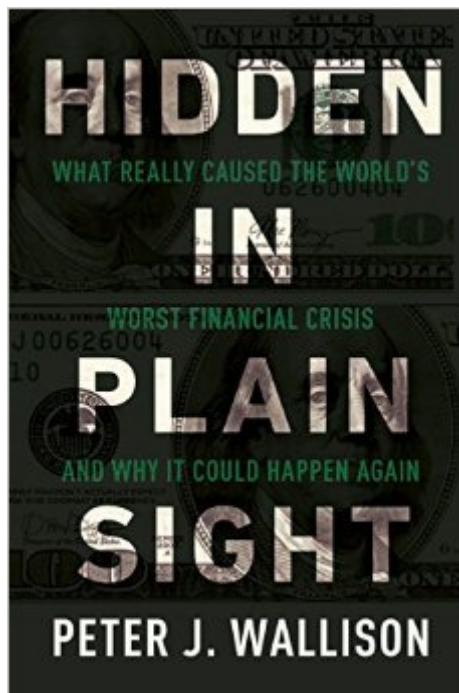


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Hidden In Plain Sight: What Really Caused The World's Worst Financial Crisis And Why It Could Happen Again



Synopsis

The 2008 financial crisis¹, like the Great Depression², was a world-historical event. What caused it will be debated for years, if not generations. The conventional narrative is that the financial crisis was caused by Wall Street greed and insufficient regulation of the financial system. That narrative produced the Dodd-Frank Act, the most comprehensive financial-system regulation since the New Deal. There is evidence, however, that the Dodd-Frank Act has slowed the recovery from the recession. If insufficient regulation caused the financial crisis, then the Dodd-Frank Act will never be modified or repealed; proponents will argue that doing so will cause another crisis. A competing narrative about what caused the financial crisis has received little attention. This view, which is accepted by almost all Republicans in Congress and most conservatives, contends that the crisis was caused by government housing policies. This book extensively documents this view. For example, it shows that in June 2008, before the crisis, 56 percent of all US mortgages were subprime or otherwise low-quality. Of these, 76 percent were on the books of government agencies such as Fannie Mae and Freddie Mac. When these mortgages defaulted in 2007 and 2008, they drove down housing prices and weakened banks and other mortgage holders, causing the crisis. After this book is published, no one will be able to claim that the financial crisis was caused by insufficient regulation, or defend Dodd-Frank, without coming to terms with the data this book contains.

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The analysis here of causes of the 2008 financial crisis is wholly persuasive, well-documented, and

clearly written. The crisis began with the Federal Government's desire to "help" low-income Americans borrow money in order to buy homes they could not afford, and it did so by making such loans directly through the FHA or through the government-sponsored entities (GSE) or banks Fannie and Freddie. The creation of these sub-prime loans accelerated in the 1990s through the efforts of various community activist organizations such as the now defunct ACORN, for which President Obama used to work, and the United States Department of Housing and Urban Development (HUD). HUD, spurred on by community activist organizations, began requiring Fannie and Freddie (and mainstream banks) to make an increasingly large percentage of their loans to individuals without any down payment, bad credit histories, and low income. Fannie and Freddie were fully complicit with these directives because they realized very early that the way to insure their special Government status and the resultant low-cost funding was by taking on sub-prime loans, thus making them untouchable to Congress, which wanted to encourage such loans for the purpose of "social justice." What makes Fannie and Freddie especially culpable in the crisis is that, because they were free to define a subprime loan using their own arbitrary definitions, their financial statements listed almost no such loans, when in fact about half their loans, many millions of loans, were subprime. They deceived the public and the government because they wanted to keep receiving the government funding that paid their rich salaries and profits, with no thought of the possible consequences.

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