Information needs of macroprudential policymaking

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The opinions expressed here are my own and do not necessarily reflect those of the Board of Governors of the Federal Reserve or its staff.
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?
Lehman Brothers analyst report from Aug. 2005 mapped out subprime RMBS performance in five scenarios...

From Gerardi, Lehnert, Sherlund, Willen 2008

<table>
<thead>
<tr>
<th>Name</th>
<th>Scenario</th>
<th>Probability</th>
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<tbody>
<tr>
<td>Aggressive</td>
<td>11% HPA for life</td>
<td>15%</td>
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<tr>
<td></td>
<td>8% HPA for life</td>
<td>15%</td>
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<tr>
<td>Base</td>
<td>5% HPA by end-2005</td>
<td>50%</td>
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<tr>
<td>Pessimistic</td>
<td>0% HPA for 3 years, 5% thereafter</td>
<td>15%</td>
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<tr>
<td>Meltdown</td>
<td>-5% HPA for 3 years, 5% thereafter</td>
<td>5%</td>
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# In real time

<table>
<thead>
<tr>
<th>Publication date</th>
<th>HPI data from</th>
<th>Report title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/10/2007</td>
<td>Nov. 2006</td>
<td>“Continuing declines with stronger stabilization signs”</td>
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<tr>
<td>9/20/2007</td>
<td>July 2007</td>
<td>“Near bottom in HPA”</td>
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<tr>
<td>11/2/2007</td>
<td>Sep. 2007</td>
<td>“UGLY! Double digit declines in August and September”</td>
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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