INDEX

Abacus 2004–1, 143, 145
Abacus 2007–1, 192–193, 247
ABS East conference, 157
ABX index, 190–191, 195, 233, 235, 238, 242, 364
ACA Capital, 190, 193
ACA monoline, 277–278
Accountability
increasing sloppiness in mortgage paperwork, 11 mortgage lending fraud, 14 systemic breakdown in, xxii
Accountant firms, 122
Accounting practices
AIG valuation, 271–272
AIG-Goldman dispute over CDO, 269–270 collapse of subprime lenders, 75
GSEs' capital shortfall, 319
Lehman Brothers, 324–325 mark-to-market rules, 47, 226–227, 234, 239, 253, 265, 277, 445
Adams, Stella, 21
Adelson, Mark, 131
Adjustable-rate mortgages (ARMs), 90, 104, 409, 423 delinquency, 216 hybrids, 105–106 increasing popularity of, 6–7, 85 mechanism of, 42 mortgage-securities entanglement, 11 option ARMs, 106–109 savings and loan crisis, 34
Wachovia's liquidity concerns, 366
See also Option ARM loans
Adverse market conditions, 74–75
Affordable housing, 40–41, 97–99, 183–186
American Africans: jobless rate, 391
Agosta, Jeff, 394
Aguero, Jeremy, 393
AIG Financial Products, 139–142
Al., Brown & Sons, 53
All, Michael, 282, 285, 290 Allianz, 348
Ally Financial, 225
Alt-A securitization, 104–105, 122–125, 165, 216, 219, 227
Alwaleed bin Talal, 302
American Bankers Association, 13, 21, 173
American Home Mortgage, 251
Goldman dispute over subprime losses, 265–274
government rescue, 23 lack of concern over subprime-mortgage failure, 243–244 liquidity failure, 345–347 liquidity puts, 139
Merrill Lynch's CDO tranches, 204 over-the-counter derivatives, xxvi payment to AIG counterparties, 377(fig.) risk management, xix systemic risk after Bear Stearns collapse, 300–301 TARP, 376
American Securitization Forum, 18
Ameriquest, 8, 12–13, 89, 164, 423
Arthur Andersen, 122
Ashcraft, Adam, 348
Ashley, Stephen, 181, 184, 185
Asset-backed commercial paper (ABCP) programs
BNP Paribas SA loss, 250–252
Countrywide, 248–250 expanding use of, 113–114
IKB as casualty, 246–248 latent subprime exposure, 246
money market funds, 253–255
SIVs, 252–253
Asset-backed securities, 45(fig.)
Associates First, 92, 93
Athan, Tom, 244, 268–269
Auction rate securities (ARS), 277–278
Australia
house price appreciation, 2002–2008, 415(fig.)
housing bubble, 415–416
Automobile manufacturers, 375
Automotive Industry Financing Program, 375
Bacon, Kenneth, 184
Bacon, Louis, 332
Bailey, Kevin, 317
Bailouts
AIG, 344–351, 412
controversy over Lehman Brothers collapse, 433–435
Fannie Mae/Freddie Mac, 321–322
savings and loan crisis, 36–37
"too big to fail" principle, 37, 57–58
Baker, Dean, 23–24
Bakersfield, California, 14, 391
Balloon mortgages, 34
Bank of America
acquisition of Countrywide, 22
agencies’ peer group study of mortgage practices, 372
AIG counterparty payments, 377(fig.)
Bear Stearns toxic hedge funds, 239
consolidation and growth of banks, 53
Countrywide’s ABCP loss, 250
CRA-qualifying portfolio, 220
credit default swaps, 50, 192
financial crisis, 382–386
financial sector growth, 65
funding and securitization markets, 115
GSE delinquent loans, 225
Lehman Brothers collapse, 336, 434
litigation over delinquencies, 226
money market funds, 254
mortgage fraud, 162
mortgage-backed securities market losses, 256
nontraditional loans, 20
See also Investment banks
Bank One, 97
Bank runs, 250, 354–355, 356
BankAmerica, 98
Bankers Trust, 47, 53
Banking
bank failure affecting commercial real estate market, 398
big bank bets and bank failures, 427–431
dismantling Glass-Steagall, 52–56
failure numbers, 401
financial fallout from recession, 393–394
savings and loan crisis, 34–37
See also Commercial banks; Investment banks
Bankruptcy Abuse Prevention and Consumer Protection Act (2005), 114
Barber, Mark, 396–397
Barclays, 115, 335, 377(fig.)
Barker, Randolph, 198
Barnes, Murray, 261–263
Basel International Capital Accords, 49, 151, 171–172
Bash-Polley, Stacy, 235
Basis Yield Alpha Fund, 237
Bass, J. Kyle, 19–20, 148, 288
Baxter, Tom, 321, 336–339, 342, 347, 379
BBB-rated securities, 71, 118–119, 127–129, 131, 194
Beal, Vicki, 166
Bear Stearns
BSAM role in CDO business, 134–137
commercial real estate, 176
CSE oversight, 153
fall of, 280–291
financial sector growth, 66
government response to collapse of, 82
hedge fund creation, 9
JP Morgan purchase of, 292, 431
leveraged loans, 176
mortgage-backed securities market losses, 256
See also Investment banks
See also Investment banks
Bear Stearns Asset Management (BSAM), 134–137, 211–222, 238, 262–263
"Bear Stearns Light" liquidity scenario, 297
"Bear Stearns’ liquidity scenario, 297
Beneficial Mortgage, 75
Bensinger, Steven, 243, 273
Bent, Bruce II, 356–357
Bent, Bruce Sr., 356–357
Berenbaum, David, 106
Berkshire Hathaway, 3, 206–207
Bernanke, Ben
acknowledging housing market drop, 17
Bear Stearns’ collapse, 290–291
Bear Stearns’ toxic hedge funds, 241
BoA-Merrill Lynch merger, 383
concerns over Lehman’s liquidity, 330
consumer advocates’ concerns about mortgage lending, 21
credit rating agencies’ role in CDO structuring, 149
delinking Fed interest rate hikes and real estate bubble, 103
Fed-Lite, 55
Fed’s failure of housing regulation, 6
financial crisis of 2008, 354
global capital flows, 420
housing bubble, 159
housing market delinquencies, 214
housing prices leading to nontraditional lending products, 423
lack of concern over housing bubble, xxi
Lehman collapse, 339–342, 435–435
measuring investment bank liquidity risk, 297
monetary policy contributing to credit bubble, 421
mortgage fraud, 15–16
predatory lending practices, 95
recession of 2001, 84
refusal to believe in housing market crash spillover, 22
run on Goldman Sachs, 362
small businesses’ losses during recession, 395
TARP, 372–374
underestimating magnitude of systemic risk, 27, 229
underestimating the housing bust, 227
See also Federal Reserve
Bid-ask spread, 364–365
Bies, Susan, 15–16, 20–21, 171, 173
Bisenius, Donald, 122, 180, 315
Black, Dennis L., 17–18, 91
Black, Steven, 330–331
Black, William K., 15, 110–111, 164
Blankstein, Lloyd, 3, 63, 236–237, 362, 376
Blinder, Alan, 31, 400
Blow up risk, 238
BNP Paribas SA, 139, 250–252, 377(fig.)
Boesky, Hayley, 332–333
Bolten, Josh, 368
Bookstaber, Richard, 196
Born, Brooksley, 47–48
Bowen, Richard, 19, 111, 168–169
Braunstein, Sandra, 79, 94
Breaking the buck, 253, 357
Breeden, Richard, 4, 34
Brendsel, Leland, 122
Broderick, Craig, 140, 235, 237–238
Brown, Lloyd, 99
Brown, Richard, 159
Browne, Miguel, 369
Bruce, Kenneth, 4
Cash management accounts, 5
Cash reserves, 43, 61, 372, 375, 391
Bushnell, David, 261, 263, 264
Bynum, Gregory, 393
Calhoun, Michael, 90
California delinquency, 220, 393
CalPERS, 390
CalPERS, 403
California Federal Bank, 97
California Reinvestment Coalition (CRC), 10, 78
Callahan, Jim, 44, 68
Callan, Erin, 327
Canada: housing bubble, 158
CanagaRetna, Sujit, 398–399
Canavan, Sheila, 17
Capital flows
insufficient capital leading to bank failure, 428
mortgage-backed securities losses, 256
Capital Markets Approval Committee (Citigroup), 139
Capital Purchase Program, 376
Cardwell, J. Thomas, 14
Carpenter, Seth, 284
Carter, Carolyn, 22
Case, Karl, 17
Case-Shiller Index, 17
Cash management accounts, 30
Cash reserves, 256, 288, 394
Cassano, Joseph, 141, 200–201, 243, 267–273
Cattani, Arnold, 4, 120
Causes of the crisis, xv
big bank bets and bank failure, 427–431
differing theories of, 414–417
housing bubble, 422–425
mortgage securitization, 425–427
systemic failure through common shock, 432–433
systemic failure through contagion, 431–432
ten essential causes, 417–419
Cayne, James, 241, 282, 283, 285
Cecala, Guy, 403
Center for Responsible Lending, 90
Century Financial, 130
Century Financial, 130–133, 189, 203–204
Checks and balances, 54
Chemical Bank, 97
Cheyne Capital Management, 253–254
Cheyne Finance Limited, 117
Chicago Board of Trade, 46
Chicago CRA Coalition, 98
Children, housing foreclosures and, 409
China
credit bubble, 417
global capital flows, 419–420
GSE securities, 321
Christie, Chris, 399
Cioffi, Ralph, 8–9, 135–136, 238–240, 241
Cisneros, Henry, 76
CIT Group Inc., 396
Citibank
Fannie Mae involvement in housing bubble, 179
Maiden Lane payments, 356–377
Citcorp: deregulation of bank consolidation, 54
CitiFinancial, 20, 68, 93
Citigroup
agencies’ peer group study of mortgage practices, 172
AIG counterparty payments, 377(fig.)
Ameriquest acquisition, 164
Bear Stearns’ toxic hedge funds, 239–240
boosting subprime lending, 88
CDO losses, 129, 195–200
CDO structuring, 131–132
commercial banks’ 2007 downturn, 302–304
consolidation and growth of banks, 53
credit default swaps, 50
deregulating bank consolidation, 54
due diligence and disclosure, 168–170
expansion of, 92–93
failure to control excesses, xviii
failure to heed warning signs, 19
financial crisis, 379–382
financial sector growth, 65
lending violations, 84
leveraged loans, 175
liquidity puts, 137–139, 196
mortgage securitization, 71, 90
mortgage-backed securities market losses, 256
raising capital after Bear Stearns collapse, 302
reducing subprime exposure through CDS, 234
rejected loans waived in, 167(table)
2007 subprime exposure level, 260–265
Wachovia acquisition, 369–370
warehouse lending, 113–118
Civil rights, 106
Clark, Timothy, 317, 328
Clarke, Vaughn, 122
Clarkson, Brian, 150, 207, 208–210, 221
Clawback provisions, 198
Clayton Holdings, 166–168
Clearing banks, 283–284
Cleveland Ohio: predatory lending practices, 3–43
"Climbing the Wall of Subprime Worry" report, 223–224
Clinton, Bill, 9
affordable housing, 40–41
Commodity Futures Modernization Act, 48
CRA lending, 74
Gramm-Leach-Bliley Act, 55
HOEPA, 76
Cloutier, C.R., 395
CMLTI 2006-NC2, 71, 115, 115(fig.), 116, 116(fig.), 121, 132–133, 145, 402
Coffey, Kevin, 346
Cohen, H. Rodgin, 334, 336–337
Cohen & Company, 202
Cohn, Gary, 146, 237
Cole, Roger, 302, 307, 309
Collateral call, 266
Collateralized debt obligations (CDOs), xxiv, 425–426
AIG dispute with Goldman over, 265–274
AIG involvement, 139–142, 200–202
Bear Stearns’ asset management business, 134–137
Bear Stearns’ collapse, 281
Bear Stearns toxic hedge funds, 238–239
Citigroup liquidity puts, 137–139
Citigroup’s synthetic CDOs, 195–200
Consolidated Supervised Entity program, 151–154
creating demand for lower-rated tranches, 127–128
creation and expansion of, 129–134
downgrading, 228–230
due diligence and disclosure, 170
due diligence and disclosure, 170
end of the boom, 214
Goldman Sachs, 140, 235–238
housing boom repackaging, 8
housing entanglement in securities market, 8–9
leverage, 134
managers’ response to the madness, 189–190
mechanism of, 128(fig.)
Merrill Lynch, 202–204
Moody’s 2007 downgrade, 223–224
Moody’s role in, 146–150, 206–212
mortgage-backed securities market losses, 256
reducing subprime exposure through CDS, 234
regulators’ missed opportunity, 204–206
self-fueling machine, 188–189
See also Credit default swaps
Collateralized loan obligations (CLOs), 174–176, 209
Commercial banks and thrifts buying and selling home loans, 8
crisis and recession fallout, 401
decline after Bear Stearns collapse, 301–308
securitizing prime mortgages, 102
shadow banks and, 27–28
subprime origination and securitization, 88
See also Citigroup; Wachovia; Washington Mutual
Commercial Paper Funding Facility, 395
Commercial paper market, 30–31, 113–114, 427–428
AIG liquidity failure, 345–346, 349
Citigroup involvement, 262–263
Lehman decline, 326
money market funds, 358
post-recession financing, 394
stopping mortgage lender funding, 234
Commercial real estate, 174–176, 397–398
Commodification of the housing industry, 5–6
Commodities, 46
Commodity Exchange Act (1936), 46
Commodity Futures Modernization Act (CFMA; 2000), 48
Commodity Futures Trading Commission (CFTC), 46–48
Common shock, 419, 432–433
Community
fallout from the crisis, 389
housing industry links to, 4–5
mortgage fraud, 15–16
Community Reinvestment Act (CRA), xxviii, 72–74, 97–99, 219–220, 414
Community-lending pledges, 97–99
Compensation controls, 269
Compensation packages
Bear Stearns’ hedge fund collapse, 137
Bear Stearns preceding the fall, 285
CDO machine breakdown, 189
changes in the financial industry, 61–64
Citigroup’s CDO business, 198
GSE executives, 322–323
GSE penetration into subprime market, 181
ignoring long-term consequences, xix
Merrill’s O’Neal’s severance package, 359
mortgage brokers, 90
Congress, U.S.
Bankruptcy Abuse Prevention and Consumer Protection Act, 114
closing state shortfalls, 399
Community Reinvestment Act, 72
delinking Fed interest rate hikes and real estate bubble, 103
Depository Institutions Deregulation and Monetary Control Act, 34
dismantling Glass-Steagall, 55
Economic Stimulus Act, 312
Fannie Mae/Freddie Mac debt, 40
Fannie Mae/Freddie Mac mission, 39
homeownership incentives, 9
Housing and Economic Recovery Act, 317
increasing deregulation, 52
moratorium on OTC regulation, 48
mortgage underwriting standards, 109–113
National Securities Markets Improvements Act, 170
regulating subprime mortgage lending, 76
regulating thrifts, 40
Resolution Trust Corporation, 68
savings and loan crisis, 36
shadow banking, 28
TARP, 372, 436
"too big to fail" principle, 37
Congressional Budget Office, 87, 400
Congressional Oversight Panel, xii, 398, 408
Conover, C. Todd, 37
Conseco, 73
Consolidated Supervised Entity (CSE) program, 151–154, 283
Consumer Advisory Council of the Federal Reserve Board, 21
Consumer and Community Affairs Division (Federal Reserve), 94
Consumer confidence, 393
Consumer protection groups, 78
Consumer spending, 87, 393–394
Contagion, risk of, 419, 431–432
Continental Illinois, 36–37
Continued Action, Operation, 163
CoreLogic, 393
Corporate governance
AIG failure, 347
big bank failure, 427–431
Citigroup’s CDO business, 199–200
condoning mortgage fraud, 14–15
failure to control reckless practices, xviii–xix
FHFA criticism of GSE management, 321–333
GSEs’ capital shortfall, 319
ignoring risks of housing bubble, 18–19
international credit bubble, 416
response to CDO madness, 189–190
response to recession and loss of credit, 394–395
Correlation trade, 192
Corrigan, E. Gerald, 300, 329
Counterparty Risk Management Policy Group, 300, 329
Countrywide, xxiii, 5, 8
agencies’ peer group study of mortgage practices, 172–173
BoA acquisition, 22
commercial paper casualty, 248–250

INDEX 551

INDEX

Index
expanding mortgage originations, 8
GSE delinquent loans, 225
GSE penetration into subprime markets, 184
improper foreclosures, 408
mortgage expansion with Fannie Mae, 178
mortgage fraud, 162
mortgage originations, 105
nontraditional loans, 20
option ARMs, 107–108
recognition of long-term vulnerability, xxii
single-cause theories, 414
Cox, Christopher, xxi, 418, 526, 530, 338–339
Cox, Prentiss, 41–42
Crabtree, Gary, 34–35, 53
Credit bubble, 414–416, 424
delinquencies, mortgage, 54–55, 478–479
defaults on national debt, 59
Fannie Mae borrowing, 50
household debt after the recession, 391
increase in household debt after 2000, 83–84
increase in mortgage indebtedness, 7
1980s and 1990s levels, 68
recession causing cutbacks, 393–394
risky assets combined with, xx
small businesses’ hesitancy to take on new debt, 59
DEFCON calls, 418–419
Delinquencies, mortgage, 421–422
Credit card loans, 396
Credit default swaps (CDS), xxiv–xxv, 427
AIG dispute with Goldman, 265–274, 377–378
AIG failure, 531
AIG liability, 344–345
AIGs’ international business, 140
CDO machine, 193–196
delinquencies, mortgage, 377–378
Credit scoring, 57, 72
Credit spreads, 420
Credit Suisse Bank, 89, 167(table), 211, 377(fig.)
Credit Suisse Institutional Money Market Prime Fund, 254
Credit criteria, 341–342
Cruise, Christopher, 7–8
Cuomo, Andrew, 40–41, 78, 178
Dahlgren, Sarah, 378–379
Dallavecchia, Enrico, 181–184
Darling, Alistair, 334, 336
Davidson, Andrew, 106
Davilman, Andrew, 243–244, 265–266
Davis, Michelle, 330
Dean Witter, 53
Debt levels, xvii
defaults on national debt, 56
Fannie Mae borrowing, 38
household debt after the recession, 391
increase in household debt after 2000, 83–84
increase in mortgage indebtedness, 7
1980s and 1990s levels, 68
recession causing cutbacks, 393–394
Deregulation of financial markets, xiii, 28, 46, 52–56
Derivatives, 28, 45–51
assessing systemic risk after Bear Stearns collapse, 298–301
mortgage securitization, 425
OCC expansion of allowed activities, 35
single-cause theories, 414
See also Over-the-counter (OTC) derivatives
Derman, Emanuel, 44
Desert Community Bank, 131, 152
167(table), 168, 175–176, 191, 247, 278, 355, 360, 377(fig.)
Diamond, Robert, 335
Exchange-traded futures and options, 46
Fair Isaac Corporation, 72
Falcon, Armando, Jr., 46, 64, 185
Fannie Mae/Freddie Mac, xix, xxv-xxvi
bolstering the struggling housing market, 310–313
capital increase, 314–315
choice of meeting the booming housing market, 178–187
conservatorship, 320, 435
credit scoring, 72
dual missions, 39
FHFA criticism of management, 321–322
financial sector growth, 65
foreclosure donations, 403
foreign investment flows, 103–104
government backing despite declining performance, 315–318
history and development of, 38–42
leverage ratio, xx
mission versus safety, 309–310
mortgage fraud, 161
mortgage securitization, 68–70, 102, 425
mortgage-backed securities market, 122–125
OCC discovery of capital shortfall, 318–319
originate-to-distribute mortgages, 89
portfolio cap relief, 310–311
regulators’ critical concerns over, 319–320
role in crisis, 437
sellers’ repurchasing guaranteed loans, 224–226
shadow banking, 427
single-cause theories, 414
See also Government-sponsored enterprises
Farrell, Mike, 333
Fass, Lloyd, 189

Dickerson, Chris, 320
Dimon, Jamie, 18, 63, 91, 111, 289, 293, 295, 325, 331, 333, 342, 353, 365, 374
Dinallo, Eric, 345, 348
Disclosure, 165–170, 234
Disintermediation, 33
Diteh, 8
Documentation on mortgage loans, 110–111
Dodd, Christopher, 313, 371
Dominguez, Nestor, 137–138, 198, 261, 263
Dot-com crash, 59–61, 87–88, 391
Dow Jones average, 57, 292, 339, 356, 372–373
Drexel Burnham Lambert, 37, 129–130
Dreyfus fund, 328
Drysdale, 31
Dudley, William C., 213, 274, 293, 295, 314, 327–328, 331, 347
Due diligence, 165–170, 426
Dugan, John, 13, 21, 74, 112, 167, 373–374
Duke, Elizabeth, 395
Duke, Ellen, 261, 262
Dunhill CDO, 270
Eakes, Martin, 92
Early payment defaults, 215
Economic crisis, 419
AIG-Goldman dispute over valuation, 265–274
AIG’s lack of concern over, 243–244
assessing liquidity risk through repo markets, 296–298
assessing systemic risk after Bear Stearns collapse, 268–301
asset-backed commercial paper, 246
Bear Stearns’ collapse, 280–291
BNP Paribas SA loss, 250–252
Citigroup’s 2007 subprime exposure level, 260–265
commercial banks’ decline, 301–308
Federated Investors, 283–284, 328
Fed-Lite, 55, 77
Ferguson, Roger, 15–16, 53, 60
Ferrer, Wilfredo A., 331
Fidelity, 333
Financial Accounting Standards Board, 114
Financial Control Group (Citigroup), 260
Financial Crimes Enforcement Network (FinCEN), 15, 161–162
Financial crisis, 419
AIG bailout, 376–379
Bank of America, 382–386
Citigroup, 379–382
impact on today’s economy, 391
money market funds, 356–360
Morgan Stanley response, 360–365
OTC derivatives, 363–365
TARP, 371–376
Wachovia’s liquidity concerns, 366–371
Washington Mutual, 365–366
See also Economic crisis
Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA; 1989), 40
Financial sector growth, 64–66
Financial shock and panic, 419, 435–438
Finn, Mike, 350
First Alliance Mortgage Company, 12, 96
First American Bank, 94
First American Corporation, 92
First Data Corporation, 175
First Franklin Financial Corporation, 204
First Union Bank, 75
Fitch Ratings, 18, 43. See also Credit ratings/credit rating agencies
Fixed-rate mortgages, 34
Fleckenstein, William A., 103
FleetBoston Financial Corporation, 97
Flotation loans, 11
Floating mortgage rate, 34–35
Florida
delinquency rate, 393
foreclosure increases, 403
impact of foreclosures on families and children, 409
mortgage delinquency, 215
underwater mortgages, 404(fig.)
Foreclosures
Bakersfield, California, 14
causes of, 402–403
CDO losses resulting from, 194
figures on, xv
impact of recession on, 393
initiatives to stem, 405–406
rate of, 23
renters as victims, 408
rising rate of and ongoing damage from, 402–404
systemic flaws in lending practices, 407–408
Foreign investors
AIG Financial Projects CDOs, 140
asset-backed commercial paper programs, 246–248
CMLTI loans, 116(fig.)
global savings glut, 103–104
Forster, Andrew, 200, 243, 266, 268, 269, 270
France
house price appreciation, 2002–2008, 415(fig.)
housing bubble, 415–416
Frank, Barney, 312, 443–444
Franklin Bank Corporation, Houston, 20
Fraud
accounting scrutiny of GSEs, 122–123
AIG’s reduced credit rating over manipulated earnings, 141–142
Ameriquest, 12–13
authorities’ refusal to investigate, 15–16
Bakersfield housing market, 14–15
contributing to the housing bubble and crisis, 424
crime-facilitative environments for mortgage fraud, 160–164
Fannie Mae, 314
improper foreclosures, 407
increases between 1996 and 2005, xxii
mortgage securitization, 75
OTC derivatives, 47
selling toxic funds to investors, 238–239
state regulation of housing, 13–16
synthetic CDOs, 192–193
underwriting standards, 110–111
Fraud Enforcement and Recovery Act (2009), xi
Freezing, financial, 437–438
Fremont Investment & Loan, 15, 233
Frenkel, Jacob, 345
Friedman, Paul, 285
Froeba, Mark, 208
Frost, Alan, 200, 243–244, 268–269
Fuld, Richard, 61, 177, 292–293, 325–327, 329, 330, 341
Fulmer, Ann, 160
Funded investors, 144(fig.)
Futures and options, 46
Garcia, Carlos, 168
Garn-St. Germain Act (1982), 34
Gasvoda, Kevin, 235
GE Asset Management Trust Enhanced Cash Trust, 254
GE Capital, 345–346, 396
Geanakoplos, John, 195
Geithner, Timothy, xxi–xxii
AIG bailout, 347, 351, 379
Bear Stearns' collapse, 289, 291
Citigroup decline, 103
Citigroup's CDO crisis, 199–200
concerns over Lehman's liquidity, 328, 330
Counterparty Risk Management Policy Group, 300
housing entanglement in securities market, 8
Lehman Brothers bankruptcy, 336, 433–435
money market funds, 358
on market disruption and panic, 353–354
TARP, 373–374
Gelband, Michael, 18–19
General Accounting Office (GAO), 47, 95
Gensler, Gary, 79
Georgetown University, 278
Gibson Greeting Cards, 47
Gilleran, James, 86
Ginnie Mae, 70, 194
Glass-Steagall Act (1933), 29, 32, 35, 38, 52–56, 414
Glenn, David, 115
Global capital flows, 419–422
Global Financial Stability Report of the IMF, 228
Globalization of financial markets, xvii
Gnaizda, Bob, 9
Gold rush mentality, 5–6
Golden West Financial Corporation, 20, 107
Golden West Savings, 106, 304–305
Goldman Sachs
AIG counterparty payments, 377(Fig.)
AIG dispute over subprime exposure, 265–274
AIG downgrade, 346
AIG failure, 243–244
AIG's CDO involvement, 140
Bear Stearns' collapse, 287
Bear Stearns' toxic hedge funds, 239–240
Buffett investment, 163
CDO structuring, 131, 142–146
compensation, 63
CSE oversights, 154
financial sector growth, 65
fraud over synthetic CDOs, 192–193
IKB as casualty of ABCP programs, 247–248
leveraged loans, 175
Maiden Lane payments, 376–378
OTC derivatives, 50–51
reducing subprime exposure, 235–238
rejected loans waived in, 167(Table)
run on the bank, 362
synthetic CDOs, xxvi
See also Investment banks
Goldsmith, Harvey, 152–154
Gonzales, Alberto, 15, 163
Gonzales, Joseph, 351
Goodman, Laurie, 403, 406
Gorton, Gary, 188, 200, 267
Gourinchas, Pierre-Olivier, 104
Government actions and agencies
AIG bailout, 378
Ameriquest fraud investigation, 12–13
Bank of America–Merrill Lynch merger, 382–385
closing shortfalls after recession, 398–400
concerns over Lehman Brothers solvency, 325–327
credit ratings' link to regulation, 118–119
critical concerns over GSEs, 319–320
failure to challenge financial industry, 9–11
Fannie Mae/Freddie Mac lobbyists, 41–42
federal and state government regulation of banks, 13
federal and state response to the financial crisis and recession, 398–400
GSE backing despite declining liquidity, 315–338
inflated housing appraisals, 91
Lehman Brothers' bankruptcy, 333–334
peer group study of mortgage practices, 172–173
policy makers' lack of preparation for crisis, xxi–xxii
refusal to acknowledge potential crash, 9
refusal to heed warning signs of nontraditional loans, 19–23
response to financial crisis, 359–360
single-cause theories, 414
system failure through contagion, 431–432
TARP, 371–376
Wachovia's liquidity concerns, 367
See also Bailouts; Congress, U.S.; Federal Reserve; Office of the Comptroller of the Currency; Office of Thrift Supervision; Regulation/regulators; Securities and Exchange Commission; Treasury Department, U.S.
Government housing policy, xxv–xxvi, xvii, 9, 414
Government National Mortgage Association (Ginnie Mae), 38, 161
Government-sponsored enterprises (GSEs) conservatorship, 23, 431–432
due diligence, 168–169
flawed business model, xxvi
housing market drop, 16, 228
mortgage delinquency, 216–219
See also Fannie Mae/Freddie Mac
Graham, Lyle, 248
Gramlich, Edward, 10, 79–80, 93–94
Gramm-Leach-Bliley Act (GLBA; 1999), 55, 77, 92, 171, 198, 304
Grand Canyon State Bank, 98
Grand Teton National Park conference, 17
Grant, James, 133, 194
Green Street Advisors, 398
Green Tree Financial, 108
Greenberg, Alan, 525
Greenberg, Maurice “Hank,” 474–75
Greenberger, Michael, 480
Greenspan, Alan, 82
accepting guidance, 53–54
acknowledging housing market drop, 49–50
advocating deregulation, 69–70
defending decisions, 56–57
delinking Fed interest rate hikes and real estate bubble, 103
deregulating bank consolidation, 53–54
deregulation of financial markets, xviii, 28
dot-com crash, 60
economic growth and financial resilience, 83
expansion of banks’ allowed activities, 35
Fed’s failure of housing regulation, 3
GSEs private mortgage-backed securities purchases, 123
housing bubble spread, 158
housing entanglement in securities market, 9
interest-rate cuts, 88
international credit bubble, 416
LTCM collapse, 58
monetary policy contributing to credit bubble, 421
OTC derivative regulation, 47–49
predatory lending practices, 11–12, 93–96
regulators’ declining influence in the housing bubble, 171
risks of innovations, 53–54
subprime mortgage lending regulation, 79
Greenspan put, 60–61
Gregory, Joseph, 327
Grenadier Funding, 138
Grundfest, Joseph, 227
GSC Partners, 143–144
Guglielmo, Robert, 337
Guidance, 21–22, 173
Gussmann, David, 161
Gutfreund, John, 63
Habayeb, Elias, 243, 269
Halloran, Michael, 283
Harding Advisory, 130
Harlow, Kirsten, 327
Hawke, John, 13, 53, 112–113
Hayman Capital Partners, 287–288
Hedge funds
Bear Stearns’ collapse, 286
Bear Stearns’ toxicity, 238–242
BSAM business, 135–136
economists’ concerns over, 18
Fed faith in Bear Stearns, xx
housing entanglement in securities market, 9
LTCM collapse, 58
Merrill Lynch, 239
shadow banking, 427
surviving the financial crisis, 361
See also Derivatives
Hedin, Earl, 241
Hempstead, Todd, 182, 184
Hendricks, Darryl, 114–115
High-Grade Structured Credit Strategies Enhanced Leverage Fund, 135, 240–241
High-Grade Structured Credit Strategies Fund, 135, 238, 240–241
High-yield mortgage securities, 9
Hockett, Ben, 193

Home Affordable Modification Program (HAMP), 405–406
Home Mortgage Disclosure Act, 239
Home starts, 5, 14
Homebuilder Comfort Homes of Florida LLC, 409
HomeKeeper Program, New Jersey, 405
Homelessness, 409
Homeownership figures, 5, 86, 392
Household Finance Corp., 67, 75
Household wealth, xv–xvi
Housing and Economic Recovery Act (HERA), 317
Housing and Urban Development Department (HUD)
average housing goals, xxvi–xxvii, 41
Ameriquest fraud investigation, 12–13
Fannie Mae/Freddie Mac debt, 40
foreclosure donations, 403
GSE penetration into subprime markets, 183–186
HUD–Treasury report, 78–79, 93, 95
predatory lending report, 11
subprime mortgage lending regulation, 76
Housing bets, 426–433
Housing bubble, xvi
as warning sign, 4
authorities’ refusal to acknowledge, 15–17
bank borrowing and mortgage interest rates, 86(fig.)
banks’ expansion into emerging markets, 35–36
betting against CDOs, 193

INDEX

557
big bank bets and bank failures, 427–431
causes of, 424–425
CDS role in ending, 193, 195
community and economic links to, 4–6
credit-induced price boom, 157–160
economic growth and financial resilience, 83
Fannie Mae/Freddie Mac involvement, xxvi, 415–416
job and industry growth after 2000, 84–88
Lehman’s increasing risk, 176–178
leveraged loans and commercial real estate, 174–176
Moody’s denial of, 121
mortgage fraud, 160–164
owning the risk, 226–229
policy makers’ lack of awareness, xxi
 predatory lending practices, 9–10
predicting the burst, 17–18
 quality control in the mortgage industry, 165–170
real estate boom generating jobs, 9
regulators’ declining influence, 170–174
risk asset holdings, xx in the crisis, 418
single-cause theories, 414–415
See also Foreclosures; Housing bust; Mortgage-backed securities market; Subprime lending
Housing bust
CDO downgrades, 223–224
delinquencies, 214–221
impact on families and communities, 391
legal remedies, 224–226
rating downgrades, 221–223
risk concentration, 213–214
Housing discrimination, xxvii
Housing policy. See Government housing policy
Housing prices after 2001 recession, 85–86
appreciation in selected countries, 2002–2008, 415(fig.)
Bakersfield, California, 14
bank borrowing and mortgage interest rates, 87(fig.)
boom and bust from 1997 to 2006, 156–157
causes of foreclosure, 402–413
correlating mortgage-backed securities to, 148–149
credit-induced price boom, 157–160
credit-induced price boom, 157–160
crisis fallout, 390–392
Fed interest rate cut, 5
hybrid ARMS, 106
increases leading to proliferation of nontraditional mortgage products, 423
investors’ assumptions about the movement of, 428
mortgage lenders’ betting on rising prices, 111
1980s bubble, 35–36
peak values, 214
risk concentration, 428
2007 drops in, 262
Housing starts, 5
HSBC Securities, 88, 175, 377(fig.)
HUD-Treasury report, 93, 95
Hunt, Dawn, 409–410
Hybrid ARMS, 105–106
Hybrid CDOs, 142, 191
IBGYBG (“I’ll be gone, you’ll be gone”), 8, 17
IKB Deutsche Industriebank, 143–145, 246–248
Immigrants, housing fraud and, 160
Impaired securities, 239(fig.)
Independent finance companies, 356
Independent mortgage lenders, 88–90
IndyMac, 301, 306
Inflated housing appraisals, 91–92
Inflation, 29
Initial public offerings (IPOs) of stocks, 59
Insurance, 56. See also American International Group
Interbank lending, cost of, 355(fig.)
Interest rates, 421. See also Short-term interest rates
Interest-only loans, 8, 34, 105
International Monetary Fund (IMF), 228
Internet-based trading, 254
Interthinx, 160
Investment banks as root cause of crisis, 430
assessing systemic risk after Bear Stearns collapse, 300–301
buying and selling home loans, 8
community development commitments, 97–99
compensation packages, 61–64
Consolidated Supervised Entity program, 151–154
consolidation of insurance, banks and securities firms, 56
troversy over Lehman Brothers collapse, 433–435
dot-com crash, 59–61
EU demand for U.S. oversight, 150
excessive borrowing, risky investments, and lack of transparency, xix–xx
failure and loss of confidence, 23
financial losses of 53, 274-275
financial sector growth, 65
Lehman Brothers collapse triggering financial panic, 435-437
leveraged loans and commercial real estate, 174-176
liquidity risk measures, 296-298
LTCM leveraging strategy, 49
mortgage fraud, 15-16
repo market and commercial paper market, 30
runs on, 354-355
securitization, 44
shadow banking, 33, 427
solvency and liquidity failure, 429
subprime origination and securitization, 88
system failure through contagion, 431-432
"too big to fail," 36-37
See also Bear Stearns; Goldman Sachs; Lehman Brothers; Merrill Lynch; Morgan Stanley
Ireland
house price appreciation, 2002-2008, 415(fig.)
housing bubble, 415-416
IRS Notice 2008-83, 371
Isaac, William, 306
Jackson, Alphonso, 13
Jamison, Bill, 241
Jeffries, Jay, 90
Jobs
effects of recession on, 390-391
financial sector losses after crisis and recession, 400-401
housing industry growth in 2001, 84-85
jobless recovery, 85
real estate boom generating jobs, 9
See also Unemployment
Johnson, Keith, 166-168
Jones, David, 100
Jost, Jerry, 395-396
JP Morgan
Bear Stearns' collapse, 283-284, 288
Bear Stearns' collapse leading to risk awareness, 295-297
Bear Stearns purchase, 292, 431
Bear Stearns' toxic hedge funds, 240
community development commitments, 98
compensation, 63
consolidation and growth of banks, 53
credit default swaps, 50
financial crisis, 361
financial sector growth, 65
GSE delinquent loans, 225
Lehman Brothers' bankruptcy, 330-331, 334-335
mortgage-backed securities market losses, 256
reducing exposure to Lehman, 328
rejected loans waived in, 167(table)
risk concentration, 22
Washington Mutual sale, 436
Junk mortgages, 426
Justice Department, 163-164
Kaden, Lou, 264
Kashkari, Neel, 360, 366
Keefe, Kirsten, 405
Kelly, Austin, 322
Kerr, John, 321-322
Keynes, John Maynard, 389
Keynote Bank, 75, 99
Kidder, Peabody, 53
Kim, Dow, 118, 202, 204, 257, 258-259
Kimball, Andrew, 209-211
King, Mervyn, 17
Kirby, Mike, 398
Kirk, Alex, 337
Kirsch, Noël, 223
KKR equity firm, 175
Kleros Real Estate Funding III, 132-133
Klio I, II, and III, 136-137, 138
Klipsch, Mark, 18, 134
Kohn, Daniel, 159
Kohn, Donald, 325, 335
Kolchinsky, Eric, 107, 119, 149, 211, 223-224
Korea Development Bank, 330
Kovacevich, Richard, 366, 368, 370
Krimminger, Michael, 380
Krugman, Paul, 104
Lamont, Michael, 131
Land use restrictions, housing bubble and, 422
Large Bank Supervision Handbook, 307
LaTorre, Alejandro, 347-348
Lattanzio, Dale, 258-259
Leach, Edward, 391
Leach, Brian, 61-62
Leadership Conference on Civil Rights, 106
Lebedin, Lou, 286
Lee, Matthew, 177
Lehman Brothers
accounting irregularity, 324-325
AIG bailout, 349
bankruptcy, 330-333, 335-337
bankruptcy versus failure, 338-339
Bear Stearns' toxic hedge funds, 239-240
compensation, 63
concerns after Bear Stearns failure, 325-327
controversy over failure of, 433-435
failure triggering crisis, xvi
failure triggering financial panic, 435-437
financial crisis, 354
financial sector growth, 65
increasing risk burden, 176-178
lenders' and supervisors' concerns over liquidity, 327-328
leveraged loans, 175
Maiden Lane payments, 376
management refusal to acknowledge housing bubble risks, 18–19
Primary Fund holdings in 2008, 356–357
regulators’ concerns over liquidity, 328–331
rejected loans waived in, 167(table)
repo market as liquidity risk measure, 296–298
See also Investment banks
Leverage risk, xx
Bear Stearns Asset Management business, 135–137
Bear Stearns “window dressing” to lower ratio, 281–282
CDOs, 134
financial sector growth, 65
GSEs, 309
investment banks’ increasing levels from 2004, 155–154
Lehman’s stake in Archstone Smith, 176–178
leveraged loans and commercial real estate, 174–176
LTCM, 56–57
OTC derivatives, 49
role in the crisis, 418
shadow banking, 32, 427
Levin, Robert, 124–125, 180–181, 183, 184, 237, 311, 313, 320, 323
Levitin, Adam, 408
Levitt, Arthur, 47, 53
Lewis, Ken, 325–326, 335, 382–384
Lewis, Robert, 243, 268
Liar loans, 20
LIBOR-OIS index, 355(fig.)
Lindsay, Patricia, 105, 117
Lindsey, Lawrence, 43, 45, 61, 74
Lippmann, Greg, 191
liquidity puts, 137–139, 196, 239, 247–248
liquidity risk/liquidity failure, 429
AIG, 345–347
Bear Stearns collapse, 288–289, 289(fig.)
Citigroup, 380
derivatives markets, 364–365
GSEs’ government backing, 315–318
GSEs’ portfolio cap relief, 310–311
investment banks after Bear Stearns collapse, 296–298
Lehman Brothers, 325–327
Lehman’s lenders’ and supervisors’ concerns over, 327–328
overdependence on short-term liquidity, 428
role in the crisis, 418
Liquidity
Goldman Sachs, 237
over delinquencies, 416
Lobbying
causes of the crisis, 416
deregulation of bank consolidation, 54
dismantling Glass-Steagall, 54–55
Fannie Mae/Freddie Mac, 41–42
Lockhart, James, 42, 180, 310–315, 318, 320, 321
Lombard-Wall, 31
Loney, Glenn, 76, 98
Long Beach Mortgage, 117–118
Long Beach Savings and Loan, 67
Long-Term Capital Management (LTCM), 47–48, 50–59, 74, 241
Low-documentation loans, 110–111
Lowitt, Ian, 337
Luciano, Michael, 356
Ludwig, Eugene, 171
Lund, Thomas, 178–179, 182, 310–311, 320
Lusardi, Annamaria, 90
Lyons, John, 265
M3 Prime model, 120–121
Macchiaroli, Michael, 282, 290
Mack, John, 353, 360, 363
Madigan, Lisa, 11–13, 97, 112–113, 160
Madness, 188–189
Magnetar Capital hedge fund, 192
Maheras, Thomas, 138, 198, 262, 264
Mai, Jamie, 193
Maiden Lane LLC, 290, 331, 376–379
Maker, Ruh, 15–16
Malicious Mortgage, Operation, 164
Mann, Karen, 18, 91, 409
Marano, Thomas, 240–241, 282, 285
Marin, Richard, 240–241
Market Risk Amendment to Basel rules, 141
Market share, Moody’s emphasis on, 208–209
Mark-to-market accounting, 47, 226–227, 234, 239, 253, 263, 277, 445
Martin, William, 4
Martinez, Mel, 42, 372
Masters, Michael, 363–364
Maxim Group, 130
Mayer, Christopher, 158
Mayo, Michael, 6
MBIA, 129, 141, 158, 266, 276–277
McCabe, Patrick, 357–358
McCabe, Susan, 332
McCarthy, Callum, 336
McCleary, Scott, 208, 208
McCoy, Patricia, 95
McCulley, Paul, 2, 251
McDade, Bart, 88, 177, 355, 337–339
McDaniel, Raymond, 207, 208–210, 221, 223
McDermott, Jeannie, 391
McDonough, William, 57
McGinn, Kevin, 243, 272
McKinney, Stewart, 57
McLean, James Edward, Jr., 161
McMurray, John, 174
McQuade, Eugene, 181
Medicaid, 399
Meier, Steven, 248
Memorandum of understanding (MOU), 298–304
Mergers
Bank of America–Merrill Lynch, 382–385
Citigroup expansion, 92–93
Merrill Lynch
AIG counterparty payments, 377(fig.)
AIG’s CDO involvement, 140
Bank of America merger, 382–385
Bear Stearns’ toxic hedge fund, 192
CDO losses, 129, 202–204
CDO structuring, 131
compensation, 63
Corporate governance breakdown, xix
Countrywide’s ABCP loss, 250
credit default swaps, 192
financial sector growth, 66
JP Morgan reducing exposure to, 328
leveraged loans, 175
massive 2007 losses, 257–259
mortgage-backed securities market losses, 256
OTC claims, 47
reducing subprime exposure through CDS, 234
rejected loans waived in, 167(table)
repo market as liquidity risk measure, 297
See also Investment banks
Mewbourne, Chris, 300
Michalek, Richard, 210, 223
Michigan: underwater mortgages, 404(fig.)
Micottis, Pierre, 266
Miller, Harvey, 58, 334, 337,
339, 340
Mills, Susan, 260
Minimum capital standards, 33
Minow, Nell, 327
Mishkin, Frederic, 104, 275
Mission Bank, Bakersfield, California, 120
Mital, Aseem, 89
Mitsubishi UFJ, 363
Molinaro, Samuel, 283
Monetary policy contributing to credit bubble, xxv–xxvi, 420–422
Money market mutual funds, 29–31, 33–34, 253–255,
293, 356–360, 427
The Money Store, 75
Monoline insurers, 276–278, 300–101
Montag, Tom, 235–236
Moody’s, 3
AIG downgrade, 344–345
AIG valuation system, 271
asset-backed commercial paper programs, 113–114
breakdown in mortgage-related securities, xxv
CDO machine, 146–150, 206–212
commercial real estate status, 398
early payment default evaluation, 221–222
housing bust, 213
mortgage-backed securities market, 118–122
structured finance, 43
structured-investment vehicles, 252
See also Credit ratings/credit rating agencies
Moral hazard, 61
Morgan Stanley
AIG counterparty payments, 377(fig.)
asset growth, 53
compensation packages, 61–62
CSE oversight, 154
due diligence, 168
financial crisis, 360–363
funding and securitization markets, 115
GSE review, 157
mortgage-backed securities market losses, 256
repo market as liquidity risk measure, 297
subprime originators, 89
See also Investment banks
Morrice, Brad, 157
Mortgage Bankers Association, 13, 17, 21
Mortgage brokers, 13–14, 90
Mortgage bubble, 423–425
Mortgage Electronic Registration Systems, Inc. (MERS), 407–408
Mortgage fraud. See Fraud
Mortgage Insurance Companies of America, 21
Mortgage Lenders Network, 233–234
Mortgage lending
asset-backed commercial paper programs, 113–118
community development commitments, 97–99
crime-facilitative environments for mortgage fraud, 160–164
four Cs of, 67
funding for, 69(fig.)
government regulators’ failure to challenge financial industry, 9–11
GSE goals, 125
GSE’s increasing importance in 2008, 312
housing price surge and, 423
impact of CDOs on, 133–134
increasing homeownership after 2001, 86–87
second mortgages, 406
shadow banking, 29–34
state regulation, 111–113
toxic financial assets stemming from, 425–427
underwriting standards, 109–111
See also Foreclosures;
Housing bubble;
Housing bust
Mortgage modification programs, 405, 409
Mortgage-backed securities market, 102–103
Bear Stearns’ collapse, 280–281
billion-dollar losses, 256

INDEX

561
BSAM involvement, 135–137
CDOs stimulating demand for, 189–190
collapsing lending standards fueling crisis, xxiii–xxiv
commercial real estate, 174–176
credit rating agencies enabling meltdown, xxv
ethical breakdown in loan behavior, xxii
financial creativity, 5–9
GSE role in, 455–458
GSE securities maintaining value, xxvi
high-risk products, 104–113
improper foreclosures, 407
international housing bubbles, 416
money market collateral, 293–294
Moody’s downgrading of, 221–223
Moody’s involvement in, 118–122
mortgage modification to hold off foreclosure, 406
non-GSE, 124
over-the-counter derivatives, xxiv–xxv
players involved in, 113–118
policy makers’ failure to control, xvii–xix
potential hazards of, 7–8
rating agencies’ confusion over failure of, 242–243
securitization transforming mortgages into, 425
subprime originators, 89
synthetic CDO growth, 191
toxicity of, 20
value by 2006, 22
See also Collateralized debt obligations; Fannie
Mae/Freddie Mac; Housing bubble; Housing bust; Subprime lending
Mosser, Patricia, 331
Moynihan, Brian, 389
MSCI World Index stock fund, 393
Mudd, Daniel, 41, 178, 180–185, 310, 313, 317–322
Mueller, Robert, 165
Mukasey, Michael, 15, 163
Murtom, Arthur, 380
Najarian, Ed, 366
Naked credit default swaps, 50
National Archives and Records Administration, xii
National Association of Insurance Commissioners, 119
National Association of Realtors, 215
National City Bank, 20, 88, 172
National City Corp., 204
National Community Reinvestment Coalition, 97
National Conference of State Legislatures, 399
National Consumer Law Center (NCLC), 78
National League of Cities, 399
National recognized statistical rating organization (NRSRO), 119
National Securities Markets Improvements Act (1996), 170
National Transportation Safety Board, xii
NationsBank, 98–99
Nevada commercial real estate bust, 397
delinquency rate, 393
foreclosure increases, 403
impact of foreclosures on children, 409
mortgage delinquency, 215
underwater mortgages, 404(fig.)
Nevada Fair Housing, Inc., 11, 78
New York State Insurance Department, 50
New York Stock Exchange (NYSE), 63
NIR Capital Management, 192
No-documentation loans, 110–111
Non-agency mortgages, 68
Nontraditional mortgages, 418.
See also Subprime lending
Norma CDO, 192
North Carolina: state regulation of predatory lending, 96
Notional amount of OTC derivatives, 293–301
Office of the Comptroller of the Currency (OCC) CDO regulation, 205
Citigroup decline, 303–304
Citigroup’s 2007 subprime exposure, 263
Citigroup’s CDO business, 198–199
CRA lending, 74
deregulating bank consolidation, 54
expansion of banks’ admissible activities, 35
GSE review, 317
guidance, 22
housing appraisal regulation, 91
ignoring complaints of nontraditional loans, 21
mortgage guidance delay, 172–173
regulating subprime mortgage lending, 76
state regulation of mortgage lending, 196, 111–113
Wachovia’s 2007 decline, 305
See also Government actions and agencies
Office of Thrift Supervision (OTS)
AIG liquidity failure, 346, 350–351
INDEX

AIG oversight, 150
AIG valuation, 274
Countrywide’s ABCP casualty, 249
CRA compliance, 74
deregulating bank consolidation, 54
eye concerns about housing-securities entanglement, 10
housing appraisal regulation, 91
Lehman’s increased risk, 178
mortgage guidance, 173–174
regulating subprime mortgage lending, 76
state regulation of mortgage lending, 13, 96, 111–113
Washington Mutual’s decline, 306
See also Government actions and agencies
Ohio: foreclosure increases, 403
Olson, Mark, 21, 93, 154
O’Neal, Stanley, 58, 63, 202, 257, 259
Option ARM loans, xxiii, 105–109, 117–118, 165
Options Group, 118
Orange County, California, 47
Orient Point CDO, 270
Originate-to-distribute, 89
Originate-to-hold, 89
Origination and securitization of subprime mortgage lending, 88–92, 105, 107, 425–426
Oversight
Consolidated Supervised Entity program, 153–154
housing appraisers, 91
OTC derivatives market, 48
See also
Regulation/regulators
Ownit Mortgage Solutions, 233
Paine Webber, 53
Palumbo, Michael, 257
Pandit, Vikram, 199, 265, 334, 370, 380–381
Park, Gene, 141, 200–202, 266–267
Park Granada, 114
Park Sienna, 114
Parker, Ed, 161
Parkinson, Patrick, 129, 146, 296, 298, 328–330, 334–335
Parmar, Darcy, 162
Parratt, Shelley, 169
Parsons, Richard, 265
Pastine, Armand, 190
Patterson, Scott, 44
Paulson, Henry
Bear Stearns’ collapse, 289
BofA-Merrill Lynch merger, 383
Goldman Sachs collapse, 142–146
GSE, concerns over potential failure of, 293, 309, 321
GSE capital increase, 314
GSE receivership, 316–318
lack of concern over housing bubble, xx1
Lehman collapse, 334, 336, 339, 433–435
Recourse Rule, 100
response to financial crisis, 359–360
subprime exposure as indicator of impending crisis, 234
synthetic CDOs, 193–195
TARP, 371–374
underestimating the housing bust, 227
Paulson & Co. hedge fund, 192–194, 247
Pay-as-you-go CDSS, 190–195
Payment shock loans, 11
Payment-option ARMs, 105
Penn Central Transportation Company, 30
Pension funds: credit ratings reliance, 119
Pension plans, economic fallout, 393
PentAlpha, 44
Performance index, 190–191
Peterson, Warren, 24, 156
Piggyback lending, 110
PIMCO, 189–190, 251
Pinto, Ed, 219
Plank, Lloyd, 156
Plepler, Andrew, 99
Poethig, Erika, 408
Polakoff, Scott, 350
Policymaking. See Government actions and agencies
Political action committees. See Lobbying
Pontell, Henry N., 161
Pooling loans, 43
Population growth, housing bubble and, 170
Ponzi schemes, 268
Portals, 254
Porter, Katherine, 408
Portfolio cap relief, 310–311
Predatory lending practices, 9–13, 90, 92–99. See also Subprime lending
President’s Working Group on Financial Markets, 48, 58
Price, Joe, 383
Price, Mike, 185
PricewaterhouseCoopers, 122, 267, 269, 271, 273
Primary Dealer Credit Facility (PDCF), 294–295, 337, 345, 354, 362
Prince, Charles, 3, 102, 113, 137, 175, 199, 260, 262–265
Private mortgage insurance (PMI) companies, 225
Private-label securities, 70, 72
Procter & Gamble, 46–47
Project Phineas, 126
Property taxes, 399
Public Employees Retirement Association plan (Colorado), 393
Putnam, Tom, 67
Putnam Investments, 357
Qualified purchasers, 254
Quality standards, 426
Quants (quantitative analysts), 44
Quick Flip, Operation, 163–164
Quinn, Mike, 185
INDEX

AIG liquidity failure, 345–346
asset-backed commercial paper programs, 114
Bear Stearns collapse, 292–293
CDO structuring, 204–206
checks and balances of banking regulation, 54
Citigroup expansion, 92–93
Citigroup’s CDO business, 158
commercial banks’ 2007 downturn, 307–308
concerns over Lehman’s liquidity, 328–331
Consolidated Supervised Entity program, 150–154
CRA lending, 74
credit ratings’ link to, 118–119
dual banking system, 28
failures in regulation and supervision aiding crisis, xviii
futures and options exchange, 46
Glass-Steagall Act, 29, 32, 36, 52–56, 414
Goldman Sachs’s CDO structuring, 142
government obstacles to regulating unfair lending practices, 13
GSE review, 317–318
GSEs’ capital increase, 314–315
housing bubble, 170–174
inflated housing appraisals, 91
international credit bubble, 416
mortgage securitization, 75–80, 426
OCC expansion of allowed activities, 35
over-the-counter derivatives, xxiv–xxv, 50
predatory lending practices, 93–96
reaction to the CDO madness, 189
Recourse Rule, 99–100
shadow banking, 27–34
single-cause theories, 414
state regulation of mortgage lending, 13, 96–97, 111–113
subprime mortgage lending, 75–80
synthetic CDOs, 192
TARP, 373–374
"too big to fail" principle, 37
See also Deregulation of financial markets; Federal Reserve Reich, John, 350–351, 369
Reinhart, Vincent, 45
Rejected loans, 166–168
Renters, 408
Repo 105 practice, 177–178
Repo market, 427–428
assessing systemic risk after Bear Stearns collapse, 298–301
Bear Stearns’ collapse, 280, 283–284, 288
Bear Stearns hedge funds, 241–242
BNP Paribas ABCP loss, 252
borrowing levels, 115(fig.)
BSAM involvement, 135
financing Bear Stearns securities portfolio, 8–9
JP Morgan’s systemic risk concerns, 295
liquidity risk measures, 296–298
regulators’ concerns over Bear Stearns failure, 293
regulatory changes boosting growth, 114
shadow banking markets, 30–31
shutting down lending, 234
Reserve Primary Fund, 356, 435–437
Residential mortgage-backed securities, 73(fig.)
Resolution Trust Corporation (RTC), 68–70
Rhneland program, 247–248
Ricciardi, Chris, 131, 132, 202
Richmond Fed, 368
Riegle-Neal Interstate Banking and Branching Efficiency Act, 52
"Risk Governance Diagnostic: Recommendations and Case for Economic Capital Development" (Bear Stearns report), 284–285
Risk management
assessing systemic risk after Bear Stearns collapse, 298–301
bank failure, 427–431
big bank failure, 429
commercial banks’ 2007 downturn, 303–308
compensation structures, 63–64
discrimination in largest firms, 22
corporate governance’s failure to control, xviii–xix
derivatives, 45–51
emerging markets, 35–36
GSE penetration into subprime market, 181–183
high-risk products mortgage products, 104–111
housing bust resulting from, 213–214
housing industry, 6
Lehman’s stake in Archstone Smith, 176–178
LTCM collapse, 58
mortgage lending, 67
option ARMs, 108
regulators’ declining influence on the housing industry, 171
repricing of risk, 420–422
role in the crisis, 418
structured finance, 42–45
See also Liquidity risk/liability failure
Risk-focused approach to regulation, 170–171
Robo-signers, 407
Roeder, Douglas, 308
Rokakis, James, 315
Rubin, Robert, 19, 47, 49, 59, 137, 260, 262–265
Russian debt crisis, 89, 117
Rutledge, Ann, 149
St. Denis, Joseph, 266
Saksena, Anurag, 180
Salaries. See Compensation packages
Salomon Brothers, 86, 578
Sambol, David, 105, 172–173, 248
Sand states. See Arizona; California; Florida; Nevada
Sandler, Herbert, 20, 91, 106, 110
Sandler, Marion, 106
Sarbanes, Paul, 79
Savings and loan crisis, 34–37
Savings and loans, 19
Savitt, Marc S., 14
Saxon Capital, 88
Schapiro, Mary, 64, 154, 327
Schorr, Glenn, 258
Schumer, Charles, 312
Schwartz, Faith, 7
Schwartz, Laura, 191, 193
Scion Capital, 193–194
Sebring Capital, 233
Second mortgages, 406
Secondary Mortgage Market Enhancement Act (1984), 119
Securities and Exchange Commission (SEC)
AIG valuation, 273
Bear Stearns’ collapse, 282–284, 286, 289
CDO regulation, 205
Citigroup’s CDO business, 198
Consolidated Supervised Entity program, 152–154
deregulating bank consolidation, 53
dismantling Glass-Steagall, 55
due diligence and disclosure, 165, 169–170
failure to protect financial system, xviii
fixed commissions on stock trades, 29–30
Lehman Brothers’ decline and collapse, 326, 334–335
Lehman’s disregard of risk management, 177
LTCM collapse, 58
Merrill Lynch’s 2007 subprime exposure, 259
Merrill Lynch’s CDO business, 203
money market fund accounting, 253
monoline insurers, 277
Moody’s rating of mortgage-backed securities and CDOs, 211–212
OTC derivatives, 47
President’s Working Group on Financial Markets, 48
repo markets indicating liquidity risk, 297
Reserve Primary Fund, 436–437
shadow banking, 33
subprime exposure as indicator of impending crisis, 234
synthetic CDOs, 192–193
Securities Industry Association, 54
Securitization, 28, 42–45
early concerns about housing-securities entanglement, 10
end of the boom, 214
housing bust, 213–214
role in the crisis, 418
subprime mortgage lending, 68–72, 88–91
transforming mortgages into mortgage-backed securities, 425
warehouse lending to mortgage originators, 113–118
Selig, Ira, 346
Senate Committee on Banking, Housing, and Urban Affairs, 313
Senate Permanent Subcommittee on Investigations, 204–205
Senate Subcommittee on Economic Policy, 21
Senate Subcommittee on Housing, Transportation and Community Development, 21
Senderra Funding, 88
Senior Loan Officer Survey, 396
Seven deadly frictions in mortgage securitization, 165
Shadow banking, 27–34, 52–56, 213–214, 275, 427
Shafran, Steve, 329
Shearson, 53
Shebly, Richard, 313, 371
Shelf registration, 169
Sherburne, Jane, 370
Sherwood, Michael, 269, 273
Shiller, Robert, 17
Shock and panic, 419, 435–438
Short investors, 415–417, 436–437
Short-term borrowing, costs of, 359 (fig.)
Short-term interest rates, 40, 56, 84, 421
Short-term liquidity, 428
Shu, Sihan, 193–194
<table>
<thead>
<tr>
<th>Name</th>
<th>Page(s)</th>
<th>Role/Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thompson, Diane</td>
<td>78, 405</td>
<td></td>
</tr>
<tr>
<td>Thompson, Ken</td>
<td>304</td>
<td></td>
</tr>
<tr>
<td>3/17 mortgages</td>
<td>104–106</td>
<td></td>
</tr>
<tr>
<td>Timberwolf CDO</td>
<td>237</td>
<td></td>
</tr>
<tr>
<td>Tonucci, Paolo</td>
<td>333</td>
<td></td>
</tr>
<tr>
<td>“Too big to fail” (TBTF)</td>
<td>37,</td>
<td></td>
</tr>
<tr>
<td>Tourre, Fabrice</td>
<td>235–236</td>
<td></td>
</tr>
<tr>
<td>Towns, Edolphus</td>
<td>384</td>
<td></td>
</tr>
<tr>
<td>Tranches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>attraction of mortgage-backed securities</td>
<td>124–125</td>
<td></td>
</tr>
<tr>
<td>CDO structuring into</td>
<td>131–133</td>
<td></td>
</tr>
<tr>
<td>CDOs creating demand for</td>
<td>127–128, 128(fig.)</td>
<td></td>
</tr>
<tr>
<td>Citigroup CDO structuring</td>
<td>195–200</td>
<td></td>
</tr>
<tr>
<td>Citigroup liquidity puts</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs’ synthetic CDOs</td>
<td>143–144</td>
<td></td>
</tr>
<tr>
<td>Moody’s ratings</td>
<td>120–122</td>
<td></td>
</tr>
<tr>
<td>See also Collateralized debt obligations; Super-senior tranches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tranching loans</td>
<td>43, 70–72, 73(fig.), 115–117, 116(fig.), 406</td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td>xix–xx</td>
<td></td>
</tr>
<tr>
<td>Travelers Insurance: deregulation of bank consolidation</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Treasury bills</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Treasury bonds</td>
<td>30–31</td>
<td></td>
</tr>
<tr>
<td>Treasury Department, U.S. Citigroup CDO funds</td>
<td>381</td>
<td></td>
</tr>
<tr>
<td>concerns over GSEs</td>
<td>310</td>
<td></td>
</tr>
<tr>
<td>GSE emergency line of credit</td>
<td>316</td>
<td></td>
</tr>
<tr>
<td>lack of preparation for crisis</td>
<td>xxxi–xxxii</td>
<td></td>
</tr>
<tr>
<td>Lehman Brothers collapse</td>
<td>434–435</td>
<td></td>
</tr>
<tr>
<td>measuring investment bank liquidity risk</td>
<td>297–298</td>
<td></td>
</tr>
<tr>
<td>mortgage fraud</td>
<td>15, 161–162</td>
<td></td>
</tr>
<tr>
<td>predatory lending report</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>President’s Working Group on Financial Markets</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>savings and loan crisis</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>subprime mortgage lending</td>
<td>78–79</td>
<td></td>
</tr>
<tr>
<td>supporting GSEs</td>
<td>xxvi</td>
<td></td>
</tr>
<tr>
<td>TARP</td>
<td>374–375</td>
<td></td>
</tr>
<tr>
<td>Trichet, Jean-Claude</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Tri-party repo market</td>
<td>283–284, 328–331, 334–335, 354–361</td>
<td></td>
</tr>
<tr>
<td>Triple-A mortgage-backed securities</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Troubled Asset Relief Program (TARP)</td>
<td>350, 371–376, 381, 396, 400, 405, 434, 436</td>
<td></td>
</tr>
<tr>
<td>Turner, Adair</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>2/28 mortgages</td>
<td>104–106</td>
<td></td>
</tr>
<tr>
<td>UBS Securities</td>
<td>129, 131–134, 167(table), 216, 377(fig.)</td>
<td></td>
</tr>
<tr>
<td>Underemployment rate</td>
<td>390–391</td>
<td></td>
</tr>
<tr>
<td>Underwater mortgages</td>
<td>404(fig.)</td>
<td></td>
</tr>
<tr>
<td>Underwriting standards</td>
<td>105, 109–111</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>Cleveland, 9–10</td>
<td></td>
</tr>
<tr>
<td>during 2007, 233 figures on</td>
<td>xv</td>
<td></td>
</tr>
<tr>
<td>foreclosure and, 402–403 increase in metropolitan areas</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Unfettered markets</td>
<td>29–34</td>
<td></td>
</tr>
<tr>
<td>United Kingdom house price appreciation</td>
<td>2002–2008, 415(fig.)</td>
<td></td>
</tr>
<tr>
<td>housing bubble</td>
<td>415–416</td>
<td></td>
</tr>
<tr>
<td>Lehman Brothers bankruptcy</td>
<td>335–336</td>
<td></td>
</tr>
<tr>
<td>University endowments: credit ratings reliance</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Upton, Robert</td>
<td>281–282, 286, 288</td>
<td></td>
</tr>
<tr>
<td>Value at Risk (VaR) model</td>
<td>44, 237</td>
<td></td>
</tr>
<tr>
<td>Varley, John</td>
<td>335</td>
<td></td>
</tr>
<tr>
<td>Vasile, Marie</td>
<td>392</td>
<td></td>
</tr>
<tr>
<td>Vertical integration mortgage model</td>
<td>204</td>
<td></td>
</tr>
<tr>
<td>Veterans Administration (VA)</td>
<td>38–39</td>
<td></td>
</tr>
<tr>
<td>Vicente, Danielle</td>
<td>346</td>
<td></td>
</tr>
<tr>
<td>Viniar, David</td>
<td>235, 244, 273, 377</td>
<td></td>
</tr>
<tr>
<td>Volcker, Paul</td>
<td>33, 44–45</td>
<td></td>
</tr>
<tr>
<td>Wachovia acquisition by Wells Fargo</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>consolidation and growth of banks</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>credit default swaps, 50 financial crisis</td>
<td>366–371</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs’ CDOs</td>
<td>143, 145 refusal to follow state regulation</td>
<td>13</td>
</tr>
<tr>
<td>2007 decline</td>
<td>304–306</td>
<td></td>
</tr>
<tr>
<td>Wachtler, Susan M.</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Wagner, Ira</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>Wastafli, Bruce</td>
<td>398</td>
<td></td>
</tr>
<tr>
<td>Waivers mortgage loans, 166–169</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wall Street. See Banking: Commercial banks and thrifts: Corporate governance; Investment banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warehouse lending</td>
<td>113–118</td>
<td></td>
</tr>
<tr>
<td>Waring, Brad</td>
<td>351</td>
<td></td>
</tr>
<tr>
<td>Warne, Janice</td>
<td>198, 261</td>
<td></td>
</tr>
<tr>
<td>Warning signs</td>
<td>xvi, 3–4, 17–19</td>
<td></td>
</tr>
<tr>
<td>Warrack, Tom</td>
<td>242</td>
<td></td>
</tr>
<tr>
<td>Warm, Kevin</td>
<td>21, 296, 321, 340, 366</td>
<td></td>
</tr>
<tr>
<td>Washington Mutual</td>
<td>xxiii, 76</td>
<td></td>
</tr>
<tr>
<td>agencies’ peer group study of mortgage practices</td>
<td>172</td>
<td></td>
</tr>
<tr>
<td>boosting subprime lending</td>
<td>88 financial crisis</td>
<td>365–366</td>
</tr>
<tr>
<td>mortgage-backed securities deals</td>
<td>117–118</td>
<td></td>
</tr>
<tr>
<td>Websites</td>
<td>xii</td>
<td></td>
</tr>
<tr>
<td>Weil, Nicolas</td>
<td>221–222</td>
<td></td>
</tr>
<tr>
<td>Weil, Sandy</td>
<td>55, 63–64</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo agencies’ peer group study of mortgage practices</td>
<td>172</td>
<td></td>
</tr>
<tr>
<td>consolidation and growth of banks</td>
<td>53 financial sector growth</td>
<td>65</td>
</tr>
</tbody>
</table>