, because it didn't violate the Volcker rule. And it just shows to me what people tell me over and over again, which is that, you know, smart minds on Wall Street will find a way around just about any regulation. And as soon as one person finds a way around the regulation, everybody else is going to copy them and pile into that same loophole, thereby magnifying the risks – the risk exponentially.

And so I actually did a piece a while ago about what I feel is the lack of a coherent banking strategy. You know, we save the big banks in the bailout, and Treasury Secretary Tim Geithner has stood behind the banks saying, you know, they're not "too big to fail." Our banks are actually smaller than the banks in Europe and in Canada. This is a perfectly OK system. But then at the same time, there's this whole host of new requirements that are – that are – that are sort of cutting away at that.

And I think let's do either-or. Let's chop up the big banks, let's put – let's put Section 20 subs back in, or let's have the system we had leading up to the financial crisis, but let's have a clear strategy about what kind of banking system we want to have, instead of this big belief in the system as it is, with all these sort of things that are chipping away at it. Does that make sense? But maybe that's just my sort of either-or, math major brain – (chuckles) – that wants – that just wants clarity – clarity, whatever it is. So –

Q: Hi. I tend to look at a lot of what's happening with the downfall of the banking system in the context of innovation. You often hear a lot about – just generally speaking, about – excuse me – the power of innovation. And I was wondering if you could talk about whether a discussion about financial innovation is a healthy one, whether that be obviously good financial innovation, you know, the ATM –

MS. MCLEAN: Yeah.

Q: -- (inaudible) – credit card, underwriting standards, all the way to bad innovation. Is this – is this a discussion that we should be having –

MS. MCLEAN: Yeah.

Q: -- in the context of bank?

MS. MCLEAN: I ask – I think it's a great discussion to have, because there is this just very American notion that innovation has to be good. And Wall Street and the financial sector often takes refuge in this notion, well, if you do this, you're going to hurt innovation, you're going to hurt creativity. I tend to, on this, very much subscribe to Paul Volcker's line, which was: The last great innovation in finance was the ATM machine. And I think there's some truth to that. I think it's hard to look at the financial innovation that came at the height of the crisis and really say it's a good thing or a useful thing.

And this guy I really liked, who was a rating agency guy and then a critic of the rating agency – his name, Mark Adelson – said it in our book, "All the Devils are Here," and I really like this – he said: Finance is supposed to be the friction that makes society run. Another way to think of it is that finance is supposed to be the substrata of the world. It's supposed to enable businesses to do things and enable consumers to do things. But it's supposed to be friction. And as such, it's supposed to be a cost, but a – but a small cost. And if the friction is becoming our entire system, our entire economy, well, isn't that – isn't that a problem? And when you look at finance's growing share of GDP, it unquestionably has.

And I recognize, you know, this is kind of one person is from Venus, one person is from Mars sort of argument, because I was sitting with the senior guy at Goldman Sachs the other day and he said: I think that American finance is the greatest export we've produced in the last, you know, 30 years. And so that's the other view, that this – you know, these – this financial system that we've produced is a – is a wonderful thing that should be exported and shared around the world. But I think a real study of financial innovation and when it helps and when it hurts and what the limits are is fascinating, because it actually, despite my comment about the ATM machine, you know, it's not one thing or the other. And that's the – Wall Street's tendency is to have a really good idea and then push it a couple steps too far, maybe many steps too far.

So securitization is a really great idea, right? What could be better in terms of getting capital to American homeowners – having investors of China fund America's – fund the purchase of an American home? I mean, that's – it's – it was a great innovation. But it became – it sort of grew and became contorted and twisted and ended up perhaps not being such a great thing.

And someone once said to me – and I think this is true of all financial tools – he said: Securitization is like a hammer. It can be used to build a house or it can be used to kill someone. And maybe that's true of all financial innovation. It can be a really good thing that can be used to really good purposes. And somewhere along the line it can become a really bad thing that you – leads to pointless risk-taking that has no societal benefit. And I think some effort to figure out what those – what those lines are and how that – you know, the life cycle of a financial innovation – (chuckles) – would be really interesting.

MR. KESSLER: Yes, please.

Q: Since we are one of only two countries, as you pointed out, with the 30-year fixed rate mortgages, I'm wondering how other people or how other nations – (inaudible) – structure their housing policy.

MR. KESSLER: Did people hear that question?

MS. MCLEAN: How other nations structure their housing policy, which, to be honest, is getting beyond my knowledge base. And I – there's a lot of discussion about whether or not it's even relevant, because other nations, both geographically and sort of constitutionally, are so differently organized than we are. So there – people do point to other countries and say, well, France functions perfectly well without a 30-year fixed rate mortgage, why can't we do that? And then somebody else will say, yeah, but France isn't the United States for all of these reasons.

So it gets into – I hear both sides of the argument about whether other countries' systems really work better and whether they're – they can even be transferred to the U.S., even if you do believe that they work better, that Europe covered bonds to finance its – to finance its mortgages. So like I said, getting to the – (inaudible) – limits of my knowledge on this one.

MR. : I think the home ownership rates in Europe are, in general, far lower than they are in the United States.

MS. MCLEAN: They are. Yeah. That's important.

MR. : I think in Germany, I think, the home ownership rate's about 45 percent.

Q: Yeah. I'm kind of wondering about the details of that –

MR. : Yeah.

Q: -- because, like I mentioned, everybody needs a roof over their head, but how they do that – (inaudible) –

MR. : Right.

MS. MCLEAN: Right. Right. But there is – there is pushback on that from people who say that even if that's a good system, it's not – it wouldn't be – it couldn't be translated to the U.S., given our different capital markets, our different financial structure. I don't know if that's true or not. (Chuckles.)

MR. KESSLER: Thank you. Back here. Yeah. (Inaudible.)

Q: (Off mic) – you sort of mentioned, as an aside, the foreclosure crisis and there's a – there's a whole sort of spin around that. And well, I was wondering if you had followed or any thoughts on the national mortgage settlement that was announced, I guess, over a month or two ago? But just curious.

MS. MCLEAN: Yeah. I guess it seemed to me – it seemed to me to get a lot more press than perhaps it was – it was – it was worth. And you know, the whole idea, at least from what I can see from the administration's point of view, is that if you get banks doing the right thing, that will take on a life of its own. The servicers will then – you know, maybe they'll follow with more principal reductions and that the mortgage settlement is kind of the first – it's like the catalyst to get –

to get this moving. And maybe it will be or maybe it won't. The servicers have managed to defeat everybody's best hopes for them time and time again. So whether this turns out to be – to be meaningful, I don't know.

And there is that whole – you know, that whole notion, which I happen to subscribe to, that it's a – it's a – it's a cynical view of the world and a conspiracy theorist view of the world, but it makes some sense to me that any kind of principal forgiveness of first lien mortgages is another backdoor bailout of the banks who hold, I think, $400 billion in second lien mortgages on their books, mostly marked at face value. And then second lien mortgage is supposed to be – if the first lien mortgage is impaired, the second lien mortgage is supposed to be worth nothing. And the banks still have these booked at face value. And obviously if you forgive part of the first lien mortgage, you're helping the person pay their second lien mortgage. So to me, I actually subscribe to that conspiracy theory on this one.

And I think it remains to be seen on the – on the sort of servicer requirements part of the – of the settlements, whether the services are willing – the servicers are willingly or, frankly, even capable of investing – of following through on this. And it comes back to this whole notion for me, there's – you know, there's this belief that I – I mean, I have some where I have to admit that the private market should do things better. But then you look at just the absolute hash that they've made of servicing mortgages and just – I don't even think most of it is malicious, I think it's just incompetent. And it's incredibly frightening. You say this is the mortgage market we want, these are the people who are supposed to be motivated and capable? I don't know.

MR. KESSLER: Any other questions? (No audible response.) Well, let me just say, Bethany, we can see you – you're probably the only math major, English major in the world – (laughter) – (inaudible). Thank you very much.

MS. MCLEAN: I'm probably the only person who can talk that fast.

MR. KESSLER: Exactly. (Laughter.) Thank you for weaving just a very, very interesting story and shedding some light on the housing crisis. It was fascinating. I want to thank all the staff who came here today out of your busy week. I want to thank Third Way folks. Lauren Oppenheimer – can you stand up, please – from CMI, and David Hollingsworth – (inaudible) – (applause) – the event together, and even Luke and Ian carrying chairs because we had a large crowd, and of course, last, Andrew Feldstein, who is our CMI adviser and a Third Way trustee. Thank you very much, and we'll see you soon. (Applause.)

(END)