

## **Reflection on the Housing Market**

**By Karl E. Case**

**For the last few years we have shed many tears**

**Living through a recession**

**The economy's broke and it's not a joke**

**When we talk of another depression**

**Fifteen million without a job**

**Foreclosures and banks that fail**

**401k's became 201k's**

**And everything's up for sale**

**How can it be? What didn't we see**

**That led to all of this trouble?**

**There is little doubt that the proximal cause**

**Was a bursting housing bubble**

**But other than that who can we blame?**

**And what do they lament?**

**Millions of people contributed to**

**This hundred year event**

**For me it began in '76**

**With a house on Cleveland Road**

**At 54 thousand, I thought it a lot,**

**For a small three bedroom abode**

**But 10 years later that very same house**

**Would sell for four times the price**

**I was glad that I bought...I remember the thought**

**"this may not be fair but it's nice"**

**In Boston alone, that boom created  
100 billion in wealth  
We spent more, saved less, and I have to confess  
It was good for our mental health  
We had to know that it couldn't go on  
Someday prices would fall  
We knew there were risks – to ourselves and our fisci  
If those prices were ever to stall**

**It all began in 2001  
911...the dot.com bubble  
The Fed had to act because of the fact  
A recession would mean big trouble  
So the Fed Funds Rate, sitting just below eight  
Was cut to under two  
And you had to know with rates so low  
That a refi boom would ensue**

**The volume of mortgages written back then  
Stunned imaginations  
In a single quarter in 2003  
A Trillion in originations!  
But something happened late that year  
That caused long rates to rise  
And that was the end of the refi boom  
It came as quite a surprise**

**With refi's gone so were big fees  
But banks still had money to lend  
And the search for buyers to fill the gap  
Seemingly had no end  
The Fed kept pumping through 2005  
To keep short rates very low  
And Greenspan gets a share of the blame  
His halo has less glow**

**Of course the key for all to see  
Was a robust housing market  
Buyers could borrow lots of cash  
And a house was a good place to park it  
A summer home... a new big house  
No one seemed to care  
Homes were made of bricks and land  
The value would always be there**

**It didn't matter what rate you paid  
Or what you made in a year  
For a while liquidity led to stupidity  
"just sign and see the cashier"  
High LTV's and Option ARMs  
Negative Am's and more  
2-28's with teaser rates  
And ridiculous Fico scores**

**Competition was the force  
That made the music play  
As long as prices didn't fall  
Everything was OK  
People could always sell their house  
For more than they had paid  
Defaults and foreclosures stayed quite low  
And lots of money was made**

**Fannie and Fred were always ahead  
Then Countrywide got in the fray  
Then Lehman and Merrill and Goldman Sachs  
Couldn't be kept away  
You can guess that MBS  
Helped make the trading brisk  
Investors thought that the paper they bought  
Was traunched with well measured risk**

**To that add leverage and default swaps  
And then when house prices fell  
"Smart guys" got hosed as the risks were exposed  
And that was the closing bell  
Now where do we go? we really don't know  
We've never been here before  
Only time will tell when the markets will clear  
And prices will fall no more**

**Some of the data suggest a bottom  
While other data conflicts  
Houses are selling at rates not seen  
Since back in 2006  
The inventory of unsold homes  
Is down, it no longer grows  
And we're not building any new homes  
Starts are at 50-year lows**

**A number of problems remain as risks  
As the market begins to turn:  
The number of loans that still need to be marked  
Is making stomachs churn  
Fifteen million who want to work  
Don't have jobs today  
And slow is the pipeline of loans in default  
Since no one wants to pay**

**It could also be that the pick-up we see  
Is just from government red  
Lower rates and tax rebates  
Buying paper from Fannie and Fred  
All have certainly played a role  
And only time will tell  
What will happen when they're withdrawn  
Still empty units to sell?**

**So now we come to the end of this ode  
Without much to say for certain  
I hate to say, that's where we are  
Not beginning nor final curtain  
The truth of the matter at the end of the day  
Is that markets will make you humble  
Just when you think that it's time for a drink  
They will turn and fortunes will crumble**

**That free markets work to provide what we want  
is a notion that's not in dispute  
The problem is that once in a while  
Markets overshoot  
Of course there is greed and there is a need  
For moral hazard and rules  
You are damned if you do and damned if you don't  
To be "pure" is a game for fools**

**Politicians, of course, are starting to shout  
That they want more retribution  
It's better, I think, if they used their time  
Helping to find a solution**