

Revisiting the 2000s Boom and Bust

Paul S. Willen

How Recent Research informs CRA
National Association of Affordable Housing Lenders
Washington, November 2, 2017

Disclaimer

- I am speaking today as a researcher and as a concerned citizen
- not as a representative of:
 - The Boston Fed
 - or the Federal Reserve System

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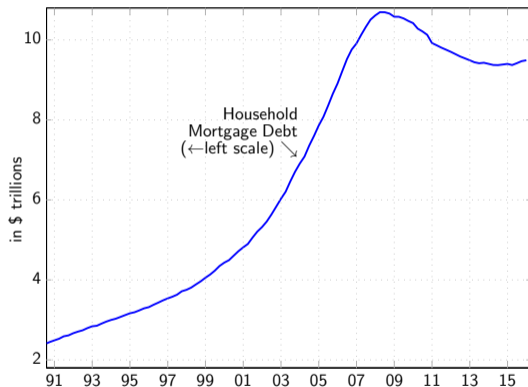
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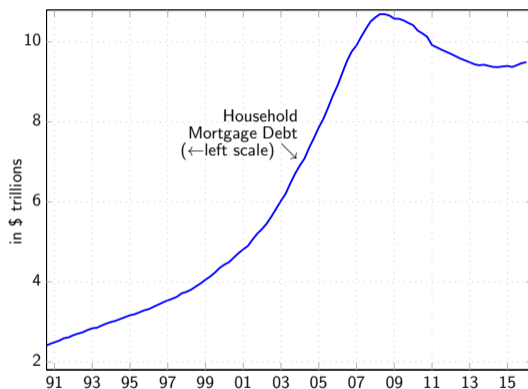
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Growth in Debt



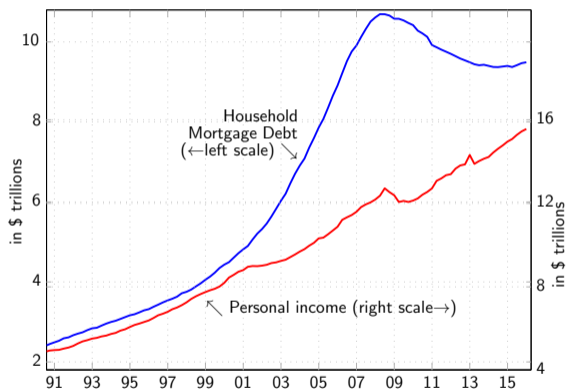
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- Not income
- Why?

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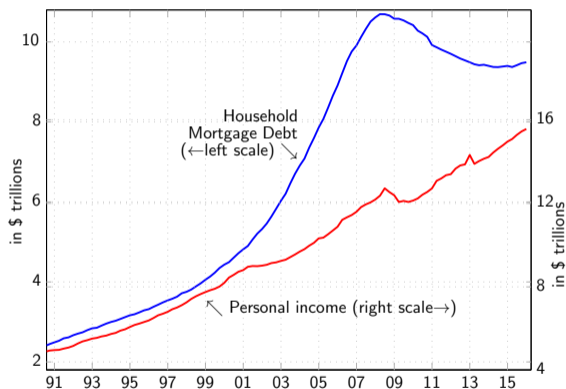
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Credit expansion narrative

- Narrative about boom and bust
- Credit expansion
 - Securitization? Moral Hazard? CRA? Bubble?
- Led to all kinds of craziness
 - Subprime
 - Low Down Payments
 - Low Documentation
- Allow previously “underserved” populations to borrow.
- Foreclosures disproportionately in poor neighborhoods

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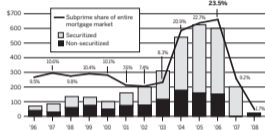
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Credit expansion narrative

Subprime Mortgage Originations

In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.

IN BILLIONS OF DOLLARS



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance

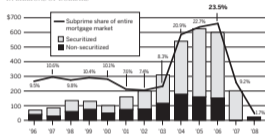
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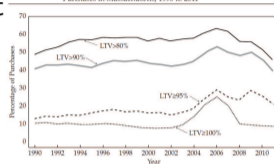


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FIGURE 6.6 / Distribution of Combined Loan-to-Value Ratios on Home Purchases in Massachusetts, 1990 to 2011



Source: Authors' calculations based on Warren Group (various years).

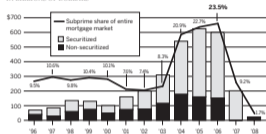
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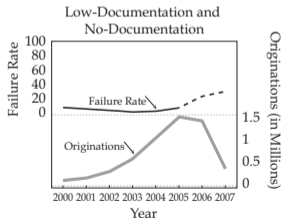
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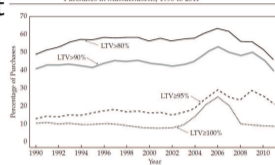
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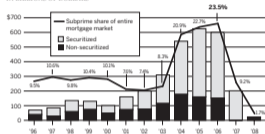
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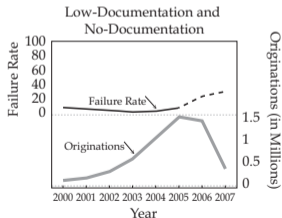
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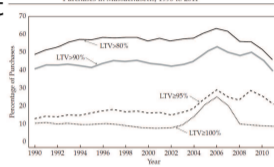
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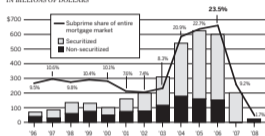
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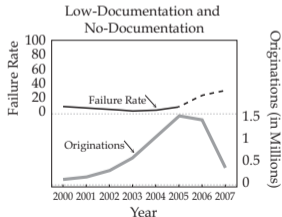
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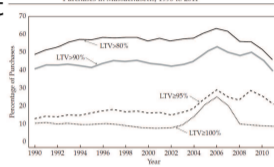


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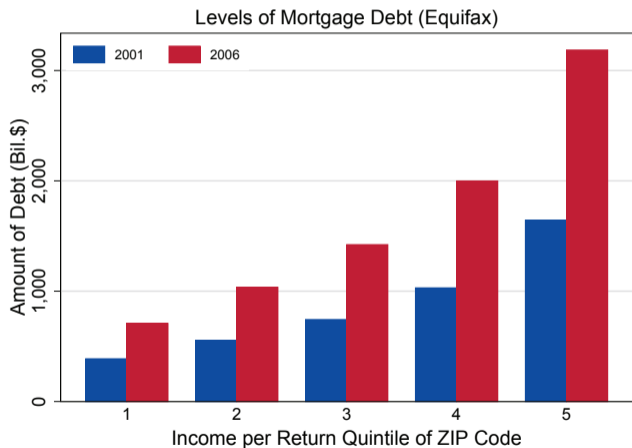
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FIGURE 3: SHARE OF MORTGAGES, WHERE FORECLOSURE PROCEDURES HAVE STARTED, 1979 TO 2007



Source: Mortgage Bankers Association, 2007, National Delinquency Survey, Washington, DC, 1984.

Most new debt went to high income households

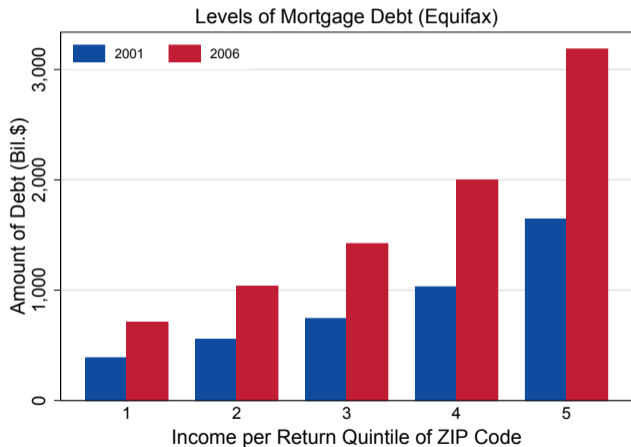


- Debt highly skewed toward rich people
- In 2006

Quintile	AGI	Riskscore
1	32	656
2	39	689
3	46	707
4	57	729
5	87	754

- In \$, most debt went to the rich.

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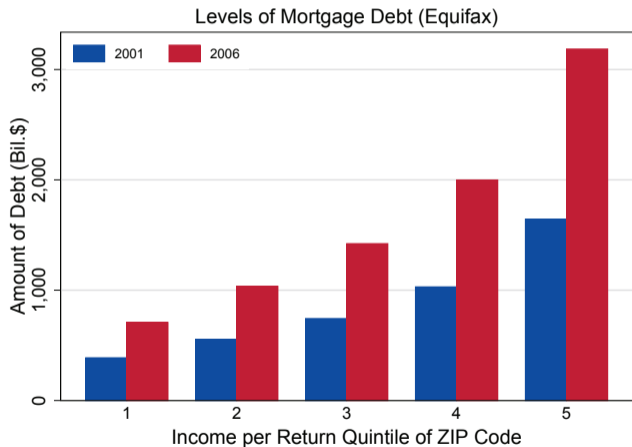


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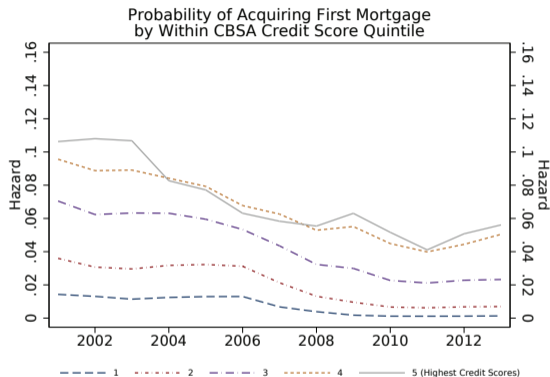


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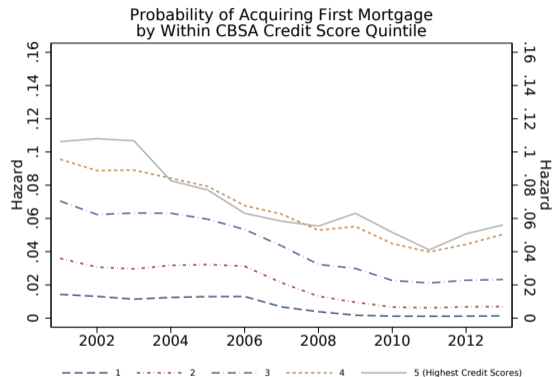
- “Extensive margin”

- As documented by Bhutta (2015), probability of first-time homebuying (mortgageship), actually went down.

Willen (FRB Boston and NBER)

- Subprime was mostly taking share from FHA
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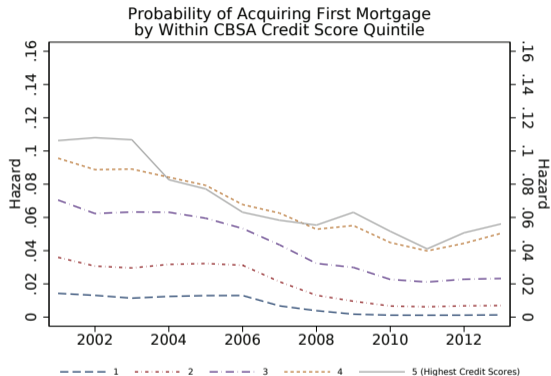


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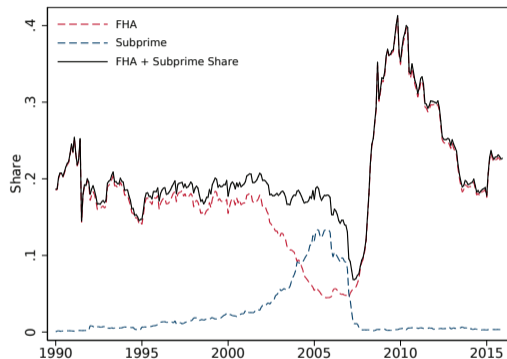
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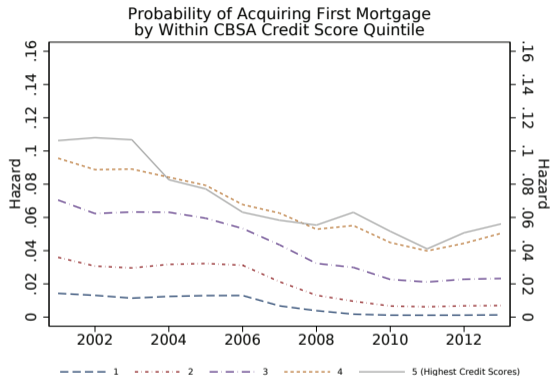
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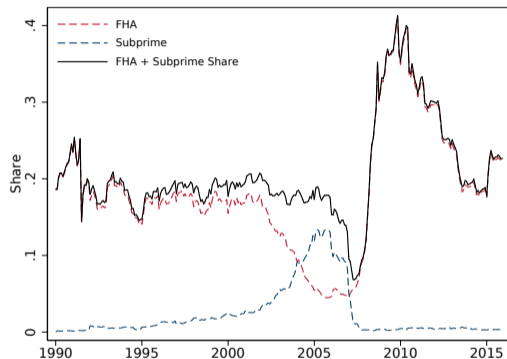
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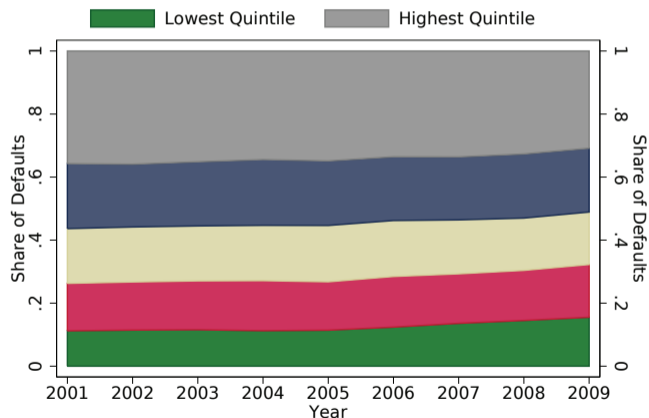
No change in distribution of defaults

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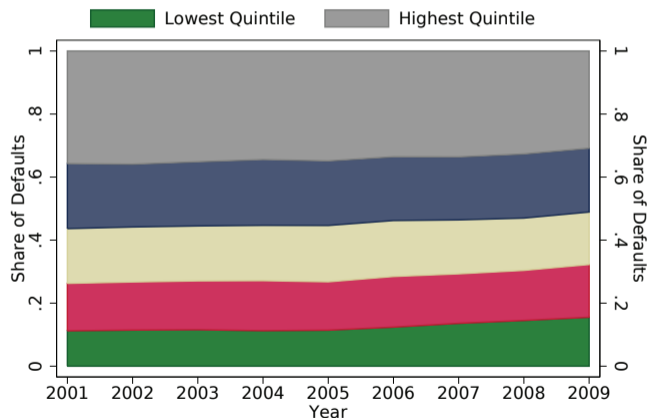
Within CBSA Quintiles of % < 660 Riskscore in 1999



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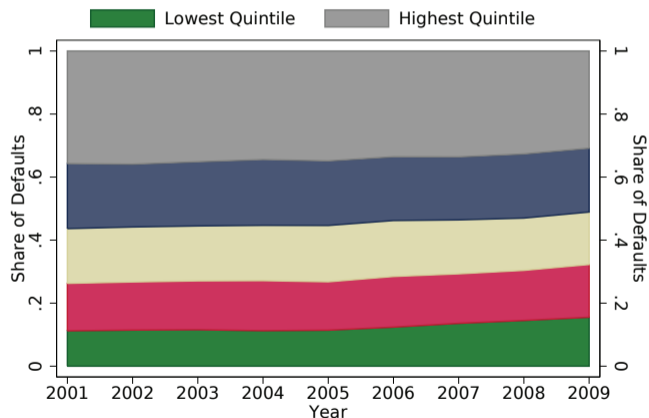
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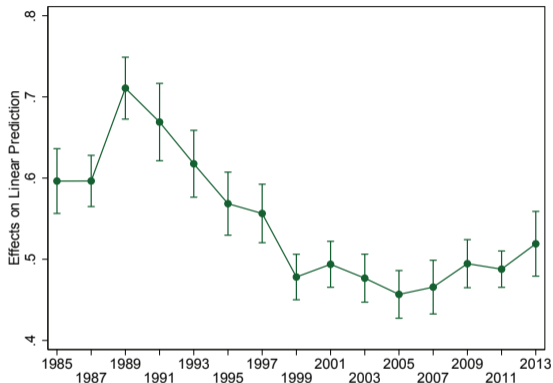
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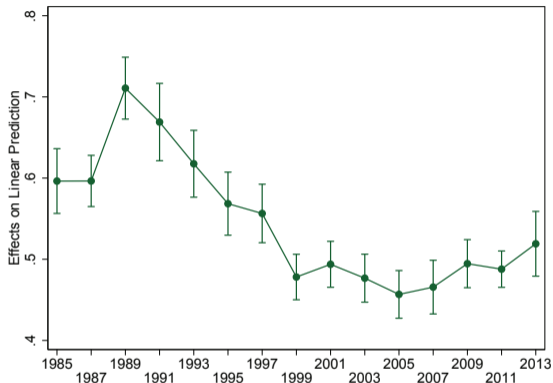
New Research: The credit expansion of the 1990s



- Sensitivity of mortgage size to income
 - Lower sensitive \Rightarrow credit expansion
- Credit expanded a lot in the 1990s but not in 2000s

- Timing of price bubble
 - *After* credit expansion had ended.

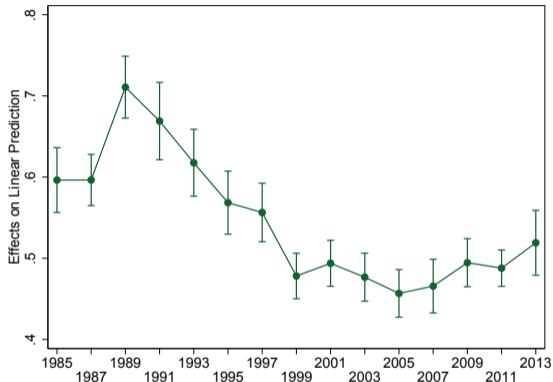
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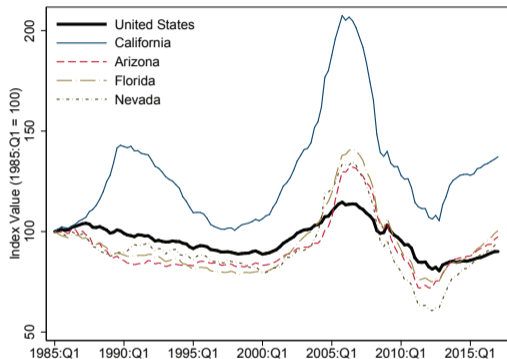
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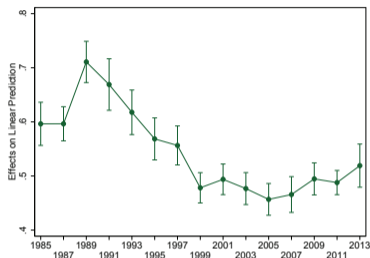


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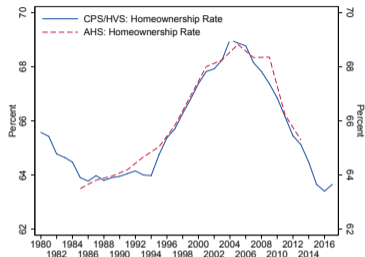
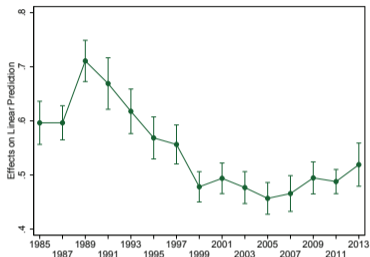
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Effects of a credit expansion: Homeownership



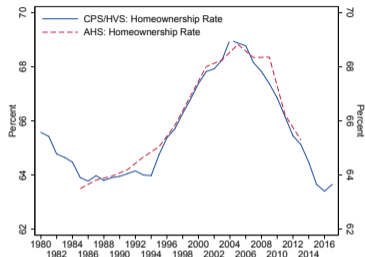
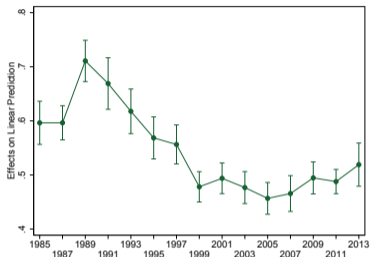
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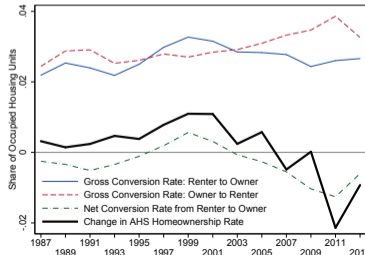


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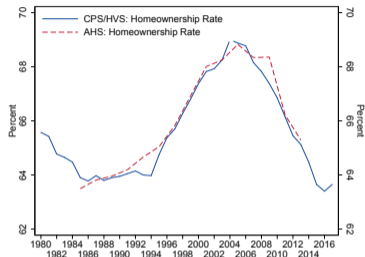
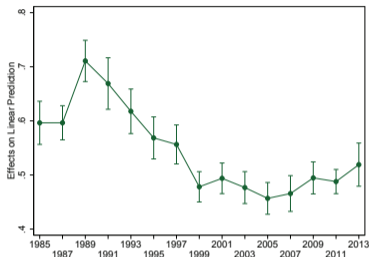
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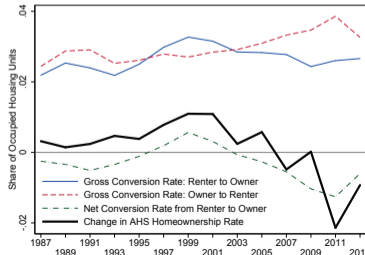
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