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Financial Crisis Inquiry Commission Releases Report on the Causes of the Financial Crisis

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Media Advisory

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Financial Crisis Inquiry Commission Releases Report on the Causes of the Financial Crisis

*This Crisis was Avoidable – a Result of Human Actions, Inactions
and Misjudgments; Warning Signs Were Ignored*

(Washington, DC) – Today the Financial Crisis Inquiry Commission delivered the results of its investigation into the causes of the financial and economic crisis. The Commission concluded that the crisis was avoidable and was caused by:

- Widespread failures in financial regulation, including the Federal Reserve’s failure to stem the tide of toxic mortgages;
- Dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk;
- An explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system on a collision course with crisis;
- Key policy makers ill prepared for the crisis, lacking a full understanding of the financial system they oversaw;
- And systemic breaches in accountability and ethics at all levels.

“Despite the expressed view of many on Wall Street and in Washington that the crisis could not have been foreseen or avoided, there were warning signs. The greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done. If we accept this notion, it will happen again” said Phil Angelides, Chairman of the Commission.

The Commission’s report also offers conclusions about specific components of the financial system that contributed significantly to the financial meltdown. Here the Commission concluded that: collapsing mortgage-lending standards and the mortgage securitization pipeline lit and spread the flame of contagion and crisis, over-the-counter derivatives contributed significantly to this crisis, and the failures of credit rating agencies were essential cogs in the wheel of financial destruction.

The Commission also examined the role of government sponsored enterprises (GSEs), with Fannie Mae serving as the case study. The Commission found that the GSEs contributed to the crisis but were not a primary cause. They had a deeply flawed business model and suffered from many of the same failures of corporate governance and risk management seen in other financial firms but ultimately followed rather than led Wall Street and other lenders in purchasing subprime and other risky mortgages.

The Commission’s report, which was delivered to the President and Congress this morning, contains the data and evidence collected in the Commission’s inquiry, the conclusions of the Commission based on that inquiry, and accompanying dissents. The Commission’s conclusions were drawn from the review of millions of pages of documents, interviews with more than 700 witnesses, and 19 days of public hearings in New York, Washington, D.C., and communities across the country that were hit hard by the crisis. The reports and accompanying dissents are available to the public on the Commission’s website at FCIC.gov,

through the Government Printing Office, and as a paperback and an e-book published by PublicAffairs wherever books are sold.

The Commission's statutory instructions set out 22 specific topics for inquiry and called for the examination of the collapse of major financial institutions that failed or would have failed if not for exceptional assistance from the government. This report fulfills that mandate. In addition, The Commission was instructed to refer to the attorney general of the United States and any appropriate state attorney general any person that 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 appropriate authorities.

While much has already been written on the financial crisis, this report:

- Is the first official government report on what caused the crisis;
- Explains the *causes* of the crisis – how it came to be that in 2008 our nation was forced to choose between risking the collapse of our financial system and economy, or committing trillions of taxpayer dollars to rescue major corporations and our financial markets;
- Ties together many aspects of the crisis in a way that has not been done to date;
- Is based on documents never before made public and more than 700 interviews;
- Includes substantial new facts and data on issues and events of the financial crisis.

The Commission's report is not the sole repository of what the panel found. The Commission's website at FCIC.gov will host a wealth of information beyond what could be presented in its report. It will contain a stockpile of materials – including documents and emails, video of the Commission's public hearings, audio recordings, summaries and transcripts of interviews, testimony and supporting research – that can be studied for years to come.

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Work of the Commission

In the course of its research and investigation, the Commission reviewed millions of pages of documents, interviewed more than 700 witnesses, and held 19 days of public hearings in New York, Washington, D.C., and communities across the country that were hard hit by the crisis. The Commission also drew from a large body of existing work about the crisis developed by congressional committees, government agencies, academics, journalists, legal investigators, and many others.

The Commission conducted research into broad and sometimes arcane subjects, such as mortgage lending and securitization, derivatives, corporate governance, and risk management. To bring these subjects out of the realm of the abstract, it conducted case study investigations of specific financial firms—and in many cases specific facets of these institutions—that played pivotal roles. Those institutions included American International Group (AIG), Bear Stearns, Citigroup, Countrywide Financial, Fannie Mae, Goldman Sachs, Lehman Brothers, Merrill Lynch, Moody's, and Wachovia. The Commission also looked more generally at the roles and actions of scores of other companies.

The Commission studied relevant policies put in place by successive Congresses and administrations. It also examined the roles of policy makers and regulators, including at the Federal Deposit Insurance Corporation, the Federal Reserve, the Federal Reserve Bank of New York, the Department of Housing and Urban Development, the Office of the Comptroller of the Currency, the Office of Federal Housing Enterprise Oversight (and its successor, the Federal Housing Finance Agency), the Office of Thrift Supervision, the Securities and Exchange Commission, and the Treasury Department.

The operations of the Commission will conclude on February 13, 2011.

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