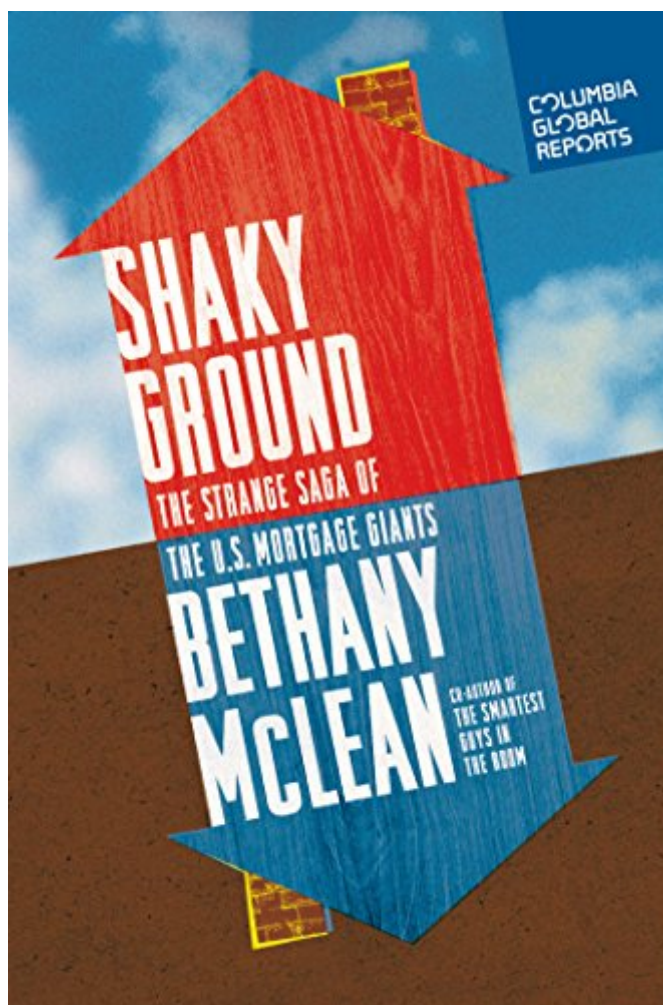


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# Shaky Ground: The Strange Saga Of The U.S. Mortgage Giants



## Synopsis

In a way, the situation is ironic: housing was at the root of the financial crisis, and six years after the meltdown, housing finance is still the greatest unsolved issue. The U.S. housing market is roughly \$10 trillion, making it one of the largest segments of the bond market. Roughly 70 percent of the American population has a mortgage, and for most people, the mortgage is the most important financial instrument in their lives. But until the financial crisis, few people knew the essential role that Fannie Mae and Freddie Mac play in their mortgages. Given the \$188 billion government bailout of the two firms; the most expensive bailout in history; the politics surrounding housing are worse than they've ever been, and the two gigantic firms sit in limbo. Best-selling investigative journalist Bethany McLean, the coauthor of *The Smartest Guys in the Room* and *All the Devils Are Here*, explains why the situation is dangerous and unsustainable, and proposes a few solutions; from the perfect, but politically unfeasible to the doable, but ugly.

## Book Information

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## Customer Reviews

This would have to be one of the best books I've ever read. Not exactly for the reason you would think though. This book belongs in the hand of every teenager or adult that plans on being involved more in our political system (this should be everyone). The only way this whole saga could have continued for 7 years as of today (Happy Anniversary!), is because of a decayed political system we are in. So many things could be improved in our housing system, yet the politicians and special interest groups have to spend all their efforts fending each other off, instead of fixing the problems. Bethany expertly puts together the real world facts that provide the best example by far of what broken politics is doing to our country. I don't think it was her goal, but that's what you get when you lay out the facts in this debacle. So for anyone out there looking for an exciting way to care more about our political system, this is it. This story is what got me off the bench. Hopefully, this gets in the hands of a bright, young star with fresh ideas that has what it takes to better the system. As far as the housing specifics in this book, it was fabulous. This is about as close as you can get to a 50/50 non-partisan look at the GSEs. It's almost impossible to do, because there really is no middle ground in all of this. The book lays out the facts quite nicely and leaves both sides evenly wanting to tell much more of their story. That's what makes it a book for the masses though, not a manifesto. I highly recommend this book to anyone and everyone. I consider it required learning.

This is a very brief (161 pages) update on the status of Fannie Mae and Freddie Mac, 6 years after the federal takeover. Nothing has really changed, which is the author's point. They clearly were at the center of the financial crisis, and all of the other major financial institutions that also were have changed dramatically; why are the GSEs still sitting in limbo? The reason turns out to be that Congress can't agree on what the fix should be, or can't bite the bullet and face up to the needed changes. Progressives want the subsidy of affordable housing maintained; free market believers want it ended; good-government moderates try to craft a compromise solution but the ideologues won't compromise - same old, same old. Meanwhile the Treasury keeps draining all the money the GSEs bring in, and the amount is so large that no one in D.C. wants to see it disappear. So the status quo continues. McLean is best at laying out where the various politicians, ex- White House officials, interest groups, etc stand. She also shows a fair appreciation of the wrong done to holders of stock in the entities by the government's over-reaching once it took them over. It struck me as a fairly balanced presentation of the issues and where people stand on them. The book is written at a business-magazine level, not a single chart or graphic, very easy to read, a lot of material digested for the reader. At the same time, not an enormous amount of fresh insight.

Brilliant and concise overview of what has happened to mortgage giants Fannie Mae and Freddie Mac since the financial crisis. I'm retired from high-level positions in handling mortgage portfolios, and it's my considered professional opinion that Bethany nails it on the key financial and political issues. She has a very accurate perspective on the role of these giants both before and after the conservatorships. I'm more concerned than ever after reading this that the government's housing policies distort markets and unnecessarily drive/limit the lifestyle choices of individuals. It's a great book and a quick read on issues that have been out of the mainstream awareness for several years now.

Bethany McLean has done it again. Her *Shaky Ground* is another expression of concern about mostly silent issues that have the capacity to spawn economic catastrophes with adverse global consequences. Her concern for the lingering "conservatorship" status of Fannie Mae and Freddie Mac is a quick and worthy read, not only to understand the substantive issue per se, but also as a compelling call to remedy our national tendency to prefer reactive over proactive approaches to addressing major policy concerns. As someone who has spent 50 years in higher education along with 40 years as an arbitrator I was struck over a decade ago by McLean's ability to reduce complexity to simplicity by asking and informing the right question. Teaching is at its best when the methodology is Socratic and the resolution of conflict is best achieved by correctly framing the core issue and informing a dispute between parties or interests rooted, at best, with incomplete information or, at worst, with discounted information shrouded in ideology. The Fannie and Freddie issue beckons an independent call to frame and inform the issue and Bethany does so in *Shaky Ground*. Why does it appear Bethany McLean is so preoccupied with topics she may know little about? As an academic, I am inclined to conclude she remains the intellectually curious student every teacher prizes. Her experience with Enron offers excellent evidence to show that Fortune assigned her to the story as a young writer because they assumed the easiest story to write is the story about success. Upon reflection and ironically, it is reasonable to assume her Enron discovery evolved mostly from her lack of understanding. It was McLean's relative inexperience in the financial sector—a background formed mostly as an admittedly unique English and Mathematics collegiate major combined with a relatively short experiential learning opportunity with Goldman Sachs—that prompted her to ask Enron leadership the simple and seemingly innocent question most seasoned financial sector professionals would never think or have the courage to ask: "How exactly does Enron make its money?" When

the response was silence, McLean wondered whether the story may be more about failure than success. Bethany McLean's work, *Shaky Ground* included, is an excellent example, especially for students, of how to merge poetry and prose's rhetoric and data in the quest for understanding risk-laden situations in need of intervention before they cast devastating harm. However, her work is also worthy of attention by professionals, both financial practitioners and regulators. It is members of that audience who often find themselves so steeped in financial sector culture that reading McLean's work offers a back to basics exercise in renewing one's capacity to think and act analytically and critically in the same manner that a morning visit to the gym is a fundamental exercise in sustaining one's physical fitness. McLean's disciplined manner of writing is especially important in this age of transforming and waning journalism especially in regional and local markets where the economics and organizational disruption of the news sector is profound. But, her methodology is also important to the quest to address seemingly marginalized, but important national issues with global significance. Pause to think, in this October 2015 moment, how much our journalistic discourse is dominated throughout the day by reporting on what appears to be a celebrity-centric fascination with Presidential aspirants while the traditional and important role of investigative journalism—a role critical to the importance of shedding light on the darkness of power in public and private/national and global settings—appears to be waning or distilled to repetitive investigations in search of air time over truth. Also, reflect upon how often we find ourselves looking back on harmful economic events admitting that "if we had only known" or "Surely, we saw the risks associated with sub-prime mortgage practices at least a decade before the 2008 economic debacle with the repeal of the Glass-Steagall Act, the emergence of little understood mortgage-related financial products, and the failure of credit agencies to adequately define risk. And, yet we did little until we had to and with all the harmful consequences such inaction caused and still causes. Sadly, the tragedy of September 11, 2001 offers ample evidence of the importance of investigative journalism when one considers Federal officials at the highest levels were seemingly surprised by the event as evidenced by the testimony of one official who said "no one could have predicted that they would try to use an airplane as a missile" despite evidence of years of similar attempts in various parts of the world as well as the existence of training programs designed specifically to counter such offenses. Bethany McLean's ponderous and questioning style and signature are once again clear in *Shaky Ground*. She is faithful to what she claims to do by calling attention to her

concern about the fragility of government-sponsored enterprises, aka GSEs, when she says: “I don’t think everyone should agree with me. But I do think everyone should care. What I have tried to do in this book is to lay out the facts in a way that I hope will help readers think about the issues and make up their own minds.” And, she succeeds. Bethany does seem to stray a bit from her quest to call attention to the risk intensive mortgage market exacerbated by the GES model, when she suggests that one approach to eliminating the risk posed by mortgage GESs is to find a way to eliminate our national preoccupation with home ownership. Ouch. The wisdom of home ownership as a government backed cornerstone of our economy is a vestige of FDR’s heroic initiatives to mend the Great Depression (though the economic multiplier effects of WWII are often overlooked) and it has come to be viewed as a fundamental social right in much the same way that Social Security has become and healthcare will become. Yes, young people are more diverse with many impeded from entering the house-centric world of suburbia by the effects of lingering segregation and a shrinking middle class increasingly comprised of people of color and single women devoid of both the financial capacity and the communal welcoming suburbia should afford. And yes, young people are more mobile – in part because they are young and in part because, unlike their parents, they are not likely to have 40 year careers with the same firm in the same place, but are likely destined to become corporate nomads – even virtually. But, the price volatility of the rental market – especially in large urban areas, surely NYC – when combined with family-centric points in one’s life cycle is likely to sustain the importance of home ownership. In her ponderous way, Bethany McLean does seem to tilt in the direction of thinking that Fannie and Freddie cannot be allowed to simply fade away, but have to be reformed – even perhaps with different branding – if home ownership and its economic spillover effects are to be sustained. In doing so she seems to be mimicking Fiddler on the Roof’s Tevye and his unending “on the one hand, on the other hand” interrogatories in search of the truth when it comes to a choice between family and tradition. If so, it sounds like Bethany McLean may have tripped over another unanswered question that she is yet to understand. Hopefully, we can stay tuned for her next book and the revelations, some still unresolved, it is likely to offer.

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