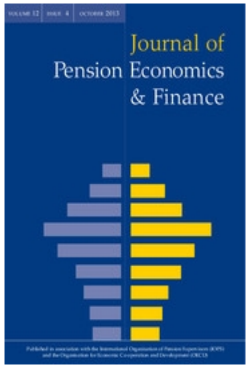

Guaranteed to Fail: Fannie Mae, Freddie Mac and the Debacle of Mortgage Finance. V. V. Acharya, M. Richardson, S. van Nieuwerburgh and L. J. White. Princeton University Press, 2011, ISBN 978-0-691-15078-9, 222 pages.

Professor Richard Reed

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There are significant variations among OECD countries in the funding arrangements and the proportion of expenditure that is public, which varies from negligible amounts to up to 3.6% of GDP (in 2008). Nordic countries spend between 1.7–3.6% of GDP and LTC is mainly publicly financed from local and central income taxation. Southern and Eastern European countries are typically characterised by low levels of expenditure and tend to rely more on informal care. Countries like the Netherlands and Germany are characterised by a public insurance model where participation is mandatory and funding is based on employment-based contributions.

There is a wealth of differences in LTC policies and financing arrangements across Europe. These create a unique opportunity to learn from each other's experience. Governments need to know which policies are successful and which ones are not, and need to be aware of new emerging models. Finding detailed information about different countries' experiences is hampered by language and other barriers. Detailed and accessible information on different financing models is critically needed. Here lies one of the key contributions of the volume.

This book contains a detailed account of LTC financing arrangements in several European countries. It includes separate chapters on the Netherlands, France, England, Southwest Europe (Italy, Portugal and Spain), Austria, Germany, Central Eastern Europe, the Scandinavian countries, Switzerland and Belgium. These are written by leading national experts. If you are not familiar with different models for financing LTC, you will quickly become an expert after reading and digesting this book. If you are an expert in your own country, you will be able to compare policies and arrangements with many others. Moreover, only by acquiring detailed knowledge on different financing models can we appreciate what lies behind major differences in quantitative figures on spending and provision of formal and informal care across European countries.

Before launching yourself into each country's details, reading the introductory chapters will help you to identify some critical issues. The chapter by Colombo provides a typology of public coverage across OECD countries and allows identification of the key financing models. Private insurance is a potential option to fund LTC but this is poorly developed in many countries (often referred to as an 'LTC insurance puzzle'). Many observers wonder why this is the case. You will find the answer in the chapter by Pestiau and Ponthiere. The role of housing wealth as a form of self-insurance, the public-private mix and its interface with informal care, and insurance markets from an industry perspective are also explored in the introductory chapters.

In summary, this is a very valuable book (which I was asked to review after I had already purchased it). It will help stimulate debate and policy development across an international audience. It will make you wonder for a long time: which one is the correct financing model?

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Guaranteed to Fail: Fannie Mae, Freddie Mac and the Debacle of Mortgage Finance. V. V. Acharya, M. Richardson, S. van Nieuwerburgh and L. J. White. Princeton University Press, 2011, ISBN 978-0-691-15078-9, 222 pages. doi:10.1017/S1474747213000139

The title of this book clearly is aptly suited to the contents, being an informative insight and constructive analysis about the challenging circumstances which led to the financial collapse of these U.S. government guaranteed organisations in the unprecedented global financial crisis. The financial instrument is predominantly mortgage-backed securities that were adversely affected by the collapse of lending in the U.S. housing market, which in turn also closed banks such as Lehman Brothers. The effect on the wider housing market is well documented.

The strength of this book lies in the direct writing style and detailed explanation presented by the authors who collectively are intent on explaining the background to the substantial problems faced by Fannie Mae and Freddie Mac. Given the complications that can occur when four authors are involved in researching in and writing about such a complex area, the flow of the text is preserved and very clear. There is no evidence of a 'mismatch' in writing styles which can often occur when there are multiple authors for a text.

The purpose of this book is three-fold: it explains the history preceding the actual collapse; reflects on how to prevent a future reoccurrence; and outlines potential options for undertaking reform. To readers who are unfamiliar with Fannie Mae and Freddie Mac, this is an ideal opportunity to gain an insight into the evolution of the financial institutions which led to their unfortunate circumstances. This statement would apply mainly to non U.S. readers, as the profile of both organisations has been extremely high in the U.S. The media coverage was also comprehensive in academic circles, but little attention was placed on the longer term structural and historical issues this book successfully tackles.

This hardcopy book is 222 pages in length and in A5 format. It has somewhat the appearance of a fiction book and the writing style is based on telling a story about the collapse of these organisations. It commences with a very informative historical background detailing how both institutions evolved and then expanded into multi-billion dollar entities. Of particular interest is the political intent and overall influence, such as listing on the NYSE with associated unique conditions, which all contributed to creating a unique set of circumstances when the global financial crisis occurred.

Overall the book is very readable. It uses the benefits of hindsight and learnt lessons from past mistakes to present a potential framework for overcoming a repeat of the same financial problems. It is not simply a lengthy descriptive history lesson but does spend time interpreting and arguing exactly what went wrong and why. The reader will appreciate these interpretations, however at the same time will question why the warning signals were not so easily noted much earlier in time. This appears to be a strength of the book; the focus is placed on those relevant aspects which caused the ultimate demise of Fannie Mae and Freddie Mac. The book is recommended to all stakeholders in financial organisations, government bodies and interested parties who would like to understand what actually happened with these government-backed organisations in the U.S. There are key lessons to be learnt for all stakeholders who have an interest in mortgage backed securities and the broader financial marketplace.

The book is supported by three testimonials from highly regarded authors who use terms such as 'excellent book', 'comprehensive and well-written' and 'down-to-earth' analysis. This reviewer concurs with these comments. The book is divided into nine chapters, as well as being supported by a prologue and epilogue. The chapters have been carefully planned and organised into a sequential order, commencing with a broad scene setting introduction and then concluding with a thought provoking summary. At the end of the text is an appendix referring to a 'timeline of U.S. housing finance milestones', notes, glossary and a comprehensive index.

The book commences with two pages of extensive acknowledgements which by itself gives an insight into the background research that took place in the process of writing. The prologue follows and the eleven pages lay a solid foundation for what occurred during the global financial crisis with reference to the U.S. housing finance market.

The nine chapters are divided into a smaller number of sub-headings, with each chapter commencing with a scene setting quotation relevant to the content. Chapter One (*Feeding the Beast*) introduces the historical background to the mortgage system in the U.S., with reference to the origins of Fannie Mae and Freddie Mac in 1929. It discusses their role as government-supported enterprises (GSEs) in the broader housing market. Then Chapter Two (*Ticking Time Bomb*) examines the period from 1992 onwards and is supported by an extensive review of relevant literature. Following on, Chapter Three (*Race To The Bottom*) is concerned with different approaches to providing mortgage finance including references to the high risks taken with housing finance and reasons for this approach with the benefit of hindsight.

Chapter Four (*Too Big to Fail*) examines the period from 2009 onwards and the circumstance affecting Fannie Mae and Freddie Mac, including the perception that both organisations were protected from collapse due to their overall market size and government backing. Chapter Five (*End of Days*) reviews government efforts to provide a rescue plan and prevent a crisis, as well as explaining the government's reasoning and available options at that time. Chapter Six (*In Bed with the Fed*) discusses the 'extraordinary power of the Federal Reserve (Fed)' to intervene in the crisis. There is a debate in this chapter about the intervention, or lack thereof, as well as the implications for taxpayers to fund the exposure of the government to this liability.

Chapter Seven (*How Others Do It*) reviews the approach of other countries towards financial institutions and home ownership. Reference is made to Canada and is also supported with reference to 25 other countries and their home ownership rates. Chapter Eight (*How to Reform a Broken System*) presents a number of options for GSEs and how to operate in a viable matter in today's financial environment. The final chapter in the book is Chapter Nine (*Chasing the Dragon*), which both poses and answers insightful questions about the future of financial institutions, building on lessons learnt in the global finance crisis. This chapter leaves the reader with a direction for future decisions about GSEs and it is hoped stakeholders will take heed of these suggestions.

Throughout the book there is optimal use of detailed tables, graphs and conceptual diagrams which are referred to frequently throughout the text. Each chapter is well written and the authors have successfully produced a book which provides a fluent chapter-by-chapter insight into these GSEs in relation to the global financial crisis. In conclusion the book is extremely well organised and set out, which in turn assists the reader to gain an insight into this important area. The typical reader's knowledge about mortgage finance can range from very limited to relatively expert, since the text is well written and caters for a wide range of stakeholders. The text is recommended as providing direct and informative insight into the otherwise complex area of lessons learnt from the global financial crisis and potentially how to avert or lessen the effort of a repeat problem.

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Retirement Income: Risk and Strategies. Mark Warshawsky. MIT Press, 2012, ISBN 978-0-262-01693-3, 268 pages. doi:10.1017/S1474747213000140

This book is a useful collection of prior, co-authored articles and papers that are primarily focused on the use of insurance solutions to decrease longevity and/or disability risks. It is a record and summary of an evolving point of view that looks at past history, considers the present when it was written and faces the future with a specific proposal for a new product innovation: Life Care Annuities. It is a serious and careful book that will likely be on many bookshelves as an important reference document.

Before reviewing specific aspects of the book, it may be necessary to help readers place it in the context of the U.S. Retirement Income Industries Association's View Across the (business) Silos that not only encompasses all defined contribution channels but also includes the retail channels.

The two key risks highlighted in the book – longevity and disability – are important Client-level risks that indeed can lead to compelling analytical – and at times academic – arguments in favor of insurance solutions in defined contribution channels. However, practicing retail advisors, who may not be the intended audience for this book, will point out that these risks are not the only Client-level risks that must be addressed and that there are other important categories of risk besides Client risks. For instance, the retirement risks presented in the