

## New Fed chair didn't see housing bubble coming

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In her [new job](#) chairing the Federal Reserve, Janet Yellen will try to avoid economic crises. But did she foresee the last one?

While Yellen served as the regional bank chair for San Francisco she [voted](#) along with other members of the Fed to maintain low mortgage interest rates, which were one main contributing factors to the housing bubble.

For a while, it appeared this was stimulating the region's economy by creating construction jobs and reducing unemployment. But some feared serious problems once the bubble burst — a fear Yellen did not share.

On the eve of the financial crisis in 2007, she reassured the public that the U.S. economy was safe from the fall of the housing market, which at that point had already been in decline for six months.

Yellen [said](#) in a speech to the Joint Rotary Clubs of Reno and the East Bay, “While the decline in housing activity has been significant and will probably continue for a while longer, I think the concerns we used to hear about the possibility of a devastating collapse — one that might be big enough to cause a recession in the U.S. economy — have been largely allayed.”

During a speech the following month at Sacramento State University's College of Business Administration, she [said](#), “While the future for housing activity remains uncertain, I think there is a reasonable chance that housing is in the process of stabilizing, which would mean that it would put a considerably smaller drag on the economy going forward.”

Housing sales, prices and construction plummeted after these comments, but Yellen still did not foresee just how far the country would fall into recession. She told the audience at a Community Leaders Luncheon in Anchorage, Alaska, “The bottom line for housing from a national perspective is that it has had a significant depressing effect on real GDP growth over the past year. While I wouldn't want to bet on a sizable upswing, I also wouldn't be surprised to see it begin to stabilize late this year or next.”

Following this prognostication, the recession hit in such force that eventually even Yellen recognized the truth. She recounted in an interview that although she eventually contacted the Financial Crisis Inquiry Commission for guidelines regarding how to handle her region's housing market, she never went public with any concerns and failed to recognize the severity of the situation until the housing sector collapsed in front of her face.

“For my own part,” Yellen [explained](#), “I did not see and did not appreciate what the risks were with securitization, the credit ratings agencies, the shadow banking system, the S.I.V.’s — I didn’t see any of that coming until it happened.”

“I do worry about if she will see the next bubble when it is coming,” Mark Calabria, the director of financial regulation studies at the Cato Institute, told The Daily Caller News Foundation. “If there was a sense that she had learned anything from the crisis at least in terms of the issues that I am concerned about — that I think contributed to the crisis, then I would feel a little differently, but you really don’t see her saying ‘wow we really screwed this up.’”

Instead of predicting that this bubble would lead to an inevitable bust, “She bought into the belief that the housing market being on fire in California was a good thing,” said Calabria.

Despite her inability to predict the fall of the housing market, “I certainly would not lay the housing bubble at the feet of Janet Yellen,” Calabria added.