Whither the GSEs?
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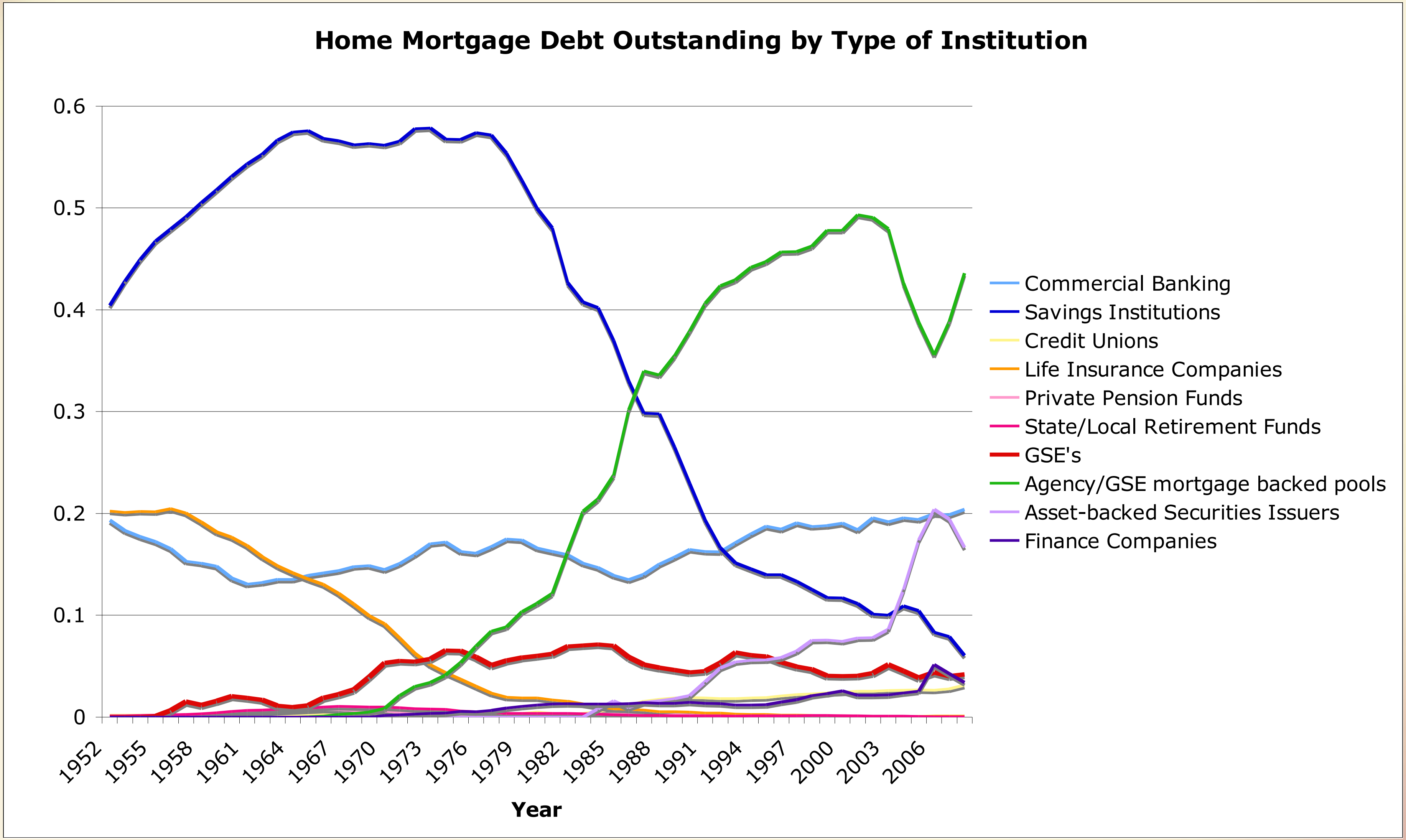
What are the options?

- Purely private entity?
- Purely public entity?
- Back to the GSE structure as it was?
  - What were the benefits?
  - What were the costs?

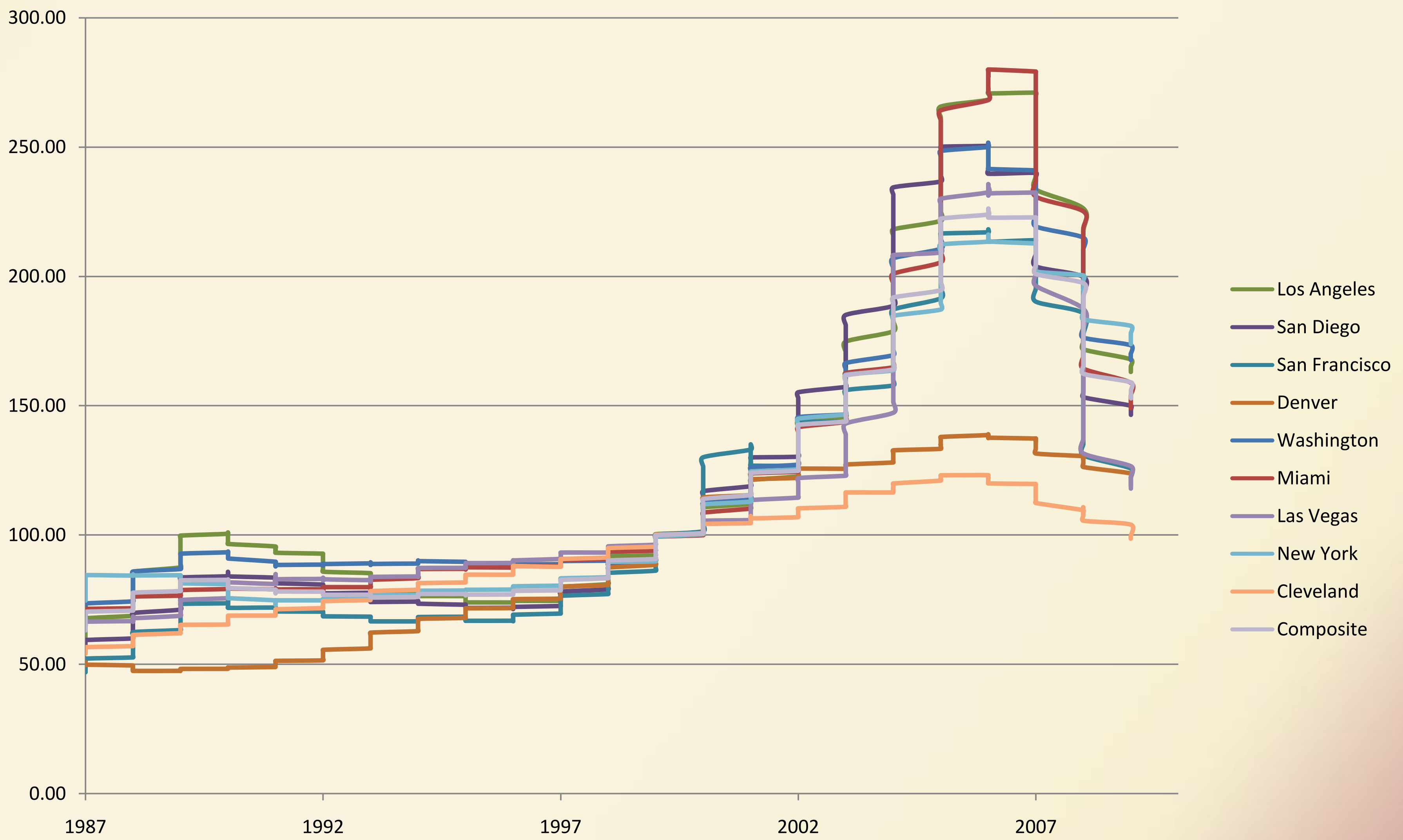
Before we think the private sector alone has the answer

- A little history
- Pictures depicting Coleman, Lacour-Little, and Vandell (2008)
- We are all GSEs now



Source: Federal Reserve, Flow of Funds Accounts

Case-Shiller House Price Indices: 1987-2009



What about FHA?

- It has been self-sustaining since its invention
- Is it scalable?
- Can creatures of Congress maintain underwriting discipline?
- Moral hazard and fraud issues come and go
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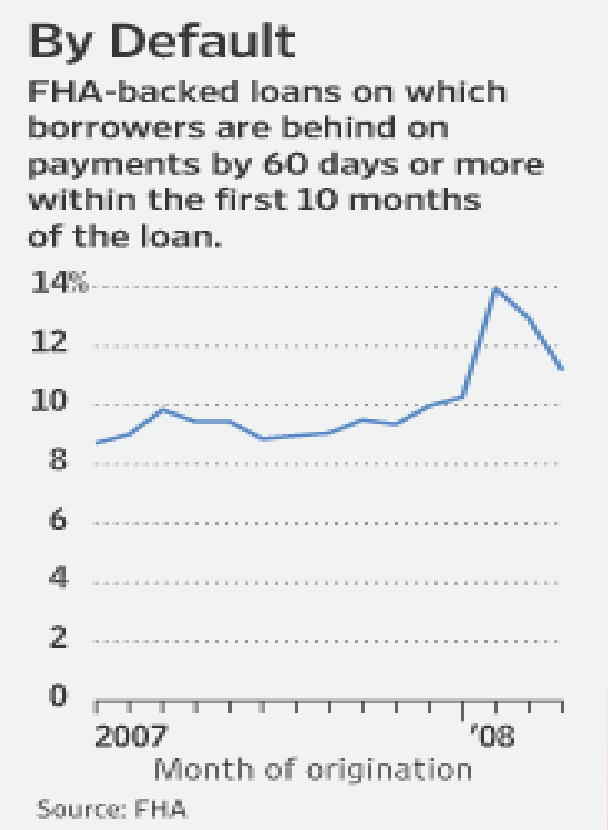

The GSE Model

- Worked well through 1997—maybe even 2002
- No other country has 30-year fixed rate mortgages
- Susan Woodward notes that standardization produces liquidity
- Could take on debt too cheaply—and exploited the subsidy
- Moral hazard issues with respect to controls
- Too much lobbying strength (perhaps true of banks as well)?

A new GSE model? Thinking out loud

- Focus on guaranteeing credit. Pay fee for government backstop (like FDIC)
- Portfolio function for warehousing and periods of illiquidity—but make debt expensive through a tax on issuance
- Much more stringent capital requirements
- Current worry—have we taken our eye off the interest rate risk ball?