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FCIC memo of staff interview with Mark Calabria, Cato Institute

Mark Calabria

Tom Krebs

Courtney Mayo

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Event: Interview with Mark Calabria, Director of Financial Regulation Studies, Cato Institute

Type of Event: Information Interview

Date of Event: December 28, 2009

Team Leader: Tom Krebs

Participants – Non Commission: Mark Calabria

Participants – Commission: Tom Krebs

MFR Prepared by: Courtney Mayo

Date of MFR: Created from Tom Krebs' notes on December 2, 2010

SUMMARY OF INTERVIEW & SHORT BIO OF INTERVIEWEE:

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted except where clearly indicated as such.

BIOGRAPHY:

Mark A. Calabria, is director of financial regulation studies at the Cato Institute. Before joining Cato in 2009, he spent six years as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs. In that position, Calabria handled issues related to housing, mortgage finance, economics, banking and insurance for Ranking Member Richard Shelby (R-AL). Prior to his service on Capitol Hill, Calabria served as Deputy Assistant Secretary for Regulatory Affairs at the U.S. Department of Housing and Urban Development, and also held a variety of positions at Harvard University's Joint Center for Housing Studies, the National Association of Home Builders and the National Association of Realtors. Calabria has also been a Research Associate with the U.S. Census Bureau's Center for Economic Studies. He has extensive experience evaluating the impacts of legislative and regulatory proposals on financial and real estate markets, with particular emphasis on how policy changes in Washington affect low and moderate income households. He holds a doctorate in economics from George Mason University.

INTERVIEW:

Mr. Calabria's expertise is in GSEs and mortgage finance, as well as supply side of housing, specifically the rules and regulations of California and Florida.

Where short-term supply constraints drove up prices, until the point where supply caught up. In California, there are many restrictions regarding building houses; supply could not meet initial demand. California was nearly 45% of all national housing sales. The bubble was Florida, California and Nevada. In California, in places, were \$600,000 to \$700,000 housing value. No California, No Housing Bubble!

- High LTV ratios:
 - Some of the bubble increase was caused by products such as ARMS, no docs, 327, Alt-A, etc. Used to stretch.

In 2006, Dick Syron was saying “too much risk!” But a year earlier he had fired David Andrukonis for saying the very same thing.

- Senator Reid and Senator Sarbanes
- Pat Lawler – OFHEO, Chief Economist
- International capital flow: low fed funds rate drives international investors to AAA MBS which yield 300-400 bps more

- Monetary Policy:
- Long term mortgages purchased from short-term proceeds of loans. Mismatched.
- 2002-2005: exploring alternative documentation, during time Andrukonis says working through no doc loans.
- James Barth, Auburn University Professor, get in touch with him.
- Over 150% of Tier I capital of banks were Fannie and Freddie securities either preferred bonds or MFS. The MMDA funds also held huge amounts of Fannie and Freddie preferred stocks/bonds.
- Banks sold securities, loans to national banks for CRA purposes.
- FHFA: Peter Brereton and Alfred Pollock, General Counsel – rent a loan program ICW CRA requirements.
- There is a shallow market. Repo agreements with Wells Fargo on Washington Mutual.