1. IMF'S LATEST HOUSING MARKET ASSESSMENTS

Canada (Working Paper): "This paper assesses house prices in 11 Canadian Census Metropolitan Areas (CMA) using the borrowing-capacity and the net-present-value approaches. The results indicate that by the end of 2018, house prices in most metropolitan areas are aligned with macroeconomic fundamentals. However, in Hamilton, Toronto, and Vancouver house prices have increased beyond the values implied by the fundamentals."

2. A LOOK AT THE EVOLUTION OF CREDIT AS A POLICY TOOL

In this interview, Sarah Quinn talks about her new book: American Bonds: How Credit Markets Shaped a Nation. She is an Associate Professor of Sociology at the University of Washington and is currently a Member of the Institute for Advanced Study.

Hites Ahir: What are you trying to accomplish in writing this book?

Sarah Quinn: Starting out, I wanted to understand why people in the U.S. government decided to support a market for securitization at the end of the 1960s. We usually think of the promotion and development of cutting-edge technologies as something that happens *outside* of the government. So I wanted to know: Why was the government involved? Why had officials decided that securitization was a good idea? That is, why did that technology make sense as a policy option at that time?

I went to the archives in search of an answer. Almost immediately, internal governmental memos revealed that the programs supporting securitization were part of an entire web of federal credit programs. Those programs still exist. They direct the flow of credit to specific groups and industries by buying and selling loans, insuring and guaranteeing debt, and promoting and experimenting with new ways of lending. I soon realized that in order to make sense of governmental support for securitization in the 19060s, I needed to situate that policy within the larger system of credit support, and understand the role that entire system was playing in the U.S. political economy. As of 2017 the U.S. government officially owned or guaranteed 3.8 trillion U.S. dollars in loans, which is the equivalent of about a third of non-financial sector private debt. That number goes up to 8.5 trillion U.S. dollars if you include Fannie Mae or Freddie Mac, which are currently under governmental conservatorship but are not officially on budget.

What I came to understand at the end of the study was that the federal credit programs are themselves part of a much larger, much older political tradition. Since the founding era—but in very different ways at different times— U.S. lawmakers have used land give-aways and easy credit in an effort to provide economic opportunity without having to tax and spend, which is to say, without having to openly redistribute wealth. Land and credit allocation were also popular policy tools because they could be often easier to get through America's fragmented, contentious, veto-ridden ridden political system. Once you understand this pattern, it becomes clear that government involvement in the fledgling securitization market of the 1960s was not unusual, but in fact typical of how American politics and American markets actually work.

HA: In a nutshell, what did you learn about the history of credit programs?

SQ: In the 19th century, credit programs were sometimes used in an ad hoc, temporary manner. They were really a backstop to support other policies (like the building of the Transcontinental Railroads). This changed with the Federal Farm Loan Act of 1916, which created a new system of farm credit from the ground up. In the 20th century, credit allocation emerged as a primary lever or policy tool in its own right.

Credit support has historically been concentrated in a few core industries: agriculture, housing, and higher education. It has also been used creatively but less extensively in other domains. Credit support can be a form of foreign policy: United States Agency for International Development (USAID) loans money to other countries, for example. And credit programs are a form of social policy, as when Federal Emergency Management Agency (FEMA) uses mortgage guarantees to support rebuilding after natural disasters. The credit programs are also an important part of how the government bails out troubled industries and companies.

When it comes to the economy, it is crucial to understand that credit programs are also *institution builders*. The farm and home loan programs helped popularize the long-term amortized mortgage in the U.S. The FHA in the 1930s pioneered new forms of commercial lending. The Export-Import bank demonstrated the viability of business lending abroad. After World War II, the U.S. Small Business Administration helped expand the venture capital industry from a niche business. So the legacy of the credit programs is not just in how many loans are directly funded or guaranteed by them, but how they have helped change the rules of the game in credit markets.

HA: In the book you say: "Credit programs are fiscally light. They can yield big results for low costs." Could you elaborate on this?

SQ: When the government issues a loan, that generates revenue as the loan is paid back. A guarantee (or insurance for a loan) only costs money in case of default. Think about it this way: if a rural community needs a hospital, it is cheaper for the government to guarantee a loan for a private company to build that hospital than it is for the government to build the hospital itself. These relatively low costs are one of the things that makes credit programs attractive as a policy tool.

HA: In the book, you also say that "the late 1960s had identified dangers of securitization". Could you elaborate on this?

SQ: The private securitization market was floundering in the 1960s. Some companies were trying to figure out how to make the market work, but for a variety of reasons they were not successful. At the same time, the U.S. government held around $30 billion U.S. dollars in loans through the credit programs, and some agencies started selling certificates backed by pools of those loans as a form of off budget financing. As costs of the Vietnam war and the Great Society programs mounted, the Johnson Administration pushed to sell certificates backed by these loan pools—early forms of securitization—as a form of off budget financing. A political fight erupted about the sale of these certificates, and the nature of these certificate sales was intensively debated. Anyone reading through these debates in retrospect will see clear warnings about the potential for loan pools to hide risks, to obscure budget numbers, and to incentivize bad behavior.

HA: One of the chapters in the book looks at the boom in mortgage bonds in the 1920s and the bust in the early 1930s. Could you briefly describe this period?

SQ: In the 1920s there was a commercial real estate boom. Skyscrapers were going up, but at the time there weren't many institutional investors in place who could fund such large buildings. So a set of brokers and new bond houses started to divide up big mortgages into smaller bonds that they sold to middle class families. For $100 dollars a small investor could own a piece of the Waldorf Astoria. The market boomed and then went bust. The crash was a disaster for the small investors who invested their savings in these bonds.

HA: When the housing market crashed in the 1930s, what was the reaction from policymakers and mortgage sellers and brokers?

SQ: There were extensive public hearings about what happened, and at that point laws were changed to prevent small investors from buying those kinds of bonds. The idea was that small investors couldn't really protect themselves from exploitation from brokers. The U.S. Securities and Exchange Commission (SEC) concluded that the power dynamics were too uneven to be resolved, and to the extent that family savings would go into mortgage markets from that point onward, it would through the savings and loans, which were very carefully regulated.

Most of the mortgage brokers of the 1930s failed in the Depression. The few who survived did so by transforming into brokerage arms for the insurance companies. A profound risk aversion from sellers that lingered after the Great Depression combined with a new generation of rules and regulations around lending to totally wash out the private mortgage bond market throughout the postwar era. That's the background for why the U.S. government felt a need to help create a more vibrant securitization market at the close of the 1960s in the first place.

In the book I argue that the securitization market that emerged in the 1960s was a really different mortgage bond market than the ones that came before in the 1830s, 1880s, and 1920s. The securitization market that emerged in the 1960s reflected much of the social logic of the *credit* *programs* that incubated it. This iteration of securitization reflected a world where there was a clear role for the federal government in the mixed economy; it reflected a world where the centrality of homeownership in the U.S. political economy was taken-for-granted; and it reflected a world where financiers were gaining more and more power, influence, and advantages when it came to their role in mortgage markets.

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