

Information needs of macroprudential policymaking

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What did we need in 2005?

Failure of information and imagination

Moving to remediate information gaps

What kind of information supports imagination?

Lack of information

- Downpayments used to purchase homes
 - What percent “borrowing” downpayment?
 - Pre-crisis focus on aggregate statistics
- Financial firms’ commitments not on balance sheet
- Concentration in complex funding/securities markets
- Firms’ holdings of liquid assets

Major information improvement

Current data collections to track:

- Stress testing—monthly & quarterly data on
 - Market positions
 - Credit risk (C&I, CRE, residential mortgage, auto, credit card)
 - Operational losses
- Liquidity positions
 - High frequency, liquid assets and liabilities
- Some nonbank markets, e.g. repo
 - But some lacunae remain

These data would have helped a great deal in runup to crisis and during the crisis itself

Lack of imagination

Example: In 2005 did investors think house prices could decline 30 percent?

Reading the historical record

Lehman Brothers analyst report from Aug. 2005 mapped out subprime RMBS performance in five scenarios...

From Gerardi, Lehnert, Sherlund, Willen 2008

Name	Scenario	Probability
Aggressive	11% HPA for life	15%
	8% HPA for life	15%
Base	5% HPA by end-2005	50%
Pessimistic	0% HPA for 3 years, 5% thereafter	15%
Meltdown	-5% HPA for 3 years, 5% thereafter	5%

In real time

<u>Publication date</u>	<u>HPI data from</u>	<u>Report title</u>
12/8/2006	Oct. 2006	“More widespread declines with early stabilization signs”
1/10/2007	Nov. 2006	“Continuing declines with stronger stabilization signs”
2/6/2007	Dec. 2006	“Tentative stabilization in HPA”
3/12/2007	Jan. 2007	“Continued stabilization in HPA”
9/20/2007	July 2007	“Near bottom in HPA”
11/2/2007	Sep. 2007	“UGLY! Double digit declines in August and September”

Second-round effects

- Hindsight is 20/20—prepared for Brookings meetings held Sep. 11-12, 2008
- Even if one contemplated a 30 percent drop in house prices could one foresee all the ramifications?
 - Surge in credit losses—
 - Performance of subprime mortgages conditional on house prices could have been predicted (GLSW 2008)
 - Macro spillovers? (Mishkin 2007)
 - Effects on leveraged financial intermediaries?
 - Operational breakdowns that emerged in 2010
 - Litigation & conduct issues

What is needed

- Information collection is much improved
 - Collecting actual data, not anecdotes
 - Comparable over time
 - Covered major players
- How can information also support imagination?
 - Lightweight, more flexible, more ad hoc
 - Reach all market participants
 - Example: look for supernormal profits