



CENTER FOR REAL ESTATE  
PAUL MERAGE SCHOOL OF BUSINESS

## **HOUSING AFTER THE FALL: REASSESSING THE FUTURE OF THE AMERICAN DREAM**

A Symposium

Sponsored by the University of California Irvine  
Paul Merage School of Business Center for Real Estate

*with additional funding from the*

John D. and Catherine T. MacArthur Foundation  
and the Rockefeller Foundation

**Thursday and Friday, February 19-20, 2009**

Revised Program and Schedule

*(As of February 15, 2009)*

All sessions at Hotel Laguna, 425 South Coast Highway, Laguna Beach, CA 92651 (949/494-1151)

**Room Location – Laguna Room, Lower Level**

### **THURSDAY, FEBRUARY 19**

**7:30 – 8:15 Registration and Continental Breakfast**

**8:15 – 8:30 Welcome and Introductions**

*Michael Gottfredson*, Executive Vice Chancellor and Provost, University of California - Irvine

*Michael Stegman*, Director of Policy and Housing Program in Human and Community Development, John D. and Catherine T. MacArthur Foundation

*Robert Buckley*, Managing Director, the Rockefeller Foundation

*Kerry Vandell*, co-symposium organizer and Deans Professor of Finance, Director, Center for Real Estate, Paul Merage School of Business, University of California – Irvine

**PART I: THE PAST AND PRESENT: HOW DID WE GET INTO THIS MESS?**

**8:30 – 9:00 Opening Address: History, Context, and Housing’s Current Plight**

This presentation will provide a historical and institutional/political perspective on the trends in the housing market and housing finance since the 1990’s and will trace the emergence of the current adverse conditions affecting housing, providing a brief perspective on the policy intervention strategies currently being employed to turn the market around. The intent here is to provide a contextual understanding of the policy and economic foundations upon which the commissioned papers will build to provide a comprehensive prognosis of the future.

Presenter:

*Kerry D. Vandell*, University of California – Irvine

**PART II: THE FUTURE: WHAT WILL THE LANDSCAPE FOR HOUSING LOOK LIKE IN THE “POST-FALL” WORLD?**

**9:00 – 10:00 Session I: The Mortgage Originators and Instrument Types and Terms**

Historically, banks and savings & loan associations have provided the bulk of mortgage credit in the housing market, but with the emergence of the secondary market and securitization in the 1980’s, mortgage brokers and bankers and Wall Street investment firms began to play an increasing role. However, the recent turmoil in the mortgage market has put their future roles into question. Will the future prove to be a return to the past? Who will provide the needed home-mortgage credit in the 21<sup>st</sup> century? We will also in this session examine the availability, structure, and cost of mortgage credit. Will the “exotic” instruments that arose beginning in the late 1990’s and have been blamed for many of the problems – including subprime, option-ARM’s, alt-A, and HLTV lending with aggressive underwriting standards -- become relics of the past, or will they “morph” into new instruments which retain some of their earlier advantages without the risk?

Presenter:

*Peter Zorn*, Vice President, Housing Analysis and Research

Freddie Mac

and

*Marsha Courchane*, Vice President & Practice Leader, Financial Economics,  
Charles River Associates

Response and Commentary:

*Stuart Gabriel*, Arden Realty Chair, Professor of Finance and Director, Richard S. Ziman Center for Real Estate UCLA Anderson School of Management

**10:00 – 10:15 Break**

## **10:15 – 11:15 Session II: Secondary Market I: The Mortgage-Backed Securities and Derivatives Markets**

The development of the secondary market in mortgage-backed securities progressed from the FHA/VA Ginnie Mae certificates in the 1970's, to Freddie Mac and Fannie Mae conventional/conforming passthrough securities, then to the private-issue security pools backed by jumbo loans, and finally to pools of other specialized loan programs (such as subprime, alt-A, option-ARM's, HELOC, and HLTV loans) by the late 1990's. Commensurate with this introduction was the emergence of the first "tranching" collateralized mortgage obligations (CMO's) in the mid-1980's, evolving to quite complex "slicing and dicing" of the cash flows from the underlying mortgages, and ultimately to derivative products obtained through "re-securitization" of earlier tranches (collateralized debt obligations, or CDO's) and such exotic derivatives as credit default swaps (CDS's). These markets today are virtually shut down. What will be their future? Has our recent adverse experience with these financial experiments caused their extinction, or will they re-emerge in a different form, immunized from the fatal flaws in their past incarnation? What will drive the nature of the products that emerge?

Presenter:

*Anthony Sanders*, Bob Herberger Chair of Arizona Heritage, Professor of Finance, W.P Carey College of Business, Arizona State University  
and

*Andrew Davidson*, President, Andrew Davidson & Company, New York City

Response and Commentary:

*Nancy Wallace*, Professor, California Chair of Real Estate and Urban Economics, Haas School of Business, University of California at Berkeley

## **11:15 – 12:15 Session III: Secondary Market II: The GSE's and Mortgage Insurers**

Ginnie Mae (a fully government-related entity) and Fannie Mae and Freddie Mac (together, the government-sponsored enterprises or GSE's) represent the progression of institutions designed to facilitate the securitization of pools of residential mortgage credit -- from the governmental toward the quasi-governmental. Ultimately, the private conduits, supported by major money center banks and Wall Street investment firms, extended the securitized mortgage market fully to the private sector. There has always been a political controversy between the private issuers and the GSE's over the "unfair" lower cost of capital available to the GSE's, due to their implicit federal government guarantee on their debt, and its implications for market primacy. Parallel with the evolution of the institutions facilitating securitization was the development of institutions intended to manage credit risk. Mortgage insurance programs first evolved, in the guise of the governmental FHA/VA program, then extended in the 1950's to the fully private mortgage insurance (PMI) industry. Together, these provided strong credit support for Ginnie Mae and GSE mortgages and securities through the 1980's. Later, however, the private-issue market relied on alternative means of credit support, most commonly through the senior-subordinate structure in which credit risk is disproportionately allocated toward the lower-rated tranches, or "B" pieces. During the recent turmoil in the markets, the GSE's and the insurers and various means of credit support faltered in their roles.

What will be their ultimate fate? Will Freddie and Fannie simply become another bank, or will their special mission push them more toward a public Ginnie Mae-like vehicle? How will credit risk be dealt with? Will the old structures endure or will they be transformed through market forces or governmental mandates?

Presenter:

*Robert VanOrder*, Adjunct Professor of Finance, Stephen M. Ross School of Business, University of Michigan, and former Chief Economist, Freddie Mac

Response and Commentary:

*Dwight Jaffee*, Willis Booth Professor of Banking, Finance, and Real Estate, Director, Berkeley-St. Petersburg School of Management Program, Haas School of Business, University of California at Berkeley

and

*John Quigley*, Donald Turner Distinguished Professor and Professor of Economics, Department of Economics, University of California, Berkeley

### **12:15 – 1:45 Lunch and Networking (Participants and Attendees)**

### **1:45 – 2:45 Session IV: The Regulators and Ratings Agencies**

The GSE's and private-issue security issuers have not operated in a free-for-all environment. The GSE's were regulated by the Office of Federal Housing Enterprise Oversight (OFHEO) (more recently succeeded by the Federal Housing Finance Agency (FHFA)) within the federal government. The private MBS issuers have been subject to looser oversight by the Fed and SEC, but were more directly governed by the discipline imposed by the ratings agencies, including Moody's/Duff & Phelps, Fitch, and Standard & Poors. The adequacy of these institutions' performance leading up to and during the recent period of turmoil in the market has been the subject of much criticism and debate. This session will ask the question of how they and their mission will/should evolve to render them more effective guardians of the public trust.

Presenter:

*Michael LaCour-Little*, Professor of Finance, California State University at Fullerton, and former Vice President of Mortgage Research, Bank of America and Wells Fargo Mortgage

Response and Commentary:

*Sarah Rosen Wartell*, Executive Vice President for Management, Center for American Progress, Washington, D.C.

### **2:45 – 3:45 Session V: Affordable and Special Needs Housing**

The panoply of federal, state, and local programs intended to support the development, conversion, or maintenance of housing meant for low- and moderate-income households (including "workforce housing") has grown and morphed over the last several decades. However, the total number of units provided through these programs has increased little as a proportion of the total housing stock, as most such housing is still provided through the "filtering" process in the private market. This session will

address the question of whether and how the impending restructuring of the housing and residential finance sectors will affect housing availability and cost at the lower end. Certainly, one positive product of the current credit turmoil has been argued by affordable housing advocates to be enhanced affordability in certain expensive markets, especially in California. Will this dynamic be reversed again as market rights itself? Or will a more strictly controlled system result in constraining new and renovated housing supply, thus driving up rents and prices?

Presenter:

*Sandra J. Newman*, Director/Professor, Institute for Policy Studies, Johns Hopkins University, Baltimore, MD

Response and Commentary:

*John Weicher*, Senior Fellow and Director of Center for Housing and Financial Markets, The Hudson Institute, Washington, DC

**3:45 – 4:00 Break**

**4:00 – 5:00 Session VI: House Prices and Trends**

For many years, it was broadly believed that home prices never drop, with the exception of temporary periods that are idiosyncratic to individual regions at different points in time. That myth has been exploded with the current crisis. Given the importance of house price levels and trends in supporting the economic well-being of homeownership households and the health of the general economy, it is important to examine the relationship between house price levels and trends as they relate to the new structure of the housing and mortgage markets that is anticipated to emerge. This session will ask the difficult question of whether certain “reform” packages, in the sense of a more regulated system of delivery of capital to the housing market and stricter underwriting standards, could result in permanence of the declines in capital values of the stock we have recently experienced, or on the more positive side, reduce price volatility

Presenter:

*William Wheaton*, Professor, MIT Department of Economics and Department of Urban Studies and Planning, Director of Research, MIT Center for Real Estate, Cambridge, MA

Response and Commentary:

*Donald Haurin*, Chair, Department of Economics, Professor, Department of Finance, Professor, Department of Public Policy and Management, The Ohio State University, Columbus, OH

**5:00 Adjourn for Networking and/or Stroll on Beach before Reception and Dinner**

**5:45 – 6:30 Reception, Las Brisas Restaurant (361 Cliff Drive, Laguna Beach, across Main Beach from Hotel Laguna)**

**6:30 – 8:00 Dinner, Las Brisas Restaurant (Participants and Selected Attendees)**

Guest speaker:

*Greg Duncan*, Distinguished Professor of Education, University of California – Irvine (formerly the Edwina S. Tarry Professor in the School of Education and Social Policy and Faculty Affiliate in the Institute for Policy Research, Northwestern University)

*“Moving to Opportunity ... Lessons for Policy”*

**FRIDAY, FEBRUARY 20**

**7:30 – 8:00 Continental Breakfast**

**8:00 – 9:00 Session VII: The Homebuilding Industry**

Over the years, the homebuilding industry has experienced considerable consolidation, where economies of scale and new technologies have increased the dominance of larger operators and larger-scale developments, a number of which have gone public. These large entities have also enjoyed the benefits of a financial system that has also gone to scale. However, the recent crisis in the market has threatened – if not actually caused the demise – of many of these large firms, at the same time devastating the viability of many of the smaller players. How will this all play out in the “post-fall” environment? Will we move back on the same track in terms of homebuilding industry development, or will there be secular restructuring? Such changes could be due to restructuring of the financial sector as well as changing energy prices and potentially new programs supporting the housing sector under a new federal administration.

Presenter:

*Brent W. Ambrose*, Jeffery L. and Cindy M. King Faculty Fellow and Professor of Real Estate, The Smeal College of Business, The Pennsylvania State University, University Park, PA

Response and Commentary:

*David Crowe*, Chief Economist, National Association of Homebuilders, Washington, D.C.

**9:00 – 10:00 Session VIII: Homeownership**

The goal of increasing the opportunity for homeownership for “every American family” has been a part of federal policy, formally at least since the landmark National Housing Act of 1949 and informally for many years before that. Yet, at the same time, the aggressive steps taken by recent administrations to extend homeownership to new classes of households previously denied participation in the mortgage market (thus bumping the rate from about 65% to over 70% of American households) has been blamed as one of the primal causes of the current capital crisis. How will homeownership fare as the new structure for the delivery of housing and mortgage credit emerges? Will we be able to retain lofty aspirations to place millions of additional

households in their own home in a sustainable fashion, or will such goals be relegated to the dust heap of failed social programs? How will the social and private benefits and costs associated with homeownership affect this outcome?

Presenter:

*Richard K. Green*, Professor and Lusk Chair, Director, USC Lusk Center for Real Estate, University of Southern California, Los Angeles, CA

Response and Commentary:

*Susan Wachter*, Richard B. Worley Professor of Financial Management; Professor of Real Estate, Finance and City and Regional Planning, University of Pennsylvania - Finance Department, The Wharton School, Philadelphia, PA  
and

*Marsha Courchane*, Vice President, Practice Co-Leader of Financial Economics, CRA International, Washington, DC

and

*Paul Calem*, Director, Housing Analysis & Research, Freddie Mac

#### **10:00 – 10:15 Break**

#### **10:15 – 11:15 Session IX: Rental Housing**

The boosting of the homeownership rate beginning in the late 1990's had the effect of softening the rental market. Rental housing has always felt itself to be the "disadvantaged stepchild" in American housing policy relative to owner-occupied housing. Yet today, in part in response to the recent problems in the market, the past policy of placing people in their own homes who could not sustainably maintain such ownership has spawned a number of research and policy studies looking at the question of just who should and who should not be a homeowner. Thus, rental housing may enjoy a resurgence after the "fall". How likely is this, and what shape would such a resurgence take? How will the rental market be affected by such other factors as energy price increases, demographic change, and possible encouragement by a new administration? How would a new policy commitment to rental housing fare in the face of restrictive local land use regulations?

Presenter:

*Margery Austin Turner*, Director Metropolitan Housing and Communities Center, The Urban Institute, Washington, D.C.

Response and Commentary:

*Denise DiPasquale*, President and Founder, City Research, Boston, MA

#### **11:15 – 12:15 Session X: The Home, Neighborhoods, and Cities**

Ultimately, the patterns of demand for and supply of housing and mortgage credit are translated spatially into tangible housing units and patterns of development for neighborhoods, cities, and metropolitan areas. Housing and mortgage demand and supply, in turn, are direct products of the institutions that produce them and the rules under which they operate. This session will examine the likely nature of this translation

from the housing and mortgage capital markets to neighborhoods and cities, recognizing that it will proceed against a powerful backdrop of a volatile energy price environment and potentially a new political philosophy in Washington.

Presenter:

*Raphael Bostic*, Professor of Policy, Planning, and Development, Director, Master of Real Estate Development Program, Lusk Center for Real Estate Development, School of Policy, Planning, and Development, University of Southern California, Los Angeles, CA

Response and Commentary:

*Ingrid Gould Ellen*, Associate Professor of Public Policy and Urban Planning, Co-Director of the Furman Center for Real Estate and Urban Policy, The Wagner School, New York University, New York, NY

### **12:15 – 2:00 Lunch and Networking (Participants and Attendees)**

#### **Keynote Address: A Synthesis and Prognosis**

The concluding keynote address will fulfill two objectives: First, the presenter will provide a synthesis derived from the many issues and ideas raised in the course of the symposium which attempts to relate the diverse strands of this very complex structure of institutional relationships into a meaningful whole. Second, he will provide his own take on where the housing and mortgage markets will be going, where they *should* be going, and what the academic and policy community should be doing to help us get there.

Presenter:

*Karl Case*, The Katharine Coman and A. Barton Hepburn Professor of Economics, Department of Economics, Wellesley College, Wellesley, MA