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Essays







CAUSE AND EFFECT: GOVERNMENT POLICIES AND THE FINANCIAL CRISIS

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ABSTRACT

The underlying cause of the financial meltdown was much more mundane than a “crisis of capital markets.” The failure of the regulatory system was not the primary cause of the crisis. The underlying cause of the crisis was the failure of the regulatory system to prevent the excessive borrowing, and the resulting credit crunch, which led to the collapse of the housing market and the subsequent financial crisis.

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Notes

1. See the extensive discussion of the Community Reinvestment Act's development in Hossain [2004](#).
2. Quoted in Mason [2007](#). The National Homeownership Strategy was removed from the Department of Housing and Urban Development website in 2007.
3. [Economagic.com](#), "Economic Time Series Page: US: Average Price of Houses Actually Sold," www.economagic.com/em-cgi/data.exe/cenc25/c25q07. The average price of homes sold increased from \$153,500 in the fourth quarter of 1995 to \$322,100 in the first quarter of 2007.
4. Federal National Mortgage Association, Fannie Mae's 2007 Annual Housing Activities Report, 5. Washington, D.C.: Department of Housing and Urban Development, 17 March 2008, <http://170.97.167.13/offices/hsg/gse/reports/2007aharfnmanarrative.pdf>
5. Federal National Mortgage Association, "2008 Q2 10-Q Investor Summary," 8 August 2008, 29-30, www.fanniemae.com/media/pdf/newsreleases2008_Q2_10Q_Investor_Summary.pdf; and Federal Home Loan Mortgage Corporation, "Freddie Mac Update," 30 August 2008, www.freddiemac.com/investors/pdf/files/investor-presentation.pdf
6. Joint Center for Housing Studies, The State of the Nation's Housing 2008, 39. Cambridge, Mass.: Harvard University, 2008, www.jchs.harvard.edu/publications/markets/son2008/index.htm
7. Ibid., 37.



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