

A Talk on Economic Conditions

Richard G. Anderson

February 21, 2009

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Recession

627,000

3,499,000

4,987,000

11,616,000

142,009,000

304,621,000

Under ordinary circumstances, it would be preferable to allow the free market to take its course and correct over time. But the government has a responsibility to safeguard the broader health and stability of our economy.

Author?

1. John Maynard Keynes
2. Franklin Roosevelt
3. George W. Bush
4. Barack Obama

What Happened?

Housing Boom

and

BUST

4 BEDROOM

PRICE REDUCED



CDO

Bear Stearns

MBS

Financial Engineering

AIG

CDS

Alchemy!

Lehman

Risk Turns to Gold!

No
Fear of
Risk...



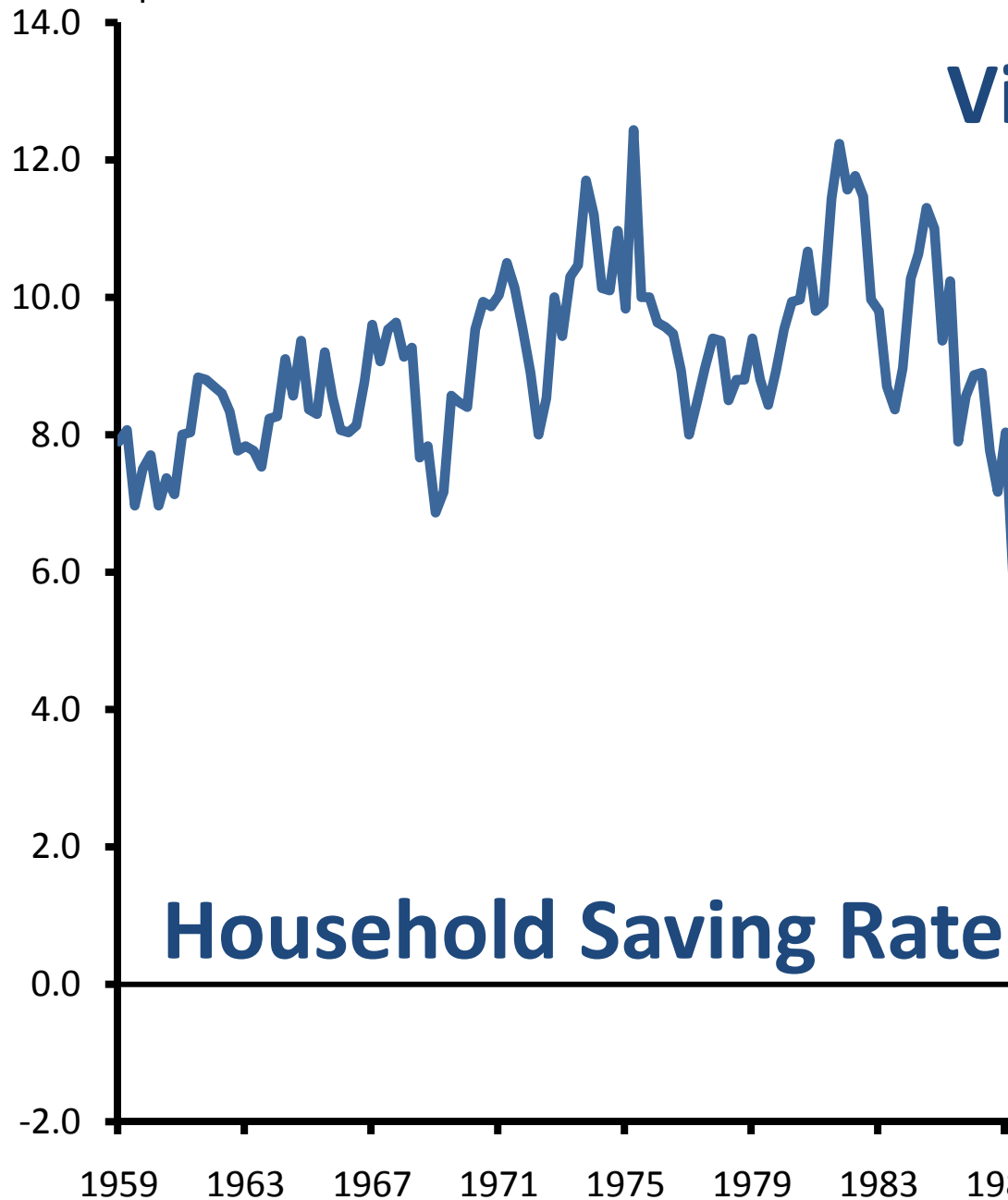
Crisis!
Collapse!



Housing was the piggy bank...



% of disposable income



Virtue or Vice ?

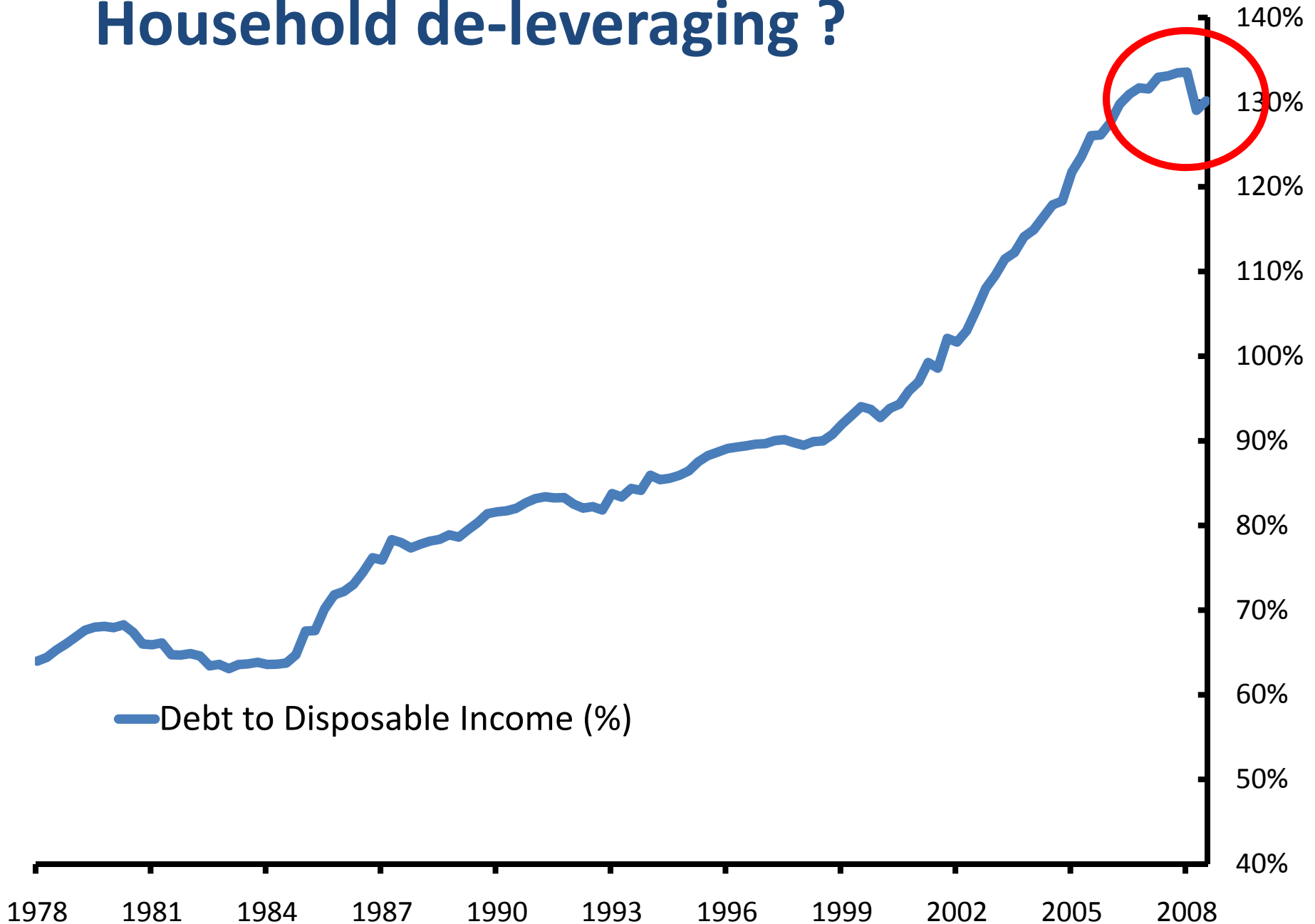
Household Saving Rate

?

○



Household de-leveraging ?

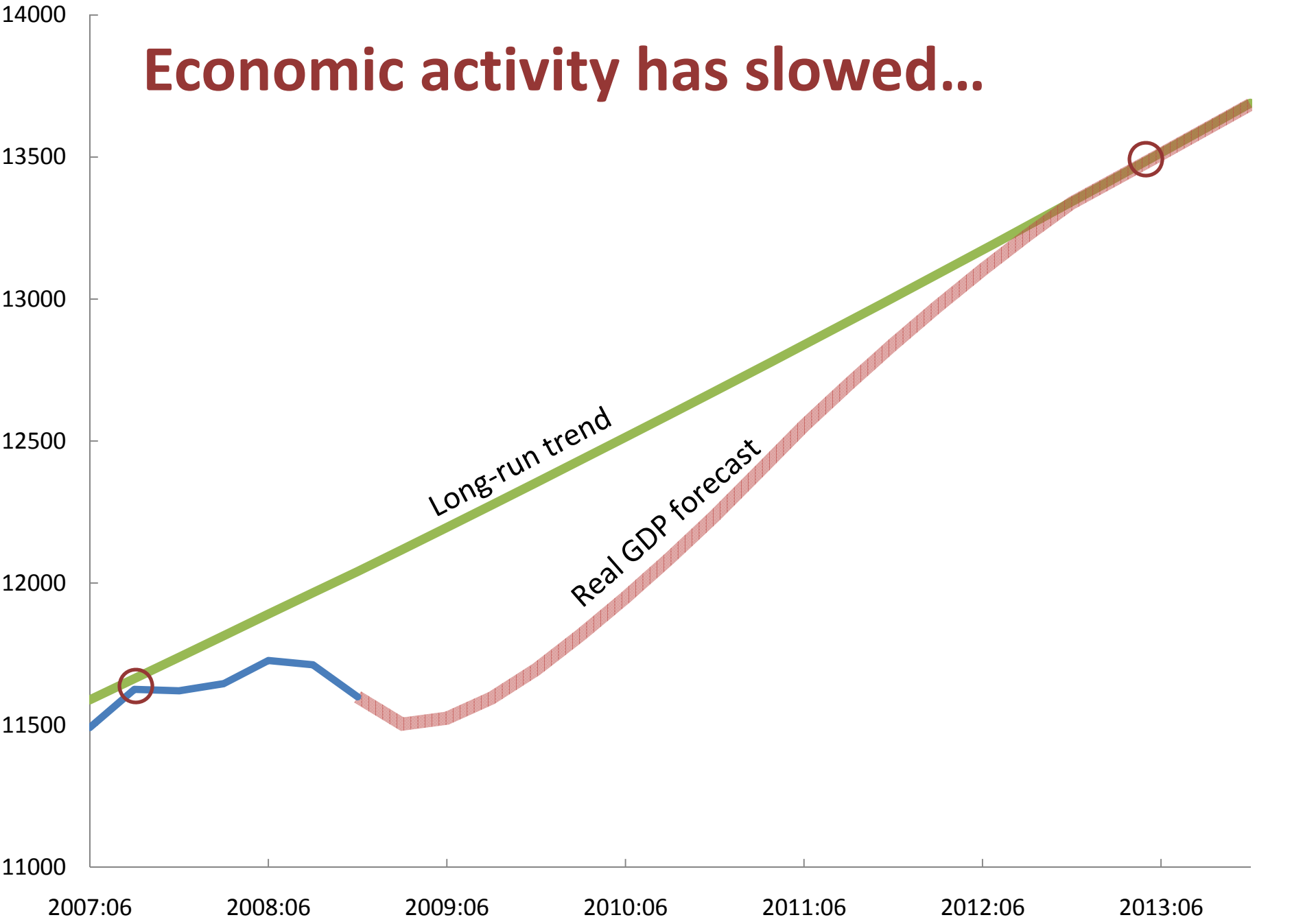


...busted...



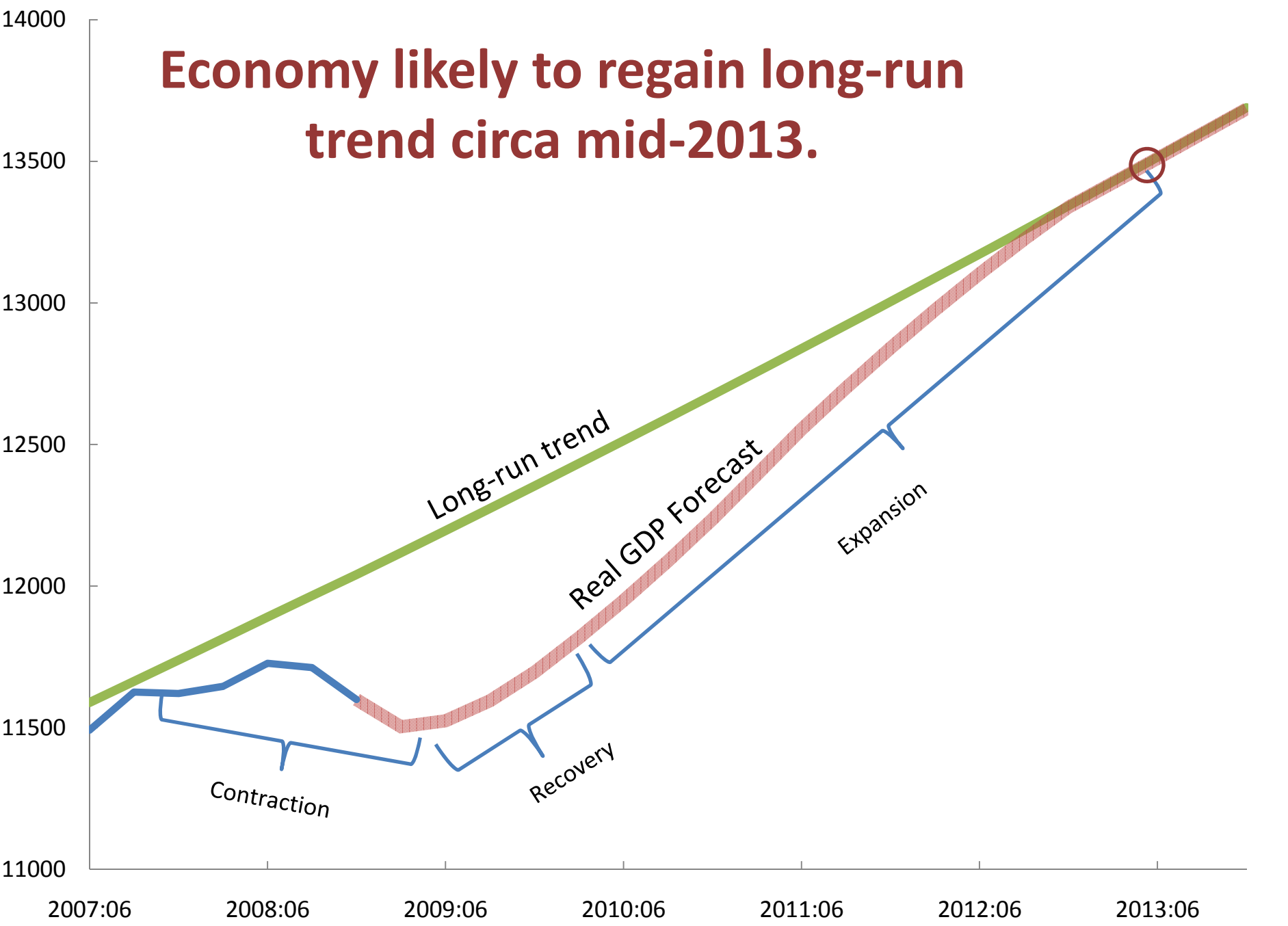
SAAR, Bil. Chn.2000\$

Economic activity has slowed...



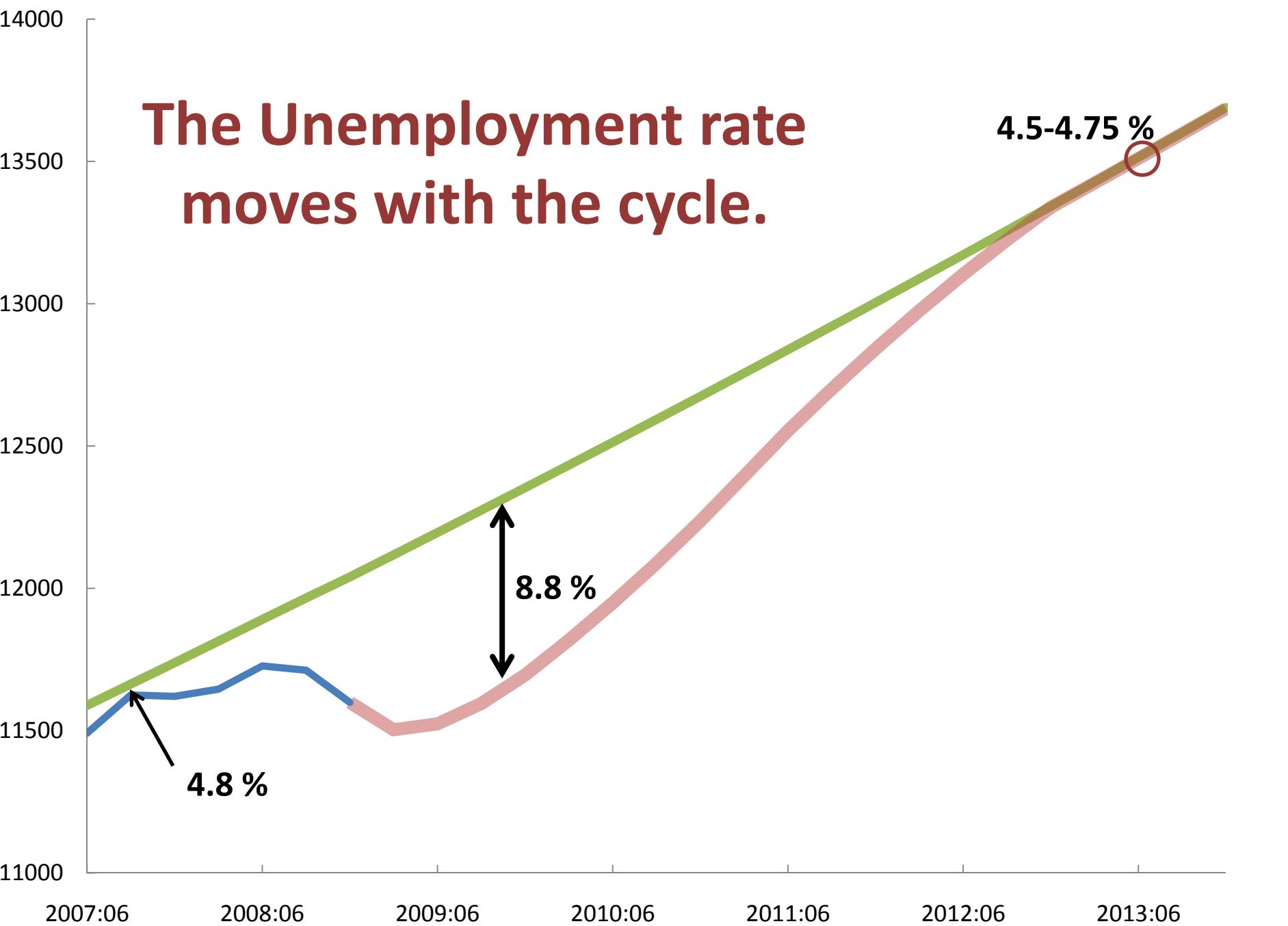
SAAR, Bil. Chn.2000\$

Economy likely to regain long-run trend circa mid-2013.



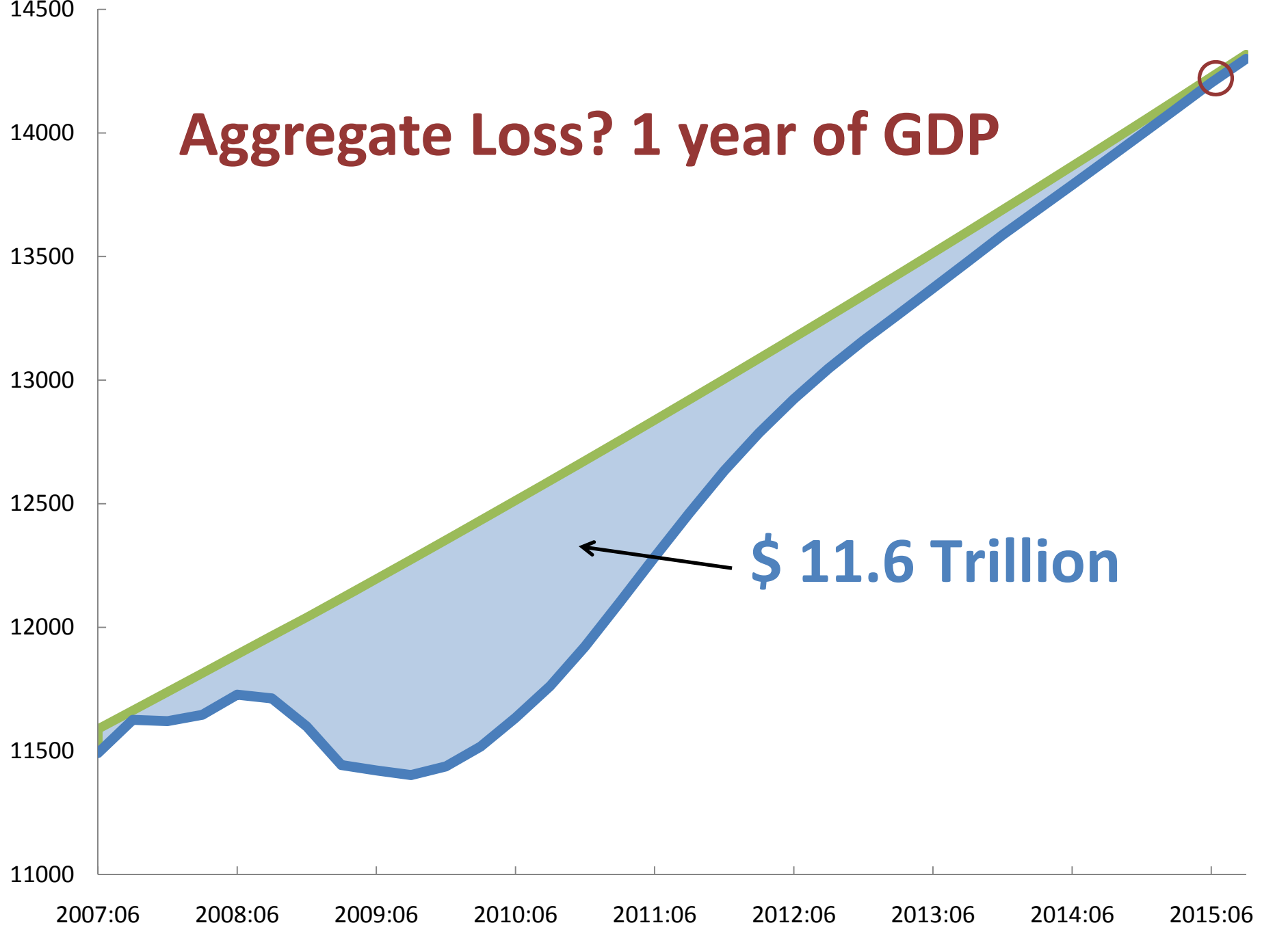
SAAR, Bil. Chn.2000\$

The Unemployment rate
moves with the cycle.



SAAR, Bil. Chn.2000\$
14500

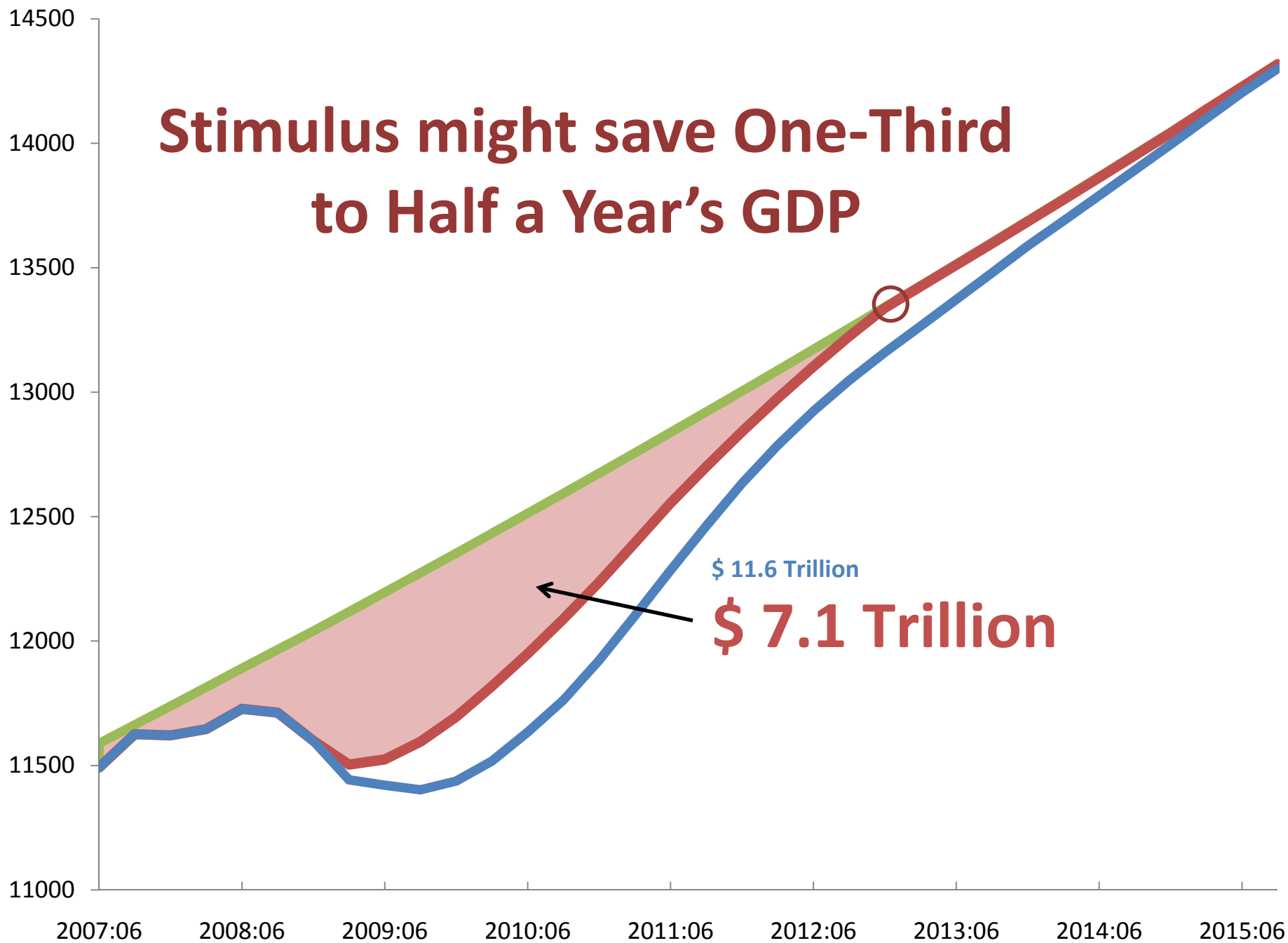
Aggregate Loss? 1 year of GDP



\$ 11.6 Trillion

SAAR, Bil. Chn.2000\$

Stimulus might save One-Third to Half a Year's GDP



Global Recession

1.4%

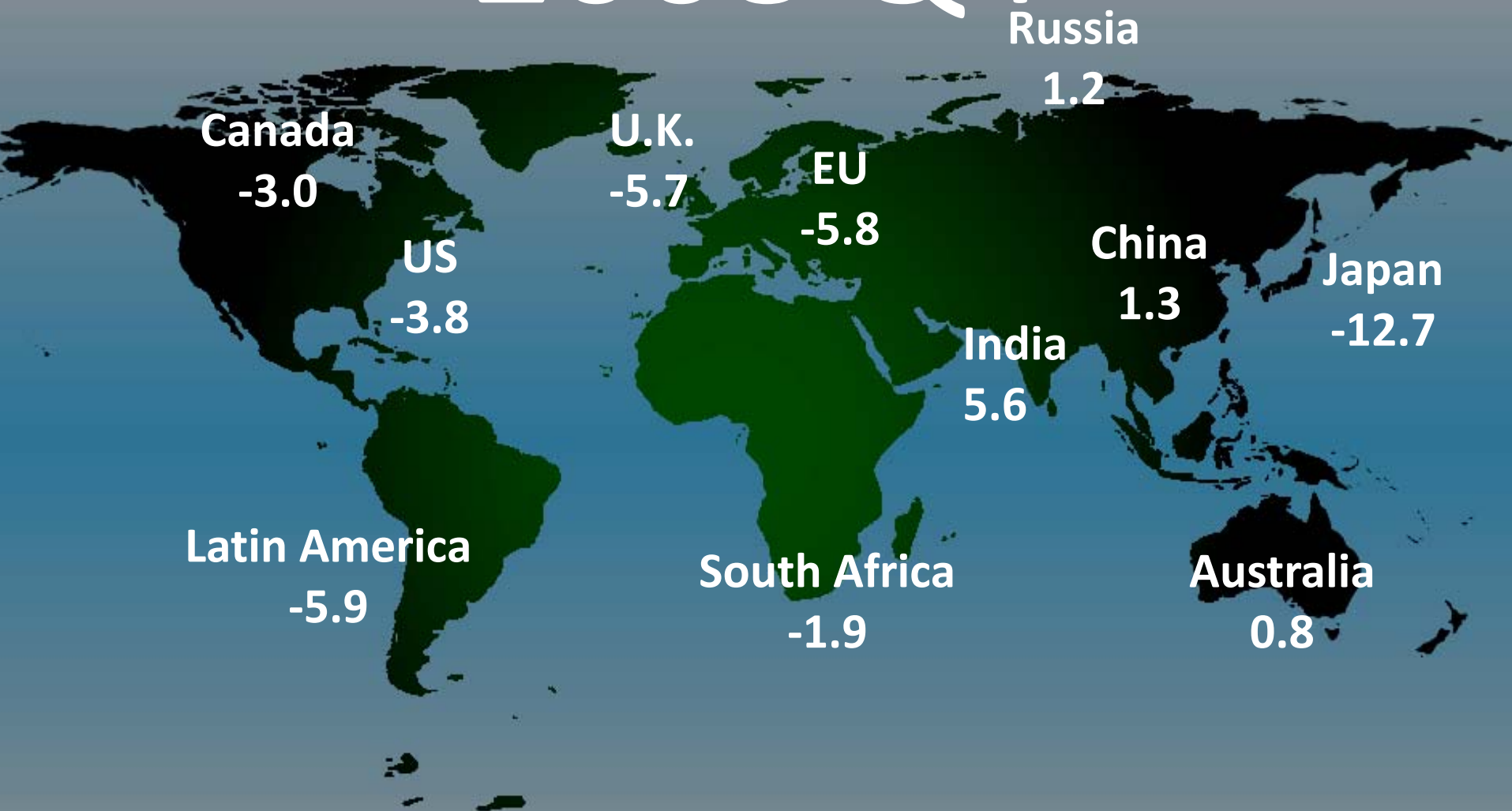
-2.3%

2009 Q1

-4.9%

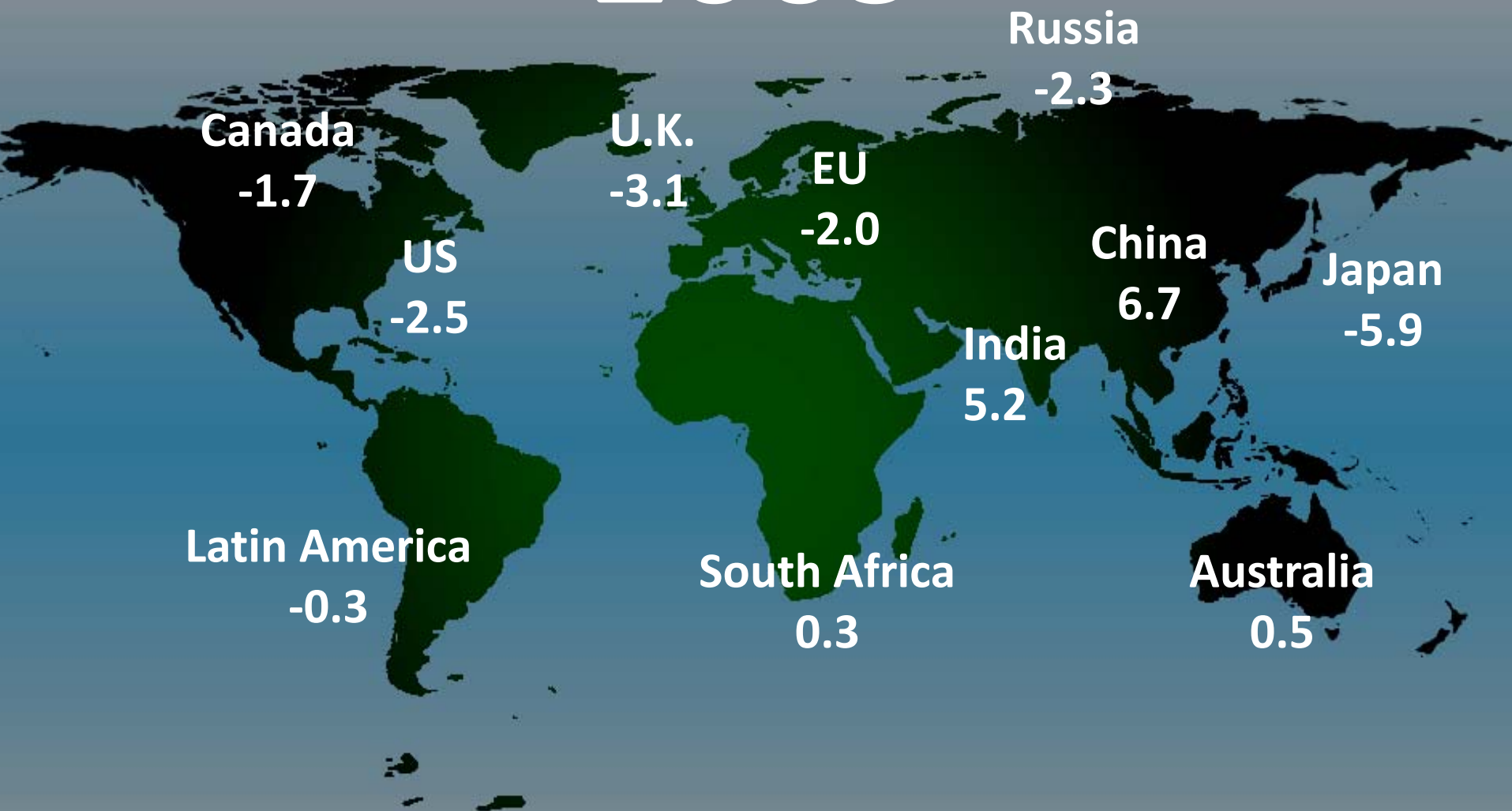


2008 Q4



2008:Q4 Growth rate in real GDP, percent

2009



2009:Q4/2008:Q4 Growth rate in real GDP, percent



Rescue

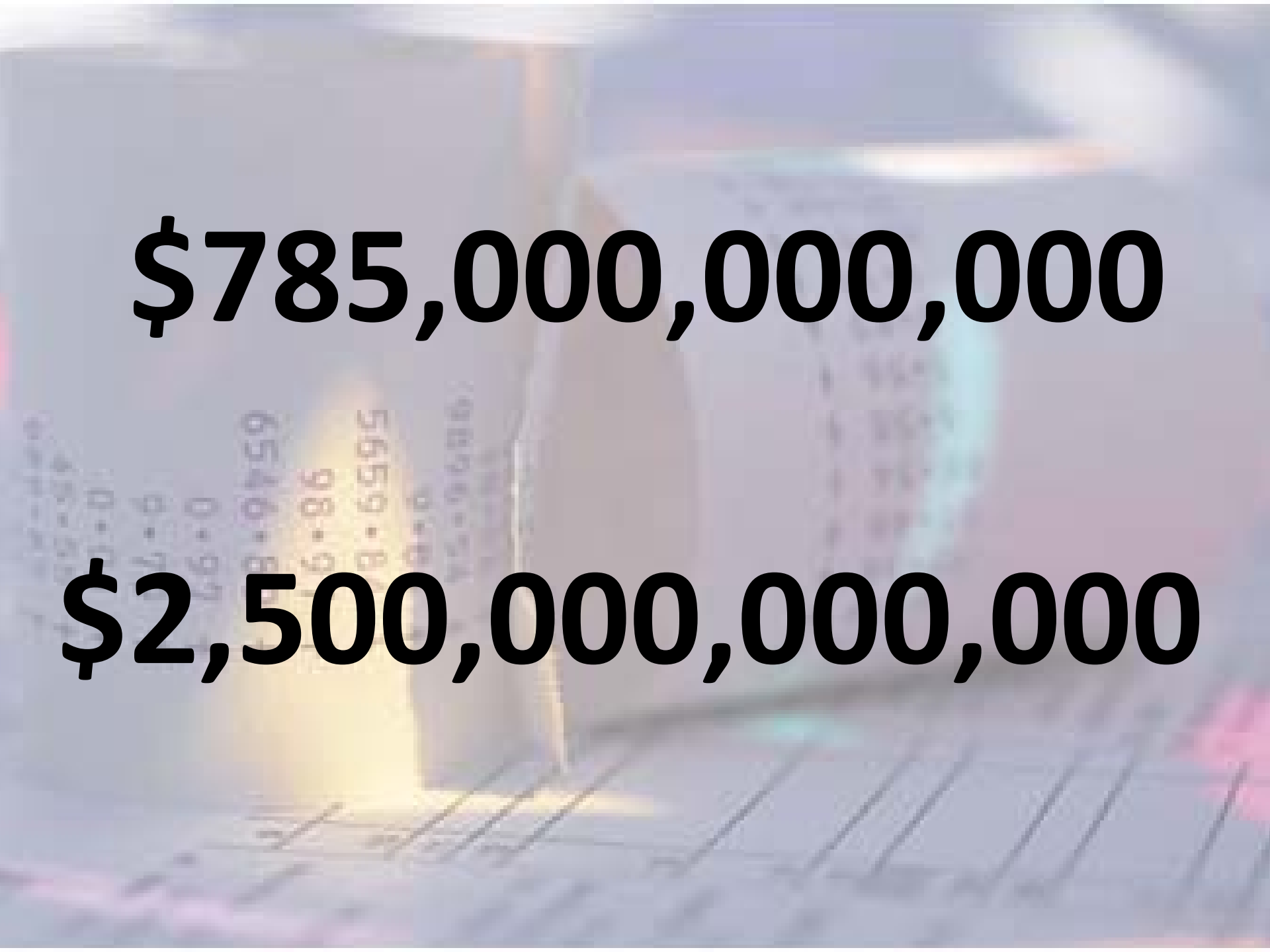
Fiscal Stimulus Plan

Tax Cuts
College tuition tax credits
Science and Technology
Internet Access

Energy
Batteries
Public Housing
NASA

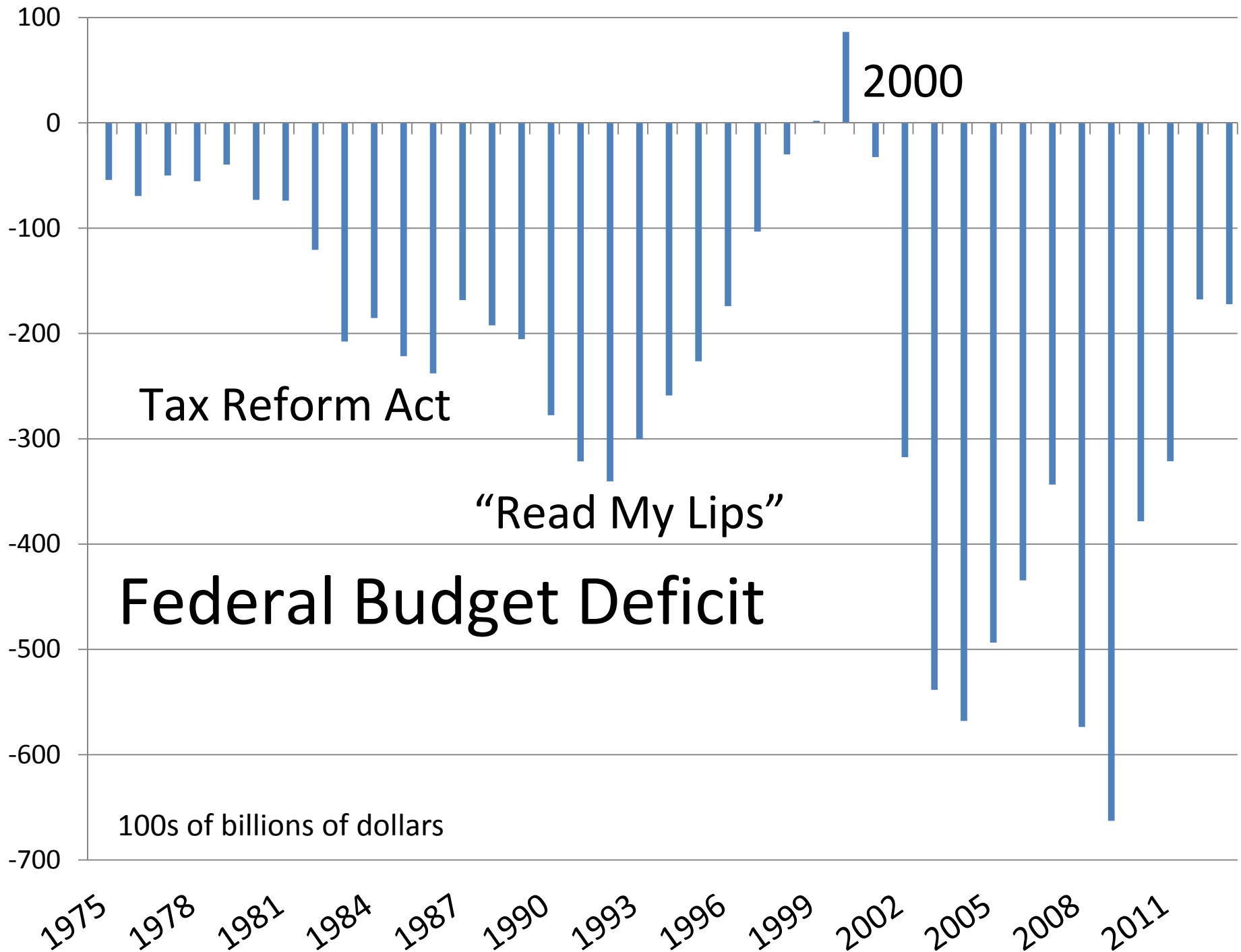
Climate change
Health Care
Medicaid
COBRA

Education
Teacher layoffs
Head Start
Assistance to State
governments
Bridges
Roads
Transit
Clean water
AMT
Making Work Pay tax cut
Earned income credit
Unemployment benefits
Food Stamps



\$785,000,000,000

\$2,500,000,000,000

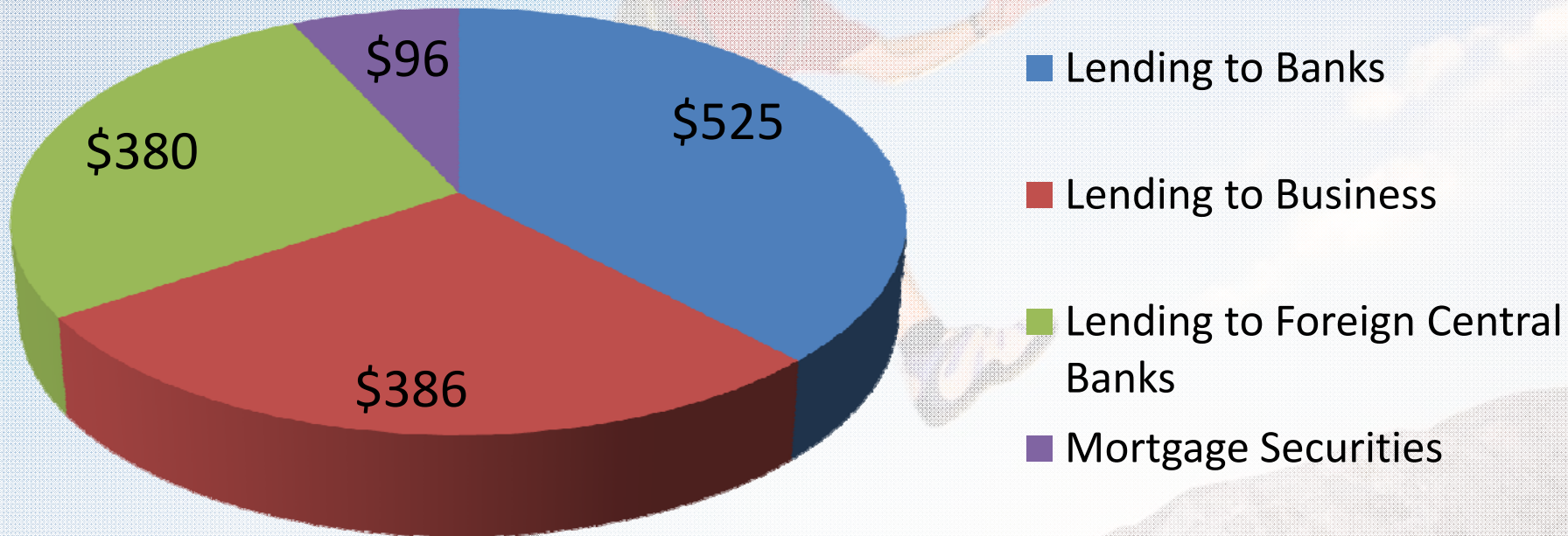


Federal Reserve Programs



Federal Reserve Programs

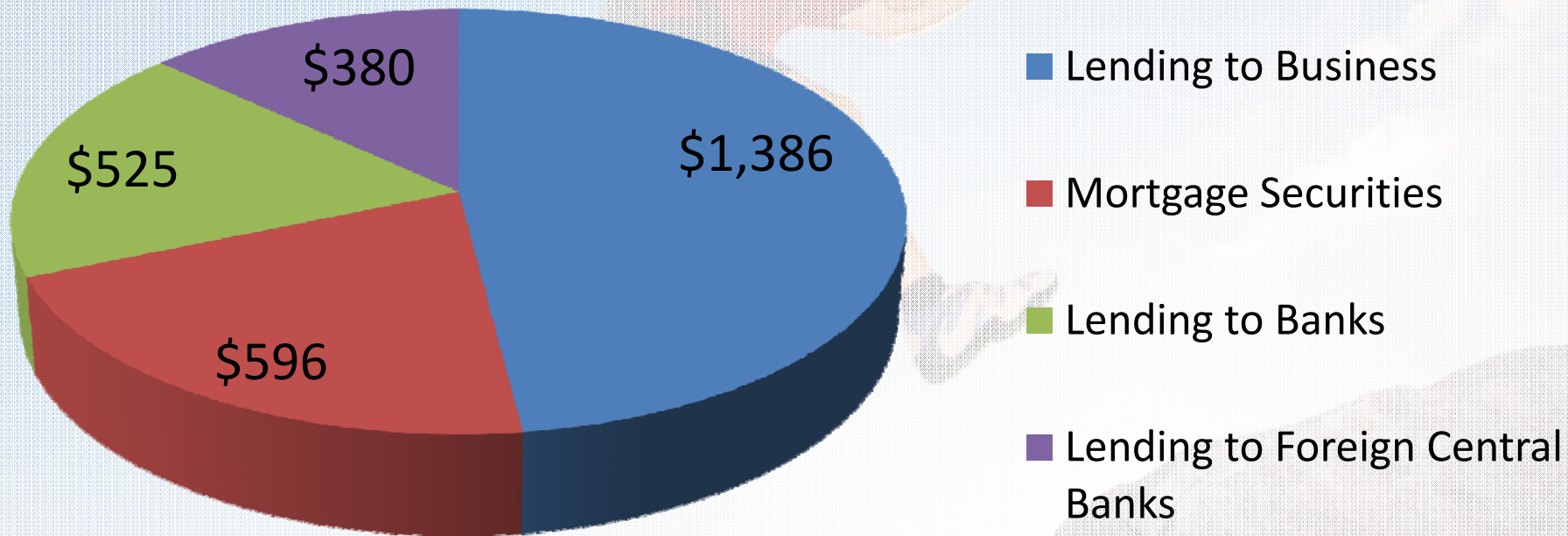
As of February 18, 2009



Total \$1386 billion

Federal Reserve Programs

Proposed, as of February 18



Total \$2890 billion

Homeowner Affordability and Stability Plan





Refinancing for Fannie Mae and Freddie Mac Loans

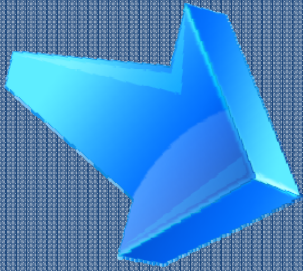
Assist 4-5M borrowers to
refinance to lower rates

80% -105% Loan to Value

Reduce private mortgage
insurance costs



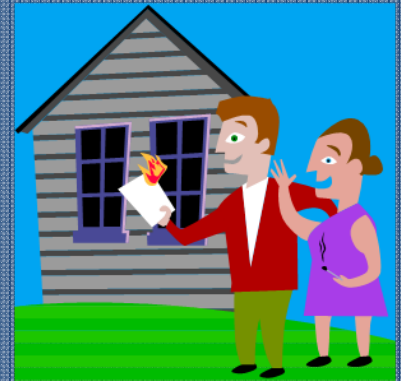
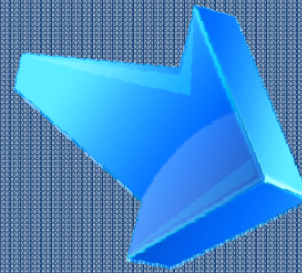
Debt/Income > 31 percent



Loan Modification Plan to Reduce Foreclosures



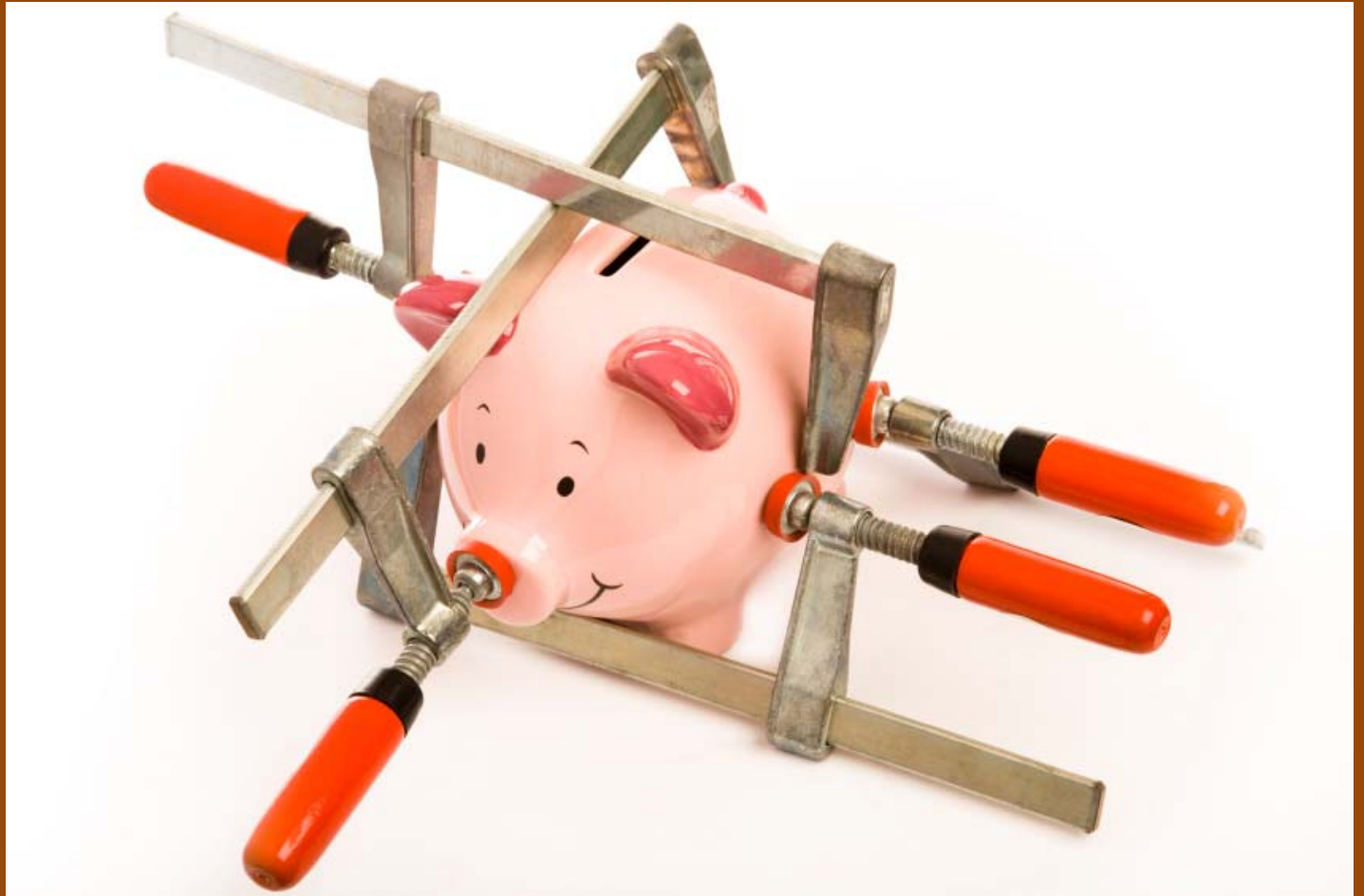
\$75 billion



- Private-Public Partnership
- Performance-based
- Max \$17,000 per loan

U.S. Treasury Financial Stability Plan

Stress Test for Banks



“Bad” Bank

Remove
“toxic” assets
from bank
balance
sheets

Why?



Nationalization

How to Clean Up a Banking Mess

1. Government administrator
2. Honest, complete, transparent accounting
3. Inject capital – government or private

Questions?

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