The end of the housing boom in 2006, the start of the foreclosure process in 2007, and the near bankruptcy of the financial industry in 2008 were sequentially connected. The latter could not have happened without the former, and the resulting combination was one of the most destructive collapses ever to occur throughout the economy of the United States, and to some extent that of the world.

The Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States prepared by the Financial Crisis Inquiry Commission (FCIC)\(^1\) gave some dimensions to the destructiveness of this collapse. It explained that, in the late fall of 2010, just before that Final Report was sent to press, there were 26 million Americans who were out of work, could not find full-time work, or had given up looking for work. It continued that about 4 million American families had lost their homes to foreclosure, and another 4.5 million had slipped into the foreclosure process or were seriously behind on their mortgage payments. Lastly, it added that nearly $11 trillion in household wealth had vanished, with retirement accounts and life savings swept away.\(^2\)

The harms were not all focused on individuals and families. Cities and towns had to provide help for long-term unemployed and protection for vacated properties as real estate tax revenues went down due to the sharp declines in property valuations. State and county governments faced similar shortages in their income tax and sales tax revenues, and had to lay off employees just as the need for those persons’ services escalated.
Budget deficits at the federal level grew to unsupportable numbers, and a substantial part of the expanding deficit was caused by the need to provided emergency funding for those local and state government units, plus additional capital for the nation’s larger banks and investment houses that found themselves in danger of bankruptcy. On this issue, the Financial Crisis Commission concluded that “…, taxpayers had committed trillions of dollars through more than two dozen extraordinary programs to stabilize the financial system and to prop up the nation’s largest financial institutions.”

Obviously, this was not a good period for the American society or the global economy. In our view, this happened not because of managerial selfishness and shortsightedness coupled with governmental neglect and delay, the usually named culprits, but because of competitive forces and technological advances that generated new products, markets, processes, and methods that in combination created rapidly changing conditions for the future that were not susceptible to the forms of managerial analysis developed for use in the past. It is difficult to decide what is the best or—using our awkward but much preferred term—most legitimate (meaning, let us explain one more time, “conforming to recognized principles or accepted rules or standards”) thing to do when one does not know either the statistical probabilities or the financial values of the alternative future outcomes to many pending decisions and actions because of the rapidly changing conditions within both the society and the economy. The residential housing market serves as a prime example of what can go inadvertently but totally wrong under those rapidly changing and thus totally uncertain conditions.

*Changes in the Residential Mortgage Industry*

What had changed in the residential home mortgage industry that eventually brought about this severe economic downturn and the resulting job losses, home foreclosures, local, state, and federal budget deficits, and financial industry bailouts? Just about everything! The changes here were even greater than those in the deepwater drilling industry that eventually—due to the same difficulty of applying unchanging forms of managerial analysis to rapidly changing conditions of the global economy—resulted in the destructive blowout, explosion, and fire on board the Deepwater Horizon at the Macondo well site as previously described in chapter 1.

In our view, there were three stages in the series of changes that took place in the residential home mortgage industry: the traditional,