1-27-2011

Press Event : Release of the Final Report of the Financial Crisis Inquiry Commission

Phillip Angelides

Brooksley Born

Byron Stephen Georgiou

Robert Graham

Heather Murren

See next page for additional authors

UNITED STATES OF AMERICA

FINANCIAL CRISIS INQUIRY COMMISSION

Official Transcript

Press Event on the
Release of the Final Report of the Financial Crisis Inquiry Commission
Thursday, January 27, 2010, 10:00a.m.
George Washington University
Media and Public Affairs Building – Jack Morton Auditorium
805 21st Street, NW
Washington, DC 20052

COMMISSIONERS

PHIL ANGELIDES, Chairman

BROOKSLEY BORN, Commissioner

BYRON S. GEORGIOU, Commissioner

SENATOR ROBERT GRAHAM, Commissioner

HEATHER MURREN, Commissioner

JOHN W. THOMPSON, Commissioner

Reported by: CONNECTLIVE

PAGES 1 - 31

CHAIRMAN PHIL ANGELIDES: Good morning and welcome.

I am Phil Angelides, I am the chairman of the Financial Crisis Inquiry Commission.

I am pleased to be here this morning with my colleagues John Thompson and Brooksley Born and Bob Graham, Byron Georgiou, and Heather Murren.

Today we present to the President, to the Congress, and to the American people this commission's report and our conclusions about the causes of the worst financial and economic crisis since the Great Depression.

The task of this commission was to first determine what happened and how it happened so that we could understand why it happened.

This official report about the causes of the financial crisis and our conclusions are based on our exhaustive and fact-based investigation, which we pursued for more than a year.

We hope that the American people will read this valuable report because it is our belief that if we do not learn from history, we are unlikely to fully recover from it.

Now some on Wall Street and in Washington with a stake in the status quo, may be tempted to wipe from memory the events of this crisis or to suggest once again that no one could have foreseen or prevented it.

This report exposes facts, identifies responsibility, unravels myths, and helps us understand how this crisis could have been avoided.

It is our best attempt to record history, not to rewrite it, nor to allow it to be rewritten.

This crisis has been of no small consequence to this nation.

All of us are eager to see signs of recovery but we cannot forget that this financial upheaval will likely impact our economy for a generation.

It has wreaked havoc among businesses, entire communities, and households across the country.

More than 26 million Americans are out of work, cannot find full-time work, or have given up looking for work.

Nearly $11 trillion of household and retirement savings have vanished.

Four million families have already lost their homes to foreclosure as a direct result of the economic fallout of this crisis and many innocent bystanders, people who have followed all the rules, fear for their future while our country faces no easy path to renewed economic strength.

Along our investigative journey, we met many people from all walks of life who have seen their aspirations crushed by this crisis.

There is much anger in this country about what transpired, and justifiably so.

Many of these people looked to the commission for answers and perhaps some encouragement that the country's political and financial leaders, and indeed all of us, will choose a better path than the road to this catastrophe.

We kept these people in mind as we completed our work with the hope that we never again need another investigative commission like this, at least not in our lifetimes.

Now over the past two years, there has been no shortage of debate and discussion about the government's decision to provide unprecedented and massive financial assistance to rescue large financial firms deemed too important to fail.

But our mission and the central question we addressed was this.

How did it come to pass, that in 2008, our nation was forced to choose between two stark and painful alternatives?

Either risk the total collapse of our financial system and economy, or inject trillions of dollars of taxpayer dollars into the system into private companies, even as millions of Americans still lost their jobs, their savings, and their homes.

At the end of our inquiry, we reached six major conclusions.

Every Commissioner here today stands firmly behind each and every one of them.

We concluded first and foremost that this crisis was avoidable.

Despite the expressed view of many in the circles of financial and political power that the crisis could not have been foreseen, there were many many warning signs that were ignored or discounted.

Second, we found widespread failures in financial regulation.

Third, our report describes dramatic breakdowns in corporate governance and risk-management.

Fourth, we detail how the explosive and excessive borrowing, risky investments and lack of transparency put our financial system on a collision course with crisis.

Fifth, we concluded the key policy makers, our government was ill-prepared for this crisis, and their inconsistent response added to the uncertainty and panic.

And finally, this report explains how breaches in accountability and efforts became widespread at all levels during the run-up to the crisis.

This morning, each of us will take a few minutes to summarize our findings and I will start by focusing a few remarks on our first conclusion.

This financial crisis could have been avoided.

Let us be clear.

This calamity was the result of human action, inaction, and miss-judgment, not of Mother Nature or computer models gone haywire.

The captains of finance and the public stewards of our financial system ignored warnings, and importantly failed to question, to understand, and to manage the evolving risk in a financial system that is so essential to the well-being of our country.

Theirs was a big miss, not a stumble. There was an explosion of risky subprime lending and securitization, unsustainable increases in housing prices and mortgage debt.

Going back to the late 1990's, there were widespread reports of egregious and predatory lending practices.

By 2004, the FBI was publicly warning a surge in mortgage fraud had the potential to become an epidemic, it could have as much impact as the savings and loan crisis.

And there were other red flags, risky trading activities grew exponentially, the unregulated market for derivatives exploded, as did financial firm's reliance on short-term borrowing.

There was, however, and unfortunately throughout this period, a pervasive permissiveness.

This report documents specific instances where leaders did not take action to stamp out smoldering threats that eventually led to financial crisis.

The record is replete with evidence of failures, and you will see these throughout the report.

The Federal Reserve failed to act as our financial system was engulfed in a wave of toxic mortgages.

Financial firms made, bought, and sold mortgage securities they never examined, did not care to be examine, and grew to be defective.

From the fall of 2006 on, even as the housing market was in free fall, Wall Street created more than $1.60 trillion in new mortgage related securities.

From 2000 to 2007, Moody's rated 45,000 mortgage securities as AAA.

In the beginning of this year, there were six U.S. companies with that rating.

In 2006, it gave its stamp of approval to some 30 such securities each and every working day.

The results were disastrous.

None of what happened was an act of God.

The greatest tragedy would be to accept the idea that no one could have seen this crisis coming and thus, nothing could have been done.

If we accept this notion, it will happen again.

Let me now turn to my colleague and good friend John Thompson, the chairman of the board and former CEO of the Fortune 500 firm Symantec, to describe another of our conclusions.

COMMISSIONER JOHN THOMPSON: Thank you very much Phil.

And good morning, everyone.

One important conclusion from our commission's work is that widespread failures in financial regulation proved devastating to the stability of our nation's financial markets.

It is clear that sentries were not at their post.

This was in large part because of a widely expected belief in the self correcting nature of the markets and the ability of financial firms to police themselves.

This misplaced confidence in de-regulation of a highly competitive industry was championed by the former Federal Reserve Chairman Alan Greenspan and others, and supported by successive administrations and Congresses.

Our report describes how this laissez-faire approach opened wide gaps in the government's oversight in key parts of our financial system in which trillions of dollars were at risk.

These included the huge trading market and over-the-counter derivatives and the less-regulated part of our financial system that came to be called the shadow banking system.

And in some areas where federal oversight existed, the Government allowed financial firms to select their preferred regulators, setting off a race to the weakest Supervisor.

We, however, do not accept the view that regulators lacked power to protect the financial system.

They had ample power in many arenas and they chose not to use it.

And where regulators thought they lacked authority, they could have sought new powers to fulfill their mission of protecting our country's financial system.

Let me highlight four examples from our report where strong and effective regulatory intervention would have made it unnecessary for all of us to be here this morning.

First, the Federal Reserve was the only entity in power to stop out of control mortgage lending by setting prudent lending standards.

It had the ability and the responsibility to step up as well as avoid this crisis, but it did not.

The Securities and Exchange Commission could have required more capital and halted risky business practices at the big investment banks.

But again, it did not.

The Federal Reserve Bank of New York and other regulators could have clamped down on excesses at banks they oversaw, such as Citigroup, as it dangerously increased its exposures to subprime securities.

But again, it did not.

And policy makers and regulators could have stopped the run away subprime mortgage securitization train, as danger signs emerged.

But yet again, they did not.

This report also describes how regulators continue to rate the institutions they oversaw as safe and sound, despite evidence to the contrary.

And in case after case, downgraded these firms, just as they veered toward collapse.

It did not surprise the commission that the powerful financial industry would push for weaker or lighter regulations.

But what troubled us were the failures of the overseers to intervene and enforce the regulations they did have.

These actions or inactions deprived our nation of strong and independent scrutiny of such a critical sector of our economy.

The public leaders charged with protecting our financial systems sought and accepted positions of responsibility, and with that comes the obligation to act.

Tone at the top does matter.

Now let me turn the microphone over to our colleague Brooksley Born who served as the chair of the Commodity Futures Trading Commission from 1996 to 1999.

And early on identified critical risk to our financial system. Brooksley?

COMMISSIONER BROOKSLEY BORN: Thank you, John.

As John noted, 30 years of de-regulation and weakened oversight changed our financial system and how financial firms did business.

Some believed firms would naturally shield themselves from fatal risk-taking as a form of self preservation.

However, the commission concluded that dramatic failures of corporate governance and risk management at many systemically significant financial firms were critical causes of the crisis.

Our examination revealed stunning instances of government governance break downs and irresponsibility.

This report details case after case where top executives and their financial companies they led acted imprudently, including A.I.G., Bear Stearns, Fannie Mae, Lehman Brothers, Merrill Lynch, to name a few.

The government's hands off philosophy and financial firms' increasingly perilous business decisions went hand in hand.

Too many of these firms acted recklessly, taking on too much risk with too little capital and with too much dependence on short-term funding.

Over time, there was a fundamental change at these institutions, particularly in the large investment banks and bank holding companies which focused their activities increasingly on risky trading activities that produced hefty profits.

Many of these companies took on enormous exposures by acquiring and supporting subprime lenders and creating, packaging, repackaging and selling trillions of dollars in mortgage-related securities.

Some financial institutions expanded in ways that left them too big to manage, let alone too big to fail.

Too many firms set aside their judgment by embracing mathematical models as reliable predictors of risk.

Too often, risk management became risk justification.

Compensation systems in an environment of intense competition and light regulation rewarded the big bet, where the payoff on the upside could be huge, and the downside ignored.

The biggest financial institutions drove the market and over-the-counter derivatives after these instruments were fully deregulated in 2000.

In the wake of that action, the market for these derivatives spiraled out of control and out of sight, growing to $673 trillion in notional amount by 2008.

We concluded that over-the-counter derivatives contributed significantly to the crisis.

The report explains the unlimited leverage, the lack of transparency, the lack of capital requirements, and the concentrations of risk that proved so disastrous.

It also lays out how credit derivatives fueled mortgage securitization and amplified losses from the collapse of the housing bubble.

After that collapse, derivatives were in the center of the storm.

Millions of derivatives of all types between systemically important financial firms were unseen and unknown when the financial system nearly collapsed.

The obligations hidden from view added to the market uncertainty and escalated the panic we saw in the fall of 2008 , leading to government rescues of financial firms.

Let me now turn to my colleague Byron Georgiou.

He is a Nevada entrepreneur whose career spans government service, business and the law.

And he has spent much of the last decade protecting investors from securities fraud.

Byron is also a member of the advisory board of the Harvard Law School program on corporate governance.

COMMISSIONER BYRON GEORGIOU: Thank you very much, Brooksley.

Closely linked to what my colleagues just described about failures in corporate governance and regulation, this commission concluded that a combination of inadequate capital, risky investments, and lack of transparency were critical vulnerabilities and important enough to warrant separate attention by this panel.

In the years before 2008, too many financial institutions borrowed extraordinary sums. By operating with insufficient capital, they left themselves susceptible to financial distress or ruin, if the value of their assets declined even modestly.

From banks with excessive leverage to participants in the deeply flawed mortgage securitization chain, nobody had enough skin in the game.

For example, the major investment banks, Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley, were operating with extraordinarily thin capital.

By one measure as of 2007, their leverage ratios were as high as 40/1.

Meaning that for every $40 in assets, there was only $1 in capital to cover losses.

So a modest 3% market move against them could consume their entire capital reserve.

And to make matters worse, much of their borrowing was short term in the overnight market.

That meant that the borrowing of tens of billions of dollars had to be renewed each and every day.

The kings of leverage were Fannie Mae and Freddie Mac, the two behemoths government-sponsored enterprises.

Their combined leverage ratio grew to 75/1.

The leverage was often hidden in derivatives positions, in off-balance sheet entities, and through what is called “window dressing” of financial reports made available to the investing public.

Our report details instances such as those at Lehman Brothers and Bear Stearns where the true leverage was masked.

The heavy debt taken on by some of these financial institutions was exacerbated by the nature of the assets they were acquiring with that debt.

As the mortgage and real-estate markets churned out riskier and riskier loans and securities, many financial firms loaded up on them.

But these firms were not alone.

Household took on more debt as well.

From 2001 until 2007, national mortgage debt almost doubled and the amount of mortgage debt per household rose 63%, to 149,500, even while wages were essentially stagnant.

Within the financial system, the dangers of all this debt grew more ominous because transparency was not required or desired.

Massive short-term borrowing, combined with the liabilities unseen by others in the market, heighten the chances that the system could rapidly unravel.

The shadow banking system that had evolved over the past few decades did not have the protections this country built in the early part of the 20th-century to serve as bulwarks against runs on banks.

By 2008, the $13 trillion shadow banking network had become larger than our nation's traditional banking system.

As it turned out, we had a 21st century financial system with 19th century safeguards.

When the housing and mortgage markets cratered, the lack of transparency, the extraordinary debt loads, the inadequate capital, and the risky assets all came home to roost.

What followed was panic.

In sum, we had reaped what we had sown.

Next, we will hear from Senator Bob Graham, who has served 18 years in the Senate and eight years as governor representing the Sunshine State.

After spending 38 consecutive years in public office, Bob left the Senate in 2005.

In addition to his service on this panel, he was the co-chair of the National Commission on the BP Deepwater Horizon Oil Spill and on Oil Drilling.

Senator, it has been a distinct honor and personal privilege to serve with you.

COMMISSIONER BOB GRAHAM: Thank you very much, Byron.

Let me say, it has been an honor to serve on this commission.

I have had the privilege of serving on a presidential commission and several congressional inquiries.

I have been impressed with the thoroughness and fairness of the investigation which this commission has conducted and I am proud to be associated with its conclusions.

As part of our charge, it was appropriate for the commission to review the actions taken by the government in response to the developing crisis and to determine if any of those responses contributed or worsened the crisis.

We concluded that government was ill-prepared for this disaster.

Its inconsistent responses added to the uncertainty and panic we saw during the course of the crisis.

This report describes how the Treasury Department, the Federal Reserve Board, and the Federal Reserve Bank of New York, which were best positioned to watch over financial markets, were caught off guard by the events of 2007 and 2008.

Other agencies were also behind the curve.

They were hampered because they did not have a clear grasp of the financial system they were charged with overseeing, particularly as it had evolved in the years before the crisis.

The lack of transparency in key markets was an impediment.

Policy makers believed risk had been diversified, when in fact, it had been concentrated.

Time and time again, from the spring of 2007 onward, policy makers and regulators had to scramble as the contagion spread.

They responded on an ad hoc basis with specific programs to put the fingers in the dyke.

They had no comprehensive and strategic plan for containment because they did not understand the risk and the interconnections of the financial markets.

Even some of the regulators now concede to these errors.

The commission concluded that senior public officials failed to recognize that a bursting of a housing bubble could threaten the entire financial system.

The evidence that that was a possibility was clear.

For example, in June 2007, with Bear Stearns hedge funds that were heavily invested in mortgage securities imploded, they were thought to be relatively unique, although many other funds were exposed to exactly the same risk.

In another example, the Federal Reserve Bank of New York was still seeking information about the exposures created by Lehman Brothers more than 900,000 derivative contracts just a month before the firm collapsed.

The government decided to rescue Bear Stearns.

It then placed Fannie Mae and Freddie Mac in conservatorship.

It followed quickly by the decision to let Lehman collapse into bankruptcy, while A.I.G. received government assistance.

This inconsistent approach stoked uncertainty and panic in the markets at the heat of the crisis.

It is now my pleasure to turn the microphone over to Heather Murren.

Ms. Murren retired in 2002 as one of the most respected equity analysts on Wall Street.

She went on to co-found the Nevada Cancer Institute, previously serving as its CEO and chair.

Heather?

COMMISSIONER HEATHER MURREN: Thank you, Bob.

As we have witnessed, the integrity of our financial markets and the public's trust in those markets are essential to the economic well-being of our country.

The soundness and sustained prosperity of the financial system and our economy rely on notions of fair dealing, responsibility, and transparency.

Americans expect businesses and individuals to pursue profits, and at the same time, to produce quality products and services and to conduct themselves well.

But after careful research, we concluded that this crisis was fueled by a systemic breakdown in accountability and ethics.

These failures were not universal.

But the breeches stretched from the living room to the board room.

They resulted not only in significant financial consequences, but also in a loss of confidence on the part of investors, businesses, and the public.

Examples of these breaches included borrowers who defaulted on their mortgages so rapidly after taking a loan that it suggested they never had the capacity or the intention to pay them off.

Mortgage brokers worked with lenders to put many qualified borrowers into higher cost loans so that these same brokers could reap greater fees.

Lenders, such as Countrywide, wrote loans that borrowers could not afford.

Mortgage fraud flourished in an environment of collapsing lending standards and lax regulations.

One estimate showed that losses due to fraud from loans between the years 2005 and 2007 climbed to about $100 billion.

And when financial firms packaged risky mortgages and then sold them off to investors, our investigation found that critical information was not disclosed.

Yet, we believed that the commission's conclusions must not only be viewed analytically, but also in the context of human nature and individual and societal responsibility.

It would be simplistic to pin this on human failings such as greed and hubris.

But rather with the failure to account for human weakness that proved relevant to this disaster.

This report through its case studies describes specific firms and individuals who acted irresponsibly, yet a crisis of this magnitude cannot be the work of a few bad actors, and such was not the case here.

At the same time, the breadth of the crisis does not mean that everyone is at fault.

In fact, many firms and individual did not participate in the excesses that we chronicle in this report.

We do place special responsibility with the public leaders who were charged with protecting our financial system, those entrusted to run our regulatory agencies, and the chief executives of companies whose failures drove us to crisis.

But we believe that we must also as a nation accept responsibility for what we permitted to occur.

Collectively, though certainly not unanimously, we acquiesced and embraced a system, a set of policies and actions that gave rise to a serious crisis.

While we were not charged with making policy recommendations, the very purpose of our report has been to take stock of what happened so that we can plot a new course.

Based on our report and the work of others who have investigated the crisis, it now falls on us, to each of us to make different choices if we want different results.

Thank you.

And I would like to turn it back over to our Chairman, Phil Angelides.

CHAIRMAN PHIL ANGELIDES: Thank you Heather. Thank you all my fellow commissioners.

Before we go to questions, I would just like to make a couple of closing remarks.

I want to thank my nine colleagues, in particular Vice-Chairman Bill Thomas for their hard work and commitment to the public service of this commission.

And I know I speak for all of us when I say how fortunate we have been to have Wendy Edelberg as our executive director, together with an extraordinary staff that has dedicated themselves over the past year to this investigation.

Our report, along with two separate dissents has been published in print, in e-book editions and is available wherever books are sold.

In fact, for some competitive booksellers and enterprising reporters, that appears to have been true as of last night.

The report and many materials cited in it are also available online at our website, fcic.gov.

Before the Commission officially disbands on February 13th, we will post additional materials including documents, audio recordings, transcripts, testimonies, and research gathered during our investigation.

As of this morning, there are about 1,200 documents are in place on this website, many of which are associated with the book.

We expect to place approximately 700-plus additional documents and about 300 audio transcripts and summaries of interviews so that there is a historical record beyond what is sent to the National Archives.

This report should not be viewed as the end of this nation's examination of this meltdown.

In many respects, our financial system is still unchanged from what existed on the eve of this crisis.

We believe there is still much to learn, much to investigate, and much to fix.

And now to questions.

And I do want to note if Senator Graham leaves us before we are done, it will be because he has to catch a plane. So now let us go to questions and let us see, Mister…

I cannot see you folks.

Maybe, perhaps I could get some help from Mr. Warren in doing this.

You are in the room? Do I see you?

MR. SEWELL CHAN: Mr. Chairman..

CHAIRMAN PHIL ANGELIDES: Okay, thank you.

MR. SEWELL CHAN: Sorry sir, thank you so much for your time. And Mr. Chairman and the commission, congratulations on the completion of your work.

Obviously, we in the press have noticed the absence here, Mr. Chairman, of the Republican appointed members of this commission.

Is the fact of their dissent likely to undermine how seriously the report is taken and whatever policy implications can be drawn from it? Thank you.

CHAIRMAN PHIL CHAIRMAN: Let me make a brief comment. And then maybe I will ask one of my colleagues also to come in.

First of all, let me say that we are here to present the report today.

There are two separate dissents that have been filed.

And it is my understanding that the public and the media will have an opportunity to hear from the folks who dissented on this report.

I should also note that the dissent, at least that filed by three of the commissioners itself says that "we find areas of agreement with the majority conclusions in many respects" that of Fannie Mae and Freddie Mac, credit rating agencies, the seriousness of mortgage fraud.

But I want to say this.

There are fundamental differences.

We believe this crisis was avoidable.

We believe that it was a result of human action and inaction.

I believe our report speaks for itself. Ms. Born, would you like to add to that?

COMMISSIONER BROOKSLEY BORN: I was just going to say, I think it would be useful for the record for the questioners to say their name and their affiliation.

CHAIRMAN PHIL ANGELIDES: Thank you. Yes.

MR. SEWELL CHAN: I am Sewell Chan of the New York Times.

CHAIRMAN PHIL ANGELIDES: And I might mention just also on this one point that in this report, almost the entirety of the report, some 490 pages of the report and footnotes is dedicated to the facts of what happened to this country upon which we based our conclusion.

We believe the report speaks for itself.

MS. ANNAMARIA LUSARDI: Hi, I am Annamaria Lusardi from the GW School of Business.

Could you elaborate a little bit more about the responsibility of the households factors, in the sense, the borrowers?

And maybe elaborate on the policy implications?

It does not seem like a lot of the households were rescued and they carried a brunt and the cost of this crisis.

COMMISSIONER HEATHER MURREN: The report itself does not make prescriptions for policy, but I do think that it adds an awful lot to the evaluation of responsibility within the whole system, including not only failures that occurred by our regulatory agencies, within corporations, within mortgage brokers, and indeed, within households themselves.

I think that the use of this report to those who are making those decisions is again to come back to a treasure trove of information that is inside of it and also on our website that relates specifically to the underlying investigation, analysis, and research we did.

CHAIRMAN PHIL ANGELIDES: Next question.

And by the way, I encourage my commissioners, my colleagues, if you want to… if you have something you want to note on this, please just weigh in. Let me know.

MR. EAMON JAVERS: Mr. Chairman, my name is Eamon Javers. I am a reporter with CNBC.

Are you talking to report a lot about who is to blame for the various aspects of the financial crisis, but I am wondering if I can get your thoughts on two people, two key players who are still in power and still making decisions about the financial recovery.

What do you say about the role of Ben Bernanke and Tim Geithner, in particular, the decisions that made in the run up to the crisis?

CHAIRMAN PHIL ANGELIDES: Very quickly and then I am going to ask Mr. Thompson or any other commissioner who wants to comment.

First of all, Mr. Bernanke himself admitted to us that it was a very serious failure of the Federal Reserve not to have stemmed the flow of toxic mortgages.

I think Mr. Geithner himself has admitted that the Federal Reserve Board of New York could have done more to curb the excesses of Citigroup.

I think the report speaks for itself, the facts are on the table.

There were failures.

And there was a government that was ill-prepared for this crisis. Mr. Thompson?

COMMISSIONER JOHN THOMPSON: First and foremost, I think we should acknowledge the fact that those who were in power at the moment of the crisis had an extraordinary event and dealt with it in an unbelievable manner.

And our country is, in fact, better off because of the actions that were taken there.

However, our task was to look at what caused the crisis, and unquestionably in our minds, there were actions that could have been taken by regulators that would have forestalled or mitigated the impact of this crisis.

The Federal Reserve was clearly the steward of lending standards in this country, they chose not to act.

The Federal Reserve Bank of New York certainly could have reined in what was being done in some of the large money-center banks in New York.

I mean on and on and on, regulator after regulator, they either chose not to act or turned a blind eye to what was actually going on.

So it is less about a particular individual than a systemic sense of deregulation and inaction by those who were in power to take action.

MR. EAMON JAVERS: As a follow-up, are you convinced that those two individuals, Bernanke and Geithner, have learnt the lessons of the financial crisis that they won't let that happen again?

COMMISSIONER JOHN THOMPSON: That would be a better question posed to them than me.

CHAIRMAN PHIL ANGELIDES: Yes, Ms. Murren, you would like to comment?

COMMISSIONER HEATHER MURREN: Both the Chairman Bernanke and Secretary Geithner during the course of their interviews with us and also their testimony, themselves upon reflection had noted that there were certain decisions that they had made that perhaps they wish that they had made differently.

And I think it is very admirable for them to have been able to articulate that.

It was certainly a rarity amongst all of those who came before us to actually have talked a little bit about their role in the financial crisis and to talk about how they might have changed the actions that they took.

And I think that is something that reflects well on their character.

CHAIRMAN PHIL ANGELIDES: The only comment I would like to add and I think Byron might want to add before we go to the next question is that, If you want to emphasize though that, I think it is very clear from our report that this Government was ill-prepared for this crisis.

And when you read our report and see that only one month out from the crisis, the government is trying to figure out the exposures created by almost 1 million derivative contracts that Lehman have, that is very sobering.

And when they go in to try to find out, they are even afraid of even asking the question they will set off a panic.

When the subprime contagion started to spread in July 2007 and it spread to many parts of the market.

The Federal Reserve… the Open Market Committee discussed this and they though Bear Stearns was unique, so there were big misses along the way.

And we hope that lessons can be learned. Now Mr. Georgiou, did you have something to add to this or should we go to the next question?

COMMISSIONER BYRON GEORGIOU: Yes, very very briefly. I think it is important not to focus just on those who are currently still in leadership positions because our commission was exceedingly non-partisan in its criticisms.

Their predecessors, in the case of Mr. Geithner, Mr. Paulson, and in the case of Mr. Bernanke, Mr. Greenspan, received plenty of attention in the book for the judgments that they have made in the course of the time when they were at the helm of the responsible agencies.

And so this is just something that has been pervasive for quite some time.

CHAIRMAN PHIL ANGELIDES: Thank you. Okay, now the next question.

MS. JESSICA YELLIN: Jessica Yellin with CNN. I have two questions.

One is, have you referred anything to law-enforcement authorities for further investigations and so can you give as much detail as you are willing to?

And secondly, allegedly, somewhere in here it says that Goldman Sachs received $2.4 billion in bailout money from A.I.G.

Can you walk us through that a little bit?

CHAIRMAN PHIL ANGELIDES: Sure. But let me quickly, take you through those very quickly. The commission was instructed in law, we had certain obligations, one of which was to provide this report.

Another was to examine the major institutions that failed or would have failed but for extraordinary government assistance.

And we were also asked to refer to the attorney-general of the United States or any of appropriate state attorney general, any person the commission found may have violated the laws of the United States in relation to the crisis. Where the commission found such potential violations, it referred those matters to the proper authorities.

We will not comment on any specific referrals.

Secondly, let's talk about Goldman Sachs.

MS. JESSICA ALLEN: But just to clarify your [INAUDIBLE]

CHAIRMAN PHIL ANGELIDES: What I just said is where we found potential violations, we fulfilled our obligations and referred matters to the appropriate authorities.

Now, as to the matter of Goldman Sachs, I think if you will look at pages… I will not spend a lot of time on this, look at pages 377 and 378 of the book, what we do detail is that Goldman Sachs, as many people know through what are called the maiden name transactions, got about $14 billion that have passed through to other clients with whom they had transactions.

But what we found is that Goldman received another $3.4 billion from A.I.G., of which $1.9 billion of that was received after the government bailout.

And they ended up retaining $2.9 billion of that $3.4 billion.

So in fact, unlike I think what might have been understood broadly that all the bailout money passed through to others, in fact our investigation shows otherwise and that's on page 377 through 378.

MR. RUSSELL MOKHIBER: Russell Mokhiber, Corporate Crime Reporter.

Listening to you today, flipping through the report, we hear words to describe the chief executives of these big companies such as - and their activities - such as risky, reckless, imprudent, irresponsible we do not hear the word criminal.

And I am wondering and I just heard Mr. Angelides talk about referring cases.

But I am wondering, did you find corporate criminal activity or individuals at the corporations who committed crimes?

If you did, why haven't you made that conclusion in this report?

CHAIRMAN PHIL ANGELIDES: Ms. Born, I will give you the easy question.

COMMISSIONER BROOKSLEY BORN: As Chair Angelides said our mandate was to refer to the Attorney General or the state authorities, any individual that our investigation showed may have violated U.S. laws, whether several or criminal.

As he said, we did make several of those referrals, but we are not going to talk about any of the details of those referrals.

UNIDENTIFIED MALE: [INAUDIBLE] from Thompson Reuters. A question for Ms. Born.

Are the public and the financial system better protected because Congress gave the SEC and CFTC the power to regulate derivatives without the money to do it?

COMMISSIONER BROOKSLEY BORN: Well, I certainly hope that the statutory powers of the SEC and the CFTC are fully implemented and financed.

UNIDENTIFIED MALE: [INAUDIBLE]

COMMISSIONER BROOKSLEY BORN: I think a great deal of rulemaking is going on now.

They have some resources and they may well need additional resources for their additional responsibility.

CHAIRMAN PHIL ANGELIDES: I am being told now that we are going to go to the phones or apparently a number of members of the media are on the phone.

A snow day for those in Washington, and some remote.

OPERATOR: Kevin Hall, your line is open. Excuse me, Kevin Hall your line is open to ask a question.

MR. KEVIN HALL: Can you hear me?

CHAIRMAN PHIL ANGELIDES: Yes. Go ahead.

MR. KEVIN HALL: During the New York hearing, you had a very specific case where Warren Buffett was in front of you and you asked him specifically whether or not he had been told by Moody's employees that there were problems with the ratings and structured finance and there was a crisis waiting to happen.

He denied ever receiving that.

It is our understanding that you had these documents and email on your possession showing that he had been reached out to.

Do you touch on that in the report and can you talk a little bit about Mr. Buffett, who I think pretty clearly showed to be pretty indifferent to the workings at Moody's?

CHAIRMAN PHIL ANGELIDES: Kevin, we couldn't hear the end of the last. What was the end of that question? By the way, this is Kevin Hall from McClatchy newspapers.

MR. KEVIN HALL: Whether or not, how much you touch on Mr. Buffett's testimony up in New York in which I think you showed him during the questioning pretty clearly to be a major shareholder who seemed to be divorced from the workings of the company. And the earlier part of the question whether or not you actually had in your possession the email showing that he had actually been reached out to about problems in the structured finance division?

CHAIRMAN PHIL ANGELIDES: On the first question I am going to have to ask the staff to get back to you as to that email exchange. I am aware of what you're talking about but I do not have that at my fingertips. We don't have that currently at the fingertips.

We do talk about Moody's extensively.

We do, in fact, I believe talk about Berkshire Hathaway's large ownership in that company.

So I will have staff get back to you, Kevin, to point out where it is in the book and what we have.

Next question.

MR. DAVE CLARK: Dave Clark with Reuters.

Your mandate was not to make recommendations for policy changes but Congress already made those.

Do you think the Dodd-Frank Law, how that addresses these problems, is it adequate or do we need to do more?

CHAIRMAN PHIL ANGELIDES: We hope that this will be a guidepost to policy-makers and the public as our financial system is reformed.

That journey has just begun. It has by no means ended.

There are hundreds of rulemaking procedures that have to happen.

So the jury is still out.

Mr. Georgiou, would you like to comment on this?

COMMISSIONER BYRON GEORGIOU: Not particularly.

I just wanted to make sure if any other commissioners have any comment.

COMMISSIONER JOHN THOMPSON: I do not think we chose to take our work and shape it for Dodd-Frank at all.

Our task was to identify the causes of the financial crisis, not necessarily to fit our investigation into a piece of legislation that might have evolved, so is more circumstance that legislation evolved during the same period of time that we were doing our investigation.

As Phil said, I would hope that what we have outlined in our report does become a guidepost for what legislators or regulators will do as they move forward.

But it was not, by any stretch of the imagination, intended to reinforce or support any particular piece of legislation.

COMMISSIONER BYRON GEORGIOU: Unaccustomed as I am to pass up the opportunity to comment, I changed my mind.

I think its important to recognize a couple of things. Our financial system is really not very different today in 2011 than it was in the run-up to this crisis in 2006 and in 2007.

In fact, the concentration of financial assets in the largest commercial and investment banks is really significantly higher today than it was in the run-up to the crisis as a result of the evisceration of certain institutions and the consolidation and merger of others into larger institutions.

So to the extent -- I think we would be remiss to suggest that whatever failings we have uncovered in this report have all been addressed by Dodd-Frank or any other bit of legislation.

It is our hope, what we have learned through an extraordinary process, led by a team of extraordinary staff, will inform the debate going forward.

Not just having to do with the implementation of legislation that has been passed or the possible need for other legislation, or other regulatory modifications that may be addressed in the future.

CHAIRMAN PHIL ANGELIDES: Let's go to the next question – we're going to the phones

OPERATOR: Alexandra Frean, your line is open.

MS. ALEXANDRA FREAN: Alexandra Frean from *The Times of London*.

I want to press you a bit further about the possible violations of laws in the United States.

Can you tell us how many cases have you referred to appropriate authorities?

And if you can't be precise, could you tell me is it 10, is it more than 10, is it less than 10?

Also, whether any chief executive…

CHAIRMAN PHIL ANGELIDES: More than one, less than a 1,000…

We have made our statement on this.

And I just want to emphasize, we are not a prosecutorial body.

We were given an obligation by Congress. Where we found potential violations to refer them to the appropriate authorities.

We have done that.

As a matter of fairness and appropriateness, those have been sent to the proper authorities to examine.

That is all we are going to say on that.

That is the right and fair thing to say because we have that obligation.

We are not prosecutors.

And I think that is all we will have to say on this matter.

But we respect your efforts to continue to try to press us.

MR. ROBERT ENGLAND: This is Robert England with Mortgage Banking Magazine.

To what extent were collateralized debt obligations a key factor in creating the crisis, and secondarily, to what extent was the reliance on repos, which Professor Gary Gordon has estimated a market as large as $12 trillion, a contributing factor?

CHAIRMAN PHIL ANGELIDES: Just one thing about Gary Gorton, I think he was talking about the shadow banking system as a whole.

Because the repo lending market which is this unregulated overnight lending market grew to about $2.50 trillion.

Not exactly chump change. I mean it was one of those big gaps that people didn't see.

But I will ask Ms. Born to comment and perhaps Mr. Georgiou to comment if they choose on this matter of CDOs because we have a lot of information here about how CDOs drove this crisis, particularly near the end.

COMMISSIONER BROOKSLEY BORN: We certainly discussed at great length the roles that CDOs played in the housing bubble, in the inflation of mortgage-related securities, and in the later years, in the use of synthetic CDOs, which essentially consisted of credit default swaps or unregulated over-the-counter derivatives.

They continued the securitization process for a longer period of time and inflated securitization as the mortgage market itself was beginning to flatten and then decline.

They certainly played a role in the enormous impact that the collapse of the housing bubble had on financial institutions.

COMMISSIONER BYRON GEORGIOU: If you read this report in full, you will certainly end up knowing more than most people would ever want to know about collateralized debt obligations.

We found them to be central in a variety of respects.

The most significant of which, I think, is that if you examine the structure of collateralized debt obligations, they were an attempt to convert the lowest rated tranches of the underlying mortgage-backed securities into effectively higher rated instruments.

They took the BBB-rated tranches for the most part of other mortgage-backed securities, which were the ones that were most likely to fail above equity, and by slicing and dicing them and putting them into another instrument called the collateralized debt obligation, they were then rated as super senior and received a triple A ratings from the agencies.

This is a conundrum that we have variously labeled as alchemy or pejoratively in a variety of respects but the point to be made is that this went on, really without anyone questioning the fundamentals of how you could essentially turn very risky securities into super safe securities, simply by amalgamating them together.

In fact, what those CDO's did is create layers of correlated risk, when the notion of putting them together they were somehow diversifying risk and making them stronger.

In fact, we now know from the downgrade of those securities and the failures of them that they were not safe at all.

But nobody really fundamentally questioned them.

The process went on.

Lots of people earned significant fees in the creation of them and rating them, and so forth, and there was very little questioning of them.

So they are really more than anything else, they are emblematic of the type of “head in the sand” attitude that some approach these issues with.

CHAIRMAN PHIL ANGELIDES: Ms. Murren would like to add something.

COMMISSIONER HEATHER MURREN: CDOs also touched on one of the most important aspects of the crisis, and that is the housing bubble in a variety of different ways.

One of the things that our report does extremely well is to layout analytically, the sequencing of the events.

If you look, in particular, at page 70, it walks through some mortgage-backed securities from beginning to end and looking at ways that those markets and CDOs were able to continue to fan the flames of the housing bubble, even perhaps after the national demand by real money buyers had begun to evaporate.

It certainly is relevant in a variety of different ways, threaded throughout this book.

CHAIRMAN PHIL ANGELIDES: Mr. Georgiou mentioned I believe that and it is in the book that CDO's by 2008, 90% had been downgraded.

And as Ms. Murren said if you check the book out what you will find is that near the end of the crisis, firms like Merrill were creating CDO's which they were putting in their own CDO's. And I think this is one of the areas when people have asked what is new about this book?

What is new is this is the first official government report on this crisis.

What is also new is that we have tied things together in a way that has not been done before, but there is also in here, based on millions of pages of documents, 700 interviews that we did, the bank examination reports, there is very substantial amounts of facts and data on questions like what really happened in this marketplace that has not been in the public realm before.

Let's go to, I want to take new people if it is OK.

I am going to go to the microphone. Identify yourself please

MR. BOB SAMUELSON: Bob Samuelson, *Newsweek*.

The nature of the crisis began to become clear in the spring and summer of 2007 when the subprime loans began to default.

What, if anything, could the government have done after that introduction, preamble so to speak, to prevent the crisis that really exploded in the fall of 2008?

Or was the crisis essentially preordained by 2007?

CHAIRMAN PHIL ANGELIDES: I want to make a quick comment and then go to my colleagues.

Much of the damage had been done by that point, but let's keep in mind that from the third quarter, I believe, of 2006, when housing prices were already in decline, Wall Street created another $1.7 trillion in mortgage-backed securities and CDO's.

I think it is a very good question because, as Mr. Thompson said earlier, the Federal Reserve had a chance to act on out-of-control lending, even in 2001 they adopted some rules that they thought would cover between 9% and 30% of subprime loans, and it covered 1%.

They had information in 2004, 2005, and 2006 about, and you will see it in our book, about the Federal Reserve Open Market Committee about the fact that subprime lending was an accident waiting to happen.

What is also striking is after the contagion started to spread, there was a lack of understanding of the interconnections. So you do have the Federal Reserve in July 2007 when these Bear Stearns hedge funds blow up, they think they are relatively unique.

And they actually say, and you will see it in the book, they actually say, they think they are relatively unique because not many other funds have these positions.

So the fact is the response was very slow-footed.

It is hard to do what-ifs.

Clearly early action should have been taken and then there was an inconsistent and slow response. I would like other commissioners to comment on it.

COMMISSIONER BROOKSLEY BORN: Let me mention that in the time period you were talking about, people like Chairman Bernanke and Secretary Paulson were assuring Congress and the public that there would be little systemic impact of the mortgage and housing decline.

I think that if the regulators had more fully understood the markets that they were dealing with and their regulated institutions' exposures to them, they might have taken earlier steps, but I do not think they did understood that.

COMMISSIONER HEATHER MURREN: I have a comment to follow up on the Commissioner's Born's point, which is that one would have hoped that at that particular moment in time, which is something of an inflection point in retrospect, there could have been a more critical examination of the variety of financial companies that held assets related to that.

For example, the investment banks, Fannie and Freddie, to have the regulators or examiners go in.

And at least understand what exactly was on the balance sheets at that time.

COMMISSIONER BYRON GEORGIOU: I think it is also symptomatic of the lack of accountability in the system that we discovered in our investigation that a number of financial institutions, even though these particular instruments were being downgraded, continued to pile them on because they had the opportunities to do so and had very little consequence, that they believed, at least from the people who were originating them, for the consequences of their failure.

And that, it seems, is a problem that we have seen throughout the system, and it imperiled a number of major financial institutions.

If you look at the section of the book on Moody's, you will find that at the same time as some of the rating agencies were downgrading previously AAA-rated securities, they were still in the current pipeline, rating essentially the same types of securities as AAA at the same time they were downgrading certain ones that they had rated before.

And of course if you are compensated at the front end of the rating process, at the front end of the origination process, the front end of the mortgage brokering process, without regard to the actual performance of the instruments that you caused to create, that certainly is incentive to continue the process and not to step back and modify.

CHAIRMAN PHIL ANGELIDES: Mr. Samuelson, let me just pick up on comments.

As Secretary Paulson said to us when he testified, that the toothpaste was out of the tube. Let us be clear, Goldman Sachs and other companies which Mr. Paulson headed from all the way up to 2006 and 2007 were squeezing a lot of toothpaste out of that tube.

And so certainly, much of what created this crisis happened by 2006, but the uptake was very slow and the actions continued.

For example, Goldman Sachs continued for example, this company after December of 2006, it creates tens of billions of dollars in securities and put them in the marketplace.

In terms of the government response, it is not until I believe August 15 that Secretary Paulson gets the reports from the Federal Reserve and the Office of the Comptroller of Currency about what dire conditions Fannie Mae and Freddie Mac are in.

August 15, only about three weeks before the conservatorship, and then it takes them three weeks according to our investigation for him to convince Mr. Lockhart, the overseer head, which used to be called OFHEO when I was FHFA to move on the conservatorship.

So first, a lot of toothpaste being squeezed out of the tube, and secondly, a slow response.

Next question?

I would like to see if we can do a little variation here. Yes, Ma'am.

MS. SUE YANG HO: Sue Yang Ho, Thompson Reuters. I wanted to find out more about the extent of accounting fraud.

We know about repo 105 and repo 108.

Lehman Brothers and their pending lawsuits and even Ernst and Young.

Do you think this kind of accounting fraud is bigger than Worldcom and Enron?

CHAIRMAN PHIL ANGELIDES: That is a publicly known case.

The attorney general of New York has filed an action and we do recount the transactions and I will say we built on the work of many other examiners, particularly of Mr. Valukas, bankruptcy examiner.

We do look at the balance sheet in hidden positions. That's what I have to say.

I do not know if anyone wants to add anything on this.

OK.

Going to the phone. OK.

MR. RON OLDWELL: Ron Oldwell of Market Watch. There was a provision in the Dodd-Frank legislation that never made it to the final draft that would have capped leverage at large financial institutions -- it was removed.

The argument was that it would have discouraged the U.S.'s ability to compete globally against financial institutions in other countries.

I just wanted to get your sense based on your research, are you disappointed that there is not a cap on leverage?

Do you think it would have been enforced properly if there was a cap, and your thoughts generally on the leverage situation, of large financial institutions?

CHAIRMAN PHIL ANGELIDES: I am going to make a one-sentence response.

Let's be clear, regulators had and have the authority to control leverage.

As Mr. Thompson said earlier, the SEC could have controlled leverage, other bank regulators.

Citigroup's leverage when you count their off balance sheet exposures grew to 48-1.

Crazy stuff. The power was there and it was there. Any other commissions on this critical issue?

COMMISSIONER BYRON GEORGIOU: I was going to say that the Basel discussions are addressing some of these questions as to what the capital standards and the permissible leverage ought to be in international financial institutions, and of course the argument is commonly made that if you constrain American institutions, that they will not be able to compete internationally.

Or if you constrain regulated institutions, they will not be able to compete with unregulated institutions, hedge funds, and others.

The problem is not that -- if somebody operates a business with what turns out to be inadequate capital, in that a modest reduction in the asset base eliminates their capital, in the normal course, people are permitted to fail.

That is part of what the economic system allows.

And they go bankrupt and they go out of existence and others step up to the plate.

The problem here is with institutions that have systemic importance in our society and to what extent we ought to permit them to operate with thin capital such that if and when they are threatened with failure, they come to the taxpayers for relief.

That is the conundrum that I think we face generally.

COMMISSIONER HEATHER MURREN: Ultimately, decisions about leverage, whether they are made by regulators or whether they are made by corporations individually, whether they are made by individual households, ultimately fall into the spectrum of human action and inaction.

And I think that as a central focus and central point of what we report upon in this book, it is the notion that this crisis was indeed preventable as a result of the fact that certain human actions and inactions could have been changed.

Leverage falls into that category.

CHAIRMAN PHIL ANGELIDES: We will take one more question.

Oh, I didn't get the signal right, but I just promised them.

We'll take one more, which, by the way, is always a mistake. Why don't you identify one last question? And then we will wrap this up.

MR. GREG GORDON: Thank you.

Greg Gordon, McClatchy newspapers.

Did you look at Secretary Paulson's action while his former firm exited the subprime market?

Was it a conflict of interest?

CHAIRMAN PHIL ANGELIDES: In that regard, you can look at the book.

We have details about what Secretary Paulson did in his role as secretary and what the firm did.

And so I would advise you to look at the book, look at actions taken, and draw your own conclusions as to what occurred.

But certainly the book details in very specific terms what Goldman Sachs did.

It certainly details also, we believe in very specific terms, what the Treasury did during that same period.

All right, I want to thank everyone and I want to one more time remind everyone in this room that this report is available.

It is available through public affairs, a publisher in bookstores and online in both a book and e-book version.

It is available through the Government Printing Office both a book and e-book and a downloadable version.

If you go to our website, what you will see is how you can get the report.

You can download the report for free.

You can also see on there that what we have posted are thousands of footnotes in this extensive report, and what we have posted on our Web today are all the documents related to them.

What has not been posted yet are the audios and the transcripts.

As I said earlier, before we wrap our work on February 13th, we will be posting additional documents, research investigative documents, audios, and transcripts to provide what we hope will be a good historical record.

I want to close by thanking again all 10 commissioners for their work.

I want to thank my colleagues for being here today, and thank you for your attention to what we believe is a critically important issue for this country.

Thank you so very much.