

Project New Initiative

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The Subprime Crisis Research Council (SCRC) is providing the foundation for Project New Initiative. This comes as President Obama announces a major housing bill which appears to adopt several of the ideas that emanated from HHI's Subprime Crisis Research program in late 2007. President Obama, in his February 18 Mesa Arizona speech, said "If we act boldly and swiftly to arrest this downward spiral, then every American will benefit." The speech echoes a great deal of the thinking expressed in the early discussions of the Institute's Subprime Crisis Research Program. This offshoot from the SCRC, Project New Initiative, is imbedded in the blog, "Maury Seldin on Strategic Decision Making." While it is difficult to get a good assessment of the potential impact of this effort, HHI is hopeful that the resulting discussions will lead to positive results..

The subprime crisis not only persists, but it has generated substantial side effects most noticeable in the credit crunch and rising unemployment. The situation is new and different from previous downturns. This "Great Recession" is quite complex and can best be dealt with by blending knowledge from a variety of disciplines beyond standard economics and finance. This blending of expertise is the basis of Project New Initiative.

During the January Weimer School conference, Maury Seldin convened a meeting of senior leadership to discuss how to move forward in order to continue to contribute to policy-making discussion on these issues. What emerged from this discussion has been dubbed "Project New Initiative." Project New Initiative is an interdisciplinary approach to the foreclosure crisis and its various ripple effects. Research sponsored by the Homer Hoyt Institute suggests that there are many causes of foreclosure such as subprime lending, predatory lending, the housing price bubble, lax underwriting, limited regulation, etc. Further, we now also see a pronounced 'spillover' effect which depresses home prices, has been linked to an increase in crime rates and can eventually lead to the failure of an entire town.

An interdisciplinary approach to the problem takes into consideration its magnitude and the need for new ideas. Through Project New Initiative, the Homer Hoyt Institute will take the lead in bringing researchers from diverse disciplines together to discuss how their respective areas of expertise may assist policymakers in ending the crisis and preventing a relapse. This approach is not uncommon in research. *(Cont.)*

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For example, Fischer Black and Myron Scholes struggled to earn broader acceptance for their options pricing model until Bob Merton generalized their model by relaxing some of the assumptions - relying heavily on his background in math and science.

Which disciplines could add the most value to the foreclosure discussion? Clearly, the foundation for such a "dream team" of problem solvers is a solid group of financial economists. However, the current crisis requires not only traditional thinkers whose ideas are based on the belief that market participants are rational and that it is reasonable to assume that they behave in a rational manner. In addition, the current situation calls for input from behavioral economists who could help us to understand when and why market participants might behave irrationally. Further, with regard to understanding market participant behavior, we should build on the contributions of behavioral economists by including other social scientists to the discussion. The hope would be to include philosophers who are well versed in emergence - the way complex systems and patterns arise out of a multiplicity of relatively simpler interactions. Because this crisis has escalated to what some have described as "epidemic" proportions and likened it to a cancer, we need an understanding of growth and movement in a social setting. In sociology, researchers focusing on reflexivity investigate circular relationships between cause and effect. Such an appreciation for situations when the process of examining an action may affect the examiner could be useful in our discussion. A useful common interest across these behavioral researchers would be organic modeling. That is, the behavioral researchers with the most to lend to our discussion will be those who understand the interdependence of the component parts of the systems that they investigate as well as the differentiation across those parts. This understanding will be critical in ensuring that solutions that emerge from this multi-disciplinary group represent a seamless blend of combined expertise.

Once we assemble an interdisciplinary team of financial economists and other social scientists, we should bring them together in a forum that encourages open discussion, debate, collaboration

and ultimately policy proposals. The nature of such a forum and its feasibility is under investigation, and this report is a part of that process.

The strategy we are currently pursuing is to use the blog on the Hoyt Group site to get discussion going, starting with participants in the Subprime Crisis Research Program but extending out to include others in a position to make a significant contribution to understanding the changing system and improving forecasts of outcomes. Once the feasibility of an in-person meeting with luminaries from other disciplines is assessed as feasible the process could be considered an introduction of people and ideas. Invited experts would make brief presentations of portions of their work that may be relevant to the discussion and then some variation of it would be added to the website so as to make the core of relevant knowledge from other disciplines readily available to researchers and policy makers.

The dissemination of the work of experts from other disciplines is a critical part of the Project New Initiative. To that end, the Web Project, which began as part of the SCRC will be vital. The newly expanded Homer Hoyt Institute web presence will evolve through Project New Initiative into a repository for scholarly work starting with foreclosure and related topics as well as a forum for experts to share ideas and further the discussion. With permission of the researchers, we will post the presented work on the Web with links to their own Web sites if desired. Another key element to our Web presence will be a threaded discussion in a hierarchical format. This will give us the ability to communicate in 'real-time' in addition to in-person venues such as roundtables, symposia or conferences as well as extend our budget by maximizing existing resources.

We have already had several discussions about when and where to hold the first multi-disciplinary meeting. The hope was to hold a meeting in advance of the May Weimer School meeting. However, several members of the senior leadership felt that it would be tough to pull together a high quality meeting in such a short time and difficult for attendees to commit to an extended conference. As an alternative, a meeting at the University of Pennsylvania was discussed, possibly much later in the year. (Cont.).

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Because of the breadth of expertise that we envision for Project New Initiative, we believe that it will be important to define a theme for any forum bringing together our team of interdisciplinary experts. Some topics discussed at the January meeting and in the electronic mail discussions that followed included various foreclosure topics such as "Foreclosure Prevention with Liberty and Justice for All," "Understanding the Footprint of Foreclosures."

The group also discussed various housing policy topics such as "Housing Policy in the Context of Energy Independence and Positive Liberty" and "How and Why We Need to Re-privatize the Housing Finance System?," "The Future State of Risk-Based Mortgage Products."

An area of significant interest involved government intervention and regulation in housing markets prompting proposed themes such as "Devising Strategies for Institutional Intervention for the Residential Financial and Real Asset Markets;" "Caring About TARP: How and Where Should We Apply Governmental Resources for Solving the Housing Market Problems;" "How Do We Restructure and Reregulate the Housing Financial System?" and "How and Where Should Government Resources be Applied?"

Others suggested a 'lessons learned' theme with specific topics such as "What Have We Learned From the

Subprime Mortgage Experience?;" "What has the Subprime Financial Crisis Taught us About Household and Lender Financial Decisions and Housing Tenure?" and "The Housing Crisis: What Did We Miss and What are We Still Missing?"

Finally, some suggested that we should capitalize on our shared resources by considering topics such as "Metro by Metro Analysis of Problems Facing an Area and Proposed Solutions" or "Making Housing Data Available to Researchers."

Because we are in the early stages of launching this initiative, much work lies ahead. Assembling the team of interdisciplinary experts will be key in Project New Initiative's success. However, we are already working on adjusting the framework of the Homer Hoyt Institute's Web site to accommodate this work and further our mission.



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