Financial Crisis Timeline

Peter C. Schmidt

May 7, 1998

Aug, 1998

Oct 19, 1998

May 1998

Jul 30, 1998

Sept 21, 1998

The 92ers

August 15, 1971 – Nixon Closes the Gold Window, Opens the Door to Inflation and Chaos
"In recent weeks, the speculators have been waging an all-out war on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy - and the American economy is by far the strongest in the world. Accordingly, I have directed the Secretary of the Treasury to take the action necessary to defend the dollar against the speculators. I have directed Secretary Connally to suspend *temporarily* (emphasis added) the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States. Now, what is this action - which is very technical - what does it mean for you? Let me lay to rest the bugaboo of what is called devaluation. If you want to buy a foreign car or take a trip abroad, market conditions may cause your dollar to buy slightly less. But if you are among the overwhelming majority of Americans who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today. *The effect of this action, in other words, will be to stabilize the dollar* (emphasis added)."[1]

Comment:
With this move, Nixon fundamentally re-ordered the American economy; the relationship banks have to wealth-producing industries in particular. No longer would the banks serve industry. Instead – with the Fed's unrestricted ability to create banking reserves out of thin air – banks would be able to prosper even when the economy as a whole suffers. In spite of the temporary nature of Nixon's edict, it remains in effect more than 45-years later. Of course, rather than stabilizing the dollar, closing the gold window led to the dollar plunging in value.

At the time of Nixon's action, foreign central banks could exchange $35 for one ounce of gold. This exchange rate was established in the 1944 Bretton Woods agreement. Because gold doesn't earn interest, most foreign central banks that held dollars were perfectly willing to continue to hold dollars instead of acquiring gold. However, the US ran huge trade and government deficits in the late 1960's. Because of these deficits, foreign central banks became increasingly concerned the dollar would be devalued. To protect themselves, foreign central banks asked to exchange increasingly larger portions of their dollar holdings for gold. Rather than attacking the root of the problem – the enormous US deficits – Nixon created a convenient and completely mythical enemy, the "*international money speculator.*" It was pure short-term politics with disastrous long-term consequences for the average American Nixon claimed he was protecting.

The principal problem in August 1971 was credit was growing much faster than the economy. The credit in this case was not being used to fund wealth producing investments. Instead, the credit was being used to fund the government's money squandering deficits and the enormous trade deficit. (Note, "credit" is simply another way of saying "debt" because they are merely two sides of the same coin.) The important role gold plays in synchronizing the growth of credit with the growth of the economy was best summarized by the great Wilhelm Röpke,

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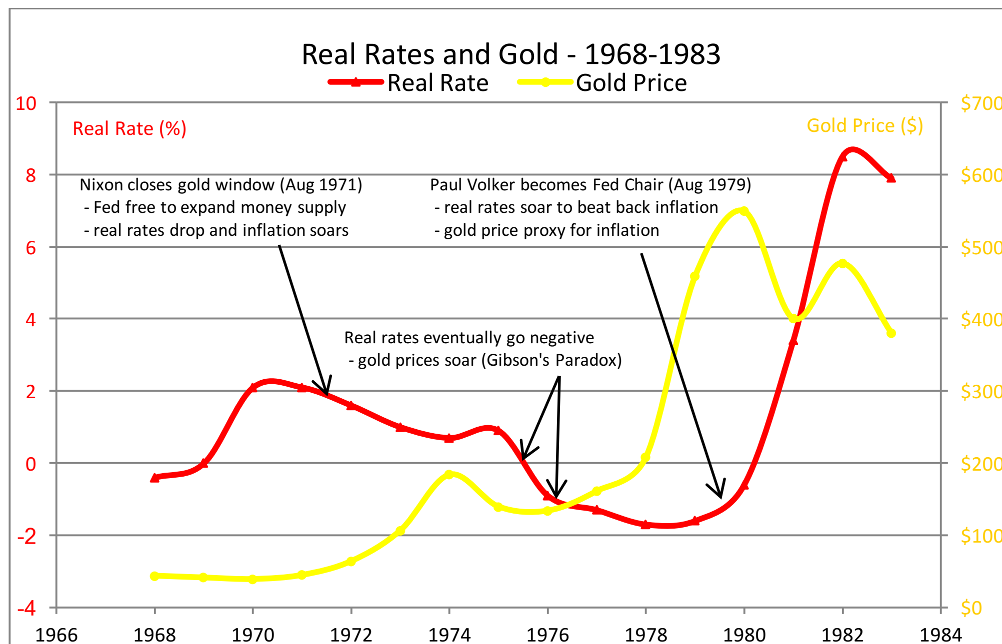
> *"If in the production of goods the most important pedal is the accelerator, in the production of money it is the brake. To insure that this brake works automatically and independently of the whims of government and the pressure of parties and groups seeking "easy money" has been one of the main functions of the gold standard. That the liberal should prefer the automatic brake of gold to the whims of government in its role of trustee of a managed currency is understandable."*[2]

Arthur Burns – Fed chairman at the time the gold window closed – lamented, "My efforts to prevent closing of the gold window-working through (John) Connally, (Paul) Volcker, and (George) Shultz-do not seem to have succeeded. The gold window may have to be closed tomorrow because we now have a government that is incapable, not only of constructive leadership, but of any action at all. What a tragedy for mankind!" [3] In spite of his despondency over Nixon's actions, Burns would serve as Nixon's errand boy. Burns employed the Fed to advance Nixon's bogus economic policies. Burns – and his successor G. William Miller – took advantage of the gold window closing to leave rates far too low for far too long. Inflation as measured by consumer prices soared. See the chart below for the appalling evidence of Nixon's blunder and the Fed's cowardice. (All data is based on annual averages.)



Inflation data from the Bureau of Labor Statistics Consumer Price Index (CPI)[4]
Interest Rate Data from the St. Louis Fed[5]
Gold Prices from OnlyGold.com[6]

The chart plots the "real" interest rate. This is the interest rate minus the inflation rate. The interest rate used in the above chart is the Federal Funds rate and the inflation rate is the average inflation rate as measured by the CPI. Because the inflation rate is already latent in the real

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interest rate data and because of its obvious relationship to Nixon closing the gold window, the price of gold is plotted as a proxy for inflation. Note that once real rates went negative – a classic sign of both a profligate central bank and far too much credit creation relative to the economy – the price of gold soared. John Maynard Keynes dubbed the relationship between the gold price and negative real interest rates "Gibson's paradox." Of the relationship between real rates going negative and gold prices soaring, Keynes claimed it was "one of the most completely established empirical facts in the whole field of quantitative economics."

The important conclusion to draw from all of this is that the negative real interest rates – which led to the soaring price of gold and the inflation which devastated the US economy – could only come about because Nixon first closed the gold window. Without the discipline imposed by gold, the US economy was completely reliant on fully fallible human beings, and the results were disastrous. Regrettably, the damage from Nixon's and the Fed's cowardice would not be limited to the inflation of the 1970s and early 1980s. Nixon's world-altering blunder, along with completely new economic theories – which erroneously held that economists could use mathematics to model economies in exactly the same way a physicist uses mathematics to model electron orbits around an atomic nucleus – would directly lead to the highly leveraged, economically useless derivative markets, the bubble in tech stocks, the housing bubble and the "financialization" of the US economy.

1**973** – Paul Samuelson, First Modern Economist, Completely Misunderstands Money & Gold
Paul Samuelson was the author of the most widely used college economics textbook and was the first American to win the Nobel Prize in economics. In the aftermath of Nixon taking the US off the gold standard, Samuelson was convinced gold would sink into complete irrelevance and be treated no differently than any other commodity like zinc, lead or coffee. Insight into Samuelson's almost complete ignorance of the way economies actually work and the nature of money can be gleaned by his outlook for the price of gold after Nixon closed the gold window.

In the 1973 edition of his textbook Samuelson described the prospect of a "mid-east sheikh" making a bundle if the price of gold increased to $68 but would lose a fortune if gold fell to $38.50. In just a few years, the price of gold would leave prices like $68 in the dust and soar to over $800! Samuelson also claimed, *"From the standpoint of economics – jobs, income, interest rates, inflation, lifetime savings – gold has not the slightest importance."*[7] As Samuelson's comprehensive misunderstanding of the future movements of the gold price conclusively shows, Samuelson was completely ignorant of the enormous significance of removing the discipline of gold from the monetary system. It was the resulting lack of monetary discipline – which could only exist without the presence of gold in the monetary system – that created the inflationary firestorm which decimated savings and forever altered the economic make-up of the United States. Nixon closing the gold window was a watershed event politically, culturally, socially and economically - and MIT's Paul Samuelson was completely blind to it.

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Regrettably, Samuelson's blunders weren't limited to endorsing Nixon's actions on gold. In an error of equal significance, Samuelson confused the social science of economics with the hard sciences of physics and engineering. In the words of a fawning acolyte and fellow educated fool, Ben Bernanke, Samuelson performed *"foundational work as a graduate student in the application of sophisticated mathematical models to economics."*[8] Samuelson was convinced that enormously complex national economies could be modeled by equations in the same way a mechanical engineer might model the flow of air over an airplane wing. It was a colossal blunder with enormous significance.

At its core, the doctrine founded by Samuelson and built on by others confused correlation with causation. Among the many other manifestations of this fully fraudulent view of economics and human nature were;

- The US economy could be modeled by the function of a single variable – the interest rate
- The spurious notion that investment banks could manage enormously leveraged "derivative" investments with similar equations and statistical correlations

Unsurprisingly, one of the most fervent advocates of what would become the economically ruinous derivative market was Samuelson's nephew and Harvard president, Lawrence Summers. Summers' enormous contribution to the future financial crisis was based on his role in fueling the explosive growth of the derivatives market and acting as an establishment shill for Wall Street finance.

1973 - Paul Samuelson, First Modern Economist, Completely Misunderstands Economics
Samuelson's 1973 edition of his economics textbook does not limit its enormous blunders to the prospects for gold and inflation. Samuelson also offers his assessment of the merits of communism in the Soviet Union versus capitalism in the United States. Using a "maximum" estimate of Soviet growth and a "minimum" estimate of US growth, Samuelson predicts the Soviet economy will overtake the US economy in 1990.[9]

Comment: There is no better evidence of the total moral and intellectual bankruptcy of modern economics and modern economists of the Samuelson variety then their collective failure to see Soviet communism for what it was. Instead of recognizing communism, particularly its cruel Soviet variant, as one of the most evil and inhumane systems of repression ever unleashed on a country, most modern economists marveled at all the progress the communist tyrants appeared to be making. Laughably – and a damning indictment of Paul Samuelson's misunderstanding of economics - rather than overtaking the US economy in 1990, the Soviet Union collapsed onto the ash heap of history on Christmas Day 1991! Like most PhD economists – particularly those educated at Harvard or MIT – his enormous miscalculation on growth prospects in the now defunct Soviet Union never prompted him to revisit his now clearly bogus theories. (See 1989 and MIT's Lester Thurow for another educated fool weighing in on Soviet economic progress)

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1973 – Income Disparity Bottoms; Will Increase Sharply with Financialization of Economy
Less than two years after the gold window was closed and the Fed was completely free to embark on an unprecedented campaign of increasing the money supply – which will benefit financial services and banks at the expense of the economy's productive elements as surely as night follows day - income disparity begins its inexorable march higher. In 1973, the share of national income earned by the richest 1% of Americans bottoms at 7.7%.[10] It will increase unabated – under Republican and Democratic presidents - for the next 44-years and counting.

January 1973 – December 1974 – Crushing Bear Market on Wall Street
Stock prices as measured by the Dow Jones Industrial Average fall by over 45%. Prior to the giant bubbles of the Greenspan/Bernanke era in tech stocks and housing, the 1973-1974 crash was the worst bear market since the Great Depression. A huge driver of the crash in stock prices was the inflation and enormous economic uncertainty created by Nixon closing the gold window.

December 1974 – Oil Prices in Dollars Soar but Merely Return to Their Typical Price in Gold
Several OPEC countries raised the dollar price of oil from $4.31 to $10.11. The price increase was to be effective January 1, 1974.

Comment: While this was an enormous increase in dollar terms, from the standpoint of the oil exporting countries it only returned prices to their historical range under Bretton Woods. [11] In 1971 and under Bretton Woods, one ounce of gold was priced at $35 and the price of oil was around $3.50 per barrel. Stated differently and in terms of the common baseline of gold, ten barrels of oil could be exchanged for one ounce of gold. Even after the enormous price increase of January 1974, oil was still roughly priced at the same 10-barrels per ounce of gold that existed in 1971! (At the end of 1973, gold traded for approximately $106 per ounce. At this dollar price of gold and an oil price of $10.11 per barrel, oil sold for about 10.5-barrels per ounce of gold.) In short, measured in ounces of gold, the price of oil had hardly moved. What had changed wasn't the price of oil; it was the value of the dollar.

After the gold window closed, the gold price soared because the dollar's value plunged. Not only did it take far more dollars to buy gold, it took far more dollars to purchase wheat, copper and all other commodities. The oil exporting countries realized this. They recognized they were exchanging a limited natural resource, oil, for a paper currency, now backed by nothing, that could be created without limit. In the words of a Kuwaiti oil minister, "What is the point of producing more oil and selling it for an unguaranteed paper currency?"[12] Perhaps America's most stalwart Mideast ally, the Shah of Iran, best summed up the problem from the vantage point of the oil exporting countries, "You've (the West) increased the price of the wheat you sell us by 300%, and the same for sugar and cement. You've sent petrochemical prices rocketing. You buy our crude oil and sell it back to us, refined as petrochemicals, at a hundred times the price

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you've paid us. You make us pay more, scandalously more, for everything, and it's only fair that, from now on, you should pay more for oil."[13]

The 1974 oil price "shock" also provides more evidence that Paul Samuelson, doyen of modern economists, completely missed the enormous practical significance of Nixon closing the gold window, and the critical role gold played in trade. With the dollar no longer anchored by gold its value plummeted. Unlike nearly all PhD economists, the oil exporting countries immediately recognized the dollar's plunging value. As with most crushing inflations throughout history, the US government – along with its lackeys in media and Ivy League economics departments – seized on a foreign bogeyman, Arabs in this case, as the cause of a domestic inflation. As with all inflations, the US inflation of the 1970s was completely the result of purely domestic incompetence, cowardice and stupidity.

January 1978 – Hockey's Greatest Defensemen Better Economist than MIT's Samuelson
The USSR's Viacheslav "Slava" Fetisov, arguably the greatest defensemen in hockey history, attends the World Junior Championship in Quebec City and Montreal, Canada. He marvels at the dozens of channels available on the cable television in his hotel room. He is especially taken aback by the commercials which show fruits and vegetables being available in the dead of a brutal Canadian winter, something completely unheard of in the equally frigid USSR. He contrasts the seafood available every day of the week with the "fish Thursday" he was accustomed to at home. What was immediately obvious to a Soviet teenager visiting Canada – the superiority of capitalism over communism – was lost on hundreds of PhD economists.

Spring 1978 – Mortgage Trading Desk Created at Salomon Brothers
The first trading desk on Wall Street dedicated to mortgages is started at Salomon Brothers.[14] Mortgage bonds are created from individual mortgages and can be sold to large investors who would otherwise have no interest in investing in mortgages. The process of turning individual mortgages into a single, large mortgage bond is called "securitization." See January 1984.

1979 – Trading Mortgages Goes Nowhere Because of Pre-Payment Risk
One of Salomon Brothers best bond salesman despondently sits in his office and repeats to himself, "These Ginnie Maes (a mortgage security) suck. They get longer (in maturity) when rates go up and shorter when rates go down, and nobody wants them."[15]

Comment: Normally the value of a bond goes up when interest rates go down. However, when interest rates go down, homeowners have the option to pre-pay their mortgage at the lower rate. As a result, when rates go down, rather than the value of a mortgage bond increasing, mortgage bonds are pre-paid. A bondholder that thought she owned a 10-year bond, found the bond closing out years in advance and at the worst possible time, (bonds are now more expensive).

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January 1979 – Annual Inflation for 1978 reaches 7.4%
As a result of the criminal incompetence of the Fed's Arthur Burns and G. William Miller, inflation roars. Real interest rates for 1979 will be steeply negative. The price of gold will soar.

October 06, 1979 – Paul Volcker Declares War on Inflation
New Fed Chair Paul Volcker announces a new basis for the Fed's monetary policy.
*"*By emphasizing the supply of reserves and constraining the growth of the money supply through the reserve mechanism, we think we can get firmer control over the growth in money supply in a shorter period of time."[16] Going forward, the Fed will target the supply of monetary reserves instead of attempting to hold interest rates at a particular level. Volcker admits that by targeting reserves and not rates, interest rates will be more volatile. To show that he was serious about getting control of inflation, Volcker raises interest rates by 4% to 15.5%

Comment: Volcker likely realized he would have to greatly increase interest rates to stamp out the inflation created by Nixon closing the gold window and the serial incompetence of the two men who preceded him at the Fed. Volcker likely seized on the notion of targeting the money supply – instead of interest rates – to help protect him from the enormous political pressure that high interest rates would surely produce. By targeting money supply growth, Volcker could state the high interest rates were a consequence of his policy, not the purpose of this policy. That said, Volcker almost certainly had no idea that he would have to keep rates so high for so long to finally put a lid on inflation. The effective federal funds rate would breach 19% in January 1981 and wouldn't fall below 10% until October 1982.

1980 – First Casualty of Volcker's War on Inflation is the Savings and Loan (S&L) Industry
Winston Churchill famously said the first casualty of war is the truth. In the case of the Volcker's war on inflation, the first – and largest casualty – was the savings and loan industry. The S&Ls main business was issuing mortgages. Most of the S&L mortgages had been issued years ago when interest rates were much lower. As rates rose enormously to combat the inflation created by Nixon's cowardice and the Fed's epic stupidity, the S&Ls found themselves in an impossible financial position. David Stockman estimates that in 1980 the S&Ls had about $425-billion in mortgages yielding an average of 4% on their books.[17] At the same time the S&Ls were earning 4% on their mortgages, they might be paying 12% on a savings deposit! In practical terms – and as described in detail below - the S&Ls were insolvent.

Comment: For a bond – or mortgage - that already exists, when interest rates go up the present value of the bond – or mortgage - will go down. The relationship between a mortgage's present value and the interest rate is given by the formula below;

$$PV = \frac{C}{r}\left[1 - \frac{1}{(1+r)^t}\right] + \frac{F}{(1+r)^t}$$

PV - Present value of the mortgage

C - Coupon earned by the mortgage
r - Interest rate used to discount the value of mortgage's future cash streams to the present
t - Duration or the number of years it will take the debtor to pay the loan (mortgage) back
F - Face amount of the mortgage

In the formula above "r" is the rate of interest and the mortgage's coupon payment, C, will be determined by this rate of interest. For the sake of simplicity and the discussion here, the coupon payment will be based on a single payment per year and not 12-monthly payments.

With this as a preface, what happens to the present value of a $200,000, 15-year mortgage yielding 4% when interest rates increase from 4% to 12%? The mortgage loses over one-half of its value (54%)! The relatively simple math here shows the impossible situation the S&Ls found themselves in as a result of the soaring interest rates of the Volcker era. The primary cause of so many S&Ls failing in the early 1980s was the enormous interest rate risk that Volcker's war on inflation exposed them to.[18]

Early 1980 – Mortgage Trading Desk at Salomon on the Verge of Being Shut Down
Pre-payment risk keeps the market for mortgage securities from growing. Senior management at Salomon Brothers is seriously considering whether to shut their mortgage desk – still the only mortgage trading desk on Wall Street - down.[19]

January 1981 – Inflation Continues to Rage – Double-Digits (12.4%) for 1980
The Federal Funds rate averages nearly 12% for 1980

August 13, 1981 - Economic Recovery Act of 1981 Signed; Major Impact on S&Ls
The so-called Kemp-Roth tax plan is signed into law by President Reagan. Among the numerous provisions of this landmark act are some that impact the S&L industry. The S&L industry is reeling from the high interest rates produced by Volcker's war on inflation. To assist the S&Ls – which were largely the victims of the Fed's incompetence and Nixon abandoning gold – the new tax law allows S&Ls to sell their mortgages. While the mortgages would be sold at a loss, the S&Ls can use the losses to recover income taxes that had been paid anytime over the preceding ten years.

Comment: The provisions around mortgages serves as a lifeline for the mortgage trading desk at Salomon Brothers and the securitization of mortgages. The securitization of mortgages – essentially bundling large number of individual mortgages into a single bond – will play an enormous role in the financial crisis. See Spring 1978.

October 1981 - The "Most Irresponsible Period in the History of Capital Markets"[20]

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Because of the ability to claim refunds on taxes already paid if mortgages are sold at a loss, S&Ls are tripping over themselves to sell mortgages. With so many sellers of mortgages and only one buyer – Salomon Brothers – the Salomon Brothers mortgage desk was in the perfect position. It was not unheard of for Salomon Brothers to purchase a mortgage security for 70-cents on the dollar from one S&L and sell the same security to another S&L for 78-cents on the dollar. Given the billions of dollars of mortgages trading hands, these spreads produced enormous trading profits for Salomon.

Comment: The S&Ls were completely overmatched by the Wall Street traders. The S&Ls apparently – and naively – believed Wall Street had their best interests at heart. Of course, nothing was further from the truth One Wall Street trader looked backed at the era and stated, "The thrifts (S&Ls) that did the best did nothing. The ones that did the big trades got raped."[21]

October 1, 1981 – Salomon Brothers purchased by Phibro, Wall Street Irrevocably Changed
The closely held Salomon Brothers investment bank – the largest bond trader on Wall Street – goes public when it was purchased by the Phibro Corporation for $483-million.[22] On average, each of Salomon's 62 partners made $7.8-million as a result of the sale. John Gutfruend – Salomon's managing partner and arguably the person almost singularly responsible for irrevocably changing, (for the worse), the culture of Wall Street – may have made as much as $40-million from the sale.

As recently as the late 1970's, when Salomon was still just a closely held partnership, Salomon kept track of its working capital with hand-written entries into a ledger book.[23] In these innocent days, it was the partners' money that was at risk and trades were not nearly as risky as they would become. Once the investment banks went public – and the partners were now all fabulously wealthy – it was the public's money that was at risk. Unsurprisingly, the complexity, risk and size of trades exploded. Within just a few years of going public, Salomon would be at the forefront of "securitization" – the disaggregation of all sorts of loans and bonds into indecipherably complex securities with virtually incalculable risks that miraculously merited AAA ratings. Securitization – along with the equally ludicrous notion of using derivatives to mitigate risk – would contribute in no small measure to the financial crisis of 2008.

January 1982 – Inflation 10.4% for 1981
The Federal Funds rate averages nearly 14% for 1981.

January 1983 – Knees of Inflation Finally Buckle, 7.4% for 1982
The Federal Funds rate averages nearly 16% for 1982.

January 1984 – War Against Inflation a Success – Finally; Inflation 4% for 1983

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Volcker can declare victory over inflation but the war has not been without its casualties. The recession in the early 1980's was one of the steepest on record and unemployment soared as rates were being raised. In terms of long-term implications of Volcker's war on inflation, the most important effect was the damage the war caused to the nation's savings and loan industry. The S&Ls were devastated. The S&L related provisions of the 1981 tax bill – which were aimed at helping the S&Ls negotiate the treacherous financial shoals they find themselves on – then fueled the boom of mortgage securitization. Securitization – which ultimately separated the issuer of a mortgage from the risk of the mortgage not being paid back – played an enormous role in the housing bubble. See August 13, 1981 for the tax changes.

August 11, 1987 – Alan Greenspan's Disastrous Career at the Federal Reserve Begins
Alan Greenspan confirmed as Chairman of the Federal Reserve

October 19, 1987 – Programmed Trading Leads to Largest One-Day Stock Market Crash
Stock market drops approximately 20% in a single day and program trading/portfolio insurance is a cause.

October 20, 1987 – Greenspan Credited with Quelling Market Panic
Greenspan states, "The Federal Reserve, consistent with its responsibilities as the Nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system."

Comment: The high water mark of Greenspan's chairmanship. It was all downhill from here.

1989 – Dean of MIT's Graduate School of Management Praises Soviet Economic Progress
Lester Thurow of MIT asks, "Can economic command significantly accelerate the growth process? The remarkable performance of the Soviet Union suggests that it can… Today the Soviet Union is a country whose economic achievements bear comparison with those of the United States."[24]

December 1989 – Summers Predicts the Future and Proves His Incompetence
In December 1989 Lawrence Summers extols the virtues of the Japanese economy at the peak of its speculative and industrial planning excesses. "Today, Japan is the world's second largest economy…Furthermore, an Asian economic block with Japan as its apex…is *clearly* in the making. This all raises the possibility that the majority of American people who now feel that Japan is a greater threat to the U.S. than the Soviet Union are right."[25]

Comment: In December 1989 the Nikkei peaked at almost 39,000. It was almost straight downhill from here. Over a quarter-century later Japan remains mired in an economic malaise. Lawrence Summers is reputed to be one of the world's best economists and yet he completely

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misdiagnosed the *entire* Japanese economy. Summers does not limit his incompetence to Japan and also fails to see the collapse of the Soviet Union which was even then occurring. Basically, in this single quote Summers managed to get everything wrong about Japan and the Soviet Union. This completely mistaken analysis does not speak highly of either Lawrence Summers specifically or the economics profession generally. Summers would later work in a very senior capacity in the Clinton administration and serve as president of Harvard. He continues to enjoy a strong professional reputation at Harvard and elsewhere. Don't let the titles, his résumé or any academic praise fool you; Lawrence Summers is an incompetent fool and this quote proves it!

January 30, 1992 – Financial Community Warned About the Dangers of Derivatives
In a speech to the New York Bankers Association Gerald Corrigan, the Governor of the Federal Reserve Bank of New York, cautions about the danger of financial derivatives. He warns bankers that they need to "take a very hard look at off balance sheet activities (derivatives)" and "I hope this sounds like a warning because it is." Later that year Allan Taylor, Chairman of the Royal Bank of Canada, likened derivatives to a "time bomb that could explode just like the LDC crisis did, threatening the world financial system. (The LDC crisis was the crisis spawned by hundreds of billions of debt to third world countries going bad.) Picking up on the bomb metaphor, Felix Rohatyn, a senior partner at investment bank Lazard Freres, envisioned the market for derivatives as "26-year olds with computers creating financial hydrogen bombs."[26]

Comment: Even within the financial community, derivatives were long recognized as a potential source of a future financial crisis. The subsequent actions of Alan Greenspan, Robert Rubin, Lawrence Summers and numerous others to prevent any regulation of these products can only be fully judged by taking into account the fact many bankers recognized from the beginning the enormous risks posed by derivative products. Clearly, the later failure of Greenspan, Rubin and Summers to act on derivatives, particularly the enormous leverage they employ is not a mere case of hindsight proving 20-20. See May 7, July 30 and September 23, 1998.

October 28, 1992 – Law Used by Pres. Clinton to Help Create Housing Bubble Passed
Congress passes the Federal Housing Enterprises Financial Safety and Soundness Act. This act created the Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO was charged with regulating the conduct of the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, the two largest housing finance companies in the United States. The act also mandated that the Department of Housing and Urban Development (HUD) set specific numerical targets for the amount of mortgages the GSEs must direct to low- and moderate-income borrowers. These targets became known as the affordable housing mandates.

Comment: The Trojan horse has been let through the city gates. The requirement for HUD to set specific targets for the amount of mortgages dedicated to low- and moderate-income borrowers would play a major role in the housing bubble and the ensuing financial crisis. President

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Clinton's housing secretaries – the diligent and economically dumb duo of Henry Cisneros and Andrew Cuomo – would use this codicil to lower lending standards throughout the banking industry with disastrous, world-altering results. Note also the Orwellian name of the act – "the federal housing enterprises financial safety and soundness act." Because of the HUD requirement to expand mortgages to low- and moderate-income borrowers the act was both financially unsafe and unsound. See December 1995 and October 31, 2000 for HUD announcements that take the percentage of Fannie/Freddie mortgages dedicated to low- and moderate-income borrowers from approximately 30% to 42% and 50% respectively. Literally hundreds of billions of dollars would go up in smoke when these additional loans to low and moderate-income borrowers went bad.

January 17, 1994 – President Clinton Starts His Central Plan to Expand Homeownership
President Bill Clinton signs an executive order 12892 to "affirmatively" further fair housing. Among other things the executive order establishes the President's Fair Housing Council to "review the design and delivery of Federal programs and activities to ensure that they support a coordinated strategy to affirmatively further fair housing."[27]

Comment: A milestone in the origin of the housing crisis. The first chair of the Fair Housing Council is HUD secretary Henry Cisneros. Cisneros would later serve on the board of Countrywide Financial Corporation, the company that in many people's minds came to symbolize the excesses of the mortgage market in the late 1990s and early 2000s. Until the housing market collapsed Countrywide received government, industry and academic (Harvard) plaudits for its philosophy on mortgages – the elimination of down payments in particular. The plaudits Countrywide earned were fully consistent with the government inspired changes to the mortgage market reflected in this executive order and elsewhere. See April 19, 1995, June 05, 1995 and March 02 and October 30, 2000 for examples of these government inspired changes to the mortgage market. For Countrywide and their zeal to lend in accordance with the government's fair housing initiatives see February 04, 2003 and January 14, 2005. For Henry Cisneros and what became of him and his economically ruinous fair housing ideas see October 18, 2008.

April 18, 1994 – Greenspan Takes Credit for Defusing Stock Market Bubble
"Secondly the sharp declines in both stock and bond prices since our last meeting, I think, have defused a significant part of *the bubble* which had previously built up. We let a lot of air out of the tire so to speak, and the dangers of breaking the surface tension of the markets clearly are less than they were at the time of the last meeting." (Greenspan, Federal Open Market Committee (FOMC) conference call)

Comment: Note the focus on the market's reaction - this will be a reoccurring theme for the Greenspan Fed and result in a new term entering the investment lexicon, the "Greenspan Put."

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Spring-Summer 1994 – HUD Works to Create a Partnership with Mortgage Bankers
Housing and Urban Development (HUD) secretary Henry Cisneros meets with leaders of "major national organizations from the housing industry" to solicit their view about establishing a homeownership partnership. [28]

Comment: See August 1994, November 05, 1994, May 02, 1995 and June 05, 1995

May 17, 1994 – Greenspan Again Takes Credit for Defusing Stock Market Bubble
"…As a consequence we have taken a very significant amount of air out of the bubble. We had discussions in this Committee not on the desirability of raising rates and tightening the markets because the economy needed it – I think that was a universal view – but there have been differences here about how much the financial system could take before its tensile strength broke. And I think what we have reached in conclusion at this particular point is the diffusion of a good part of the bubble. I think there's still a lot of bubble around; we have not completely eliminated it. Nonetheless, we have the capability I would say at this stage to move more strongly than we usually do without the risk of cracking the system." (Greenspan, FOMC meeting, rates increased from 3% to 3.5%)

August 1994 – Housing Industry Agrees to Work with Clinton Administration
Housing industry representatives agree with HUD secretary Cisneros to form working groups to help develop the National Homeownership Strategy. [29]

Comment: See Spring-Summer 1994, November 05, 1994, May 02, 1995 and June 05, 1995

August 16, 1994 – Greenspan Again Takes Credit for Defusing Stock Bubble
"With the May move, I think we clearly demonstrated that the bubble, for all practical purposes had been defused, and that we needn't worry about larger (interest rate) increases at this stage."
(Greenspan, FOMC meeting, rates increased to 4%)

September 1994 – Mortgage Banks Sign "Best Practices Agreements" with HUD
"In mid-September 1994 the Mortgage Bankers Association of America, whose membership includes many bank-owned mortgage companies, signed a 3-year master best-practices agreement with the department of Housing and Urban Development (HUD). The agreement consisted of two parts; MBA's agreement to work on fair lending issues in consultation with HUD and a model best practices agreement that individual banks could use to devise their own agreements. The first such agreement was signed by Countrywide Financial, the nation's largest mortgage bank. "Many have seen the MBA agreement as a preemptive strike against congressional murmurings that mortgage banks should be pulled under the umbrella of the CRA."[30]

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Comment: The mortgage banks, which were not covered by the Community Reinvestment Act (CRA), essentially agreed to lend as if they were covered by the CRA to avoid the overhead burden that the threatened implementation of the CRA would impose. Note that it is Countrywide, the company that would come to- unfairly in the author's opinion - represent the mortgage industry's role in the housing collapse, is the first company to agree to the "best-practices" agreement. As shown here Countrywide was operating its business in the manner HUD wanted it to. Indeed, Countrywide would show time and again that it was the mortgage bank most zealous to lower lending standards in order to expand home ownership. These practices earned Countrywide praise from across the political spectrum. Among the people with deep political contacts who sat on Countrywide's board were President Clinton's first housing secretary, Henry Cisneros, and California Governor Jerry Brown's sister, Kathleen – who also worked for Goldman Sachs. See 1998 for HUD's perspective on the benefits – which would prove to be illusory – from these agreements. See April 06, 1998 for Andrew Cuomo settling a lawsuit against a mortgage bank not subject to the CRA, and a large part of the settlement was for the bank to lend as it was subject to the CRA.

November 05, 1994 – President Clinton Calls for an Effort to Increase Homeownership
President Clinton calls for a national effort to increase America's homeownership rate to an all-time high by the end of the century. [31]
Comment: See Spring-Summer 1994, August 1994, May 02, 1995 and June 05, 1995

January 31 – February 01, 1995 – Greenspan Holds Court on Stock Bubbles
"One can say that while the stock market is not low, it clearly is not anywhere close to being as elevated as it was a year or so ago in relative terms. We have taken a lot of the bubble out of the market. Indeed, I would think one of the successes of our policy to date is that we have taken the degrees of instability that one can envisage in stock prices down to a much reduced level of concern." (Alan Greenspan, rates raised to 5.25%, the last rate increase until March 1997)

Comment: Greenspan declares victory over the stock market bubble that he was concerned about in the previous FOMC meetings. See April 18, May 17, and August 16, 1994. This is the last rate increase until March 1997. When the tech bubble collapses Greenspan defends the Fed failure to prevent the bubble and offers the excuse that bubbles can only be seen after their "collapse confirms their existence." See August 30, 2002 and October 06, 2006 for more details on Greenspan's defense and note that this defense is in complete conflict with the meeting minutes from 1994-1996 and elsewhere.

February 21, 1995 – Rubin and Clinton Bail-Out Mexican Bond Holders
President Bill Clinton, acting with the approval of Fed chairman Alan Greenspan and the head of his National Economic Council, Robert Rubin, authorizes the use of the Exchange Stabilization

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Fund to provide $20 billion in loans and credits to Mexico. Mexico was in danger of defaulting on tens of billions of dollars in bonds.[32]

Comment: The Exchange Stabilization Fund (ESF) was created in the aftermath of President Franklin Roosevelt making it illegal for private citizens to own gold. Among the companies owning the Mexican bonds and who were bailed out by this action was Goldman Sachs. Not coincidently Robert Rubin was a former chairman of Goldman Sachs. Nevertheless and in spite of the obvious conflict of interest he failed to recuse himself from this issue. Most likely the first manifestation of the "Greenspan Put." See also September 23, 1998 for the Fed orchestrated bailout of LTCM – definitely the Greenspan put in action.

April 19, 1995 – Clinton Celebrates "Reforms" to the Community Reinvestment Act
"Today I am pleased to announce completion of a commitment I made to reform the regulations implementing the Community Reinvestment Act… With the new regulations in place, the statute will increasingly have a positive impact on the lives of countless Americans who work and play by the rules…To maximize the benefits that can accrue to both banks and consumers, the final regulation issued today… will place emphasis on performance not paperwork. The new regulations will make the act easier for banks to implement and will result in more consistent evaluation of their performance."[33] (President Bill Clinton)

Comment: The foundation upon which the housing bubble would form is strengthened and reinforced. The changes to the Community Reinvestment Act (CRA) are enormous. These changes will play a major role in the emergence of the housing bubble. See September 1994 for financial institutions not covered by the CRA, and see March 30, 2007 for Ben Bernanke on the changes to the CRA. For an independent assessment on the CRA and the changes made to it in the 1990s see December 2012. For Andrew Cuomo suing a mortgage bank to lend as it was covered by the CRA see April 06, 1998.

May 02, 1995 – National Homeownership Strategy Announced
President Clinton announces "The National Homeownership Strategy: Partners in the American Dream" from the White House. President Clinton describes the background and purpose of this strategy as;

> *"This past year, I directed HUD Secretary Henry G. Cisneros to work with leaders in the housing industry, with nonprofit organizations and with leaders at every level of government to develop a plan to boost homeownership in America to an all-time-high by the end of this century. The National Homeownership Strategy: Partners in the American Dream outlines a substantive, detailed plan to reach this goal. This report identifies specific actions that the federal government, its partners in state and local government, the private, nonprofit community, and private industry will take to lower barriers that prevent American families from becoming homeowners.* [34]

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Comment: This plan included one-hundred steps to increase homeownership. The plan now reads like step-by-step instructions on how to destroy the US economy. See Spring-Summer 1994, August 1994, November 05, 1994 and June 05, 1995.

June 05, 1995 – President Clinton Cites the Benefits of his Homeownership Strategy
"…You want to reinforce family values in America, encourage two-parent households, get people to stay at home. Make it easy for people to own their own homes and enjoy the rewards of family life and see their work rewarded. This is a big deal. This is about more than money and sticks and boards and windows. This is about the way we live as a people and what kind of society we're going to have. And I cannot say enough in terms of my appreciation to Secretary Cisneros, who is a genuine visionary… Since the day I asked Secretary Cisneros to build this strategy, he has done about everything a human being could do. And I can say without knowing that I'm overstating it, that if we succeed in doing this, if we succeed in making that number happen (67.5% homeownership by the year 2000, author), it will be one of the most important things this administration has ever done, and we're going to do it without spending more tax money…We have to remember that there are millions of people just like them who believe that home ownership is out of reach. They may be paying monthly rents that could cover a mortgage payment. They may scrape to save, but a down payment is still out of reach…Now we have begun to expand it (homeownership, author). Since 1993, nearly 2.8 million new households have joined the ranks of America's homeowners, nearly twice as many as in the previous two years. But we have to do a lot better. The goal of this strategy, to boost homeownership to 67.5% by the year 2000, would take us to an all-time high, helping as many as 8-million American families cross that threshold…I want to say this one more time, and I want to thank again all the people here from the private sector who have worked with Secretary Cisneros on this: Our home ownership strategy will not cost the taxpayers one extra cent. It will not require legislation. It will not add more Federal programs or grow Federal bureaucracy. It's one-hundred specific actions that address the practical needs of people who are trying to build their own personal version of the American dream, to help moderate income families who pay high rents but haven't been able to save enough for a down payment, to help lower income working families who are ready to assume the responsibilities of home ownership but held back by mortgage costs that are just out of reach, to help families who have historically been excluded from home ownership."[35]
(President Bill Clinton Remarks on the National Homeownership Strategy)

Comment: See Spring-Summer 1994, August 1994, November 05, 1994 and May 02, 1995. With the exception of the low interest rates of the Greenspan/Bernanke Fed everything that would ultimately contribute to the housing bubble is in this speech. The die that will form the government's role in the financial crisis is effectively cast. Note the central plan or "strategy" to increase homeownership to 67.5% by the year 2000 and HUD Secretary Cisneros working with

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the "private sector" to further this goal. Cisneros would eventually become a board member with the largest mortgage lender and the lender ultimately seen to embody the excesses of the housing bubble – Countrywide. Of course Countrywide was only lending as the government wanted it to.

Of prime importance to any objective evaluation of the Clinton presidency is the central importance President Clinton himself attached to his housing agenda. Achieving the goal of 67.5% home ownership was a key benchmark which President Clinton would use to evaluate his administration. If the goal was reached he believed it would *"be one of the most important things this administration has ever done."* President Clinton has much to answer for in the genesis of the housing crisis and resulting financial panic (far less than the Fed though). It is doubtful that President Clinton will ever be taken to task for his central role in the financial crisis. If he were President Clinton would almost certainly offer a myriad of complicated defenses designed to obscure and obfuscate his and his administration's leading role in creating the crisis. (In a deposition he famously questioned *"what the definition of is is."*) One defense even he couldn't make stick was he didn't pay much attention to his housing program.

Note also that no new legislation would be required to achieve these homeownership goals. Instead of new legislation being written, existing legislation like the CRA would be re-written and "reformed." HUD would use the "best practices agreements" to get mortgage lenders to issue mortgages as if they were covered by the CRA. HUD would also sue mortgage lenders to lend as if they were covered by the CRA even though this would lead to a greater risk of loans going bad, see April 06, 1998. Fannie and Freddie would lower their standards on what mortgages they would purchase from mortgage originators to meet the affordable housing mandates of 1992's Federal Housing Enterprises Financial Safety and Soundness Act. Finally, note that none of this was supposed to cost taxpayers a cent. It didn't work out as planned, but central plans never do. See October 30, 2000 for Andrew Cuomo referencing the 67.5% goal in a HUD press release.

December 1995 – Affordable Housing Mandates Sharply Increased by HUD
In accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, HUD announces the following targets for the percentage of Fannie/Freddie mortgages that must be issued to families with less than the median income as 40% for 1996, and 42% for the years 1997-1999.[36] This was a hugely significant event in the development of the housing crisis. See October 31, 2000 where HUD secretary Andrew Cuomo increases the percentage to 50%. See October 28, 1992 for passage of the Federal Housing Enterprises Financial Safety and Soundness Act.

September 24, 1996 - FOMC Discusses Risk of Not Addressing Bubbles
"Everyone enjoys an economic party, but the long-term costs of a bubble to the economy and society are potentially great…As in the US in the 1920s and Japan in the late 1980s, the case for

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a central bank ultimately to burst that bubble becomes overwhelming. I think it is far better that we do so while the bubble still resembles surface froth, and before the bubble carries the economy to stratospheric heights."[37] (Lawrence Lindsey, member of the FOMC)

December 5, 1996 – The Irrational Exuberance Speech
"How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contracts, as they have in Japan over the past decade?"[38] (Alan Greenspan)

Comment: See June 2005 for Dr. Kurt Richebächer's answer on how to identify a bubble. Dr. Richebächer says that bubbles are "easily identifiable" and most easily distinguished by a society's soaring credit and collapsing savings. Paul Volker stated that the goal of central banking is to prove Dr. Richebächer wrong. Alan Greenspan did not achieve this goal.

October 05, 1997 - Greenspan – *Ideas* More Important to Wealth Then Production
"The most important single characteristic of the changes in U.S. technology in recent years is the ever expanding conceptualization of our Gross Domestic Product. We are witnessing the substitution of ideas for physical matter in the creation of economic value – a shift from hardware to software, as it were."[39]

1998 – HUD Annual Report Discusses Tactics Used to Force Banks to Issue Mortgages
"In general, the signatures (*mortgage banks not subject to the CRA – author*) agree to administer a review process for loan applications to ensure that all applicants have every opportunity to qualify for a mortgage. They also assent to making loans of any size so that all borrowers may be served and to provide information on all loan programs for which an applicant qualifies…The results of this initiative are promising. As lenders discover new, untapped markets their minority and low-income loan applications and originations have risen. Consequently, the home ownership rate for low-income and minority groups has increased throughout the nation."[40]

Comment: The quote above is from HUD's fiscal year 1998 annual report. The modifications to lending standards that HUD celebrates here were beginning to bear fruit that would prove to be increasingly bitter over time, particularly to the low-income and minority families HUD thought they were helping. According to St. Louis Fed data, from the start of the Clinton presidency in January 1993 through April 2004 during the presidency of George W. Bush the homeownership rate in the country increased from 64.2% to 69.2%. By July 2015 the homeownership rate had collapsed from its April 2004 peak to a level not seen since 1967, 63.4%, and was still falling.[41] The fall in homeownership effectively wiped out all the gains produced by President Clinton's homeownership "strategy." The changes to the CRA, the agreements HUD had with mortgage bankers to lend as if they were covered by the CRA, the increased percentage of mortgages to low and moderate income borrowers that Fannie/Freddie were required to purchase and the Fed's

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low interest rate policies were all ultimately for naught. All these things working in concert could inflate a massive housing bubble but they could not postpone economic reality and keep the bubble from bursting. See May 02, 1995 for President Clinton announcing his homeownership strategy to great fanfare, January 17, 1994, April 19, 1995 and December 2012 for changes to the CRA, September 1994 for the agreement with the mortgage bankers and March 02, 2000 for Fannie/Freddie.

April 06, 1998 – Cuomo Demonstrates How HUD Can Force Banks to Make Risky Loans
"With the 2.1-billion, lending that amount in mortgages – which will be a higher risk – and I'm sure there will be a higher default rate on those mortgages than on the rest of the portfolio."
Clinton Housing and Urban Development (HUD) Secretary Andrew Cuomo discussing $2.1-billion worth of mortgages Accubanc Mortgage would have to make as part of settling a discrimination lawsuit.
http://www.youtube.com/watch?v=PEoqKYCMDmc

Comment: Accubanc was not subject to the provisions of the Community Reinvestment Act (CRA). However, the lawsuit filed by Cuomo makes it clear that the government strong-armed lenders not covered by the act to lend as if they were. Defenders of the CRA – like Paul Krugman of Princeton and the New York Times - who claim the CRA never applied to many of the mortgage originators at the center of the subsequent housing crisis miss a key point. While in a purely legalistic sense the CRA did not apply to many mortgage originators, the government pursued policies that forced many mortgage originators to lend as if the CRA did apply to them. In spite of his leading role in the housing crisis Andrew Cuomo was twice elected governor of New York and was considered a serious candidate for president in 2016. For more on Cuomo and his leading role in the financial crisis see October 19, 1998, October 30, 2000 and October 31, 2000.

May 1998 – Lehman Executive Makes the Mistake of Telling the Truth, Pays the Price
John Succo was an executive with the investment bank Lehman Brothers and a personal friend of James Grant of *Grant's Interest Rate Observer*. Succo agreed to speak at a symposium organized by *Grant's* because he was growing increasingly concerned about the enormous leverage that was increasingly being seen in derivatives trades all over Wall Street. Of particular concern to Succo was the ease with which hedge funds like LTCM were able to enter trades with leverage often in excess of 100:1.[42] At the symposium, Succo committed the unpardonable Wall Street sin of telling the truth. In particular, he described how Lehman's senior management was nearly completely ignorant of the risks Lehman was exposed to in their derivative contracts. *"I don't think that the people running our firm, our equity floor, have any idea of the things that we actually do, of how we…(audience laughter)…I'm serious…of how we hedge, the products that we're involved with, the amount of risk we take or the lack of risk we actually take."* He also

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says of Lehman's management, *"…if your making money, (management) kind of leaves you alone until there is a crisis situation. And I don't think that's a way to run a firm."*[43]

<u>Comment:</u> After hearing a tape recording of the speech, Lehman fires Succo. Lehman of course would collapse in September 2008 at the peak of the financial crisis. Succo would not have to wait until September 2008 for vindication however; that came in just a few months – September 23, 1998 to be exact. Then the enormous hedge fund LTCM collapsed as a result of trades that carried far more risk than LTCM believed.

May 7, 1998 – CFTC Proposes Regulating Derivatives
Commodities Futures Trading Commission and its commissioner, Brooksley Born, float the idea of regulating over the counter derivatives.

July 30, 1998 – Clinton and Fed Officials Argue Against Regulating Derivatives
Assistant Treasury Secretary Lawrence Summers, who would later become the president of Harvard, testifies to congress that over the counter derivatives do not need to be regulated. Summers was joined in opposing the proposal by, among others, Alan Greenspan and Robert Rubin.

August 1998 – Street-smart Trader Outsmarts MIT PhDs
Vincent Mattone – a former trader of Bear Stearns and a personal friend of Long Term Capital Management's (LTCM) founding partner, John Meriwether - visits LTCM's Greenwich, CT headquarters. LTCM, after years of success, has started to suffer enormous losses. Mattone asks Meriwether how much capital LTCM has lost. When told by Meriwether LTCM has lost 50% of its capital in the past few weeks, Mattone quickly – and correctly - concludes, "Your finished…When you're down by half, people figure you can go down all the way. They're going to push the market against you."[44]

<u>Comment</u>: Unlike the MIT PhDs and Harvard professors – whose ridiculous ideas formed the basis for LTCMs trading strategies – Mattone recognized that markets were human affairs, not scientific exercises. Just because some assets aren't fairly valued relative to some statistical basis, doesn't mean the assets can't become even more unfairly valued. Mattone also recognized that other market participants would take advantage of LTCMs troubles and trade against LTCMs positions – further increasing the pressure on LTCM. Completely unsurprisingly, the firm who seemed to take the greatest advantage of LTCM's misfortune was Goldman Sachs. See entries for Week of September 14 and September 20-21, 1998.

Week of September 14, 1998 – Does Goldman Illegally Takes Advantage of Access to LTCM?
As part of its "due diligence" in possibly merging with LTCM or organizing a capital investment into LTCM, Goldman Sachs is given virtually unlimited access to LTCM. The Goldman team

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pouring through LTCM's files was led by Jacob Goldfield. Goldfield - a protégé of Robert Rubin and later the chief investment officer for Soros Fund Management – was accused of passing information along to Goldman traders, who then used this information to trade against LTCM's positions – exactly as Mattone predicted. Goldman of course denies the claims but many LTCM employees are convinced LTCM took illegal advantage of the situation.[45]

September 20, 1998 –Fed Officials Given Access to LTCM's "Holiest of Holies" (Sunday)
On Sunday, September 20, Peter Fisher of the Federal Reserve Bank of New York is given access to arguably the most important document held by LTCM – its "risk aggregator." This document summarized LTCMs positions and how much it stood to make or lose on each of these positions. Fisher recognized that far from being unrelated to each other, LTCM's trades were largely the same trade, simply repeated the world over. As such, the trades were correlated to a very high degree, particularly in a crisis.[46]

September 21, 1998 – LTCM Suffers Enormous Losses While Goldman Profits (Monday)
LTCM loses $533-million in a single day, more than it had lost in the previous month. The losses equaled 1/3rd of LTCMs capital and basically made their situation completely hopeless. Traders believed that Goldman was "banging the s—t" out of LTCMs trades from the start of trading in Japan.[47] This day seals LTCM's fate.

Comment: Not only was Goldman apparently taking advantage of the unfettered access to LTCM by trading on the basis of this information, it was also simultaneously considering purchasing LTCM. Of course, the more losses it could force on LTCM, the cheaper Goldman – along with its partners Warren Buffet and AIG – could then purchase LTCM. Goldman Sachs is, justifiably, almost universally despised as representing the worst of what Wall Street has become, while AIG suffered a well-deserved bankruptcy. Perhaps one day Warren Buffet's role in some of Wall Street's worst excesses will be subjected to some well-deserved scrutiny – his folksy veneer notwithstanding. Finally, even though the NY Fed considered the collapse of LTCM a potentially earth-shaking crisis it is very interesting to note how Goldman Sachs' Jon Corzine and Buffet spent this time. Corzine spent September 21 on the golf course and would spend the next weekend at his palatial estate in the Hamptons.[48] Buffet on the other hand spent much of this time by being nearly completely incommunicado while on a boat cruise around Alaska.[49]

September 23, 1998 – Fed Bails-Out LTCM yet Refuses to Look Into Derivatives
The Federal Reserve organizes a consortium to purchase Long Term Capital Management (LTCM) in spite of a competing offer that required no Federal Reserve involvement. The purely private offer provided less generous terms to LTCM's partners and would have invested $3.5-billion into the firm. With this offer there was no risk of market contagion. LTCM's undoing was derivatives of the type that Brooksley Born and her commission were concerned about.

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Comment: In spite of the leading role over the counter derivatives of the type Brooksley Born was so concerned about playing such a major role in the collapse of LTCM, Alan Greenspan, Robert Rubin and Lawrence Summers did not reconsider their very recent and public position on the wisdom of regulating these trades. Left unchecked, the market for over the counter derivative trades – trades which were notoriously difficult to value – would continue to grow. Derivatives would ultimately result in the much larger collapse of an organization every bit as grotesquely stupid as LTCM, AIG. See June 30 and early July 2007 for examples of the difficulty in getting accurate prices for trades in derivatives. Finally, see January 30, 1992 for senior Federal Reserve and banking officials warning about the dangers of derivatives including likening them to financial hydrogen bombs.

September 29, 1998 – Fed Cuts Rates Simply to Bolster the Stock Market
Fed cuts rates to 5%

October 15, 1998 – One of the Most Irresponsible Acts in Fed History (Greenspan Put)
Acting between regularly scheduled meetings of the FOMC, the Federal Reserve cuts interest rates again. "The next question is whether we should reduce the rate at the next meeting or now. I guess I agree with a lot of others, why not now? From the standpoint of the *real economy* (emphasis added), it probably doesn't matter too much; four weeks is not that long a period when we consider all the lags in the real economy. But for the financial markets, four weeks could be a long time…" (Ned Gramlich, FOMC Board of Governors)

"Personally, I would feel a lot better about moving between meetings, given past practice, if there were a sense of urgency that was a step up from a sense of concern. We are going to be sending a message by acting between meetings, and I am a little concerned about how that message is going to be interpreted. I have two questions and would appreciate some comments on both. First, do we want to ease policy on a day when we received bad PPI news? Secondly, is there any chance that action today could be viewed, by some anyway, *as an effort to bail out the hedge funds*?" (Don Poole, FOMC Board of Governors, emphasis added)

Comment: Bill Fleckenstein calls this – the Fed cutting rates to 4.75% between scheduled meetings in the immediate aftermath of the LTCM collapse - *"one of the most irresponsible acts in the history of the Federal Reserve."*[50] Most observers cite the birth of the "Greenspan put" to Greenspan's actions in the wake of LTCM's collapse. A "put" guarantees that an investor will be able to sell a security at a particular price. In purely practical terms a "put" puts a floor under a price and incentivizes investors to engage in riskier behavior than they otherwise would. The stock market excesses of the 1990s and 2000s owe much to the Greenspan put and Alan Greenspan's spectacular incompetence as Fed chairman.

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October 18, 1998 - Merrill Lynch Executives Complain About Analyst's Opinion of Enron
Two senior investment bankers at Merrill Lynch, Rick Gordon and Schuyler Tilney, complain to Merrill Lynch president, Herbert Allison, about the skepticism expressed by a Merrill stock analyst, John Olson toward Enron. Gordon and Tilney write, "He has a poor relationship with Jeff (Skilling) and Ken (Lay)…John has not been a real supporter of the company, even though it is the largest, most successful company in the industry."[51]

Comment: Throughout the 1990s investment banks – eager to reap massive investment banking fees from companies like Enron – pressured their stock market analysts to maintain positive outlooks on companies like Enron. Companies like Enron also strong-armed banks and used potential investment banking fees to bludgeon favorable stock market coverage out of these same banks. It was a giant conflict of interest on both sides. After Enron collapsed Merrill Lynch along with four of its executives, including Schuyler Tilney, were charged by the SEC with "aiding and abetting securities fraud." Charges were eventually settled and in some cases dropped. Tilney, however, was fired by Merrill after refusing to testify to either the SEC or the Justice Department.

October 19, 1998 – Cuomo Celebrates Reforms That Will Fuel the Housing Bubble
In a news release HUD announces higher loan limits for Federal Housing Administration (FHA) loans. In addition, the news release highlights a series of other recent "reforms." Included among these reforms were reducing the required down payment for FHA loans to 3% and a new computerized loan evaluation system that cuts down processing times from "two weeks to two minutes." In the words of HUD secretary Andrew Cuomo, "As a result of President Clinton's successful economic policies and homeownership strategy, our nation's homeownership rate stands at 66% - the highest level in American history. Today 68.3-million American families own their homes – over 6-million more than when President Clinton took office. The approval of higher FHA loan limits will drive the homeownership rate even higher in the years ahead. That's good news for families, good news for the housing industry, good news for lenders and good news for America."[52]

Comment: It wasn't good news after all. See June 05, 1995, October 30, 2000 and October 31, 2000. Anybody who doubts the leading role Andrew Cuomo played in the housing bubble should familiarize themselves with his press releases from October 30 and 31 referenced above.

February 15, 1999 – Time Praises the Economic Knowledge of Three Economic Charlatans
Time magazine features Alan Greenspan, Robert Rubin and Lawrence Summers on its cover with the title, "The Committee to Save the World." The financial crisis will expose these men as consummate frauds and financial charlatans. The cover itself does very little for *Time's* even by then useless reputation either.

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Spring 1999 - Fannie Pledges Trillions to "Under-Served" Families
Fannie Mae pledges to provide $2 trillion in mortgage finance to 18-million under-served families before 2010.[53] See October, 30, 2000

May 04, 1999 - New York Times Claims *"Who Needs Gold When We Have Greenspan?"*[54]
A clear sell-signal emerges close to the peak of both the tech bubble and Alan Greenspan's reputation. Floyd Norris, reputably the Times' expert on business and economics, claims that Alan Greenspan's brilliance is resulting in the "demonetization" of gold. At the time this completely useless article was written, gold traded at $287.60 per ounce and the Dow traded at 11,014. For the next ten years it was straight up for gold and straight down for the Dow and all other stocks.

May 7, 1999 – Gordon Brown Matches the Idiocy of the *New York Times*, Sells the UK's Gold
Gordon Brown, Chancellor of the Exchequer in the UK and guardian of the UK's currency, announces that he will sell hundreds of tons of the UK's gold. Of course by announcing such an enormous volume of gold will be hitting the market Brown virtually ensures he will get the worst possible price for his country's gold. At the time of the announcement gold was trading for $282.40 per ounce and bottomed at $252.80 on July 20, 1999. The July 20th bottom in gold has become known as the "Brown bottom."

Comment: Even a career politician like Gordon Brown should know that by publicly announcing the sale of gold he would be getting the worst possible price for his gold. The only explanation that makes sense – besides sheer incompetence – is Brown intervened in the gold market to save two huge bullion banks that were short gold. The drop in price produced by the Brown bottom allowed these banks to cover their shorts while minimizing their losses.

May 14, 1999 – Former Fed Chair Volcker Sounds the Alarm on Stock Market Excesses
"The fate of the world economy is now totally dependent on the growth of the U.S. economy, which is dependent on the stock market, whose growth is dependent on about 50 stocks, half of which have never reported earnings."[55]
Former Federal Reserve Chairman Paul Volcker, Commencement Address American University

Comment: Paul Volcker had a much better grasp of what was going on than Alan Greenspan

May/June 1999 – Federal Reserve Bank of Dallas Questions Need for the CRA
The Federal Reserve Bank of Dallas publishes an article "Redlining or Red Herring" that claims the CRA is not needed to provide access to credit to previously under-served borrowers. Specifically, "mortgage lending data (presented in the article) are consistent with the view that today, low-income neighborhoods' access to credit may not depend on the CRA."[56]

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Comment: Loans that made economic sense would have been made without the CRA, but more risky loans that ultimately would default at a higher rate required a political motivation and the CRA provided this political motivation.

September 29, 1999 – Armando Falcon Appointed Head of OFHEO
Armando Falcon is appointed director of the Office of Federal Housing Enterprise Oversight (OFHEO). OFHEA was created by the Federal Housing Enterprises Financial Safety and Soundness Act, the act that required HUD to set affordable housing mandate goals for Fannie and Freddie (see October 28, 1992). Falcon's tenure at OFHEO would see powerful legislators – especially Barney Frank and Kit Bond – attempt to thwart Falcon's investigation into Fannie Mae and Freddie Mac. Nevertheless, this tiny little office – at times its budget would be less than Fannie Mae CEO and politically connected heavyweight Franklin Raines would make in one year – would eventually force Fannie Mae to re-state $9-billion of earnings and force Raines to resign his position as CEO.

Comment: "And David put his hand in his bag and took out a stone and slung it, and struck the Philistine on his forehead; the stone sank into his forehead, and he fell on his face to the ground." (1 Samuel 17:49)

September 30, 1999 – Fannie Mae Lowers Lending Standards Further
"Fannie Mae has expanded home ownership for millions of families in the 1990s by reducing down payment requirements. Yet there remain too many borrowers whose credit is just a notch below what our underwriting has required…"[57]

Comment: Fannie Mae's Franklin Raines announcing additional changes to lower lending standards and increase homeownership.

October 01, 1999 – Enron's Andy Fastow Receives Award from CFO Magazine
In its October 1, 1999 edition, *CFO Magazine*, gives a CFO Excellence Award for "Capital Structure Management" to Enron's Andy Fastow. (CFO is an abbreviation for chief financial officer). Enron will of course collapse in a spectacular scandal and Fastow, by all accounts, was at the center of the fraud. Fastow used a variety of financial structures – often things called "special purpose entities" – to both keep Enron's massive debts off of its balance sheet and to enrich himself to the tune of tens of millions of dollars. It wasn't just CFO magazine who got it all wrong. Here is a senior vice president at Lehman Brothers commenting on Enron and Fastow, *"Thanks to Andy Fastow, Enron has been able to develop all these different businesses, which require huge amounts of capital, without diluting the stock price or deteriorating its credit quality – both of which have actually gone up. He has invented a groundbreaking strategy."*[58]

November 08, 1999 – Management Consultants Ape Greenspan's Foolish Ideas

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Boston Consulting Group partner Ron Nicol states, "It's just not cool to make things anymore…We've grown accustomed to industries where value is created rapidly, as on the Internet."[59]

November 12, 1999 – Portions of the Glass-Steagall Act Removed
President Clinton signs the Gramm-Leach-Bliley Act which removes provisions of the Glass-Steagall Act that placed limits on the relationship a bank could have with a securities firm. The act passed the House 343-86 and the Senate 90-8.

Comment: Gramm, Leach and Bliley were all republicans. However, Robert Rubin and Lawrence Summers – both senior Clinton administration officials – pushed hard for passage of the bill. (These two had also led the fight against regulating derivatives.) Of course the bill had broad, bipartisan support in Congress. A useful rule of thumb for congressional legislation says that the more overwhelming the support for a bill in congress, the more likely it is that the bill generates negative consequences in the real world. The veracity of that rule of thumb is supported by the Gramm-Leach-Bliley Act.

The Glass-Steagall act was passed during the Great Depression and among its provisions was to place restrictions on the relationship a commercial bank could have with an investment bank or "securities affiliates". Before the Depression there were few restrictions on this relationship. When the stock market crashed in 1929 the losses suffered by the investment banks threatened the solvency of some commercial banks. Repealing the provisions of the Glass-Steagall act that limited the relationship between investment banks and commercial banks allowed very large banks – or financial service companies to use the parlance of the time - to be formed. As the financial crisis of 2008 would ultimately prove managing these large financial institutions – chief among them Lehman Brothers, Bear Stearns, Citigroup, Merrill Lynch and Bank of America proved to be way beyond the (limited) capabilities of our financial elites.

February 03, 2000 – Greenspan lauded by Senator Gramm and President Clinton
"But as I look at the record of Alan Greenspan, I can stand on the floor of the Senate and say, without any fear of contradiction, that Alan Greenspan's record is the finest record that has ever been established by a Chairman of the Board of Governors of the Federal Reserve since we created the Federal Reserve and it began operating in 1913. I believe a strong case can be made that Alan Greenspan is the greatest central banker in the history of the world…As a result, millions of Americans who did not have the opportunity to build and buy their own homes the day Alan Greenspan became Chairman of the Federal Reserve Board, now have the opportunity and they are seizing it in record numbers."[60] (Senator Phil Gramm – R-TX)

Speaking around the same time, President Clinton stated Greenspan led the Fed "with a rare combination of technical expertise, sophisticated analysis, and old-fashioned common sense."[61]

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Comment: The tech and housing bubbles would completely expose Greenspan as an incompetent jack-ass. The praise Greenspan constantly received from both sides of the political spectrum prove the epic economic ignorance of all of our political elites. Should anyone be surprised that Phil Gramm – who had no fear of his opinion of Alan Greenspan ever being contradicted - has a PhD in economics?

February 29, 2000 – Paulson Argues for More Leverage on Wall Street
"In addition, we and other global firms have, for many years, urged the SEC to reform its net capital rule to allow for more efficient use of capital. This is the single most important factor in driving significant parts of our business offshore…"[62] (Henry Paulson)

Comment: Changing the net capital rule allowed five firms – Lehman Brothers, Bear Stearns, Merrill Lynch, Goldman Sachs and Morgan Stanley to carry considerably more leverage. Three of the five firms would not survive the financial crisis. Even though Paulson argued here for more leverage he would later criticize the leverage that Wall Street firms carried and the role this leverage played in the crisis, see On the Brink.

March 02, 2000 – HUD Claims Fannie/Freddie Not Doing Enough to Help African-Americans
The *Washington Post* carries a front page article titled, "HUD Says Mortgage Policies Hurt Blacks." The article features comments from senior Housing and Urban Development (HUD), Fannie Mae and Freddie Mac officials. Among the comments these officials are wishing they never uttered are the following;[63]

"The absence of active involvement by Fannie Mae and Freddie Mac in these markets limits the opportunities for African-American families to get conventional mortgages…We believe that there are a lot of loans to black Americans that are good loans that could be safely purchased by Fannie Mae and Freddie Mac if these companies were more flexible."
William Apgar, HUD official and top lieutenant to Andrew Cuomo HUD secretary
(After serving at HUD and playing a major role in Andrew Cuomo's disastrous administration Apgar would become a professor at Harvard specializing in housing. You can't make this up.)

"We're working harder to do more, we want to do more."
Fannie Mae spokesman David Jeffers

"Of all the issues we face, this is one of the most critical to us."
Freddie Mac spokeswoman Sharon McHale

March 02, 2000 – Cuomo's HUD Proposes Trillions in Mortgages to Risky Borrowers

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"The U.S Department of Housing and Urban Development today issued a proposed HUD rule that would require the nation's two largest housing finance companies (Fannie and Freddie, author) to buy $2.4 trillion in mortgages over the next 10 years to provide affordable housing for 28.1 million low and moderate income families. Secretary Cuomo said the historic action by HUD would raise the required percentage of loans for low and moderate income families that finance companies Fannie Mae and Freddie Mac *must buy* (emphasis added) from the current 42% of their total purchases to a new high of 50% by the year 2001. According to Cuomo, 'This rule will greatly expand the supply of affordable housing across the country, giving millions of families the opportunity to buy homes…'"[64]

Comment: As the housing bubble graphically proved, loosening credit standards did not make housing more affordable. It simply allowed more homes to be rented from the bank and the price of homes temporarily went through the roof. Higher prices are the inevitable consequence of loosening credit to support a particular market. Exactly the same thing is seen with the cost of college. If there were fewer loans available to pay for tuition then people would be forced to pay for college out of their incomes or the incomes that a college education should help them earn.

Instead the cost of college – which rises much faster than people's incomes – is paid for by students and their families accessing artificially cheap credit provided by the government. *The government's student loan programs actually serve to make college less affordable.* Absent all the government supported college loan programs, colleges would either have to reduce the cost of tuition or watch their enrollments shrink. It is hardly surprising that the three most distorted markets in the United States – housing, medical care and college education – are the markets most under government influence. See Spring 1999 – less than one year ago - the commitment to provide mortgages to these borrows was *only* $2-trillion. See also March 18, 2003 where Fannie's CEO Franklin Raines celebrates nearly $1.3-trillion in mortgages to under-served Americans.

March 03, 2000 – Raines: HUD Rules Will Force Fannie to be a Major Presence in Sub-Prime
Responding to both the March 02 article in the *Washington Post* (above) and the HUD proposal to increase to 50% the number of GSE mortgages to low and moderate income families Fannie Mae CEO Franklin Raines predicts, "We have not been a major presence in the subprime market, but you can bet that under these goals we will be."[65] (Also see December 1995, October 19, 1998, Spring 1999 and October 30, 2000)

March 6, 2000 – Greenspan Praises Tech Revolution Four Days Before the Market Peaks
"At a fundamental level, the essential contribution of information technology is the expansion of knowledge and its obverse, the reduction in uncertainty. Most business decisions were hampered by a fog of uncertainty. Business had limited and lagging knowledge of customers' needs and of the location of inventories and material flowing through complex production systems. In that

environment, doubling up on materials and people was essential as a backup to the inevitable misjudgments of the real-time state of play in a company. Decisions were made from information that was hours, days, or even weeks old…The result has been a veritable explosion of spending on high-tech equipment and software, which has raised the growth of the capital stock dramatically over the last five years. The fact that the capital spending boom is still going strong indicates that business continue to find a wide array of potential high-rate-of return, productivity-enhancing investments. *And I see nothing to suggest that these opportunities will peter out any time soon*."[66] (Alan Greenspan, NASDAQ peaks at 5,048 on March 10, 2000)

Comment: There is an expression that states "a good central banker is unpopular, while a bad central banker is popular." The point is a central banker should keep money "tighter" than most people would like it to be and suffer unpopularity as a result. In this way financial excesses are less likely, the economy can grow consistently and not suffer from a boom-and-bust cycle. Greenspan was very popular and that made him a very bad central banker. This popularity reached its peak in 2000 with the publishing of a book on Greenspan, Maestro. The central thesis of the book seemed to be that Greenspan should be worshipped as a demigod. Of course a book such as this – like a company building a new headquarters – is a classic sign of a market top. Greenspan's popularity was not only result of his loose monetary policies - keeping interest rates so low for so long – but for his, unseemly for a central banker, cheerleading of the "new economy" of the 1990s. Both his monetary policies and his constant market cheerleading played a major role in the tech bubble of the 1990s.

March 10, 2000 - Stock Market Peak
Stock market peak – the value of the stock market here was 183% of gross domestic product (GDP). Immediately prior to the 1929 crash the value of the stock market peaked at just 81.4% of GDP. To its trough the NASDAQ will fall almost 80%. See October 09, 2002

September 06, 2000 – Congress Warned About Fannie and Freddie
"…Thus we have a vicious and dangerous cycle: Fannie and Freddie must grow in order to maintain their profitability and hence their high stock prices, but there is no countervailing check on their growth – no effective competition, no required government approvals, and no fear in the financial markets that there is any risk associated with financing this growth. Moreover, their fiduciary obligations to their shareholders require them to exploit their subsidy to the fullest extent possible. These are agencies that are, in the fullest sense of the phrase, out of control…. The trouble with this (being the dominant player in the mortgage market, author) is that holding all mortgages entails a great deal more risk than holding the high quality mortgages that Fannie and Freddie have historically financed, and because of their implicit backing by the government this will be a risk for the taxpayers. Just like the S&L debacle, Fannie and Freddie now and in the future will represent the classic case of privatizing the profits but socializing the risk. Their managements and shareholders are benefitting now from the government support, but if these

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companies ever stop growing, or assume too much risk, or if interest rates spike their losses will belong to the taxpayers."[67] (Peter J. Wallison to the House Subcommittee on Capital Markets)

Comment: There is at least one person in Washington D.C. who knows what he is talking about. See October 06, 2004 for what members of Congress think about these same issues. See July 14, 2008 for Barney Frank's opinion on Fannie/Freddie just a few weeks before the government placed them in conservatorship.

October 01, 2000 – Housing Advocate Recognizes Perils of Loans that Can't be Paid Back
"There is no quicker way to undermine CRA than through bad loans."[68]
(Josh Silver, Research Director of the National Community Reinvestment Coalition)

October 30, 2000 – Andrew Cuomo Celebrates Illusory Achievements in Housing
In another news release HUD Secretary Andrew Cuomo announces a plan to reduce mortgage insurance premiums to further increase homeownership. He again takes credit for reducing the down payment requirement for purchasing a home because historically down payments were "a major roadblock to homeownership," see October 19, 1998. The news release also announces that homeownership stands at 67.7% and this "shatters" the Clinton administration's goal of 67.5% set in 1995. Furthermore record levels of homeownership were set for minorities (48.2%), central city residents (51.9%), households headed by females (53.3%) and households earning less than the median family income (52.2%).[69]

Comment: I hardly think "shatters" is the right word to use when the goal was 67.5% and the actual value was 67.7%. As a career politician it is obvious that modesty - or clear thinking about economics for that matter - does not comes easily to Andrew Cuomo. The more relevant point is the notion of setting a national goal for homeownership in the first place as President Clinton and HUD Secretary Cisneros did in 1995, see June 05, 1995. See February 04, 2003 and note that the now discredited CEO of Countrywide Financial had exactly the same opinion on down payments as the now twice-elected governor of New York, Andrew Cuomo.

October 30, 2000 – Fannie's Jamie Gorelick Pleads with Bankers to Make Risky Loans
"Under our community investment mandate, HUD will soon require us to dedicate 50% of our business to low- and moderate-income families…Your CRA business is important to us…Some people have assumed we don't buy tough loans. Let me correct that misimpression right now. We want your CRA loans because they help us meet our housing goals. Last spring Fannie Mae pledged to provide $2 trillion in housing finance to 18-million under-served families before the decade is over…Helping banks meet their CRA goals is crucial to meeting our goals...we can help you meet your lending goals in two ways. We will take CRA loans off your hands – we will buy them from your portfolios, or package then in securities – so you have fresh cash to make more CRA loans…We will also purchase the CRA mortgages you make right at the point

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of origination. You can originate CRA loans for our purchase with one of our CRA-friendly products like our 3% down Fannie 97"[70]
Jamie Gorelick, vice-chair Fannie Mae, to the American Bankers Association

Comment: Jamie Gorelick's comments highlight two key points. First, HUD's requirement for Fannie and Freddie to dedicate 50% of their mortgage business to low- and moderate-income families provided a major impetus to the lessening of credit standards. Note the reference to purchasing a home with a 3% down payment – until very recently this would have been unheard of. Because Fannie and Freddie were willing to purchase these now "conforming" mortgages from the mortgage originators, the mortgage originators did not need to be as concerned about credit risk as they had been in the past. Second, note the reference to Fannie's pledge to provide $2 trillion in housing finance to "under-served" families. In the past many of these "under-served" families did not have sufficiently good credit to qualify for a mortgage. Because Fannie and Freddie had $2-trillion to purchase mortgages from mortgage originators, the mortgage originators had another reason to be less vigilant about the credit risk of their borrowers. Of course the best evidence for the conclusions reached here are the losses suffered by Fannie and Freddie during the financial crisis. These losses reach into the *hundreds* of billions of dollars. See September 05, 2008 and December 24, 2009.

October 31, 2000 – Cuomo Increases Affordable Housing Mandate to 50%
HUD and its secretary, Andrew Cuomo, announce new federal regulations that require the nation's two largest housing finance companies – Fannie Mae and Freddie Mac to buy $2.4 trillion in mortgages during the next 10 years to provide affordable housing for about 28.1 million low- and moderate-income families. The new regulations by HUD raises the required percentage of mortgage loans for low- and moderate-income families that finance companies Fannie Mae and Freddie Mac must buy annually from the current 42 percent of their total purchases to a new high of 50 percent. This requirement - also known as the affordable housing goals - for Fannie Mae and Freddie Mac was last set by HUD in 1995, under a requirement mandated by Congress

"Even with a record high homeownership rate of 67.7 percent, there is still much more to be done. These new regulations will greatly enhance access to affordable housing for minorities, urban residents, new immigrants and others left behind, giving millions of families the opportunity to buy homes or to move into apartments with rents that they can afford. We acknowledge and appreciate that Fannie Mae and Freddie Mac have accepted this challenge." [71]
(HUD Secretary Andrew Cuomo)

Comment: Perhaps the US economy could have withstood the increase in Fannie/Freddie loans made to low-income borrowers that Henry Cisneros implemented in December 1995. That is purely an academic issue. It is now known that a huge fraction of the loans the government

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forced to be made to low and moderate income borrowers after increasing the affordable housing mandate to 50% would go bad, cripple the banking industry, and devastate the US economy. This is an inescapable fact.

Fannie Chairman, Franklin Raines, admitted at a level of 50% the affordable housing mandate would force Fannie to be a major player in the market for sub-prime mortgages, see March 03, 2000. Cuomo's decision to increase the affordable housing mandate to 50% will remain in effect until October 2004; six months after homeownership will peak in April 2004 and long after the Clinton administration left Washington for greener pastures. (President Clinton will go on to earn tens of millions of dollars giving speeches. His time would have been better spent offering apologies for his disastrous central plan to increase homeownership.) There is no doubt that the decision by Andrew Cuomo here to advance President Clinton's central plan to increase homeownership by increasing the affordable housing mandate to 50% sealed the fate of the banking industry and the US economy.

December 27, 2000 – Krugman; All You Need is Interest Rate Cuts
"…The point is that recessionary tendencies can usually be effectively treated with cheap, over-the-counter medication: cut interest rates a couple of percentage points, provide plenty of liquidity, and call me in the morning…So what should we be afraid of? The nightmare scenario, which cannot be completely ruled out, is that we will turn out to be more like Japan than we think – that we have just gone through our own version of the infamous "bubble economy" and that we are about to find out that this time that cutting interest rates won't do the trick. But at this point *that scenario isn't very plausible*."[72] (Paul Krugman, emphasis added)

February 2001 – Federal Reserve Wisdom, Improve the Economy by Borrowing to Consume
"Go out and buy an SUV."[73]

Comment: Dallas Fed president Robert McTeer offers this advice to the Richardson, Texas chamber of commerce to help the economy. Like most PhDs in economics and Federal Reserve members McTeer conflates debt-fueled consumption with economic growth. In the words of Dr. Kurt Richebächer, "Consumption never creates wealth. It is categorical: Capital decreases when consumer spending exceeds production. What is happening in these countries (those with excessive consumption) is the exact opposite of wealth. It is capital consumption in the sense that consumption absorbs a growing share of GDP at the expense of investment and the trade balance." For more from Dr. Richebächer and his prescient prediction of the housing bubble that Ben Bernanke and Alan Greenspan were blind to see June 2005. Anyone who doubts what should be by now the obvious fact that PhDs in economics actually know nothing about economics should refer themselves to this absolutely asinine quote from a senior Fed official.

July 2001 – Greenspan Exposes His Ignorance by Claiming Tech Bubble "Worth It"

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As part of his testimony to Congress, Greenspan was questioned by Texas senator and PhD. economist Phil Gramm. Gramm asked Greenspan, "If this is the bust, the boom was sure as hell worth it. You agree with that, right?" Greenspan answered "certainly."[74]

July 24, 2001 – Greenspan Confuses Inflation in Asset Prices with Real Wealth Creation
"Home equity wealth" is being used in "all sorts of household decisions. House prices have continued to rise despite the slump in stock prices and this appreciation has created a very substantial buffer of unrealized capital gains, which are being drawn up through the home equity market, through cash-outs, through the turnover of existing homes, which has been, as you know quite substantial despite the weakness in the economy. So, in that regard the housing sector… has been a very important contributor to the American economy, and I think one of the major reasons why… that litany of negatives which you can easily line up has not in fact cracked the economy's underlying stability."[75]
(Alan Greenspan to the Senate Banking, Housing and Urban Affairs Committee)

Comment: Another example of how PhDs in economics know nothing about economics. What Greenspan celebrates is nothing more than inflation. Alan Greenspan confuses the rise in the paper value of a home with increased wealth in society. How is a home different from any other fixed asset? When a factory purchases a piece of capital equipment – which will be used to generate income – the asset immediately begins to depreciate and the company must account for this deprecation in determining its profit. How can a home – which doesn't generate any income and requires money to be spent for repairs and taxes – magically increase in value from year to year? The house remains the same from year to year, how can it be expected to increase so rapidly in value? The answer is pure inflation. It is telling that the source of the inflation that led to the house price bubble, Fed chairman Greenspan, celebrates as a great benefit to the economy the malady that will explode on the U.S. economy with the force of a neutron bomb. See August 28, 2006 for another discussion that confuses higher prices for homes with increased wealth in society.

February 15, 2002 – Jim Grant Recognize the Toxic Nexus of Financial and Political Power
"Under the Gramm-Leach-Bliley Financial Services Modernization Act (see November 12, 1999) investment banking and commercial banking were formally reunited. And in the person of Robert Rubin, chairman of the executive committee of Citigroup, investing banking, commercial banking *and string pulling at the highest government level* have been consolidated."[76]

Comment: See November 28, 2007

July 09, 2002 – Ron Paul Correctly Condemns Contemporary Economic Excess & Inequity
"To condemn free market capitalism because of anything going on today makes no sense. There is no evidence that capitalism exists today. We are deeply involved in an interventionist-planned

economy that allows major benefits to accrue to the politically connected of both political spectrums. One may condemn the fraud and the current system, but it must be called by its proper names – Keynesian inflationism, interventionism and corporatism."[77]
(Congressman Ron Paul, speech in congress)

August 30, 2002 – Greenspan Offers a Defense in Complete Contradiction with His Actions
"The struggle to understand developments in the economy and financial markets since the mid-1990s has been particularly challenging for monetary policymakers. We were confronted with forces that none of us had personally experienced. Aside from the then recent experience of Japan, only history books and musty archives gave us clues to the appropriate stance for policy. We at the Federal Reserve considered a number of issues related to asset bubbles--that is, surges in prices of assets to unsustainable levels. As events evolved, we recognized that, despite our suspicions, it was very difficult to definitively identify a bubble until after the fact - that is, when it's bursting confirmed its existence."[78]
(Greenspan, at the Federal Reserve Bank of Kansas City symposium in Jackson Hole, WY)

Comment: See FOCM meeting minutes May 17 and August 16, 1994 as well as January 31 – February 1, 1995 where Greenspan discusses the Fed's efforts to snuff out a stock market bubble. See also the meeting minutes from September 24, 1996 where Lawrence Lindsey specifically warned about the dangers of letting an asset bubble blow up. Famously, Lindsey's warnings came just before Greenspan's December 05, 1996 "Irrational Exuberance" speech. All of this is in complete contradiction with Greenspan's post-tech bubble crash defense of his economically disastrous monetary policies and stock market cheerleading.

September 13, 2002 – Jim Grant Criticizes Greenspan's "Self-Exculpating Revisionism"
"The chairman's Jackson Hole speech has been, will be and should be deplored as the worst kind of self-exculpating revisionism… And now this one man (Greenspan) says that he didn't know about the stock-market bubble, couldn't have known and, even if he had known, wouldn't have been able to move against it. *It isn't a great advertisement for monetary dictatorship* (emphasis added)... Not once in his Jackson Hole recitation did Greenspan concede that his repeated interventions to prolong the up cycle had misdirected capital and hurt the owners of it (not to mention the people who work for the owners of it and the children of all the foregoing)."[79]

Comment: It is interesting that Jim Grant uses the term "dictatorship" to describe the Greenspan Fed. In his book End the Fed, Ron Paul causes Greenspan a "*monetary tyrant* who sowed the seeds of the greatest financial bubble in history."[80] As far as history is ultimately concerned in its assessment of Alan Greenspan's financial reign of terror they are both correct.

October 2002 – President Bush Gets on the Homeownership Bandwagon

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"Two-thirds of all Americans own their homes, yet we have a problem here in America because fewer than half of the Hispanics and half of the African-Americans own their home. It's a gap that we've got to work together to close for the good of our Country, for the sake of a more hopeful future. We've got to knock down the barriers…"[81] President George W. Bush

October 01, 2002 – Krugman Celebrates the "Boom" in Housing as Economically Beneficial
"It's true that Alan Greenspan and his colleagues made a much better start than their counterparts in Japan. They knew that the Bank of Japan cut interest rates too slowly, and that by the time it realized the seriousness of the country's problems it was too late: even a zero interest rate wasn't enough to spark a recovery. So the Fed cut rates early and often; those 11 interest rates cuts *fuelled a boom both in housing purchases and mortgage financing*, both of which helped keep the economy from experiencing a much more severe recession."[82]
(Paul Krugman, emphasis added)

Comment: See February 2001 and the Federal Reserve's Robert McTeer recommending debt-fueled consumption as an economic elixir for another example of the economic establishment recommending additional debt to get the economy back on its feet. Krugman, about 18-months before the peak of the housing bubble, is praising the interest rate policies of the Fed when these policies – along with the government's central planning efforts around housing – are fueling the largest asset bubble in world history. Should anyone be surprised that Krugman teaches economics at an Ivy League university and writes a column in the New York Times?

October 09, 2002 – NASDAQ Bottoms Out
NASDAQ bottoms at 1114, a 78% drop from its March 2000 high of 5048, see March 10, 2000.

November 21, 2002 – Ben Bernanke Delivers the Helicopter Speech
"A particularly important protective factor in the current environment is the strength of our financial system: Despite the adverse shocks of the past year, our banking system remains healthy and well-regulated, and firm and household balance sheets are for the most part in good shape… Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation."[83] (Ben Bernanke)

Comment: Ben Bernanke delivers the speech that earns him the moniker, "helicopter Ben." In the speech Bernanke essentially states that deflation – which he defines as a fall in prices – can

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be avoided by dropping money out of helicopters. In this speech Bernanke discusses the completely bogus bogeyman of "deflation" – or, in his mind, falling prices. Historically deflation was considered to be the result of a debt deflation – a large number of loans going bad at the same time and the money that had been loaned "dying and going to money heaven." Bernanke defined deflation as falling prices which a healthy economy will produce. For example, in the last three decades of the 19th century the U.S. economy endured falling prices of about 1% per year while the economy grew at almost 4% per year.[84] Don Quixote jousted with windmills and harmed no one but himself. In waging battle against the non-existent threat of deflation – falling prices - Ben Bernanke will play a leading role in the financial crisis. Finally, note that he cites the "strength" of the financial system and "well-regulated" banking system as reasons the economy is performing well in the aftermath of the tech bubble bursting and the 9/11 attacks. Regrettably for Bernanke's credibility, after the financial crisis he will claim that bank regulation, not his policy of low interest rates, played a major role in the genesis of the crisis. As his mutually contradictory positions on bank regulation before and after the crisis show, Ben Bernanke's economic insights can only be used to prove one thing – he is a fraud and a charlatan. See December 03, 2015.

December 24, 2002 – American Economy Criticized as a House of Cards

Dr. Kurt Richebächer discusses the state of the American economy and the contribution the Fed's monetary policy made to what he – correctly as it turned out – believed to be the precarious position of the economy.

> *"Mortgage refinancing and home equity lending have been at the epicenter of the credit explosion. I must admit to have grossly underestimated this component of the American bubble. I can only say it has removed any doubts that this is by far the greatest and worst credit bubble that the world has ever seen…The U.S. financial system today hangs in a precarious position. It's a house of cards built on nothing but financial leverage, credit excess, speculation and derivatives."*

Dr. Richebächer then predicted the United States would suffer an *"unusually severe and long"* recession because the US had been "*exposed to the most reckless financial expansion and speculation in history."*[85]

Comment: Compare Dr. Richebächer's insights into the disastrous implications of the Fed's credit expansion via low rates here and Princeton's Paul Krugman endorsing this same credit expansion not even three months before on October 01, 2002.

February 04, 2003 – Countrywide's Mozilo Calls to Eliminate Down Payments

Countrywide Financial CEO Angelo Mozilo delivers a speech to Harvard's Joint Center for Housing Studies in Washington D.C. He cites the traditional down payment and closing costs as "perhaps the greatest barrier to homeownership." He then claims that current down payment requirements of 10% or less "add absolutely no value to the quality of the loan" and recommends

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eliminating the down payment requirement altogether. He announces a goal of making a total of $600-billion in loans for "previously underserved Americans" in the next decade and he will use "flexible underwriting guidelines" to do it. Mozilo then thanks "Franklin Raines and his entire team at Fannie Mae for providing a great deal of the resources that have made it possible for (Countrywide) to achieve our House America (mortgage lending) objectives." Finally he questions the use of credit scores in the loan process.[86]

Comment: It is clear to see what a slippery slope all the HUD initiatives of Secretary Cuomo, the Clinton administration's goal of increasing home ownership - which the Bush administration continued - and the outsized presence of the GSEs in the mortgage market has done. Mozilo notes that now that required down payments are less than 10% they provide no more loan quality than having no down payment at all. Instead of using this as a justification for eliminating the down payment requirement, it would seem that down payment requirements should be increased to what they had previously been to guarantee the loan quality the mortgage market had in the past. Of course this would have seriously interfered in the government directed goal of increasing home ownership. For congressional input on "100% loans" or no down payment loans see October 06, 2004. For the threat that Fannie/Freddie pose to the taxpayer see September 06, 2000.

February 23, 2003 – Greenspan Recommends ARMs When Rates are at Historic Lows
"Indeed recent research within the Federal Reserve suggests that many homeowners might have saved tens of thousands of dollars had they held adjustable-rate-mortgages rather than fixed-rate mortgages during the last decade, though this would not have been the case, of course, if interest rates trended sharply higher."[87]

Comment: Interest rates are historically low at this time. In July 2003 the 10-year Treasury bond bottomed out at 3.1% and in September it peaked for the year at 4.6%. In spite of these low interest rates Greenspan raises the idea that homeowners might be better off using adjustable-rate-mortgages (ARM) and engage in amateur interest rate arbitrage.

March 18, 2003 – Fannie Mae Praises Itself for Industry Policies Against Predatory Lending
"Together America's top lenders and Fannie Mae have made terrific progress in bringing the nation's housing boom to overlooked Americans and addressing the gaps in housing opportunity. Fannie Mae applauds our lending partners for helping us surpass the halfway mark in our $2 trillion commitment to underserved families so quickly. Together, we lead the market in serving Americans of color and modest means…Fannie Mae is a national leader in the fight against predatory lending and has established a powerful corporate anti-predatory lending policy."[88]

Comment: Fannie Mae CEO Franklin Raines celebrates the expansion of the housing boom. Among the lending partners that Raines celebrates here are Bank of America and Countrywide.

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These two banks will ultimately suffer tens of billions of dollars in mortgage related losses. Proving the adage that "no good deed goes unpunished" not only will Countrywide and Bank of America suffer billions in losses from the mortgages they made that were consistent with Fannie's housing "goals," they will later be sued by the government for doing so. As part of celebrating all of Fannie's "accomplishment's Raines also makes note of "a three-year partnership with ACORN Housing Corporation to invest up to $200 million in affordable mortgages." In a few years ACORN will collapse in a scandal resulting from undercover videos shot in their office.

Comment: See December 21, 2004 for Raines resigning under a cloud of suspicion following a multi-billion dollar accounting scandal at Fannie. In spite of the fact that the fraud that occurred during his watch at Fannie was much larger than the fraud at Enron, Raines would never be prosecuted for fraud, much less serve any jail time.

March 18, 2003 – Countrywide & Bank of America, Partners with Fannie and the Government
"As a national leader in residential finance, Countrywide Financial Corporation is dedicated to providing cutting-edge mortgage products and homeownership initiatives that serve nearly any family who would want a home. We're proud that our work with Fannie Mae has helped families save thousands of dollars during the life of their loan, and stimulated new construction home sales, thereby strengthening the economy last year."[89]
Jimmie Williams, Vice President of Countrywide Financial

"Bank of America is committed to making communities stronger by helping people achieve their dreams of owning a home. We are committed to strengthening the growth and vitality of affordable housing in every neighborhood. Fannie Mae is one of our key partners in making this happen." Gwen Thomas, Senior Vice President of Bank of America

Comment: In a few years Countrywide will go from being a trusted lending partner of Fannie Mae to – unfairly in the author's opinion – a principal cause of the financial crisis. For more from Countrywide and their – at the time – well received lowering of lending standards see February 04, 2003 and January 14, 2005. The losses suffered by Countrywide, Bank of America and other banks from "bringing the housing boom to overlooked Americans" ran into the tens of billions of dollars. In spite of being a trusted partner of Fannie and Freddie during the housing boom, Countrywide, Bank of America as well as numerous other banks were sued by the government – both state and federal – for their role in the housing crisis. The record is clear – banks like Countrywide and Bank of America were only lending in accordance with the diktats of the federal government and its "strategy" to increase homeownership.

July 2003 – Investor Correctly Lampoons the Economic Knowledge of Greenspan

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"Alan Greenspan assures us that home prices are not prone to bubbles – or major deflations – on any national scale. This is ridiculous of course…" [90] (Michael Burry, in a letter to his investors)

Comment: Bernanke and Greenspan relied on historical data to support their contention that home prices had never fallen nationally. This ignores the fact that home prices did decline nationally during the Great Depression. However, the real error in the Bernanke/Greenspan analysis was failing to see how loose credit was in the housing market as reflected by HUD's policies (no downpayments) and the outsized role of Fannie/Freddie. The next market that does not experience a bubble after being exposed to the massive credit distortions the housing market was exposed to will be the first one.

September 25, 2003 – Confederacy of Dunces Leaps to Defense of Fannie and Freddie
"I'm just pissed off at OFHEO (Office of Federal Housing Enterprise Oversight), because if it wasn't for you, I don't think we'd be here in the first place. And now the problem that we have and the problem that we are faced with is maybe some individuals who wanted to do away with GSEs in the first place, you've given them an excuse to try to have this forum so that we can talk about it and maybe change the direction and the mission of what the GSE's had which they've done a tremendous job. There's been nothing that was indicated that's wrong with Fannie Mae. Freddie Mac has come up on its own…The question that presents is the competence that your agency has with reference to deciding and regulating these GSEs."
Gregory Meeks (D-NY) to OFHEO Director Armando Falcon

Comment: Armando Falcon tried without success – largely due to the intransigence of congressmen like Greg Meeks – to reform Fannie Mae and Freddie Mac. The failure of Fannie Mae and Freddie Mac – which was entirely preventable – required over $200 billion of capital injections after the financial crisis hit in 2008. See also October 06, 2004 and July 14, 2008 for more in the way of typical congressional reaction to any criticism of Fannie and Freddie. For an accurate discussion of the risks to the taxpayer latent in Fannie Mae and Freddie Mac see September 06, 2000.

January 03, 2004 – Greenspan Praises the Rate Cuts that are Fueling the Housing Bubble
"There appears to be enough evidence, at least tentatively, to conclude that our strategy of addressing the bubble's consequences rather than the bubble itself has been successful. Despite the stock market plunge, terrorist attacks, corporate scandals, and wars in Afghanistan and Iraq, we experienced an exceptionally mild recession--even milder than that of a decade earlier. As I discuss later, much of the ability of the U.S. economy to absorb these sequences of shocks resulted from notably improved structural flexibility. *But highly aggressive monetary ease was doubtless also a significant contributor to stability*."[91] (Emphasis added) (Alan Greenspan – Risk and Uncertainty in Monetary Policy)

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Comment: Alan Greenspan defends his failure to address the tech bubble forming by pursuing a policy of dealing with the consequences of the tech bubble bursting. This policy of “highly aggressive monetary ease” would culminate in the far more ruinous housing bubble. This speech proves, beyond a shadow of a doubt, that Alan Greenspan both played a major role in the formation of the housing bubble and is an economic illiterate.

More importantly than further exposing the economic ignorance of Alan Greenspan, this speech also completely undermines the Federal Reserve’s post-housing bubble defense of its interest rate policies. After the housing crash, Ben Bernanke will advance a ludicrous “savings glut” theory as the source of the financial crisis. In this absolutely laughable theory Bernanke claims that the low interest rates that fueled the housing bubble were not the result of Fed policy but an inevitable consequence of high savings in Asia. From an institutional perspective, the chief benefit of the savings glut theory is that it completely absolves the Fed of any role in the low interest rate policies which played a major role in the formation of the housing bubble. This savings glut theory, which in another form Jacques Rueff debunked decades ago, is completely inconsistent with Alan Greenspan taking credit here for the low rate policy which he believed was helping the economy recover from the bursting of the tech stock bubble. Of course these rate cuts were fueling the housing bubble which would dwarf the tech stock bubble. Ben Bernanke was a voting member of the FOMC when many of these rate cuts took place.

January 16, 2004 – Mortgage Banker Recommends Borrowing Against Housing Equity
“What I see is a shift in the mortgage product, going from a product used to buy one’s home…to a product where people can leverage their home as a financial asset. And that a big shift.”[92]
(Harry Tomlinson, Washington Mutual senior VP of the northeast region)

Comment: Washington Mutual failed in September 2008. It was the largest bank failure in US history. The failure was hardly surprising given the mindset displayed above. Until it is paid for and affords you the ability to live “rent free” your house is your largest expense. It is not a liquid asset or an asset that can produce income. You have to pay taxes on the value of the house, interest on the mortgage and the cost of repairs. The notion that a home is a liquid asset whose value can rise by huge amounts for no obvious reason and in spite of stagnant wages was at the root of the financial crisis. Alan Greenspan suffered from this same foolishness, see July 24, 2001. Also see August 28, 2006 for the celebrity economist, Arthur Laffer also confusing an increase in asset prices due to credit inflation with the creation of real wealth.

February 20, 2004 – Bernanke Praises Monetary Policy for Reduced Economic Volatility
Ben Bernanke gives his “Great Moderation” speech where he claims that the economy is benefitting from reduced macroeconomic volatility. He goes on to say, “My view is that improvements in monetary policy, though certainly not the only factor, have probably been an important source of the Great Moderation.”

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(Ben S. Bernanke at the meetings of the Eastern Economic Association, Washington D.C)

Comment: Bernanke extols the virtues of monetary policy while the Federal Reserve is in the process of creating a massive housing bubble which itself is a response to the Fed induced tech stock bubble collapsing four years earlier. After the housing bubble bursts and the financial crisis ensues, Bernanke will subsequently claim that the monetary policy he is taking credit for here was actually the result of a "savings glut" in Asia. See January 03, 2004. Ben Bernanke, like Alan Greenspan, is a consummate fraud and economic charlatan.

September 22, 2004 – OFHEO Issues its Report Highly Critical of Fannie/Freddie
The Office of Federal Housing Enterprise Oversight (OFHEO) and its chairman Armando Falcon issue a report highly critical of the GSEs, Fannie and Freddie.

October 6, 2004 – Congressional Leaders Attack OFHEO and Defend Fannie/Freddie
"Through nearly a dozen hearings we were frankly trying to fix something that wasn't broke. Mr. Chairman, we don't not have a crisis at Freddie Mac and particularly at Fannie Mae, under the outstanding leadership of Franklin Raines… What we need to do today is to focus on the regulator (OFHEO, author), and this must be done in a manner so as not to impede the affordable home missions. That mission, as you noted, has seen innovation flourish from desktop underwriting to 100-percent loans." Maxine Waters (D-CA)

"This hearing is about the political lynching of Franklin Raines." William L. Clay (D-MO)

"I don't see anything in your report that raises safety or soundness concerns." Barney Frank (D-MA)

Comment: Paulson characterizes OFHEO as "weak" on multiple occasions in On the Brink. However, in the same book Paulson characterizes Barney Frank as "scary smart" while at the same time saying that *it didn't take a genius* to see that Fannie and Freddie needed reform, see June 2006. Paulson's judgment on both OFHEO and Barney Frank seems suspect. OFHEO was able to challenge the GSEs in spite of the fact that the GSEs were one of the best politically connected organizations in Washington D.C. Barney Frank's work regarding the GSE's as reflected here and during his years in Congress where he was one of their largest supporters certainly doesn't bear any of the hallmarks of intelligence or being "scary smart."

Note also Maxine Waters praise of "100-percent interest loans." Home loans that did not require any down payment were a significant factor in the unsustainable explosion in home prices and of course the housing bubble didn't end well. With leaders in congress like Barney Frank and Maxine Waters is it any wonder that the housing bubble ended in such a disaster? For additional discussion of "100-percent interest loans" and low downpayment loans in general see October

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30, 2000 and February 04, 2003. For a complete discussion of the problems inherent in Fannie/Freddie's dominant position in the mortgage market – problems that the members of Congress quoted here were completely blind to - see September 06, 2000. For Barney Frank on the impossibility of the housing market suffering a bubble in prices see June 27, 2005.

October 19, 2004 – Alan Greenspan Dismisses the Prospect of Housing Collapse
"Overall, while local economies may experience significant speculative price imbalances, a national severe price distortion seems most unlikely in the United States, given its size and diversity…In addition, improvements in lending practices driven by information technology have enabled lenders to reach out to households with previously unrecognized borrowing capacities…In addition, a significant decline in consumer incomes or house prices could quickly alter the outlook; nonetheless, both scenarios appear unlikely in the quarters immediately ahead. If lenders, including community bankers, continue their prudent lending practices, household financial conditions should be all the more likely to weather future challenges."[93] (Alan Greenspan)

Comment: Alan Greenspan addresses the increasing concerns with a housing bubble and dismisses them. Greenspan doesn't realize that homeownership has already peaked and the housing bubble he helped inflate has already started to burst. Recall that in the wake of the tech bubble bursting Greenspan said that bubbles could only be seen after their bursting confirmed their existence, see August 30, 2002. In this speech Greenspan focuses on what he admits to be a "steep" rise in debt to disposable income ratio but cites improved lending practices "driven by information technology" as a reason for both higher housing prices and a reduced likelihood for large number of loans going bad. Dr. Kurt Richebächer called this speech Greenspan's defense of his own credit bubble.

November 20, 2004 – Political Heavyweights Frank and Bond Run Interference for GSEs
Congressman Barney Frank (D-MA) and Senator Chris Bond (R-MO) defend the government sponsored enterprises (GSEs) Fannie and Freddie by attacking their regulator OFHEO, and its director, Armando Falcon. In a public statement Bond claims, "…top OFHEO officials have misused their agency and abused the public trust." Not to be outdone, Frank states, "The senior management of OFHEO appears to have run roughshod over the judgment of professional staff and seriously compromised OFHEO's credibility as a financial regulator. . . . It is clear that a leadership change at OFHEO is overdue."[94]

Comment: In a little over one month, the OFHEO officials who supposedly "misused their agency and abused the public trust," and "seriously compromised their credibility as a regulator" would be responsible for one of the most politically connected insiders in Washington D.C, Franklin Raines, resigning as CEO of Fannie Mae. This resignation was in the wake of OFHEO determining that $9-billion of Fannie Mae profits were pure accounting artifice and did not exist.

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December 21, 2004 – In Wake of Scandal Political Heavyweight Resigns From Fannie
Franklin Raines (BA Harvard, MBA Harvard) accepts an early retirement from Fannie Mae.

Comment: Raines, who was President Clinton's budget director, was CEO of Fannie Mae. During his tenure – for which he earned tens of millions of dollars in salary – Fannie Mae was shown to have overstated earnings by the *billions*. It would appear that is was only because of his friends in high places that Raines avoided spending any time in jail. Enron's Jeff Skilling and Ken Lay, Tyco's Dennis Kozlowski and WorldCom's Bernie Ebbers would not be so lucky.

January 12, 2005 – Martin Wolf Praises the Bubble Economies of Britain and the US
Martin Wolf, reputed to be one of the world's most influential reporters on economic affairs, writes an article titled "Why are the English-speaking nations doing best?"

Comment: In much the same way that Wharton's Jeremy Siegel's ignorance will later be exposed by praising Alan Greenspan's Fed for engineering a "soft-landing" for the economy after the tech bubble burst while not realizing it was inflating a massive housing bubble, Martin Wolf praises the economic performance of the "English-speaking nations", principally the U.S and the U.K. The performance that Wolf praises was completely illusory and doomed to failure. It was fueled by a massive credit expansion engineered by central banks – "Fed heroin" in the US – that would culminate in a massive housing bubble. For Jeremy Siegel's equally all-encompassing economic ignorance of everything that was occurring at the time, see December 06, 2006.

January 14, 2005 – CFC Announces Goal of $1-trillion in Mortgages to Low-Income Borrowers
As part of its "We House America" program Countrywide, CFC, promised to "continue to develop innovative programs emphasizing non-traditional lending criteria". Among the aspects of traditional mortgage lending that Countrywide wanted to change was the "overreliance" on traditional credit scores as well as allowing non-occupant co-borrowers and pooled funds for down payments.

“"We have also called upon one of our esteemed directors, the Honorable Henry Cisneros, former Secretary of Housing and Urban Development and a former mayor of San Antonio. Henry will put to use his long and respected experience as an advocate for affordable housing who understands the benefits to communities of homeownership. He has graciously agreed to lend his support and expertise to this effort with the goal of assuring Countrywide's continued leadership in innovative, responsible and flexible mortgage products."
Countrywide CEO Angelo Mozilo on Henry Cisneros

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"Countrywide's $1 trillion commitment is very tangible proof of this company's commitment to fair, affordable and responsible lending. This company is leading the industry in closing the homeownership gap through ambitious lending commitments, innovative programs, and a strong corporate culture that constantly looks for ways to improve. This is an exciting initiative for Countrywide and I am looking forward to being part of this important effort."[95]
Henry Cisneros, Housing secretary for President Clinton, 1993-1997

Comment: It is difficult to discern whether Countrywide and Angelo Mozilo had good intentions at heart or whether the company was only interested in originating as many mortgages as possible. Whatever the motivation, placing people in homes they can't afford by ignoring tried and true credit standards was doomed to failure. The fact that so many people were placed in homes they couldn't afford indicates that there was something more than simple economics at issue in the housing market. The presence of a political insider and former HUD secretary on Countrywide's board would seem to confirm it. For additional examples of government interference in the housing market see April 6, 1998, October 19, 1998, March 02-03, 2000, October 30-31, 2000, September 25, 2003, October 06, 2004 and June 27, 2005. For Countrywide receiving plaudits from Fannie Mae see March 18, 2003 and for plaudits from Harvard see February 04, 2003.

April 10, 2005 – Paul Volker Call the US an "Economy on Thin Ice"
"We sit here absorbed in debate about how to maintain Social Security – and, more important, Medicare – when baby boomers retire. But right now, those same boomers are spending like there's no tomorrow. If we can believe the numbers personal savings in the United States has practically disappeared… We are buying a lot of housing at rising prices, but home ownership has become a vehicle for borrowing as much as a source of financial security."[96]
Paul Volcker in the Washington Post, "An Economy on Thin Ice"

Comment: Contrast Volcker's concern on using the rising value of home ownership as a source of borrowing with Greenspan's celebration of it, see July 24, 2001 and May 20, 2005. See also June 2005 and Dr. Kurt Richebächer's observance of the collapsing national savings cited by Volker here and an explosion of credit as proof of a massive credit bubble.

May 20, 2005 – Alan Greenspan Completely Dismisses the Prospect of a Housing Bubble
We don't perceive that there is a national bubble, but it's hard not to see…that there are a lot of local bubbles." Greenspan admits that there is some "froth" and goes on to say, "Even if there are declines in prices, the significant run-up to date has so increased equity in homes that only those who have purchased very recently, purchased just before prices actually literally go down, are going to have problems."[97] (Greenspan after speaking to the Economic Club of New York)

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Comment: In defense of his failure to do anything about the tech stock bubble, Greenspan said that bubbles could only be seen after they burst, see his speech at Jackson Hole on August 30, 2002. See July 2003, April 10, 2005 and June 2005 for more educated insight into the housing market and what is in store for it.

May 23, 2005 – American Banker Completely Dismisses the Prospect of a Housing Bubble
History is definitive, the national average price of a home may remain relatively flat for a number of years, but it doesn't fall."[98] (American Banker, see July 2003)

Comment: See July 2003 for a discussion on the housing market and its propensity for suffering a bubble in pricing as a result of the distortions in the mortgage market, the majority of which are directed by the government. Today it should be completely unsurprising for a magazine called *American Banker* to have a complete and total ignorance of banking in the traditional sense.

June 2005 – Kurt Richebächer Predicts Housing and Economic Collapse
"Why has the unusually aggressive combination of monetary and fiscal policy so lamentably failed to generate a recovery of the vigor that had been standard in postwar periods? Our short answer: *The Greenspan Fed deliberately pursued a policy to instantly replace the bursting equity bubble, with another, even greater, housing bubble.* By rapidly slashing interest rates to rock-bottom levels, it succeeded in generating the housing bubble and also in provoking the consumer to sustain and accelerate his borrowing-and-spending binge, now against the soaring collateral of rising house prices." (Emphasis added)

"For a central banker Greenspan's "irrational exuberance" speech (see 05 DEC 96) provokes a most astonishing question (how do we know a bubble has formed - author). With some knowledge in macroeconomics, bubble economies – in the sense that asset bubbles impact the economy – are most easily identifiable. The simple clue is in the relationship between soaring credit and collapsing savings. Consider that last year the United States had recorded an overall credit expansion of $2.72-trillion versus virtually zero national saving."[99] (Kurt Richebächer)

Comment: Paul Volcker is believed to have said, "Sometimes I think the job of central bankers is to prove Kurt Richebächer wrong." If this is indeed the case, then Greenspan and his right hand "man", Bernanke, both failed miserably.

June 27, 2005 – Barney Frank Completely Dismisses the Prospect of a Housing Bubble
"This is a very important resolution – particularly at this time – because we have, I think, an excessive degree of concern right now about home ownership and its role in the economy. Obviously speculation is never a good thing but those who argue that housing prices are now at the point of a bubble seem to be missing a very important point. Unlike previous examples we have had – when substantial excessive inflation of prices later caused some problems – we are

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talking here about an entity, home ownership, homes where there is not the degree of leverage we have seen elsewhere. This is the not dot-com situation. We had problems with people having invested in business plans for which there was no reality. People building fiber optic cable for which there was no need. Homes that are occupied may see an ebb and flow in prices the price at a certain percentage level, but you are not going to see the collapse that you see when people talk about a bubble. So those of us on our committee in particular *will continue to push for home ownership.*" (Emphasis added)
(Barney Frank (D-MA) speech in the House of Representatives)
Barney Frank has a BA and law degree from Harvard.

Comment: See his comments to CNBC on September 16, 2013 for contrast.

July 2005 – Bernanke Completely Dismisses the Prospect of a Housing Bubble
"Well, I guess I don't buy your premise. It's a pretty unlikely possibility. We've never had a decline in housing prices on a nationwide basis, so what I think is more likely is house prices will slow, maybe stabilize, might slow consumption spending a bit. *I don't think it will drive the economy from its full employment path.*" (Emphasis added)
Ben Bernanke, Chairman of the President's Economic Advisors and Federal Reserve Governor
Ben Bernanke has a BA from Harvard and a PhD. from MIT, both in economics.

Comment: In the wake of the housing bubble unemployment would exceed 10% and the labor participation rate would sink to all-time lows. See July 2003 and the discussion of how the unprecedented changes to the mortgage market made a housing bubble inevitable. See also June 2005.

October 2005 – Michael Burry Criticizes Alan Greenspan's Theory on Bubbles
"It is ludicrous to believe that bubbles can only be recognized in hindsight. There are specific identifiers that are entirely recognizable during the bubble's inflation. One hallmark of mania is the rapid rise in the incidence and complexity of fraud…The FBI reports mortgage-related fraud is up fivefold since 2000."[100] (Investor Michael Burry in a letter to his clients)

October 07, 2005 – Fed Economists Conclude There is No Housing in Bubble
Jonathan McCarthy and Richard Peach of the Federal Reserve Bank of New York produce an initial draft of a report titled, "Is there a bubble in the housing market now?" They conclude that prices are "high but not out of line."[101]

Comment: See Greenspan's inconsistency on bubbles, August 30, 2002 and May 20, 2005. In particular recall that in August 2002 Greenspan stated a bubble could only be observed after "its bursting confirmed its existence." If that is true, then why are two Federal Reserve economists trying to identify a bubble in housing before the bubble's "bursting confirms its existence"? As

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mentioned by Jim Grant Greenspan's August 30, 2002 speech was "the worst kind of self-exculpating revisionism" and two Fed economists trying to identify a housing bubble proves it. See September 13, 2002. Finally, by October 2005 the housing bubble that the Fed didn't think existed had been collapsing since April 2004.

November 2005 – Deutsche Bank Trader Goes "All-In" on a Housing Collapse
Deutsche Bank's Greg Lippman wants to be short the mortgage market by owning credit default swaps.[102]

December 14, 2005 – FOMC Minutes Raise Concern with Low Rates Fueling Risk Taking
"Some participants believed that the prolonged period of policy accommodation had generated a significant degree of liquidity that might be contributing to signs of potentially excessive risk taking in financial markets evidenced by quite narrow credit spreads, a pickup in initial public offerings, an upturn in mergers and acquisition activity and anecdotal reports that speculative demands were becoming apparent in the market for single-family homes and condominiums." (FOMC Meeting Minutes)

End of 2005 – Deutsche Bank Trader Warns AIG of Risks in its Credit Default Business
Greg Lippmann of Deutsche Bank flies to London to meet with AIG Financial Products, the biggest insurer of sub-prime mortgages and the long-side of his short bet against mortgages he owned via the credit default swaps. *Lippmann tries to convince AIG to stop selling insurance on credit default swaps*.[103]

January 31, 2006 – Greenspan's Fed Career (Mercifully) Ends, Praised by Timothy Geithner
"I'd like the record to show that I think you're pretty terrific too. And thinking in terms of probabilities, I think the risk that we decide in the future that you're even better than we think is higher than the alternative. With that, the economy looks pretty good to us, perhaps a bit better than it did at the last meeting. With the near-term monetary policy path that's now priced into the markets we think the economy is likely to grow slightly above trend in '06 and close to trend in '07."

Comment: The above quote is from FOMC Vice-Chair Tim Geithner and the person he is praising is Alan Greenspan. In addition to being completely wrong in his assessment of Alan Greenspan's legacy, Geithner's judgment around the health of the economy is just as bad. In nine months Jim Grant will be forecasting massive losses on trillions of dollars in mortgage securities – See September 08, 2006. Also, by autumn 2006 a Deutsche Bank trader, Greg Lippman, will have made presentations to hundreds of investors where he forecasts massive losses in the market for mortgage securities – see Fall 2006. In just a short while, even AIG will begin to recognize the risk in their mortgage credit default swap business – see Early 2006. Geithner is completely ignorant of all of this and his praise of Greenspan and his sanguine

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outlook for the economy proves it. In less than three years this fool – his colossal economic ignorance notwithstanding - will be Treasury secretary.

February 01, 2006 – Bernanke Replaces Greenspan; From the Frying Pan and Into the Fire
Ben Bernanke becomes Fed chairman. The second worst Fed chairman is replaced by the worst.

Early 2006 – AIG Employees Start to Recognize Massive Risk in Sub-Prime Mortgages
Gene Park of AIG Financial Products convinces Joe Cassano, the head of AIG FP, to stop insuring sub-prime mortgage bonds against default. However AIG FP does not make any attempt to reduce their exposure from the bonds they are already insuring. At their peak the profits from insuring the bonds amounted to no more than $180-million per year. [104] The losses will top $60-billion. See November 05, 2008.

March 27-28, 2006 – Bernanke Chairs His First Fed Meeting; Gets Everything Wrong
"The economy appears to be quite strong, but my sense is that most people feel that risks on that score are relatively balanced, which I take to imply that, after being strong in this quarter, growth will slow to something closer to a more-sustainable pace in the remainder of the year. Perhaps the leading source of uncertainty on the output side is the housing market, but I was reassured to hear that most participants think that a decline in housing will be cushioned by strong fundaments in terms of income, jobs, and continuing low interest rates. The labor market is clearly continuing to strengthen…I agree with most of the commentary that the strong fundamentals support a relatively soft landing in housing."

Comment: Quote is from Ben Bernanke who is now chairing his first meeting of the Federal Open Market Committee (FOMC). In his first meeting as Fed chair he sets the tone for his chairmanship and gets everything all wrong. He is forecasting economic growth to return to a more sustainable pace and he thinks that housing will have a relatively soft landing. In less than eighteen-months the worst economic crisis since the Great Depression will hit with full force and the downturn will be led by housing which will endure a historic crash.

March 27-28, 2006 – Future Treasury Secretary Geithner Apes Bernanke's Ignorance
"On the growth front, as I said, we think the underlying pace of demand growth is pretty strong, and we don't see any signs yet that would point to evidence of a significant slowdown relative to potential in prospect…But we believe that, absent some large, negative shock to perceptions about employment and earned income, the effects of the expected cooling in housing prices are going to be modest…Equity prices and credit spreads suggest considerable confidence in the prospect for growth. Implied volatilities remain quite low.

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Comment: Tim Geithner on the state of the economy at the March 2006 FOMC meeting. He will be proved wrong about everything – again. With people like Ben Bernanke and Tim Geithner placed in charge of the economy it is hardly remarkable that the economy crashed.

May 2006 – Changes in Bond Ratings Prompts Surge in Bonds Being Issued by Wall Street
Standard & Poors announces that they will implement changes to the model they used to rate sub-prime mortgages and the changes will be implemented by July 1, 2006. In the wake of this announcement there was a sharp spike in the number of new sub-prime mortgage bonds issued. The inference is that the Wall Street firms knew the bonds were lousy and attempted to get as many out before the new, presumably more rigorous model, was introduced.[105]

May 10, 2006 – Bernanke Gets it all Wrong Again on the Decline in Housing
"So far we are seeing, at worst, an orderly decline in the housing market."

Comment: Ben Bernanke during the May FOMC meeting on the housing market.

May 18, 2006 – Bernanke Praises Credit Market While Countrywide Criticized It
"Borrowers have more choices and greater access to credit; lenders and investors are better able to measure and manage risk; and, because of the dispersion of financial risks to those more willing and able to bear them, the economy and the financial system are more resilient."[106]

Comment: Ben Bernanke at the Chicago Fed's annual conference on bank structure and competition. At the same meeting Countrywide Financial's chief risk officer, John P. McMurray, warned about the risks posed by lax lending standards.

June 2006 – Paulson Admits it "Didn't Take a Genius" to see Problems with Fannie/Freddie
"I was not expert on the subject. But the administration and the Fed had warned for years about the dangers these companies posed, and *it didn't take a genius* to see that something had to be done."[107] (Henry Paulson, former Goldman Sachs chairman and future Treasury Secretary)

Comment: Henry Paulson, in On the Brink, calls Barney Frank 'scary smart.'[108] This is in sharp conflict with his contention here that it "didn't take a genius" to see that something needed to be done with Fannie and Freddie. For years Barney Frank was in a position to do something and not only did he fail to do so, but he exerted great efforts to frustrate the efforts of OFHEO to do so. For examples of Frank's cluelessness, see October 06, 2004 and July 14, 2008 on Fannie/Freddie and June 27, 2005 on the housing market in general. For an earlier example of the recognition of the risk posed by Fannie/Freddie see September 06, 2000.

July 10, 2006 – Paulson Sworn in as Treasury Secretary

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Henry Paulson (BA Dartmouth, MBA Harvard) sworn in as the 74th Treasury Secretary. Now the worst Treasury Secretary in the country's history will be serving side by side with the worst Fed Chairman in the country's history.

August 02, 2006 – Paulson Attends His First Meeting of the Working Group on Markets
Henry Paulson attends his first meeting of the President's Working Group on Financial Markets. He recommends that Tim Geithner, President of the Federal Reserve Bank of NY, be added to the group.[109]

August 16, 2006 – Paulson Describes the Economic Outlook as Strong
"I explained how on Wall Street, if you had a big inventory of bonds, you could hedge yourself by buying credit derivatives, which were relatively new instruments designed to pay out should the bonds they insured default or be downgraded by a rating agency…Credit derivatives, credit default swaps in particular, had increasingly alarmed me over the past couple of years…No one knew how much insurance was written on any credit in this private, over-the-counter market."[110]

Comment: Contrast his 'no one knew' comment with what was going on among the various banks and AIG. For example see Greg Lippmann's trip to AIG financial products in London at the end of 2005 and his briefings to hundreds of large investors on the state of the housing market, see Fall 2006 below. Also see the articles in *Grant's Interest Rate Observer* briefly discussed under September 08 and 22 as well as October 06, 2006 below. These articles document what would ultimately cause the collateralized debt obligation (CDO) mortgage market to collapse. In particular, the October 06 article presciently predicts 100% losses for the AAA tranches of mortgage CDOs with only a 4-7% fall in home prices. Also note that on September 28, 2006 Merrill Lynch predicted steep losses to mortgage backed bonds with a similarly small drop in home prices. 'No one knew" – what a farce, plenty of people knew, just not the Treasury Secretary, Henry Paulson! Finally, see August 09, 2007 and note that Paulson promised to pass along any "market color" to Ben Bernanke. This timeline will show that far from being a market insider Paulson was routinely on the outside looking in, and the crisis reached critical mass while he and Tim Geithner were on guard duty.

August 28, 2006 – Art Laffer Demonstrates His Ignorance and Sacrifices His Honor
Art Laffer: "What he is saying is that savings is way down in this country but wealth has risen dramatically. The United States economy has never been in better shape…"

Peter Schiff: "It is not wealth that has increased in the last few years. We haven't increased our productive capacity. All that has increased is the paper value of our stocks and real estate, but that is not real wealth."

Art Laffer (interrupting): "Of course it is!"

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Comment: The preceding was from a discussion between investor and author Peter Schiff and Art Laffer on CNBC.[111] See July 24, 2001 where Fed chairman Greenspan also confuses the paper value of real estate with real wealth and celebrates it as a great boon to the economy. Here the consequence of Laffer's ignorance was limited to his exposure as a charlatan. In the case of Greenspan's ignorance as displayed on July 24, 2001 – and numerous other times as well – the consequences for the United States and the world were catastrophic. It must be noted that Art Laffer has a BA in economics from Yale, an MBA from Stanford and a PhD in economics from Stanford. Nevertheless, his views on economics are as useful as the views a witch doctor might have on medicine. In this exchange Laffer offered to bet Schiff "a penny and your honor" over whether the economy would enter a recession or not. Laffer never made good on losing this bet. Like most PhDs from elite universities, Laffer never learned to admit he was wrong.

September 08, 2006 – Jim Grant Predicts Massive Losses on 'Trillions' in Mortgages
"Overvalued, we, in fact, judge *trillions* of dollars of asset-backed securities and collateralized debt obligations to be, and we are bearish on them. …housing related debt is cheap by no standard of value. For institutional investors equipped to deal in credit default swaps, there's an opportunity to lay down a low-cost bearish bet."[112]

He (a CDS buyer) looks for "high Florida exposure, high California exposure, high second-lien exposure. You look for equity take out loans because those appraisals tend to be overstated, a high percentage of stated-income loans (a.k.a. liars' loans) and you build yourself a portfolio of credits from weak underwriters that are ultimately likely to be impaired."[113]

Comment: This is the playbook that successful investors will use to purchase "insurance" against mortgage bonds from the likes of AIG. Note that the ratio of potential payouts to premiums from mortgage bonds going bad is likely between 30:1 and 50:1.

September 20, 2006 – Bernanke as Fed Chair Continues Perfect Record of Getting it all Wrong
"But I agree that the economy except for housing and autos is still pretty strong, and we do not yet see any significant spillover from housing."

Comment: Ben Bernanke at the September FOMC meeting. For similar befuddlement on the crisis that is increasing in intensity in the housing market see March 27 and May 10, 2006. At this point as Fed chair Bernanke has an unbroken streak of being wrong about everything.

September 22, 2006 –Grant's Interest Rate Observer Discusses Mortgage Market Excess
"…the issuance of complex mortgage structures is booming when house prices are not and the visible and looming difficulties in residential real estate have not yet depressed the prices of such

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instruments as…CDOs… Everyone is playing the same game, which is: As long as the problems don't occur too soon, we are all okay."[114]

September 28, 2006 – Merrill Lynch Correctly Predicts Massive Losses in Mortgage Bonds
Merrill Lynch in its *Review of ABS* (asset backed securities) *Markets* predicts that with as little as 5% depreciation in house prices losses in mortgage backed bonds will eat into even the triple-A rated tranches.[115]

October 6, 2006 - Greenspan Defends His Polices Right Up Until the Final Collapse
"We tried that in 1994-1995 and failed. We learned that the Fed could not incrementally defuse a bubble. We tried in 1994 when we raised interest rates – you remember – even by 75-basis points. It was highly disruptive… And in the end, we failed. The stock market bubble had already been forming, and didn't react to the tightening. We didn't defuse the bubble; we made it worse. The stock market was flat during the tightening period, and when the tightening ended in 1995 (at the towering rate of 5.25% author), the stock market took off. We realized that unless we tightened aggressively enough to hurt the economy and profitability, the market bubble wouldn't defuse. Rates would have to go up 10-12-percentage points to break the back of the stock market, which would destroy the economy. Therefore, we realized we couldn't defuse the bubble, and decided to focus instead on dealing with the aftermath, not the bubble itself. We didn't ease until 2001 because we wanted to be certain that the bubble was over."
Alan Greenspan in an interview with Dr. Sherry Cooper[116]

Comment: Note that in his defense of waiting until the tech bubble collapsed to deal with its effects – which he did by slashing interest rates - he created a much bigger bubble in housing. This hardly qualifies as good policy. Note also the minutes from the FOMC meetings from April 18, May 17 and August 16, 1994 as well as January 31 – February 01, 1995 where Greenspan congratulates himself on defusing a stock market bubble.[117] Greenspan's 2006 contention that the Fed pursued a highly disruptive interest rate tightening regimen in 1994-1995 is completely bogus. Indeed, many people cite the surprise interest rate *cut* between meetings after the collapse of LTCM in 1998 and the "Greenspan Put" with fueling the NASDAQ's final climax run. Finally, see Jim Grant's dismissal of Greenspan's August 30, 2002 Jackson Hole speech as "self-exculpating revisionism", a description that applies to this speech as well.

October 6, 2006 – Grant's Interest Rate Observer Predicts Huge Losses in Mortgages
"At last report 44% (of sub-prime mortgages) were characterized by limited documentation, 31% by piggyback loans and 22% by interest only…The article goes on to conclude that a drop in housing prices of only 4-7% will completely wipe out even the AAA tranche of a mortgage backed collateralized debt obligation."[118]

Fall 2006 – Deutsche Bank Trader Details Coming Mortgage Collapse to Hundreds of Investors

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Greg Lippmann of Deutsche Bank had made his case for shorting mortgage securities to as many as 250 large investors privately and to hundreds more at Deutsche Bank sales conferences.[119]

November 13, 2006 – Peter Schiff Tells Mortgage Bankers They Will be out of Work
"Let me tell you a little about the sub-prime market, which I am actively involved in shorting right now, but to show you what is going to happen. The way this sub-prime market works – and I didn't realize this until I did the research to start shorting the stuff. But 65% of the sub-prime mortgage market, 65% of those bonds, of those mortgages, where a guy – stated income, no-doc, negative am, risky loans; 65% of those things are repackaged by Wall Street and rated triple-A, triple-A!... That particular piece of paper (the lowest tranche in a mortgage security) is rated triple-B- and yields about 7.75% right now. That particular piece of paper should be rated F and it will go to zero as will several of the tranches above it…The bottom is going to drop out of the sub-prime market." (Peter Schiff speech to the Western Regional Mortgage Bankers Conference)

"…Over the longer term, the outlook for the housing market is favorable. With household growth accelerating and second home demand climbing the number of conventional homes completed and manufactured homes placed in the coming decade should easily exceed the 18-million added between 1995 and 2004. As a result housing production should average more than two-million units annually over the next ten years."
Dr. Barry Asmus citing a "Harvard study" on housing in a rebuttal to Peter Schiff's speech

<u>Comment</u>: The best word to describe the Harvard housing study cited by Dr. Asmus is par for the course for most things having to do with economics from Harvard. In August 2013 the adjusted annual rate of new home sales was 421,000. As paltry as this number is compared to Harvard's estimate of 2-million per year it was actually up 12.6% from August 2012.[120] Dr. Asmus only cites the Harvard study as "big", but the study is believed to be a product of Harvard's Joint Center for Housing Studies. According to the Joint Center for Housing Studies it "provides leaders in government, business and the non-profit sector with the knowledge and tools to formulate effective policies and strategies." Based on the fact that they completely missed the housing crash and forecast a huge demand for new homes perhaps it is best for the "leaders, in government, business and the non-profit sector" for the educated fools at the Joint Center for Housing Studies to shut their doors. See also February 04, 2003 for a speech by the now – unfairly in the author's opinion - disgraced CEO and co-founder of Countrywide Financial, Angelo Mozilo, to the Joint Center.

December 01 & December 05, 2006 – Sub-Prime Mortgage Originators Bankrupt
Two subprime mortgage originators, Sebring Capital Partners and Ownit Mortgage Solutions go bankrupt. Merrill-Lynch had a 20% equity stake in Ownit.[121]

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"The small and mid-sized lenders that specialize in those (subprime) loans have been facing a lot of pressure lately. These are companies that depend almost exclusively on new loans for their earnings. That market grew rapidly in the last ten years, but it couldn't last forever. Eventually, you reach just about every marginally qualified borrower you can."[122]
(John Bancroft, editor *Inside Mortgage Finance)*

December 06, 2006 –Wharton's Siegel Still Blind to Damage Done by Fed Policies & Bubble
"Now that we have 10 years of economic and financial data, we can now accurately determine whether the market was indeed "irrationally exuberant" in December 1996. The answer is decidedly no. Had the market been overvalued, it would have shown poor return in the following decade. But it did not…"

"Looking back in August 2002, Mr. Greenspan was perfectly right when he said, at the annual Kansas City Fed economic conference in Jackson Hole, that 'Historical data suggests that nothing short of a sharp increase in short-term rates that endears a significant economic retrenchment is sufficient to check a nascent bubble. The notion that a well-timed incremental tightening could have been calibrated to prevent the late 1990's bubble is almost surely an illusion.' Had the Fed tightened further in late 1999 or early 2000, there would be little doubt that 'brick and mortar' firms, as the non-tech stocks were called, would have borne the brunt of the tightening and pushed their valuations even lower. The subsequent recession when the tech bubble finally burst would have been far worse. *History has exonerated* (emphasis added) Alan Greenspan's policy during the late 1990s."[123]

Comment: Writing on the ten-year anniversary of the "irrational exuberance" speech Wharton professor Jeremy Siegel cites stock market valuations – which are fueled by the housing bubble and on the verge of an historical collapse – for concluding that the stock market was not "irrationally exuberant" in 1996. He then goes on to praise Greenspan's low interest rate policy after the tech bubble burst for helping to produce a relatively "soft landing" for the economy. He does not realize that the low interest rate policies he is praising are producing a bubble in housing that will make the bubble in tech stocks seem like mere child's play. This man is still one of the most respected commentators on finance and economics in the United States. What does that say about the rest of us? For Jeremy Siegel getting the mortgage crisis all wrong see December 14, 2007.

December 15, 2006 – Grant's Predicts Large Losses on Even Investment Grade Mortgages
"*Grant's* has had much to say about mortgage credit this year. Following is a speculation on 2007, if we have our timing right. In preview, we find that, under some not very adverse assumptions, even higher-rated mortgage structures are vulnerable to infestation by credit termites…A few – a minority – believe that the troubles now unfolding at the margins of subprime are the leading edge of much deeper problems. *We are in that camp.*"[124]

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February 07, 2007 – HSBC Announces Enormous Reserves Against Mortgage Losses
HSBC Holdings, world's third largest bank, announces it is setting aside $10.6-billion to cover bad debts in its portfolio of US sub-prime mortgages.

March 09, 2007 – Grant's Correctly Criticizes Regulators in the Coming Mortgage Debacle
"The world will have to do with less (collateralized debt obligations) as the famous CDO machine goes into the shop for cyclical repairs. So with the U.S. economy. The securitization and re-securitization of residential mortgages was the motive force behind the house-price boom and all that boomed along with it, home-equity extraction not least…Are you in the dark? *So for the most part are the federal banking regulators."*[125]

"…Somewhere in the neighborhood of 70% of CDO buyers rely almost entirely on the ratings because they don't have the time or expertise to evaluate the underlying collateral and structure…once the rating agency integrity is gone, so is the CDO market it would seem."[126]

Comment: See September 22 & 28, October 06, and December 15, 2006 for other *Grant's Interest Rate Observer* articles that discuss the structural problems with the mortgage market and the potential losses that "sellers" of portfolio insurance via credit default swaps (CDS) were exposed to. *Grant's* is widely read in financial circles and the fact that a series of articles exposed exactly what would happen well in advance of it actually happening is a damning indictment of the banks involved in these trades, the rating agencies and the government regulators – especially Tim Geithner's Federal Reserve Bank of New York.

The New York Fed has the primary responsibility for supervising Wall Street banks. Indeed the only reaction these articles seemed to generate was a dressing down of Jim Grant by one of the rating agencies, S&P.[127] Like most public officials and bank executives who played major roles in the crisis, the Fed's Tim Geithner suffered no sanction or rebuke for being asleep at the wheel and not keeping up with the front page of the local newspaper, *Grant's Interest Rate Observer*. In 2009 he became President Obama's Treasury Secretary. Now that he is a secretary instead of a Federal Reserve Bank president perhaps he will be able to afford a subscription to *Grant's* and he won't miss the next crisis.

March 29, 2007 – President Obama's Economic Advisor Demonstrates Complete Ignorance
Austan Goolsbee in a column in the New York Times extols the virtues of "irresponsible" mortgages for opening the doors to homeownership. He cites a report from two Federal Reserve economists and a Princeton economics professor who credit sub-prime mortgages *for "making the mortgage market more perfect, not more irresponsible."*[128]

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Comment: Goolsbee has two degrees in economics from Yale and a PhD. in economics from MIT. He was a senior economic advisor during Barack Obama's 2008 campaign for president and chaired President Obama's Council of Economic Advisors. Nevertheless as late as March 2007 he is endorsing the lending practices that have *already* started to cause increasingly large numbers of mortgage defaults and will ultimately play a major role in the largest financial crisis since the 1930s. The fact that Goolsbee is now an economics professor at the University of Chicago provides compelling evidence that a degree in economics remains the most useless degree in academia. In a few days the second biggest sub-prime lender in the U.S. will declare bankruptcy, see April 02, 2007.

March 30, 2007 – Sister of California Governor Resigns from Board of Countrywide
Kathleen Brown, the sister of the then current California attorney-general and future governor Jerry Brown, resigns from the board of Countrywide Financial. However, Kathleen Brown continues to work at Goldman Sachs where she is their head of municipal finance on the west coast. In announcing her decision to step down from the board Countrywide CEO Angelo Mozilo states, "Since joining the Board in 2005, Kathleen has also made significant contributions to the company's governance, risk management and strategic growth initiatives."[129]

Comment: Not only was Kathleen Brown's brother Jerry soon to be governor again, he had been governor previously (1975-1983) when he known as "Governor Moonbeam." In addition, their father, Pat, was governor from 1959-1967. Most companies would recognize the potential conflict of interest with having their head of municipal finance on the west coast being the daughter of one California governor and sister of another, but Goldman Sachs is not most companies.

Regarding her role on the board, Angelo Mozilo notes Kathleen Brown's contribution to "governance" and "risk management". Corporate Library, an independent research firm that grades corporate governance, gave Countrywide an "F" for governance – and the "F" didn't stand for fabulous. In fact, Neal Minow, the editor at Corporate Library, said that Countrywide would have received a lower grade if there was one.[130] The complete lack of risk management at Countrywide is laid bare by their tens of billions in losses from loans that went bad. Kathleen Brown's second husband is Van Gordon Sauter, the former president of CBS news. This – along with her brother's connections – might explain why she has not received more criticism over her role at Countrywide.

March 30, 2007 – Bernanke Discusses CRA on its 30-year Anniversary
"The debate surrounding the passage of the CRA was contentious, with critics charging that the law would distort credit markets, create unnecessary regulatory burdens, and lead to unsound lending… Partly in response to these concerns, the Congress included little prescriptive detail in the law… Further attention to CRA was generated by the surge in bank merger and acquisition

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activities that followed the enactment of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. As public scrutiny of bank merger and acquisition activity escalated, advocacy groups increasingly used the public comment process to protest bank applications on CRA grounds. In instances of highly contested applications, the Federal Reserve Board and other agencies held public meetings to allow the public and the applicants to comment on the lending records of the banks in question. In response to these new pressures, banks began to devote more resources to their CRA program… Both bankers and community groups criticized the CRA examination procedures as emphasizing process over results, arguing that the examination criteria were too subjective and that a more-quantitative system for evaluating institutions' CRA performance should be developed. In response to these criticisms, President Clinton in 1993 directed the agencies that implement CRA to review and revise the regulations, with the goals of clarifying performance standards, making examinations and evaluations more consistent, and reducing the compliance burden…The CRA regulations adopted in 1995 established for large institutions a three-pronged test based on performance in the areas of lending, investments, and services."[131]

Comment: Ben Bernanke speaking on the 30th anniversary of the Community Reinvestment Act (CRA). Portions of this speech are being extensively quoted to ensure that a full understanding of the CRA is obtained. Note that the law as originally passed had "little prescriptive detail" and largely imposed a paperwork burden on the affected banks. Later, as a result of other banking regulation, the Riegle-Neal act, that promoted mergers among banks, "public advocacy groups" started to protest potential bank mergers on CRA grounds. Among the "public advocacy groups" at the vanguard of using the CRA to extract concessions from banks was the Association of Community Organizations for Reform Now (ACORN) and the Neighborhood Assistance Corporation of America (NACA). These groups rely – in the case of ACORN relied because the group collapsed in a massive scandal - almost exclusively on government money and funding from the banks they protest against for their very existence. Most importantly note the reference to the important changes made to the CRA in 1995. Many defenders of the CRA claim that the law had been on the books since 1977 and could not have played a role in the financial crisis. These defenders ignore the changes to the law made in 1995 and the pressure generated by the public advocacy groups because of these changes. (See January 17, 1994 and April 19, 1995)

Spring 2007 – Front-Point Partners Refuse to Watch *"Ceaselessly Bullish"* CNBC
Front-Point Partners was one of the few investment firms to see the problems endemic to the housing market and made tens of millions when the housing bubble burst. Even though the housing market had started to show serious cracks at this point CNBC – dismissed in this book as Wall Street's propaganda arm – remained ceaselessly bullish. Front-Point's head trader Danny Moses said of CNBC, "We turned off CNBC. It became very frustrating that they weren't in touch with reality anymore. If something negative happened, they'd spin it positive.

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If something positive happened, they'd blow it out of proportion. It alters your mind. You can't be clouded with shit like that."[132]

April 02, 2007 – Second Largest Sub-Prime Lender Goes Bankrupt
New Century Financial, the second biggest US sub-prime lender declares bankruptcy.

April 02, 2007 – Morgan Stanley Executive Decides to Hold on to Sub-Prime Risk
Zoe Cruz, who has a BA from Harvard and an MBA from Harvard, of Morgan Stanley decides to keep $6 billion worth of sub-prime risk on her balance sheet rather than lose a few tens of million dollars' worth of insurance premiums. Not surprisingly, Bear Stearns – which will eventually disappear from the face of the earth because of its grotesque stupidity – is the investment bank willing to purchase the subprime exposure. The decision to keep the subprime risk and the relatively small income stream from the premiums will cost Morgan Stanley billions.[133]

Late April 2007 – Paulson Get it all Wrong Again
Sub-prime problems are "largely contained."[134] (Henry Paulson to the Group of 100)

June 20th, 2007 – Bernanke Gets it all Wrong Again
Bernanke: The mortgage debacle "will not affect the economy overall."

June 26, 2007 – NY Fed Hosts a Cozy Dinner with the Banks it is Responsible for Regulating
A dinner is held at at the New York Fed. Among the attendees are Henry Paulson, Jamie Dimon (JP Morgan), Lloyd Blankfein (Goldman Sachs), Steve Schwarzman (Blackstone) and Chuck Prince (Citigroup). Prince asks, "Isn't there something you can do to order us not to take all these risks?"[135]

Comment: Evidence seems to be this is around the time Goldman Sachs begins to short the mortgage market, see June 30, 2007. Note also that by August Goldman Sachs will have already requested over $1-billion in collateral from AIG as a result of the mortgage bond "insurance" Goldman purchased from AIG. Also, see August 06, 2007 and the recognition by Cornwall Capital that almost overnight the value of their credit default swaps went up by an order of magnitude. Now that Goldman Sachs is in on the credit default swap trade it is moving in a completely different direction than it had been.

June 30, 2007 – Goldman Sachs Now in on Sub-Prime Trade and the Market Totally Changes
Goldman Sachs contacts Michael Burry, a fund manager "short" sub-prime mortgages via credit default swaps to confirm that his credit default swaps are fairly marked. Comment's Burry, "This was the first time they moved our marks accurately because they were getting in on the

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trade themselves. According to Michael Lewis it was only when Goldman Sachs started to get in on the trade that the market flipped.[136]

Early July 2007 – “Dude, You Owe us $1.2-billion”
As a result of losses in the sub-prime market the “insurance” on the bonds backed by sub-prime mortgages became increasingly valuable. Deutsche Bank has purchased some of this insurance, via credit default swaps, from Morgan Stanley. Deutsche Bank’s Greg Lippmann calls Morgan Stanley’s Howie Hubler and states, “Dude, you owe us 1.2-billion.”[137]

Comment: A portion of these losses were the result of Morgan Stanley’s Zoe Cruz deciding to keep these trades on, see April 02, 2007. Morgan Stanley’s mortgage related losses will approach $9-billion.

July 12, 2007 – Fortune magazine heralds “the greatest economic boom ever”
In a clear sign of a top, Fortune magazine’s Rik Kirkland believes that the economy is “about as good as it gets.”[138] In getting everything wrong, Kirkland duplicates and anticipates Henry Paulson’s doltish assessment of the economy. In a few months, Paulson will state, “I’ve seen turbulence in the market a number of times and I can’t think of any situation where the backdrop of the global economy was as healthy as it is today.” See October 16, 2007

July 17, 2007 – Massive Losses From “the Greatest Social Experiment” Will be Staggering
“Just throw your model in the garbage can. The models are all backward looking. The models don’t have any idea of what the world has become…We are in the midst of one of the greatest social experiments this country has ever seen.” Losses in excess of $300-billion should be expected from the CDO portion of the market alone.[139]
(Greg Eisman of FrontPoint Capital in a conference call)

Comment: Note the comment about the “backward looking” models. These models are useless for predicting future outcomes because they don’t take into account the massive changes in the housing market and the low interest-rate environment that allowed these changes to ultimately produce enormous economic balances. The changes in the housing market were the direct result of President Clinton’s “plan” to increase homeownership and the low interest rates were of course the direct result of the Federal Reserve’s stupidity.

July 17, 2007 – Bear Stearns Investors Learn Their Sub-Prime Investments Are Worthless
Investors in the Bear Stearns hedge funds backed by mortgage CDOs learn that their investments are worthless

July 19, 2007 – Ben Bernanke Still Fails to Appreciate the Size of the Financial Armageddon

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Ben Bernanke tells the Senate he sees no more than $100-billion in losses in the sub-prime market.

Comment: Contrast Bernanke's sanguine – and stupid – view on mortgages with Greg Eisman's just two days earlier on July 17.

August 2007 – Goldman Sachs Demands Collateral From AIG for its Winning CDS "Bets"
Goldman Sachs demands $1.5 billion in collateral from AIG as a result of a drop in the value of mortgage backed securities they purchased "insurance" on.[140]

Comment: See June 30, 2007 and August 06, 2007 and note that now Goldman Sachs is in on the trade the value of credit default swaps is increasing when previously they had only tread water. Credit default swaps are a financial derivative, and like all derivative products they can be very difficult to value. It would appear that Goldman Sachs had a very large influence on how the values of the derivative products here were calculated. Soon after Goldman began participating in the trade prices began moving in Goldman's direction.

August 01, 2007 – Bear Stearns Sued Over Sub-Prime Loses
Shareholders bring their first lawsuit against Bear Stearns as a result of the collapse of its sub-prime mortgage backed funds.[141]

August 03, 2007 - Jim Cramer Makes an Ass of Himself, Exposes Fraudulent Financial Market
"This is about Bernanke. This is about Bernanke. He has to be on that (Bear Stearns) call. Forget the investors. The investors are going to…Bernanke needs to open the discount window. That is how bad things are out there. Bernanke needs to focus on this. Alan Greenspan told everyone to take a teaser rate and then raised the rate seventeen times. And Bernanke is being an academic. It is not time to be an academic. It is time to get on the Bear Stearns call. Listen. Open the darn Fed window! He has no idea how bad it is out there! He has no idea! He has no idea (screaming)!

"I have talked to the heads of almost every single one of these firms in the last 72-hours and he has no idea what it is like out there. None (screaming)! And Bill Poole has no idea what it is like out there. My people have been in the game for 25-years and they are losing their jobs and these firms are gonna' go out of business, and he is nuts! They are nuts (slapping table)! Nuts! They know nothing (red-faced screaming)! I have not seen it like this since I went 5-bid for a half-a-million shares of Citigroup but I got hit in 1990. This is a different kind of market! And the Fed is asleep (spitting on the 'p')! Bill Poole is a shame! He is shameful!"[142]

Comment: Jim Cramer gives his "crony capitalists of the world unite" speech and begs for special treatment in the form of cheap money from the Fed for the dolts at Bear Stearns and

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elsewhere. Numerous industrial firms, employing far more people than Bear Stearns have gone bankrupt. These firms were not provided cheap money by the Fed, nor did anyone even argue that they should have received cheap money from the Fed. According to the fraudulent form of capitalism promulgated by CNBC and useful idiots under their employ like Jim Cramer, investment banks like Bear Stearns – unlike industrial firms - can't be allowed to go bankrupt. This speech should make it clear that the system of capitalism which built this country has been completely supplanted by crapitalism. See Ron Paul's July 09, 2002 criticism of the current economic environment as "Keynesian inflationism, interventionism and corporatism." Cramer's speech here proves beyond any shadow of a doubt the accuracy and prescience of Ron Paul's assessment of what the American economy has become.

August 6, 2007 – Mortgage Lender Unable to Get New Financing, Goes Bankrupt
American Home Mortgage Investment Corporation, a mid-sized mortgage lender – files for bankruptcy because it can't sell any of its commercial paper.

August 06, 2007 – Credit Default Swap Positions Began to Reflect Market Calamity
"It's the first time we're seeing any prices that reflect anything close to like what they're really worth. We had positions that were being valued by Bear Stearns at six-hundred-grand that went to six-million the next day."
Cornwall Capital's Charles Ledley describing how Wall Street firms recognize the loss of value in their sub-prime mortgage bonds and the money owed to people who purchased "insurance" on these bonds via credit default swaps.[143]

August 9, 2007 – Paulson Finally Awakens to the Financial Firestorm Already Under Way
Paulson cites this day as the day the 'crisis in the financial markets that I had anticipated arrived in force and it came from an area he wasn't expecting, housing. The specific problem was BNP Paribas, France's largest bank, had halted redemptions from funds holding mortgage bonds. The European Central Bank (ECB) ultimately announces that 49-banks borrowed $130-billion, more than they did in the aftermath of the 9/11terrorist attacks. Paulson meets with Bernanke and tries to pass along "any market color he picks up from his conversations with senior bankers in the US and around the world."[144]

Comment: See the discussion under August 16, 2006 and Paulson's contention that 'no one knew' what was going on in the credit default swap (CDS) market. Similarly and almost exactly a year later we can see the usefulness of the "color" Paulson promises to pass along to Bernanke. As a result of the prices investors like Michael Burry, Greg Lippmann, FrontPoint Capital and Cornwall Capital were now receiving for the "insurance" they purchased via credit default swaps it is clear that the entire mortgage market has started to take on massive amounts of water and begun to sprout equally massive amounts of red ink. Paulson seems to be oblivious to the magnitude of the problem and has been for almost an entire year.

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August 15, 2007 – Countrywide Draws on Back-up Credit Lines
Countrywide Financial, the largest sub-prime mortgage originator, draws on $11.5-billion worth of backup credit lines after it is unable to obtain loans from its normal sources.[145]

October 10, 2007 – Government Creates a Program to Assist with Interest Rate Re-Sets
HOPE Now Alliance program announced to help struggling home owners work with counselors and mortgage servicers. Paulson admits to a sense of urgency because "1.8-million sub-prime ARMs would re-set from 2008-2010.[146]

Comment: Judge Paulson's subsequent sanguine comments on the mortgage market in the context of his knowledge that there were so many ARMs (adjustable rate mortgages) ready to re-set. In particular see his comments on January 18, February 14, March 16 and May 6, 2008. With so many ARMs to reset from their artificially low "teaser" rates Paulson was in no position to have any optimism about the mortgage market whatsoever.

October 15th, 2007 – Bernanke Takes Tough Stand Against Bailouts, Later Folds Like Origami
Bernanke: "It is not the responsibility of the Federal Reserve - nor would it be appropriate - to protect lenders and investors from the consequences of their financial decisions."

Comment: By bailing out AIG and paying its counterparties at par the Fed protected "lenders and investors from the consequences of their financial decisions." Unsurprisingly the Fed tried to do this in the utmost secrecy, See November 03, 05 and 10, 2008 and March 2009.

October 16, 2007 – Paulson Claims the Economy Has Never Been as Healthy as it is Now
"I've seen turbulence in the market a number of times and I can't think of any situation where the backdrop of the global economy was as healthy as it is today."[147]

Comment: Paulson was CEO of Goldman Sachs and earned in excess of $500-million working for Goldman. Whatever the requirements for CEO of Goldman Sachs are they obviously do not include brains or even the most basic understanding of economics.

October 30, 2007 – Merrill Lynch CEO Resigns After Billions in Losses
In the wake of billions of dollars in losses in mortgage investments Stanley O'Neal (MBA Harvard) is forced to resign from Merrill Lynch.

Comment: Apparently once you reach a certain level in an organization chart you can never be fired. You can only be forced to resign. In O'Neal's case the "forced" resignation did include over $160-million in compensation. Apparently Merrill's board didn't have to push very hard.[148]

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See September 28, 2006 where Merrill Lynch's research department warned about the risks in the mortgage market.

November 04 2007- Robert Rubin's Citigroup Announces $11-billion in Mortgage Losses
Citigroup announces $11-billion in write-downs on top of the almost $6-billion in write-downs it had previously announced.[149]

November 05, 2007 – Credit Agencies Start to Look Under AIG's Hood
Fitch Ratings announces that it was reviewing the financial strength of triple-A-rated insurers like AIG. This raised concern about the value of the credit default swaps (insurance) companies like AIG had sold.[150]

Comment: See August 2007 and recall that Goldman Sachs had already requested collateral from AIG.

November 14, 2007 – John Thain Replaces Stanley O'Neal at Merrill Lynch
John Thain, who has a BS from MIT and a Harvard MBA, is hired by Merrill Lynch to replace Stanley O'Neal, see October 30, 2007. Thain was hired from the New York Stock Exchange (NYSE). Thain had been hired by the NYSE to replace Richard Grasso after a scandal erupted, justifiably so, over Grasso's $187-million pay package. [151]

Comment: One of Thain's first acts upon becoming CEO of a firm that had lost billions and would go on to lose billions more as the financial crisis intensity peaked in the next year was to spend over $1-million remodeling his office. Harvard is reputed to have the best MBA program in the country – what could they be possibly teaching?

November 28, 2007 – Citigroup Executive and Clinton Crony Rubin Denies Responsibility
In the wake of massive losses and announcing Citigroup's own exposure to collateralized debt obligations and other sub-prime mortgage investments Robert Rubin, Citigroup's chairman of the executive committee, claims, "I am not senior management, I have a side role."[152]

Comment: For this "side role" Rubin was paid in excess of $100-million since starting with Citigroup in 1999. His job immediately before starting with Citigroup was Treasury Secretary of the United States of America. As a former Treasury secretary it should not be shocking to know he also worked for a time at Goldman Sachs and served as chairman. It takes a very special type of person to earn this much money working for a company and then to claim that he has no meaningful influence after the company collapses under the weight of billions in losses. While these types of people are "special" and "rare" the Ivy League colleges would appear to turn them out by the hundreds every year. Rubin has a BA from Harvard and Yale Law degree. Is it any wonder with "leaders" such as this that the country is in the shape that it is? See also the

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comment on Rubin dated February 15, 2002. The great Roman statesmen Seneca said, "Fire is the test of gold, adversity of strong people." On the basis of his performance in the aftermath of Citigroup's massive subprime losses it can be concluded that Rubin fails the strong person test.

"I didn't see him stepping forward and accepting the responsibility of the disaster that Citigroup was and for the impact it had on the taxpayers and our financial system. I just don't think you can be in that kind of leadership position, get paid more than $115 million, and ultimately disclaim any responsibility for the fate of the ship you helped captain."[153]
(Financial Crisis Inquiry Commission co-chair Phil Angelides on Robert Rubin)

"He represents everything that's bad in America… He's the Teflon Don of Wall Street."[154]
(Nassim Nicholas Taleb, author of The Black Swan: The Impact of the Highly Improbable, on Rubin)

December 2007 – AIG Executives Citing the Work of a Wharton Professor Dismiss Concerns
Martin Sullivan, AIG CEO, addresses investor's concerns about the company's credit default swap exposure by stating that Prof. Gary Gorton's models give AIG "a high level of comfort". Gorton explains that no transaction is approved if it is not first based on the computer model.

Joseph Cassano, head of AIG's financial products unit, credits Gary Gorton with helping to develop the "intuition" that the financial products division used to build their business. He also says the models the financial products unit uses are "simple, they're specific and they're highly conservative.[155]

Comment: Gorton was a professor at the University of Pennsylvania's Wharton School and of course is the holder of the most useless degree in academia, a PhD. in economics. The trades being discussed here and their basis in Prof. Gorton's model will cost AIG $60-billion in losses.

December 05, 2007 – Wharton Professor Extols the Virtues of the Models He Provided to AIG
Gary Gorton on the models he put together for AIG to use in pricing their credit default swaps, the "models are guided by a few, very basic principles, which are designed to make them very robust and to introduce as little model risk as possible. We always build our own models. Nothing in our business is based on buying a model or using a publicly available model."[156]

December 10, 2007 – UBS Announces Billions in Losses on Mortgages
Union Bank of Switzerland (UBS) announces $12-billion in losses on sub-prime mortgages.

December 14, 2007 – Wharton's Jeremy Siegel Still Fails to Grasp Enormity of Crisis
"I think the actual number of delinquencies next year will be below what the market predicts, as investors *have overreacted to the mortgage crisis*. (Emphasis added) When this happens it

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could lead to a nice recovery in financial stocks…And I believe that financial stocks, which have plummeted 18% so far this year, will outperform the S&P500 index next year as the crisis fades...I believe that the Democrats and the Republicans will nominate front-runners Hilary Clinton and Rudy Giuliani."[157] (Wharton Professor Jeremy Siegel)

Comment: One of the best lines in the movie *Animal House* is when the dean admonishes a particularly inept student with the advice, "Fat, drunk and stupid is no way to go through life son." Hopefully the dean at Wharton has had a similar conversation with Prof. Siegel – it is certainly a conversation that is certainly long overdue. Prof. Siegel is called by some "the wizard of Wharton". A better moniker would be the "court jester from north of Chester." (Chester is a city south of Philadelphia). For more from this charlatan see December 06, 2006.

December 19, 2007 – Morgan Stanley Admits to Billions in Mortgage Losses
Morgan Stanley holds a conference call for investors and admits to a trading loss of $9.2-billion from "one desk" in the firm's mortgage trading area.[158]

Comment: See April 02, 2007 and early July 2007.

January 11, 2008 – Bank of America Fails to Grasp Size of Crisis, Purchases Countrywide
Bank of America purchases Countrywide Financial, the country's largest sub-prime lender for $4.1-billion.

Comment: In an industry full of them this was probably the worst acquisition in the history of financial services. The losses accruing to Bank of America from this purchase are in the neighborhood of $40-billion. Ironically enough the purchase had the blessings of regulators at the time who believed that the banking system could not withstand a failure of Countrywide.

January 18, 2008 – Bernanke and Paulson (Unsurprisingly) Still Fail to Grasp Size of Crisis
"The (U.S. economy) has a strong labor force, excellent productivity and technology and a deep and liquid financial market that is in the process of healing itself." Ben Bernanke

"The long term fundamentals of our economy are strong, but we believe the economy is going to continue to grow slowly from here. This is not an emergency." Henry Paulson

January 24, 2008 – Stimulus Package Enacted
A $150-billion stimulus bill is tentatively agreed to.

February 14, 2008 – Paulson Wrong Yet Again
"The economy is fundamentally strong, diverse and resilient." Henry Paulson

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February 17, 2008 – British Government Nationalizes one of Country's Largest Banks
British government nationalizes Northern Rock.

Comment: See January 12, 2005 for the Financial Times' Martin Wolf praising the "Anglo-Saxon" economies of the United States and the United Kingdom.

February 28, 2008 – AIG Announces Enormous Losses on its Credit Default Swaps
AIG announces an unrealized $11.5-billion loss on its credit default swaps and that they have had to post more than $5-billion in collateral to cover potential losses in their credit default swaps.

Comment: See December 2007 and December 05, 2007 where AIG executives assure investors their mortgage market positions are low-risk investments.

February 29, 2008 – AIG Executive Leaves Company
The head of AIG's financial products unit, Joseph Cassano, leaves the company.

March 07, 2008 – Jim Grant Criticizes Fed's Low Interest Policies for Their Role in Crisis
"To strike a blow against an imagined deflation, Messrs. Greenspan and Beranke set out to seed a small inflation. It appears they overplanted."[159]

March 11, 2008 – Fed Unveils Program to Let Banks to Get Loans Against Their Dodgy Assets
Fed unveils its Term Securities Lending Facility (TSLF). Federal Reserve promises to loan up to $200-billion in Treasuries securities against either federal agency debt or "triple-A mortgage backed securities."[160]

Comment: Note that the credit default swap market is making it clear that triple-A MBS (mortgage backed securities) are worth nothing close to 100-cents on the dollar. The soaring values of the credit default swaps are mirrored by a collapse in value of the mortgage backed securities. Through the TSLF the Federal Reserve is bailing out banks without calling it a bailout. See Bernanke's comment of October 15, 2007. He is doing exactly what he said he would not do. Traditionally the governing rule for central banks in a crisis was to *"lend freely but only against good collateral and at high rates of interest."* Bernanke would throw this well-proven practice out the window and reward the banks and bankers that played a major role in causing the crisis.

March 13, 2008 – Paulson Criticizes Leverage Without Admitting His Role in Causing It
Paulson gives a speech at the National Press Club. Describes excessive leverage as one of the causes of the crisis – but does not mention his testimony to the SEC to allow firms to take on

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more leverage, see February 29, 2000. Paulson also makes a series of recommendations but does not mention anything about the loose monetary policy of the Federal Reserve.[161]

March 16, 2008 – Paulson Extols Virtues of Financial System, Wrong on All Counts
"Well, our financial institutions, our banks and investment banks, are very strong. Our markets are resilent, they flexible. I'm quite confident we're going to work our way through this situation."[162] (Henry Paulson)

March 16, 2008 – Fed Brokered Deal to Have JP Morgan Purchase Bear Stearns
Provisional deal to have JP Morgan purchase Bear Stearns for $2 per share and the Federal Reserve to loan $30 billion to JP Morgan with the loan secured by the "value" of Bear Stearns mortgage portfolio, which doesn't have any real value at all. Bear Stearns stock traded at $173 in January 2007.[163]

April 18, 2008 – UBS Admits to Even More Losses in Mortgages
In a report to its shareholders UBS recognizes a total of $18.7-billion worth of losses in the US sub-prime mortgage market.

May 6, 2008 – Paulson Wrong Again, Predicts Worst is Over
"The worst is likely behind us." Henry Paulson

May 8, 2008 – AIG Admits to Even More Losses in Mortgages
AIG announces additional $9-billion in unrealized losses to its credit default swap portfolio bringing the total to over $20-billion.

Comment: Interesting juxtaposition between Paulson's "worst is likely behind us" comment (May 06) and still more losses from both UBS and AIG. See also the discussion under August 09, 2007. It was around this time that Gary Gorton, the "mastermind" behind the model used by AIG to price credit default swaps, was poached by Yale University from his perch at the University of Pennsylvania's Wharton School of Business. Let's hope Yale keeps him busier than Wharton did so he won't have enough free time to come up with any more pricing models or advice to highly leveraged financial services companies.

May 16, 2008 – Fannie Mae Completely Contradicts its Earlier Positions on Down Payments
"By requiring the borrower to have a three or five percent down payment, this new national down payment policy reinforces Fannie Mae's goal to support successful home owning, not just home-buying. Down payments and borrower equity are critical success factors in homeownership." [164]

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Comment: Fannie Mae strengthens its down payment requirements and makes a distinction between home-buying and home owning. Fannie Mae gets religion on lending standards but it is far too late. See October 19, 1998 and October 30, 2000 for HUD Secretary Andrew Cuomo taking credit for reducing the down payment requirements and lowering lending standards generally and claiming all this was "good news for families, good news for the housing industry, good news for lenders and good news for America."

May 29, 2008 – Bear Stearns Agrees to be Purchased by JP Morgan
Bear Stearns stockholders approve the purchase by JP Morgan, but at a price of $10 per share. (See March 16, 2008)

June 30, 2008 – With His Sister No Longer a Board Member, California AG Sues CFC
California Attorney-General Jerry Brown sues Countrywide Financial.

Comment: See March 30, 2007. Jerry Brown's sister used to be on the board of Countrywide Financial.

July 14, 2008 – Barney Frank Completely Ignorant of the Bomb Ticking Inside the GSEs
"Fannie and Freddie are fundamentally sound…They are not in danger of going under…Looking at the financials they are solid."[165] (Barney Frank)

July 15, 2008 – Paulson Gives His Bazooka Speech
"If you want to make sure it's used, make it small enough and it'll be a self-fulfilling prophecy. If you've got a squirt gun in your pocket, you may have to take it out. If you've got a bazooka, and people know you've got it, you may not have to take it out. By having something that is unspecified, it will increase confidence, and by increasing confident it will greatly reduce the likelihood it will ever be used."[166]
(Henry Paulson in front of the Senate Banking Committee)

Comment: Here Paulson was asking for essentially unlimited authority to invest in Fannie Mae and Freddie Mac. He was testifying that if he had this authority he would most likely never need to exercise it. See September 05, 2008 and note two months after saying he wouldn't have to fire his bazooka, Paulson does.

July 16th, 2008 - Ben Bernanke Completely Ignorant of the Bomb Ticking Inside the GSEs
"They will make it through the storm," "in no danger of failing.","…adequately capitalized", Ben Bernanke on Fannie Mae and Freddie Mac

July 23, 2008 – Paulson Gets His Bazooka

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The Housing and Economic Recovery Act (HERA) passes 272-152 and 72-13. This gave Paulson his bazooka, see July 15. In a little over a month – in spite of saying he did not intend to use it – he used it. "The legislation gave us (Treasury) broad discretion to provide financial support to the GSEs as we saw fit. The terms and conditions of the support were left almost entirely to the discretion of the Treasury secretary."[167] See September 05, 2008.

August 2008 – After Asking for His Bazooka, Paulson Admits to Not Understanding GSEs
"…We'd been prepared for bad news (with Fannie and Freddie), but the extent of the problems was startling. We'd had *no specific information when we'd pushed for extraordinary powers in July.* Now I told Josh Boulden that in all likelihood we would have to use our newly granted authorities."[168]

Comment: Paulson admits that he had no specifics on the state of Fannie or Freddie when he asked for his bazooka on July 15. Also, Paulson's August 2008 admission follows a review of Fannie and Freddie's books by the Fed, the Office of the Comptroller of the Currency (OCC), Morgan Stanley and Black Rock. The fact that Bernanke was on record as saying that Fannie and Freddie were "in no danger of failing" and "adequately capitalized", see July 16, 2008, makes Bernanke just as much of a fraud as Paulson.

August 21, 2008 – Paulson Discusses GSEs with Their Government Regulator
Paulson meets with Jim Lockhart, the head of the Federal Housing Finance Agency (FHFA) to discuss the GSE's. Lockhart has a Bachelor's degree from Yale and a Harvard MBA. It is the responsibility of FHFA to regulate the GSEs. Lockhart tells Paulson it will be difficult for FHFA to take a hard line with the GSEs because in their most recent regulatory examination the FHFA found *no capital shortfalls* in the GSEs. In a separate meeting Paulson acknowledges that by placing the GSEs in conservatorship the inference will be that that the FHFA – and its predecessor agencies – had dropped the ball in keeping tabs on the GSEs.[169] Conspicuously absent from those identified as "dropping the ball" with regard to Fannie and Freddie are some high profile members of Congress including the scary smart Barney Frank, see October 06, 2004, June 27, 2005 and July 14, 2008

August 22, 2008 – Government Regulator Gives Clean Bill of Financial Health to GSEs
The FHFA sends draft letters to Fannie and Freddie stating that they meet or exceed their regulatory capital requirements.[170]

Comment: You can't make this stuff up. See August 21, 2008.

September 01, 2008 – Government Regulator Rescinds its Position on GSEs
FHFA sends another letter to Fannie and Freddie instructing them to rescind the draft letter dated August 22 and a new review of their reserves was underway.[171]

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September 05, 2008 – Fannie/Freddie Effectively Declared Bankrupt, Places in Conservatorship
Henry Paulson (Treasury) and Jim Lockhart (Federal Housing Finance Authority, FHFA) place Fannie Mae and Freddie Mac in conservatorship. Capital injections of $100-billion are made into each of the GSEs. Paulson fires his bazooka. See July 15, 2008.

September 08, 2008 – Paulson's Position on GSEs in Conflict with His Position on Frank
Paulson on Fannie and Freddie, "This (the problem with Fannie and Freddie) was created a long time ago. It was a system that shouldn't have existed."[172]

Comment: Again Paulson's contention that the problems with the GSEs were longstanding and obvious is in complete contradiction with the competence, much less talent, that he ascribes to Congressman Barney Frank. For numerous years Frank was Fannie and Freddie's biggest supporter, defender and enabler.

September 08, 2008 – Dartmouth and Harvard Alumni Scratch Each Other's Backs
Later that day Paulson receives a call from Jeff Immelt, a fellow Dartmouth and Harvard MBA alumni. Immelt is the CEO of General Electric and tells Paulson he is having a hard time selling commercial paper. Commercial paper refers to short term loans companies use to help manage their cash flow. The length of the loan could be thirty days or even shorter. Paulson is taken aback.[173]

Comment: GE at this time hardly resembles the industrial conglomerate that most people think of when they hear the name GE. One of the world's foremost bond investors, Bill Gross, admitted that he could not even understand GE's balance sheet. In recent years GE became much more involved in financing and lending, and the complexity of their balance sheet reflected this. In much the same way that the disastrous presidency of Gordon Gee had put an uncomfortable amount of truth in the expression that "for a football team Ohio State has a pretty good school", the modern version of GE could best be described as "a hedge fund that makes a pretty decent steam turbine."

One other point, GE was having a hard time selling commercial paper at a particular interest rate. At a higher rate of interest GE would have found someone to lend it the money. Jeff Immelt and Henry Paulson – with their four degrees from Dartmouth and Harvard, along with their tens (Immelt) and hundreds (Paulson) of millions of dollars in compensation – are both completely unaware of the fundamental banking concept of interest rates rising during a financial crisis. In their collective defense, who needs the banking practices that helped to prevent crises in the past and force everyone to play by the same set of rules when one Dartmouth alumni can simply pick up the phone, call another Dartmouth alumni – who just happens to be Treasury secretary – and subsequently gain access that other CEO's and companies could only dream of. As evidenced

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here, free market capitalism is out of style among the Ivy League educated plutocrats of Wall Street and corporate America; they much prefer the system of crapitalism which has taken its place. See July 09, 2002 for Ron Paul's criticism of this brand of economics.

September 11, 2008 – Geithner Notes Lehman Needs $230-billion in Short-Term Funding
Tim Geithner briefs Treasury department officials on the investment bank Lehman Brothers. Geithner nonchalantly claims that Lehman needs to secure *$230-billion* in "overnight" repurchase agreements or "repos" to keep its business going.[174]

Comment: The first rule of banking is to borrow long and lend short. It appears that by needing so much short term funding Lehman got this simple adage backwards. See February 29, 2000 and Paulson's testimony to the SEC encouraging more leverage among banks like Lehman Brothers via changes to the net capital rule. Also, the extraordinary leverage reflected in Lehman's huge short term financing problems must also be related to the Greenspan put and the underlying notion in the financial markets that no matter what happens the Fed will be there to pick up the pieces – see February 21, 1995 for the "Tequila Crisis" and September 23, 1998 for the LTCM debacle.

September 13, 2008 – Paulson Admits to Ignorance of Problems at AIG
During meetings in an attempt to save Lehman Brothers Chris Flowers of Bank of America asks Paulson if he knows how bad things are at AIG. Paulson would admit in On the Brink that he knew AIG was having problems but he "didn't expect this."

Comment: Paulson again seems to be utterly clueless about what is going on with AIG and states "if any company defined systemic risk, it was AIG, with its $1 trillion balance sheet and massive derivatives business…" Given the importance AIG had to the financial system it would seem to make sense that the Treasury and the New York Fed would have a basic understanding of the company's health.[175] For a sample of the information that market participants had on AIG specifically and shorting credit default swaps generally see End of 2005, early 2006, September 08 and 22, 2006, Fall 2006 and November 13, 2006.

September 14, 2008 – Bank of America Agrees to Purchase Merrill
Bank of America buys Merrill Lynch for $50-billion.

September 14, 2008 – AIG Tells Paulson it Needs $40-billion
AIG alerts Paulson that it needs a $40-billion bridge loan to avert a liquidity squeeze.[176]

September 15, 2008 – Lehman Brothers Collapses, Paulson Take Tough Stand but Folds Later

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Lehman Brothers declares bankruptcy before U.S. markets open. In a press conference Paulson explained that there would not be a wave of bailouts and "Moral hazard is something I don't take lightly."[177] The next day AIG is bailed out.

September 15, 2008 – Paulson Taken to Task by Harvard MBA for Not Bailing Out Lehman
Paulson takes a call from a former Goldman colleague, Ken Brody, who warns Paulson that he made a big mistake by letting Lehman Brothers go bankrupt.[178]

Comment: What better proof of the insidious impact of the "Greenspan put" and the loose Federal Reserve monetary policy of the last twenty-years could there be than this comment? Here you have one market insider lamenting to another even more connected insider that a financial firm should not have been allowed to go bankrupt. The United States has seen huge automobile, steel, airline and railroad companies go bankrupt for any number of reasons. Few people argued that these bankruptcies should not have been allowed to proceed.

It was understood that business failures are part of capitalism. However, for some unknown reasons banks, especially investments banks, are supposed to be treated differently. Not surprisingly Ken Brody, like Henry Paulson and many other key actors in the financial crisis, also has a Harvard MBA. See September 08, 2008 for another privileged conversation between two Harvard MBA alums. These conversations are prime examples of the corporatism, crony capitalism, or "crapitalism" that has proven to be such poor substitutes for free market capitalism. Again see July 09, 2002 for Ron Paul's entirely correct criticism of today's economy replete as it with special favors exchanged between an unmerited financial elite and special treatment for banks as "corporatism."

September 15, 2008 – McCain, a Student of Greenspan, Claims Economy is Strong
Republican Presidential Nominee John McCain says "the fundamentals of our economy are strong."[179]

Comment: During one of the republican presidential debates McCain was criticized for his lack of experience in economic issues. To rebut this argument McCain claimed to be reading Alan Greenspan's book and learning a lot from it. In addition, one of the McCain campaign's senior economic advisors was Kevin Hassett, the holder of a PhD in economics from the University of Pennsylvania. Hassett co-authored the book, Dow 36,000- The New Strategy for Profiting from the Coming Rise in the Stock Market. This book was published in 1999 – just before the stock market bubble collapsed. The Bible offers the warning, "Let them alone; they are the blind guides of the blind. And if a blind man guides a blind man, both will fall into a pit."[180] McCain had the benefit of two blind guides – Greenspan and Hassett – but the result the Bible warns about came to pass anyway.

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September 15, 2008 – Paulson Confuses Wall Street with the American People
"…but an AIG failure would be a disaster for the American people".[181]

Comment: Again Paulson describes how disastrous an AIG failure would be. Given the importance Paulson ascribes to AIG – which will be shown to be largely misplaced – his ignorance of what AIG was doing in the years leading up to the crisis is inexcusable. See August 16, 2006 and September 13, 2008 for additional discussion of this issue.

September 16, 2008 – Hedge Funds Might Refuse to Bank with Goldman, Signs of a Crisis?
"Hank, it is worse than any of us imagined. If hedge funds couldn't count on the safety of their broker-dealer accounts, no one will want to do business with us."[182]
Goldman Sachs CEO Lloyd Blankfein to Henry Paulson

Comment: Paulson's later reluctance to place limits on executive pay should be placed in the context of this conversation. Based on Blankfein's comment Goldman Sachs was in no position to question any strings that the government attached to the bailout of the financial services industry. Paulson's unwillingness to confront Wall Street over its pay practices when he had ample opportunity and leverage to do so is inexcusable but understandable when we put the fox in charge of the henhouse. See September 15, 2008 for more crapitalism.

September 16, 2008 – President Bush Briefed on the Fed Bailout of AIG
"Someday you guys are going to have to tell me how we ended up with a system like this and what we need to do to fix it."[183]
President George W. Bush to Henry Paulson and Ben Bernanke after being told AIG has to be bailed out.

September 16, 2008 – Unelected Fed Officials Implement $85-billion Bailout of AIG
"We have 800 billion." At 9:00-pm the Federal Reserve announces an $85-billion loan to AIG and assumes a 79.9% equity stake in the company.[184] (Ben Bernanke to Barney Frank)

Comment: The quote above is the answer Ben Bernanke gave when Barney Frank asked him where the $85-billion to bailout AIG came from. The fact that a group of unelected bureaucrats were able to implement a massive bailout – it would eventually exceed $100-billion – of a company without any congressional input should be a scandal to all Americans. It appears that we should just accept the fact that we no longer live in a republic.

For all the talk about the risks of an AIG bankruptcy, the vast majority of the AIG bailout simply went to pay AIG's Wall Street credit default swap partners. The AIG bailout allows AIG to fully pay Goldman Sachs for its credit default swap (CDS) positions. See November 03, 05 and 10, 2008. It is important to note that the CDS positions had nothing to do with actual loans that were

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made. The CDS positions were simply "bets" on how bonds created from mortgages would perform. In the event of the mortgage bonds going bad – which they did here - the payout to Goldman from AIG would be approximately 30-50-times the annual premium Goldman paid AIG. Over $14-billion in credit default swaps payable to Goldman Sachs were made as a result of the AIG bailout. A good estimate of the premiums Goldman Sachs paid to AIG for this windfall is a few hundred million dollars.

Recall also that the best evidence is that Goldman only started to get on the "short" side of the CDS market about one year ago, See June 30 and August 2007. Goldman Sachs' solvency would have been maintained if just the premiums they had paid AIG had been returned to them as part of the AIG bailout. Indeed, Goldman Sachs CFO David Viniar told investors that an AIG *failure* would have produced "no credit losses" for Goldman Sachs, see March 20, 2009. However, not paying AIG counterparties – Goldman Sachs chief among them - in full would have definitely threatened the Wall Street bonus pool. The reason the AIG bailout was so pressing was because Goldman Sachs and other large banks were owed so much money by AIG. The AIG bailout had almost nothing to do with AIG. Finally, see also October 15, 2007 for Bernanke stating it would not be appropriate to protect lenders and investors from the consequences of their financial decisions. This statement is in complete contrast to what Bernanke did here. Ben Bernanke and Goldman Sachs CEO Lloyd Blankfein were classmates at Harvard. See September 15 and 16, 2008 for more crapitalism.

September 18, 2008 – Exchange Stabilization Fund as a Source of Bailout Money Discussed
The idea of using money from the Exchange Stabilization Fund to shore up the money market is first discussed. See February 21, 1995 for use of this same fund during the Mexican Debt Crisis. The exchange stabilization fund owes its entire existence to FDR's confiscation of privately held gold. The gold was forced to be turned in at a value of $20.67 per ounce. As soon privately held gold was in the government's possession the dollar was revalued to $35 per ounce. The difference between the price the government paid for gold and the price it could subsequently sell gold funded the Exchange Stabilization Fund. To this day the fund is still off the budget and congress has no idea of how the money is used.

September 18, 2008 – Paulson Proposes TARP to President Bush
In a meeting with President Bush, Paulson lays out a "systemic approach" to the crisis which will require bad assets to be purchased off the balance sheets of financial institutions. He admits that this will be "bailing out Wall Street."[185] This will become the Troubled Asset Relief Program (TARP).

September 18, 2008 - Paulson Proposes TARP to Congressional Leaders, Balk at Pay Limits
In a meeting with congressional leaders Paulson admits that the government will have to purchase hundreds of billions of dollars in bad assets but balks at restrictions on executive

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compensation. He claims to be "appalled as anyone" at Wall Street's pay practices – practices which netted him well in excess of $500-million. He claims that the financial services industry "needed to be competitive if we were going to have the best people." In the same meeting Ben Bernanke predicts an unemployment rate of 8-9% if nothing is done to stem the financial crisis. Bernanke also claims that "it is a matter of days before there is a meltdown in the global financial system."[186]

Comment: Paulson's remarks on pay are completely indefensible and elitist. Perhaps he doesn't understand anything about the then current crisis, but his "best people" were at the source and a principal cause of the crisis that was unfolding. The crisis itself to say nothing of Bernanke's and Paulson's total misreading of the situation are in complete conflict with the notion that financial services is an aristocracy of talent.

As far as Bernanke's prediction on the unemployment rate is concerned, the next thing this educated fool gets right about the unfolding crisis will be the first thing. Bernanke's forecast for a financial meltdown "in a matter of days" was completely off-base. TARP would not be passed until October 03 and because the initial plan to buy illiquid assets was judged ineffective by Paulson, TARP was subsequently modified. First on October 13 when nine large, "systemically important" banks agreed to $125-billion in capital injections from the Treasury, and later on November 12 when Paulson announced the Term Asset-Backed Securities Loan Facility (TALF), almost two full months after this meeting.

September 18, 2008 – Frank's Small Mind Unable to Avoid Making Political Calculations
In one of the many meetings discussing the crisis Barney Frank, who had a leading role in the genesis of the crisis because of the political cover he provided Fannie and Freddie as well as his role as housing cheerleader, remarks, "No one will ever get reelected for avoiding a crisis."[187]

Comment: While avoiding a crisis may not get you reelected, the congressional career of Barney Frank proves that you can certainly continue to get reelected after you played a leading role in causing a crisis. For Barney Frank's opinion on housing and Fannie/Freddie see October 06, 2004, June 27, 2005 and July 14, 2008. Even at a point in the crisis where the dangers were now even visible to the likes of Barney Frank - who was recently defending Fannie Mae and Freddie Mac as "fundamentally sound" – the professional politicians in charge of this country are unable to keep political calculations out of their feeble minds.

September 19, 2008 – Short-selling Ban on Financial Stocks Imposed
Short-selling ban on 799 financial stocks is announced. GE is later added to this list.

Comment: See the discussion under September 08, 2008 and the description of GE as a "hedge fund that makes a pretty decent steam turbine." Placing GE on a list of financial stocks is an

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endorsement of this view and the view that Paulson should not have been taken aback by GE's difficulties in the commercial paper market. GE was a bank, not an industrial firm.

September 21, 2008 – Wall Street Banks Change Structure to Gain Fed Succor
Morgan Stanley and Goldman Sachs become bank holding companies to make it even easier for the Federal Reserve to protect them.

September 23, 2008 – Warren Buffet Makes a Major Purchase in Goldman Sachs
Warren Buffet announces that he purchased $5-billion worth of preferred stock in Goldman Sachs with an option to purchase $5-billion more.

September 27, 2008 – Paulson Again Balks at Executive Pay
In another meeting Paulson again balks at any limits on executive pay.

Comment: If the circumstances were even remotely as bad as Paulson claimed that they were then the financial services industry would have been in no position to reject limitations on pay.

September 29, 2008 – Paulson's TARP Program Voted Down
First vote on TARP and it is voted down, 228-205 with 40% of Democrats and almost 70% of Republicans opposing it.

September 30 & October 01, 2008 – Paulson Admits TARP Won't Even Work
TARP has not even passed and Bernanke mentions to Paulson that purchasing illiquid assets will not be enough to stop the crisis. Paulson and Bernanke discuss this with President Bush on October 01.[188]

October 03, 2008 – TARP Approved
TARP is passed 74-25 in Senate and 263-171 in House.

October 08, 2008- Fed's Bailout of AIG Crosses $100-billion Threshold
Fed announces another $37.8-billion is being loaned to AIG

October 11, 2008 – Crony Capitalist Proposes a Bailout Program He Will Greatly Benefit From
Warren Buffet calls Henry Paulson at his home. Buffet suggests investing in banks through preferred shares that pay a 5-6% dividend to start, with the dividend to rise later. Increasing the dividend in later years would give the banks an incentive to pay the government back. If the plan is implemented at a dividend rate of 5%, then Buffet stands to be paid $500-million a year now that he owns $10-billion worth of Goldman stock. Buffet also has a large position in Wells Fargo and will receive even more money from this holding. See September 23, 2008 for Buffet and Goldman Sachs.[189] See September 15-16, 2008 for more crapitalism.

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October 13, 2008 – Banks Receive Capital via the Capital Purchase Program (CPP)
The nine banks selected by the Office of the Comptroller of the Currency (OCC) meet with Henry Paulson, Tim Geithner and Ben Bernanke at the Treasury. They are commercial banks (4) JPMorgan, Wells Fargo, Citigroup and Bank of America; investment banks (3) Goldman Sachs, Morgan Stanley and Merrill Lynch; and clearing house banks (2) State Street and Bank of New York Mellon. The banks are briefed on the Capital Purchase Program (CPP). The program guaranteed some bank debt but required the government to make some capital investments in the banks. All banks eventually agreed to the program and over $125-billion was invested in these nine banks as preferred stock.

Comment: During the meeting John Thain of Merrill Lynch asks questions about the program's impact on executive compensation.[190] The CPP was essentially the plan Warren Buffett recommended to Henry Paulson on October 11. The CPP was likely worth billions to Buffett.

October 18, 2008 – New York Times Documents Failings of a Clinton Housing Secretary
The *New York Times* chronicles the real estate career of former Clinton HUD secretary, Henry Cisneros in an article entitled "Building Flawed American Dreams."[191]

"Henry (Cisneros, former Clinton HUD secretary) did everything he could for home builders while he was at HUD. That laid the groundwork for where we are now."
Janet Ahmmad, president of Homeowners for Better Building

"This was our first home. I had nothing to compare it to. I was a student making $17,000 a year, my wife was between jobs. In retrospect, how in hell did we qualify… (We) were duped into believing it (owning a home) was easier than it was. The attitude was, 'sign here, sign here, don't read the fine print. We were definitely willing victims."
Victor Ramirez describing his purchase of a home in a community developed by Henry Cisneros

"He (Countrywide CEO Angelo Mozilo) is sick with stress – the final chapter of his life is the infamy that's been brought on him, or that he brought on himself."
Henry Cisneros on Angelo Mozilo

Comment: Angelo Mozilo has become the face of the subprime scandal and the housing collapse. Mozilo seemed to have been genuinely motivated by a desire to put people in homes they could call their own. See in particular his well-received speech to Harvard's Joint Center for Housing Studies on February 04, 2003. It should be noted that Mozilo also sat on the Center's board of directors and HUD Secretary Cisneros at one time sat on Countrywide's board. Kathleen Brown, the sister of current California governor Jerry Brown, also sat on Countrywide's board for several years. [192] At the time she was on the board her brother was

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Attorney General of California. In all of his subsequent ranting, political posturing and grandstanding against Countrywide and Mozilo, Attorney General Brown never criticized his sister. For more on Mozilo see January 14, 2005.

In the final reckoning of the housing collapse Angelo Mozilo hardly warrants a footnote but because he is no longer politically connected he has been thrown to the wolves. Fairness dictates that the standards the politicians, Wall Street financiers and central bankers would have us apply to Angelo Mozilo be applied to them as well.[193] The leading role the Clinton administration played in the development of the housing bubble can be seen in private industry failings of one of President Clinton's former housing secretaries, Henry Cisneros

October 22, 2008 – Geithner Aware of Massive Losses at AIG
Tim Geithner informs Paulson that AIG will soon be reporting a massive quarterly loss.[194]

October 24, 2008 – Greenspan Offers "Pathetic" Testimony
Greenspan testifies in front of the House Committee on Oversight and Reform. Ron Paul correctly labels his testimony "pathetic."[195]

Comment: See Greenspan's comments on August 30, 2002 and October 06, 2006 where he attempts to defend the Federal Reserve and his record in the wake of the tech stock bubble collapse. The label "pathetic" is applicable to these earlier comments as well.

October 31, 2008 – TARP Being Completely Changed Just After Being Implemented
Paulson briefs senior White House staff and tells them he has decided against using TARP to purchase illiquid securities which had been the signature program behind TARP in the first place. Instead TARP money would be used to lend money against the value of consumer loans, but not mortgages. This will become the Term Asset-Backed Securities Loan Facility (TALF). See September 18 and November 12, 2008.

Week of November 03, 2008 – Geithner Takes Over AIG Negotiations, Folds Like Origami
Federal Reserve Bank of New York President Tim Geithner takes over negotiations on behalf of AIG in their effort to negotiate terms with creditors on the value of their credit default swaps. Because of AIG's precarious financial position AIG was proposing "haircuts" or reductions from "par" (full) value of the underlying CDS contracts.[196] Geithner will cave to all the creditor's demands even though in bankruptcy proceedings creditors are often forced to settle for pennies on each dollar they are owed.

November 04, 2008 – Barack Obama Elected President of the United States
Barack Obama elected President of the United States.

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November 05, 2008 – Paulson Briefs President Bush on the New Terms of the AIG Bailout
Henry Paulson and Jim Lambright brief President Bush on new terms of the AIG bailout.[197] Included in the new terms was the creation of accounting entities – Maiden Lane II and Maiden Lane III – that would purchase a variety of illiquid assets from AIG at "par" or full price. The negotiations preceding this decision - which were led by the Federal Reserve Bank of New York - have never been made public. In cases such as this rarely are debts paid off at par or anything close to it. Included in the assets purchased at par are tens of billion dollars in credit default swaps owed to several large banks. Including collateral already pledged by AIG the total money paid to AIG credit default swap counterparties was as follows Société General ($16.5-billion), Goldman Sachs ($14-billion), Deutsche Bank ($8.5-billion), Merrill Lynch ($6.2-billion) and UBS ($3.8-billion). These figures are not made public at the time, nor are the names of the counterparties.[198]

Comment: Paulson calls the NY Fed's plan "creative restructuring." That is certainly one way of putting it. The secret negotiations that surrounded this program resulted in some of the largest banks in the world being paid full price for assets that were only worth a fraction of their full price. For example, Paulson notes that Washington Mutual creditors were only paid at 55-cents on the dollar when Washington Mutual collapsed.[199] Note that the counterparties to AIG had only been paying a premium to AIG for insurance coverage. They did not have billions of their own money wrapped up in AIG like the WaMu creditors. AIG's counterparties had simply placed a highly leveraged bet with AIG that AIG was stupid enough to take – in large part because of their reliance on a sophisticated computer model produced by an Ivy League professor. Again, all the wailing and gnashing of teeth that accompanied the AIG bailout is nothing more than a smoke screen – the bailout had nothing to do with AIG and everything to do with the counterparties above, particularly Goldman Sachs.

November 10, 2008 – Portions of the AIG Bailout Terms Are Released
The revised terms of the AIG bailout are disclosed publicly. Not disclosed however are the counterparties to AIG's credit default swap trades and the fact that they have been "made whole" – in other words paid off in full.

November 12, 2008 – Barely a Month Old, Paulson Announces TARP Completely Altered
Paulson delivers a speech where he announces that TARP will not focus on purchasing illiquid assets and instead lend money against the value of consumer loan portfolios (TALF). See September 18 and October 31, 2008. Paulson also announces that he does not intend to draw on any additional TARP resources beyond the $350-billion he has already been given.[200]

November 19, 2008 – Rubin's Citi Lays Off Tens of Thousands, Paulson Unaware of Problems
Citigroup announces layoffs of 53,000 employees and it cancels plans to sell $80-billion in marked down assets. Paulson admits to having a false sense of security about Citigroup.

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Comment: In the midst of a financial crisis the Treasury secretary is surprised about the health of one of the largest banks in the world. The Federal Reserve Bank of New York is responsible for supervising Citigroup. What were Paulson and Geithner doing at this time besides paying AIG's counterparties at par? See November 03, 05 and 10. Because of the problems with Citigroup, Paulson informs President Bush that he will need to draw on additional TARP resources. Just one week before Paulson claimed this wouldn't be necessary, see November 12, 2008.

November 21, 2008 – In Spite of His Dismal Performance at the NY Fed, Geithner "Promoted" President-elect Obama nominates Tim Geithner to be Treasury Secretary.

Comment: An interesting choice. It would later be revealed that Geithner did not pay all his federal taxes which is more than a little embarrassing for the cabinet secretary responsible for the IRS. More damaging however was his total failure as president of the Federal Reserve Bank of New York. The NY Fed is responsible for supervising the Wall Street banks and Geithner had been president since late 2003. Over the next five years Geithner was blind to all the market excesses even after numerous investors had begun to appreciate the imbalances in the credit market and these imbalances were discussed in major financial publications like *Grant's Interest Rate Observer*. Geithner's complete and total ignorance of the housing bubble wasn't even his largest failing as NY Fed chief. Most deplorable was his leading role in paying AIG counterparties at par and the secret negotiations that surrounded this decision – see November 03, 05 and 10, 2008. In the words of Christopher Whalen of Institutional Risk Analytics, "We have only two things to say about Tim Geithner, who we do not know: AIG and Lehman Brothers. Throw in the Bear Stearns/Maiden Lane fiasco for good measure. All of these 'rescues' are a disaster for the taxpayer, for the financial markets and also the Federal Reserve System as an organization. Geithner in our view deserves retirement, not promotion."[201]

November 24, 2008 – Fed Launches QE 1 with Hundreds of Billions to Fannie/Freddie Bailout
This is the first of what will eventually be three programs of "quantitative easing" (QE). In these programs of quantitative easing, the Fed simply created trillions of dollars out of thin air to purchase bonds and mortgage backed securities from the banks and government sponsored enterprises like Fannie and Freddie. However, instead of sparking any sort of lasting, sustainable recovery the banks simply took the proceeds from QE and loaned them to the government by purchasing government bonds. In this round of QE, the Fed announced they will purchase up to $100-billion worth of debt from Fannie/Freddie as well as $500-billion worth of mortgage backed securities guaranteed by Fannie/Freddie and others.

Comment: Why worry about purchasing illiquid assets as part of TARP when the Federal Reserve is willing to pay full price for these mortgages? At one time the Fed was prohibited from purchasing mortgages – times change, but not always for the better. See March 19, 2009,

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November 2010, September 13, 2012 and December 12, 2012 for subsequent rounds and expansions of QE.

December 2008 – NY Fed Insider Takes Advantage of Inside Information
Federal Reserve Bank of New York chairman of the board of directors, and former Goldman Sachs chairman and current board member Stephen Friedman purchases 37,300 shares of Goldman Sachs stock at $80.78.

Comment: Now that Goldman Sachs is a bank holding company and regulated by the Federal Reserve it was totally inappropriate for Friedman to purchase shares in a company he is supposed to be regulating. Moreover this stock purchase – and the one to follow on January 22, 2009 – coming so close to the undisclosed decision to pay off AIG's credit default swap creditors – including Goldman Sachs - at par is beyond the pale. See November 05, 2008 for the AIG counterparties and how much they were paid as a result of the AIG bailout. In the words of Jerry Jordan, former president of the Federal Reserve Bank of Cleveland – which of course is inconveniently located from Wall Street and the ethically bankrupt culture there – *"It's an outrage. He (Friedman) needed to either resign from the Fed board or from Goldman and proceed to sell his stock."*[202] It is worth recalling that Friedman is a securities lawyer and these types of conflict of interest should be immediately obvious to him. From both a competence and ethical standpoint, Tim Geithner didn't run too much of a tight ship at the NY Fed.

December 19, 2008 – Paulson Learns of Massive Merrill Losses Now Run by GS Crony Thain
Paulson learns that Bank of America has informed the Federal Reserve that it anticipates Merrill Lynch – which Bank of America agreed to purchase – will lose $22-billion in the 4th quarter. Since November of last year Merrill Lynch has been run by former Goldman Sachs COO and Paulson colleague, John Thain.

January 01, 2009 – Merrill Lynch Officially Part of Bank of America
The purchase of Merrill Lynch by Bank of America is made official.

January 22, 2009 – NY Fed Insider Takes Advantage of Inside Information Again.
Federal Reserve Bank of New York chairman of the board and current Goldman board member Steve Friedman purchases another 15,300 shares of Goldman shares stock at $66.61.

January 22, 2009 – Paulson Crony Thain Forced to Resign From Merrill Lynch
Under pressure resulting from the scope of Merrill Lynch's losses and the eleventh hour awarding of billions of dollars in bonuses to Merrill executives, John Thain is forced to resign from Bank of America.

March 2009 – Fed Forced to Provide Details on Secret Aspects of AIG Bailout

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During congressional hearings the counterparties to AIG's credit default swap trade are announced. Since the November 2009 AIG bailout these parties were unknown. See November 03, 05 and 10, 2008.

March 18, 2009 – Fed Expands QE by $300-billion
The Federal Reserve expands QE 1, see November 25, 2008, and announces that in addition to the assets it already promised to purchase, it will purchase an additional $300-billion in government debt.

March 20, 2009 – Goldman's Viniar, No Problem to Us if AIG Defaulted
Goldman Sachs chief financial officer, David Viniar, tells investors during a conference call that Goldman Sachs was protected from an AIG default. "We limited our overall credit exposure to AIG through a combination of collateral and market hedges. *There would have been no credit losses if AIG had failed (emphasis added)."*[203]

Comment: The Federal Reserve Bank of New York has given a variety of reasons for paying AIG credit default swap creditors in full. Among the most common was the solvency of these creditors. In the case of Goldman Sachs their CFO publically states that a potential default of AIG posed no risk to Goldman.

March 26, 2009 – Ex-NY Fed President Geithner Claims He Has Never Been a Regulator
Testifying in front of Congress, Timothy Geithner – the current Treasury Secretary and the President of the Federal Reserve Bank of New York from 2003 – 2009 – states, *"I have never been a regulator, for better or worse."*

Comment: Geithner's protests to the contrary, the NY Fed includes as part of its "core mission" the supervision and regulation of financial institutions in the Second District and the NY Fed's "primary objective" is *"to maintain a safe and competitive US and global banking system."*[204] It would appear that the NY Fed as led by Geithner failed in both its core mission and its primary objective. With that sort of record it of course made perfect sense for President Obama to name him Treasury Secretary.

April 8, 2009 – After Missing Crisis Forming, Lawrence Summers Offers His Useless Advice
"I think the sense of a ball falling off the table – I think we can be reasonably confident that that's going to end within the next few months and you will no longer have a sense of free-fall."

Comment: Lawrence Summers was at one time voted "best economist under 40". That can't be a very competitive prize. See July 30, 1998 and his congressional testimony arguing against any type of regulation of the derivative products that are now exploding all over the financial markets and causing massive damage. The unregulated market in credit default swaps (CDS),

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particularly the enormous leverage these and other derivative products utilize, played a significant role in the financial crisis. See also December 1989 for Summer's equally useless predictions on what the future held for Japan and the Soviet Union.

May 04, 2009 – NY Fed Insiders Stock Purchases Using Inside Information Exposed
Wall Street Journal reporters publish an article describing the conflict of interest between Stephen Friedman's role with the Federal Reserve Bank of New York and his recent purchase of Goldman Sachs stock.[205] (See December 2008 and January 2009)

May 07, 2009 – NY Fed Insider Resigns Without Censure, Conflict of Interest Notwithstanding
Stephen Friedman resigns from the Federal Reserve Bank of New York. His resignation letter is addressed to the current president of the Federal Reserve Bank of New York, William Dudley, another former employee of Goldman Sachs. The NY Fed's general counsel, Thomas Baxter states, "And with respect to Steve's purchases of Goldman shares in December of 2008 and January of 2009, which have been the object of some attention lately, it is my view that these purchases did not violate any Federal Reserve stature, rule or policy."[206]

Comment: The general counsel of the organization – the NY Fed – that conducts a secret bailout of AIG creditors, allows their board chairman to use this non-public information to purchase over $4-million dollars in a company that stands to benefit from this secret bailout and a company that he also sits on the board of finds nothing wrong with Friedman's actions. This hardly represents an endorsement of Friedman's actions. Instead, the defense provided by the NY Fed's general counsel is proof positive of the incestuous relationship between the Federal Reserve Bank of New York and the financial firms they purport to regulate. On May 07, 2009 Friedman's Goldman shares opened at $134.00. His aggregate cost from his December and January 2009 stock purchases was $76.66. At the time of his resignation, which was just a few months after making the stock purchases, Friedman's profits from this completely unethical trade were in excess of $3-million. The median household income in the United States is probably fairly close to $50,000 per year. It would take the average family sixty years to make as much money as Friedman did from capitalizing on what is clearly inside information.

November 17, 2009 – IG Report Criticizes Fed for its Half-Hearted Efforts with AIG Creditors
Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) produces its report on the Federal Reserve Bank of New York's efforts – or lack thereof – to impose haircuts on AIG counterparties. The report called the NY Fed's efforts "limited" and its "negotiating strategy to pursue concessions form counterparties offered little opportunities for success, even in light of the willingness of one counterparty to agree to concessions."[207]

December 24, 2009 – Treasury Department Removes its $200-billion Limit on GSE Bailout

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The Treasury Department removes the $200-billion limit on the credit it was previously willing to extend to either Fannie Mae or Freddie Mac. There are no limits on the losses Treasury is willing to cover on the portfolios of the GSEs. The Treasury also eliminates the requirement that the GSE's reduce the size of their mortgage portfolios. Neither of these actions requires congressional approval.

Comment: Note the date selected to make the announcement, clearly done on Christmas Eve to reduce the media scrutiny.

January 2010 – Bank of America Admits CRA Loans Performed Worse Than Other Loans
In their 2009 10-K Bank of America announces "Our CRA portfolio comprised 6% of residential mortgage balances, but 17% of non-performing residential mortgage loans."[208] For more on the CRA see April 19, 1995, May/June 1999, October 01 & 30 2000 and March 30, 2007. For Fannie Mae's Franklin Raines celebrating Bank of America and their contribution to Fannie's goal of lending $2 trillion to previously under-served American's see March 18, 2003.

September 10, 2010 – Federal Reserve, Economics No Use to Predict Housing Bubble
"Many observers have argued that these rosy (housing price) forecasts ignored basic theoretical and empirical evidence that pointed to a massive overvaluation of housing and thus to an inevitable and severe price decline. We revisit the boom years and show that the economics profession provided little such countervailing evidence at the time….*Economic theory provides little guidance as to what should be the 'correct' level of asset prices — including housing prices*."[209] (Emphasis added, Federal Reserve Bank of Boston)

Comment: Three PhD. Federal Reserve economists argue that economics could not have been used to identify the housing bubble. If this is the case, then what is the point of studying economics? It would be similar to the mechanical engineering professions saying fluid mechanics is too difficult a subject and washing their hands of the responsibility for designing aircraft and steam turbines. Also, see James Bullard, September 20, 2013, and his conclusion that both the housing bubble and the tech stock bubble for that matter were "gigantic and obvious." Bullard's conclusion is in obvious conflict with the conclusions of the Federal Reserve Bank of Boston. The real question at this point is why would anyone be surprised to get different stories from the Federal Reserve?

November 2010 – QE 1 Ineffective, Fed Launches QE 2
The Federal Reserve announces it will purchase at least $600-billion in Treasury securities (government debt). In the Fed's QE 1, the Federal Reserve created close to $1-trillion in money out of thin air to purchase assets from the financial institutions that played a major role in causing the financial crisis in the first place. See November 25, 2008 and March 18, 2009.

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October 2011 – Summers, the Solution to Too Much Debt is to Incur New Debt
"Debt got us into this mess. Debt will get us out." (Lawrence Summers)

Comment: See February 15, 1999 and recall that Lawrence Summers was featured on the cover of *Time* magazine with Robert Rubin and Alan Greenspan that read, "The Committee to Save the World." *Time* was close on its choice for a caption but the cover should have read, "The Committee That Will Destroy the World." See in particular July 30, 1998 and Summers' testimony to Congress against any regulations on credit derivatives. For Rubin see November 28, 2007 and for Greenspan see August 30, 2002 and October 06, 2006. The contention under the February 15, 1999 entry that the financial crisis would expose Rubin, Greenspan and Summers as frauds is hardly unfair or unjust. As further proof – if any more were actually needed - that economics is not a real science and is apparently incapable of learning from its many past mistakes, Summers' stupidity here was presaged by Virgil Jordan, the economist for *Business Week*. In 1932 Jordan stated of the then current Depression, "Just as we saved our way into depression, we must squander our way out of it."[210]

September 13, 2012 – QE 3 Launched, 'If You First Don't Succeed, Try and Try Again'
The Federal Reserve drops the gloves after the failure of its QE 1 and QE 2 programs of quantitative easing which included the creation of $1.5-trillion out of thin air – see November 25, 2008, March 18, 2009 and November 2010. Here the Fed announces QE 3 and promises to purchase $40-billion of mortgage back securities and bonds indefinitely to help the economy recover. In a few months, see December 12, 2012, the monthly purchases will increase to $85-billion. Finally, the Fed's open market committee announces that interest rates will remain at 0% at least through 2015.

December 2012 – Non-partisan NBER, CRA Loans Led to Risky Lending
"Did the community reinvestment act (CRA) lead to risky lending? Yes it did"[211]
(National Bureau of Economic Research)

Comment: The National Bureau of Economic Research (NBER) is the largest economic research organization in the United States and is responsible for identifying the beginning and end of recessions in the United States. While it is true that with the possible exceptions of executives from Fannie/Freddie (Franklin Raines and Jamie Gorelick), HUD secretaries (Henry Cisneros and Andrew Cuomo) and Fed chairman (Alan Greenspan and Ben Bernanke) no group displayed more incompetence and ignorance immediately before, during and after the financial crisis than the economics profession, we are forced to rely on economists for some things. In a report looking into the impact of the CRA on lending the NBER concluded that banks subject to a CRA review originated loans that defaulted at a 15% higher rate than banks not subject to a CRA review. While 15% may not seem significant it is important to realize that the entire mortgage

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industry had lost its collective head and lending standards loosened industry wide. Indeed the largest mortgage originators like Countrywide weren't even covered by the CRA but made mortgages as if they were, see September 1994. Even with the loose standards industry wide the CRA regulations made lending standards even looser and loan performance even worse.

December 12, 2012 – Fed Increase QE 3 Purchases to $85-billion per Month
The Federal Reserve increases its asset purchases at the heart of its QE 3 program to $85-billion per month. See September 13, 2012.

June 19, 2013 – Bernanke Discusses Tapering QE, Spoiled Brats in Market Throw a 'Tantrum'
The economically and morally bankrupt system of crapitalism is exposed for all to see. Fed chairman Bernanke discusses tapering the asset purchases being made as part of QE 3. The purchases have been a tremendous benefit to the financial services industry but have done little for the economy at large. Rather than being grateful for the largess of Ben Bernanke and the Fed, stock market investors through a "taper tantrum." The stock market drops over 4% the next three trading days and "tapering" is put on indefinite hold. See January 29, 2014 for the start of tapering.

September 16, 2013 – Barney Frank Plays Loose with the Truth, Hides His Role in Crisis
"My prediction, even with Fannie, that we should be doing low income people, rent them housing and I have been a strong pusher for rental housing. In terms of home ownership, I have been skeptical…"
Barney Frank to CNBC on the 5th anniversary of Lehman Brothers' collapse

Comment: See Barney Frank's comments on June 27, 2005 for contrast.

September 20, 2013 – St. Louis Fed Chief Contradicts Greenspan on Financial Bubbles
"The bubbles we had in the past were gigantic and obvious. I don't see anything like that going on right now."[212] (James Bullard, President St. Louis Federal Reserve in an interview with Bloomberg)

Comment: This statement is in complete contradiction with several statements that Alan Greenspan has made in the past. Recall that in the wake of his failure to do anything to prevent the bubble in tech stocks he subsequently claimed that bubbles can only be seen after they burst. See his August 30, 2002 speech at Jackson Hole, WY in particular, and note that the low interest rate policy he implemented to deal with the tech bubble bursting created an even larger, more damaging bubble in housing. Regarding the housing bubble Greenspan (May 20, 2005), Barney Frank (June 27, 2005) and Ben Bernanke (July 2005) all denied that a housing bubble existed. Indeed, Bernanke doubted that a housing bubble could ever exist. In October 2005 the Federal Reserve Bank of New York prepared a report that concluded that there was no housing bubble.

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Also see September 10, 2010 where three Federal Reserve Bank of Boston economist argue that economics could not be used to identify the housing bubble. As the mutually contradictory nature of Bullard's statement on bubbles here with the earlier statements by Greenspan and other Federal Reserve officials conclusively show, the Federal Reserve is essentially a fraud.

October 23, 2013 – Greenspan Contradicts Greenspan on Financial Bubbles
"We missed the timing badly on September the 15th, 2008 (the day Lehman Brothers collapsed). All of us knew there was a bubble."[213]

Comment:
Eleven years after saying that bubbles could only be seen after their bursting "confirmed their existence," August 30, 2002, Greenspan gets the Federal Reserve talking points on how to explain away their criminal incompetence. By virtue of his many mutually contradictory statements this "man" has proven himself to be a total fraud on numerous occasions. Why is his opinion still sought?

November 04, 2013 – St. Louis Fed Chief Contradicts Greenspan and Bernanke…Again
In an interview with CNBC, current St. Louis Fed president James Bullard states, "Tech bubble was blindingly obvious. And the housing bubble also (was) blindingly obvious."[214]

Comment: See September 20, 2003 for inconsistency between senior Federal Reserve officials and the nature of bubbles and whether they are visible or not. See July 2005 where Bernanke claims there is no housing bubble. Here James Bullard of the Fed claims the housing bubble was "blindingly obvious." In reality, the only thing that is obvious to us is either the Federal Reserve is staffed by morons or the Federal Reserve is constantly lying to us.

January 29, 2014 – Fed Announces the Start of Tapering its QE Purchases
In a press release the Fed announces that its monthly purchases of mortgage backed securities (MBS) will drop from $35-billion per month to $30-billion, and its monthly purchases of government debt will drop from $40-billion per month to $35-billion. See June 19, 2013 for the "taper tantrum."

October 29, 2014 – Fed Stops Purchasing Assets as Part of QE 3
The Federal Reserve halts the third of its three programs of "quantitative easing." The programs purchased trillions of dollars of assets from banks – with money the Fed created out of thin air. The goal of the program was to entice banks to lend to businesses and thus boost the economy. By that standard, the program was a spectacular failure. Banks took the proceeds to either lend money to the government by purchasing Treasury debt or simply kept the proceeds as excess reserves. After three rounds of QE the economy will continue to struggle and labor participation rates will continue to drop to multi-decade lows. However, the stock market and the prices of luxury homes, classic cars and works of art soar to almost unimaginable highs.

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December 03, 2015 – Bernanke Defends His Monetary Policy, Exposes Himself as a Fraud
"I don't think that's the right way to think about it. The way I think about this is you've got two tools: you got monetary policy, and you got bank regulation…The job of regulation and supervision is to be the first line of defense against excessive risk-taking and those kinds of problems building up in the financial system. So you got to use the right tool for the job….So, what I would argue is that, while it may have been the case that one of the factors that supported more risk taking was the stability of the economy overall – which, in some sense, ironically, was, in fact, a result of successful monetary policy – that the true-policy failing leading up to the great crisis was the regulatory and supervisory side…"[215]

Comment: See November 21, 2002 for an example of Ben Bernanke praising what he calls the "healthy and well-regulated" banking system. Bernanke's post-crisis defense of his monetary policy is not even difficult to deconstruct. All it takes it to contrast what Bernanke said and did as the crisis was building with what he subsequently claimed after the crisis hit. As mentioned in the commentary surrounding his helicopter speech of November 21, 2002, Ben Bernanke is a fraud and a charlatan. In the genesis of the 2008 crisis, he and the Federal Reserve have much to answer for.

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[48] In an act of personal pique and representative of Wall Street's completely morally bankrupt culture – the hundreds of billions of dollars floating around financial markets notwithstanding - is what became of Corzine's mansion in the Hamptons. Corzine lost the home in a divorce and his wife sold it for over $40-million to hedge fund manager and former Goldman Sachs employee David Tepper. Tepper left Goldman after twice being passed over for partner and would go on to become among the highest paid hedge fund managers in the world. It apparently wasn't enough for Tepper to purchase the prized home of a Goldman CEO that was lost in a divorce. Indeed, Tepper would demolish the mansion – already one of the largest on all of Long Island - and build a new one approximately twice as large. Such a move almost certainly plays well on Wall Street and among the Street's sycophantic cheerleaders in the financial media. However, to the rest of the country, the fate of Corzine's mansion is simply another example of how enormous psychological defects go to the core of Wall Street, and no amount of regulation can ever redress this. For those interested in such things, the most expensive home in the Hamptons – and perhaps the most expensive home in the United States is Ira Renner's $200-million Fair Field Estate. Renner made his money in junk bonds and leveraged buyouts – perhaps the one method of finance more destructive than Wall Street's.

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