**No,… the Government did not cause the Housing Crisis**

(excerpted from Mike Konczal, The Washington Post, January 13, 2016)

**1. Private markets, rather than the GSEs, created the subprime mortgage boom.**

The subprime mortgage boom and the subsequent crash are very much concentrated in the private market, not the public market. Subprime is a creature of the private label securitization channel (PLS) market, instead of the Government-Sponsored Entities (GSEs, or Fannie and Freddie). The fly-by-night lending boom, slicing and dicing mortgage bonds, derivatives and CDOs, and all the other shadiness of the mortgage market in the 2000s were Wall Street creations, and they drove all those risky mortgages.

Here's [some data](http://thinkprogress.org/economy/2011/11/01/358482/bloomberg-mortgage-crisis/) to back that up: "More than 84 percent of the subprime mortgages in 2006 were issued by private lending institutions... Private firms made nearly 83 percent of the subprime loans to low- and moderate-income borrowers that year."

As University of California, Irvine law professor David Min [has argued](http://rortybomb.wordpress.com/2011/07/19/some-thoughts-on-tyler-cowens-points-on-the-gses/), saying the government directly created either the housing bubble or subprime loans has a serious problem with the timing. "From 2002-2005, [GSEs] saw a fairly precipitous drop in market share, going from about 50 percent to just under 30 percent of all mortgage originations. Conversely, private label securitization [PLS] shot up from about 10 percent to about 40 percent over the same period. This is, to state the obvious, a very radical shift in mortgage originations that overlapped neatly with the origination of the most toxic home loans."

**2. The Community Reinvestment Act and the GSE's affordability mission didn't cause the crisis.**

Many conservatives argue that the "affordability goals" of the GSEs, as well as the Community Reinvestment Act (CRA), which was created in the 1970s to make sure poor communities had access to credit, either directly or indirectly led to subprime loans.

[Research](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4136) from the Federal Reserve by Neil Bhutta and Glenn B. Canner (helpfully summarized in this [Randy Kroszner speech](http://www.federalreserve.gov/newsevents/speech/kroszner20081203a.htm#f3)), argues that the CRA couldn't have been behind the subprime and housing bubbles. "The very small share of all higher-priced loan originations that can reasonably be attributed to the CRA makes it hard to imagine how this law could have contributed in any meaningful way to the current subprime crisis." *Only six percent* of higher-priced loans (their proxy for subprime loans) were extended by CRA-covered lenders to lower-income borrowers or CRA neighborhoods.

[A recent paper](http://www.nextnewdeal.net/rortybomb/what-does-new-community-reinvestment-act-cra-paper-tell-us) found that while the CRA might have introduced slightly larger risks in lending portfolios, extra loans done to meet CRA compliance weren't more likely to have higher interest rates, lower loan-to-value, or be balloon/interest-only/jumbo/buy-down mortgages, or hold other subprime characteristics. So it is unlikely that the CRA was priming the pump for subprime, or subtly encouraging subprime mortgages to be made by private lenders.

Jason Thomas and Robert Van Order's [research](http://business.gwu.edu/creua/research-papers/files/fannie-freddie.pdf)argues that subprime loans were only 5 percent of the GSEs' losses. The GSEs' affordability mission led them to buy the highly rated tranches of mortgage bonds, for which there was already a ton of demand and were not essential to the completion of the deals.

**3. There's a lot of research to back this up and little against it.**

The United States' housing market is one of the most intensely studied capital markets in the world. What has other research found? [From Min](http://www.americanprogress.org/issues/2011/07/wallison.html):

*Did Fannie and Freddie buy high-risk mortgage-backed securities? Yes. But they did not buy enough of them to be blamed for the mortgage crisis. Highly respected analysts who have looked at these data..including the*[*nonpartisan Government Accountability Office*](http://www.gao.gov/new.items/d09782.pdf)*, the*[*Harvard Joint Center for Housing Studies*](http://www.jchs.harvard.edu/publications/finance/UBB10-1.pdf)*, the*[*Financial Crisis Inquiry Commission majority*](http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_conclusions.pdf)*, the*[*Federal Housing Finance Agency*](http://www.fhfa.gov/webfiles/16711/RiskChars9132010.pdf)*, and virtually all academics, including the*[*University of North Carolina*](http://www.ccc.unc.edu/FannieFreddie.php)*, [Glaeser et al at Harvard](http://www.economics.harvard.edu/faculty/glaeser/files/Glaeser_Cheap_Credit.pdf%22%20%5Ct%20%22_blank), and*[*the St. Louis Federal Reserve*](http://research.stlouisfed.org/conferences/gse/Van_Order.pdf)*[also*[*here*](http://research.stlouisfed.org/wp/2012/2012-005.pdf)*], have all rejected the Wallison/Pinto argument that federal affordable housing policies were responsible for the proliferation of actual high-risk mortgages over the past decade.*

**….**

**5. The government policy that likely made an impact were deregulatory actions.**

In 2000, Congress [passed the](http://makemarketsbemarkets.org/modals/report_derivatives.php) Commodity Futures Modernization Act, which deregulated the derivatives market, in a lame duck session as a rider to an 11,000 page omnibus appropriation bill. A banking capital "recourse rule" [in 2001](http://rortybomb.wordpress.com/2009/09/23/did-regulation-cause-the-financial-crisis/) allowed the ratings agencies and private bank risk modelers to decide what banks should hold against risk. In 2003 the [OCC preempted](http://rortybomb.wordpress.com/2010/03/01/cfpa-i-preemption-or-what-a-bad-cfpa-would-look-like/) and overruled Georgia’s new anti-predatory lending laws. Alan [Greenspan refused to](http://online.wsj.com/article/SB118134111823129555.html) enforce regulations on, or even investigate the wrongdoing of, the new subprime market during the 2000s. The 2005 bankruptcy reforms in BAPCPA, widely viewed as friendly if not written by the financial industry, [codified the market practice](http://rortybomb.wordpress.com/2010/05/06/an-interview-about-the-end-user-exemption-with-stephen-lubben/) of letting derivatives go to the front of the line in bankruptcy, helping create the conditions for shadow banking runs.

These government actions all fall under the rubric of deregulation, or "letting the market decide" how to manage the rules of the financial sector, and they are more relevant to the actual crisis…