

## **Book Review**

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### **Dan Immergluck, FORECLOSED: HIGH-RISK LENDING, DEREGULATION, AND THE UNDERMINING OF AMERICA'S MORTGAGE MARKET (Cornell University Press 2009)**

Dan Immergluck's FORECLOSED: HIGH-RISK LENDING, DEREGULATION, AND THE UNDERMINING OF AMERICA'S MORTGAGE MARKET (Cornell University Press 2009) provides a good introduction to what caused the mess that we find ourselves in. Immergluck is one of the best scholars looking at this topic across disciplines and the book demonstrates the depth and breadth of his knowledge and insight. Given, however, that the book was written before the credit crisis has fully taken its course, it does have certain limitations which I will discuss below.

There is clearly a need for books such as FORECLOSED as there is a gap between the scholarly literature and the serious journalism that one finds in THE WALL STREET JOURNAL and other business-oriented periodicals. This book can ably serve as introduction to nonspecialists regarding the sweeping nature of the subprime crisis. Indeed, I plan on assigning selections from it to my students. It also provides a useful review for those scholars who lose our way in the forest of housing policy as we get caught up in the complexity of the individual trees that we study.

I found Chapter One's history of the development of the U.S. mortgage market particularly useful in this regard. Chapter One reaches back to the earliest origins of the housing finance sector, the Oxford Provident Building Association, established in 1831 as the nation's first building and loan. It neatly moves forward to the origins of the federal government's intervention in the housing market in the Harding and Hoover administrations and then describes the whirlwind of change that swept through this sector during the New Deal. It follows with a description of the next revolution in housing finance, securitization, and its attendant changes to the regulatory structure of that market. All in all, this chapter is able to capture how the market changed over time remarkably well and sets the rest of the book up for a sophisticated discussion of these issues and the causes of the current crisis.

Three major questions are, however, dealt with too superficially in the book. First, what is the right level of complexity for the secondary mortgage market? Second, what is the right level of credit access for subprime borrowers? And third, what is the right level of regulation in this market?

Immergluck, like many other commentators on the crisis, has identified the complexity present in the structure of the mortgage market as one of the causes of the crisis. Chapter Four outlines the failures that result from the financial complexity of mortgage-backed securities

products and the mortgage market itself. But Immergluck does not struggle with the more difficult question – what is the appropriate level of complexity? Obviously, wide swaths of the financial markets are extraordinarily complex, yet they function well, at least most of the time. Complexity in itself cannot be the problem. The problem may be, as Immergluck indicates, the perverse incentives that were rampant in this market, but that is another question. Immergluck does wrestle with the issue of perverse incentives in a coda where he proposes policies for a fair and sustainable housing market. But some of his solutions, such as reducing complexity and requiring that market players have “skin in the game,” may be too facile. Indeed, they may be responses to the last (our current) financial crisis and not to the next (surely inevitable) one.

Chapter Five looks at the economic and social costs of high-risk mortgage lending and sets forth a legitimate parade of horrors, looking at financial and nonfinancial impacts on borrowers and their families; financial costs for lenders and investors; and negative externalities for communities, local governments and entire regions. But again, Immergluck does not struggle with a more difficult question – what is an optimal range of default rates for society, other than to make the uncontroversial case that the current state of affairs is unacceptable. This new age of credit access is a far cry from the underwriting of a generation ago, when a would-be borrower needed stable ties to the community; a long job history; a nearly perfect credit history; and a large down payment in order to obtain financing for a home. If the benefits of credit are to be provided to low- and moderate-income families and to those with less than perfect credit, there will likely be higher rates of default. We need to be able to begin to answer this second question if we are to design regulation that achieves an acceptable balance between consumer choice and consumer safety.

A third key question that Immergluck does not address explicitly is – how much regulation is the right amount of regulation? Those who find themselves on the laissez faire side of the debate regarding how markets should work argue that our default position should be to maximize consumer choice. They believe that regulation is paternalistic and limits innovation. Those who favor greater regulation believe that it protects consumers from rapacious as well as misleading behavior on the part of sophisticated market players like lenders. Immergluck clearly carries the banner for the latter group but he does not attempt to fully set forth the case for the two sides of this debate. This is a shame because the crisis calls for a practical approach to regulation, an approach that sees both the strengths and limitations of a regulatory response to the problems in the housing finance market.

While my criticisms are perhaps better understood as a description of the book that I would have written instead of a criticism of the book that Immergluck wrote, I do believe that his take on recent events tends to sound at times more like an advocate’s brief rather than a measured argument. Indeed, he does not do justice to some of the arguments made by proponents of the laissez faire agenda. For instance, he barely addresses the role of the GSEs Fannie Mae and Freddie Mac in causing the crisis. Many believe that they had a key role in

causing the crisis and many dispute that claim. Whatever the ultimate conclusion, this is a key issue for future policy planning, one that he should have addressed at length in the text.

In my experience, there are few books that are able to make real estate and finance topics come alive. This book does so far more than most. Immergluck distills an extraordinarily broad range of scholarly work into a narrative that holds the attention of a reader notwithstanding its necessarily technical focus. FORECLOSED both summarized what I already knew, but also usefully linked together events and issues where I had not seen such linkages. I will note, however, that while I believe that most of the conclusions of FORECLOSED will be vindicated in coming years, I do not consider them foregone: some of the arguments that got Immergluck to his conclusions could have been made in a more balanced manner, taking into account widely circulated counterarguments and acknowledging the limits of our current knowledge.

In sum, if it is true that journalism provides the first draft of history, FORECLOSED has provided a timely second draft. It will be up to scholars in the next few years to integrate the fast-moving events and the extensive scholarly literature about them into a definitive account.