Peter Swire on the View from the Top

After assisting the Obama-Biden transition, Peter Swire served as special assistant to the president for economic policy at the White House, where he presided over decisions involving wobbly federal housing agencies and the still-unstable recovery. *MReport* takes a stroll with the distinguished professor.

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M // You served at the White House near the height of the financial crisis. How would you describe the view from the top for housing finance during those heady times?

SWIRE // For housing finance in 2009, the first goal was stabilization. The enterprises were newly in conservatorship. Many parts of the financial system were still under enormous stress with huge risk premiums around liquidity. At that period, the money mutual funds were threatening to break the buck. They weren't sure they could get everything back. So the first goal was stabilizing the institutions and stabilizing the financial system. And that phase resulted in the stress tests for the big banks in the spring of 2009. The big banks raised almost $100 billion in equity capital, and that was a huge sign the markets were coming back into balance. So the first phase of stabilization, and in that period a related goal, was bringing confidence back to the housing market. The first-time homebuyer credit started to bring people back into the market. That meant some purchases were actually happening, and the sense of crisis eased.

M // You arrived with the Obama-Biden team the year after then-President George W. Bush signed off on the creation of the GSEs. What was the administration's view of these companies and their Treasury draws?

SWIRE // The biggest fact was, we couldn't repeal the past. The GSEs were already in a huge hole, and nothing we could do could erase what we were experiencing. We started a couple $100 billion behind, and given that reality, we had to stop the hole from getting worse and begin the long climb back. During the crisis, you're not focused on the 10-year plan. During the crisis, you must stop the bleeding and get the patient stable. And then you can worry about long-term rehab. One key part of stabilization was assuring the market that we had enough resources to honor the GSE obligation. So the backup funding from Treasury had to be big enough for the markets to believe that the alms would be paid.

M // Critics accuse the Federal Housing Administration (FHA) of problems with its books of business, which it expanded during the financial crisis. Was there any understanding that the FHA might have fiscal problems as it insured more mortgages, particularly those above conforming loan limits?

SWIRE // The FHA has stayed in the black longer than any other major housing finance agency. It weathered the crisis probably better than anyone else—I mean the news stories were that it might need extra funding in 2013, not that it had a $200 billion hole in 2008 like the GSEs. And my view of the data is that FHA did much better than other financial institutions during the crisis, and its book of business since 2009 is higher-quality on average than it has had in years. The average FICO score is up, and the size of the premium is up to produce revenue. And in the late stages of a financial crisis, you often see people becoming bears who were enormous bulls during the bubble. They're saying there is a huge new down-leg in the market even though most indicators show we're near the bottom now.

M // Along with your service in the Obama administration, you also took a job addressing privacy issues in the Clinton administration. What was that like, and how was it different from the Obama team?

SWIRE // Under Clinton, we didn't face the biggest financial mess of our generation. The talking points under Clinton were how to describe the biggest peacetime expansion in history. The talking points under Obama were that we faced 7 percent GDP growth in the quarter before we entered office and how we reacted strongly to address those legacy problems.

M // You're more involved in technology policy now than housing finance. What do you think about recent Internet legislation like the Stop Online Piracy Act (SOPA)?

SWIRE // I got my start in finance during the savings and loan crisis. By the 1990s, we had run out of the financial crisis. So I started studying the Internet. Fortunately, we're past the crisis now when it comes to finance, and there's room to think about innovation policy and long-term growth. Two things about SOPA: The law was badly drafted and would have caused big Internet security problems, which I was worried about. The second is that it showed the power of political mobilization when people tried to harm the Internet.

M // Have you read any interesting books recently that you would recommend?

SWIRE // I was interested in a book called *The Master Switch* by Tim Yu. Yu describes the cycles of openness and monopoly for the information industry. I think it's a fascinating book for people who try to understand technology and its effect on our economy.