# John Paulson On The Housing Bubble

**Highlights:**

* John Paulson made a fortune off of the housing bubble.
  + Paulson made $15 billion by shorting the housing bubble.
  + Paulson’s hedge fund purchased securitized subprime mortgage debt right before the housing bubble burst.
    - Paulson and his business partner knew the CDOs would blow up.
    - Paulson’s investments made the market more toxic for investors.
    - Paulson’s CDOs tanked endowments, pension plans, and banks.

## Paulson Made A Fortune Off Of The Housing Bubble

### Paulson Made $15 Billion By Shorting The Housing Bubble

**Paulson Made $15 Billion In 2007 By Shorting The Housing Bubble.** According to the New York Times, “But as the Wall Street Journal reporter Gregory Zuckerman writes in ‘The Greatest Trade Ever,’ (Broadway Books, 295 pages) the financial crisis was a goldmine for a small group of investors. One of them, John Paulson, founder of Paulson & Company, a New York hedge fund, made $15 billion in 2007 by shorting the housing bubble.” [New York Times, [12/5/09](https://www.nytimes.com/2009/12/06/business/economy/06shelf.html?_r=0)]

### Paulson’s Hedge Fund Purchased Securitized Subprime Mortgage Debt Right Before The Housing Bubble Burst

**Paulson’s Hedge Fund Purchased Securitized Credit Default Swaps At The Peak Of The Housing Boom.** According to the New York Times, “How did he do it? His fund purchased insurance contracts called credit default swaps on securitized mortgage debt at the peak of the real estate boom. Their value soared when the subprime crisis arrived. Mr. Paulson personally took home $4 billion of his fund’s take.” [New York Times, [12/5/09](https://www.nytimes.com/2009/12/06/business/economy/06shelf.html?_r=0)]

**Paulson Asked Large Banks To Make Collateralized Debt Obligations (CDOs) Of Risky Mortgage Bonds That He Would Bet Against.** According to the Daily Beast, “Paulson and Paolo Pellegrini were eager to find ways to expand their wager against risky mortgages; accumulating it in the market sometimes proved a slow process. So they made appointments with bankers at Bear Stearns, Deutsche Bank, Goldman Sachs, and other firms to ask if they would create CDOs that Paulson & Co. could essentially bet against. Paulson’s team would pick a hundred or so mortgage bonds for the CDOs, the bankers would keep some of the selections and replace others, and then the bankers would take the CDOs to ratings companies to be rated.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

**Paulson Bought Insurance Protection Of Large Swaths Of Mortgage Debt.** According to the Daily Beast, “Paulson would buy insurance on the mortgage debt and the investment banks would find clients with bullish views on mortgages to take the other side of the trades. This way, Paulson could buy protection on $1 billion or so of mortgage debt in one fell swoop.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

#### Paulson And His Business Partner Knew The CDOs Would Blow Up

**Paulson And His Business Partner Knew The CDOs Would Blow Up.** According to the Daily Beast, “Paulson and Pellegrini believed the debt backing the CDOs would blow up. But Pellegrini argued to his boss that they should offer to buy the riskiest slices of these CDOs, the so-called equity pieces that would get hit first if problems resulted. These pieces had such high yields that they could help pay the cost of buying protection on the rest of the CDOs, Pellegrini said, even though the equity slices likely would become worthless over time, as the debt backing the CDO fell in value. And if their analysis proved wrong and the CDOs held up, at least the equity investment would lead to profits, Pellegrini said.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

**Paulson Said He “Could Almost Predict With A Degree Of Precision When The Market Would Default**.” According to Business Insider, “John Paulson explained his famous bet against the US housing bubble in a recent episode of Finanze, a podcast hosted by Logan Lin, a 17-year-old student at a California high school […] ‘It wasn't a crapshoot for us. We understood the trends of the mortgage market so well that we could almost predict with a degree of precision when the market would default.’” [Business Insider, [9/22/21](https://markets.businessinsider.com/news/stocks/john-paulson-shorting-housing-bubble-mortgages-defaults-philanthropy-career-advice-2021-9)]

#### Paulson’s Investments Made The Market More Toxic For Investors

**Paulson’s CDOs Made The Market For These Investments Dangerous For Investors.** According to the Daily Beast, “To try to protect themselves, the Paulson team made sure at least one of the CDOs was a “triggerless” deal, or a CDO crafted to be more protective of these equity slices by making other pieces of the CDO more likely to take early hits. Paulson’s goal was to make the equity piece a bit safer, but this step made the other parts of the triggerless CDO even more dangerous for anyone with the gumption to buy them. He and Paulson didn’t think there was anything wrong with working with various bankers to create more toxic investments.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

**Paulson Would Push For More Combustible Mortgages And Debt To Go Into CDOs, Making Them More Likely To Fail.** According to the Daily Beast, “However, at least one banker smelled trouble and rejected the idea. Paulson didn’t come out and say it, but the banker suspected that Paulson would push for combustible mortgages and debt to go into any CDO, making it more likely that it would go up in flames.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

**Investors Alleged That Paulson’s Actions Indirectly Led To More Dangerous CDOs And Created Billions In Losses For Investors.** According to the Daily Beast, “But some investors later would complain that they wouldn’t have purchased the CDO investments had they known that some of the collateral behind them was chosen by Paulson and that he would be shorting it. Others argued that Paulson’s actions indirectly led to more dangerous CDO investments, resulting in billions of dollars of additional losses for those who owned the CDO slices when the market finally cratered.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

#### Paulson’s CDOs Tanked Endowments, Pension Plans, And Banks

**Some Of The Investments In These CDOs Were Endowments And Pension Plans.** According to the Daily Beast, “Some of those likely to buy the CDO slices were endowments and pension plans, not just deep-pocketed hedge funds, adding to the wariness.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]

**State Pension Funds Trusted Paulson With Their Funds And Lost Money.** According to the New York Times, “That dismal record is a far cry from nearly a decade ago, when Mr. Paulson made nearly $15 billion betting on the collapse of the housing market. Back then, state pension funds and investors around the world rushed to give him their money to manage. Even Mr. Trump became an investor with Mr. Paulson — and eventually lost money.” [New York Times, [5/1/17](https://www.nytimes.com/2017/05/01/business/dealbook/john-paulsons-fall-from-hedge-fund-stardom.html)]

**Deutsche Bank Failed To Sell All Of Paulson’s CDO Deals And Suffered $500 Million In Losses As A Result.** According to the Daily Beast, “One of the biggest losers, however, wasn’t any investor on the other side. It was the very bank that worked with Paulson on many of the deals: Deutsche Bank. The big bank had failed to sell all of the CDO deals it constructed at Paulson’s behest and was stuck with chunks of toxic mortgages, suffering about $500 million of losses from these customized transactions, according to a senior executive of the German bank.” [Daily Beast, [7/14/17](https://www.thedailybeast.com/inside-paulsons-deal-with-goldman)]