



International Finance Discussion Papers: When Good Investments Go Bad: The Contraction in Community Bank Lending After the 2008 Gse Takeover

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Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.In September 2008, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac were placed into conservatorship and dividend payments on common and preferred shares were suspended. As a result, share prices fell to nearly zero and many banks across the country lost the value of their investments in the preferred shares. We estimate more than 600 depository institutions in the United States were exposed to at least \$8 billion in investment losses from these securities. In addition, fifteen failures and two distressed mergers either directly or indirectly resulted from the takeover. Since these GSE investments were considered to be safe investments by banks, regulators, and rating agencies, we consider these losses to be exogenous shocks to bank capital, and use this event to examine the relationship between community bank condition and lending during this crisis. We find that in the quarter following the takeover of Fannie Mae and Freddie Mac, the measured Tier 1 capital ratio at exposed banks fell about three percent on average, and loan growth at exposed banks with median capitalization was about 2 percentage...



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