Modern Money Network, The "Money Series" 2012-2013

7. FINANCIAL REFORM

Good evening everyone and welcome to the Modern Monetary Series. I would like to thank everyone for being here and I also would like to thank our sponsors for this evening, which is the Colombia Business and Law Association and the Colombia Law Students Democrats. And today our mediator this evening will be Mr. Harvey J. Goldschmid, which is the Dwight Professor of Law at Colombia and also the former commission of the SEC. And with that I will pass it over to him to introduce authors and speakers this evening. Thank you.

Harvey J. Goldschmid

Thank you and its good to be here and good for all of you to be here. And we are doing rent seeking, instability and fraud challenges financial system. Clearly would we add, this is part of a series of seminars that the students are running, the organization Workers Rights Student Coalition, so everything that goes right tonight belongs to students coalition, anything else, blame the rest of us up here. You will notice a great deal about regulatory policy, innovation etc. materials that advertise this. I will tell one story then I'll let the real speakers go. It is a paraphrase of Paul Volker on financial innovation which is: "The only financial innovation in the last three decades with any good is the ATM machine." And I am not sure if that is wrong there, all though I think Paul does it partially with tongue and cheek.

William K. Black: "You are stealing my quotes there!"

Goldschmid: Oh, I take it.. All right, that one we.. I am going to introduce the speakers in alphabetically order. Ill tell a little bit. They are quite distinguished, have terrific backgrounds and we have biographical information about them but I guess it was not distributed. But this common ground, wisdom, expertise, thoughtfulness. This is really quite a good panel to hear. Now what I am going to do is to introduce each panel member very briefly, he will then speak for fifteen or twenty minutes. We will perhaps have some dialogue among the panel members or question from me, then we will go on to the next speaker. [02:15]

Our first speaker is Bill Black, whose line I just stole. Bill is associate professor of Law and Economics at the University of Missouri Kansas City. He has a wonderful active full regulatory background, mainly from Banking Agencies. I told him I was going to note his book, it is one of the best titles I have come across *The best way to rob a bank is to own it*. Now, I think that goes back to the S and L crisis in the 1980's, but it may fit some of what's been going on since. With that much introduction, Bill, floor is yours. [03:00]

William K. Black

So thank you very much. Really impressive, I've seen the panels you've put together over the course over the academic year. And Rohan and everyone working on this is to be greatly complemented. Thank you, incredibly distinguished moderator. And then to it, because time is short. So, the title of this talk about the most reputable is the play off, of a wonderful new study by a Colombia graduate school of business. Who is here! In which he makes the point, empirically, that in the supposedly most reputable financial institutions in America, misrepresentation was pervasive, to quote the results of their study. Now, misrepresentation is the long version that economist use of fraud, because there is primitive tribal taboo among economist that keeps them from using the word fraud very often. But criminologist find it shorter. So I will be talking about those kinds of fraud. The fact that this study is one of the last nails in the coffin of the theory that this was the first virgin crisis, conceived without any hiding sin. No one did anything criminal, and it just produced the greatest disaster in economic history. [04:45]

So, let me take you back in a time capsule to 1993. Which turns out to be the great cross roads point. At that juncture, we had brought together the research. The data of on what was going on in the saving and loans crisis, theory that developed new theories about the nature of the frauds, praxis, in other words practical things that we undertook to contain that crisis. And it was all multidisciplinary, and it was the end of dogma. Indeed the head of our agency had to give up dog pits of a lifetime, to come to this result. And became the great re-regulator, and such. And we did it the scientific fashion God forbid, where the regulator autopsy, every failure to look at what was going and in business school terms, we listened to the people closest to the facts. We listened to the field examinators and we believed them when they told us that what they where finding was fraud, emanating from the sea sweet. This lead to George Akerlof and Paul Romer's famous 1993 study. The development of theory, George Akerlof is Nobel Laureate in 2001 and he is writing connection and expansion of his work on Lemons market, which is his most famous work. So in his wheel house, criminologists is virtually never, does the National Institute of Justice fund research into elite white collar crime. God forbid that they actually did in the savings and loan crisis. And the criminologists came together with their studies in 1993. The inevitable

National Commission to investigate the causes of 1993. Does its report and department Justice, the FBI the jargon for criminal referrals, through what in business school is called the continuous improvement process, they become superb. The agencies does more than thirty thousand criminal referrals. Produces over a thousand felony convictions just in elite cases, designated as major. And that greatly understates the degree of prioritization, because we have worked with the FBI and the Justice department to create the top one hundred list, the three hundred worst fraud schemes involving roughly three hundred institutions and roughly six hundred individuals, and a 90% conviction rate against those folks. The greatest success against elite white-collar criminals. [07:28]

So it seemed that we are poised in 1993 to really take these things on. What have we developed? We developed the concept and an understanding of the damage of what control frauds did. We developed an understanding of how control frauds operated when they used accounting as their weapon of choice. We understood how adverse selection produced a negative expected value in the lending process, from the day the loans where made. Not simply in retrospect. We understood how there perverse incentives created these epidemics of control frauds, what we call the three D’s: Deregulation, De-supervision and De-facto decriminalization. But we also saw the roll, the executive compensation, opaque assets that had no rattily verifiable asset market values. An easy entry in the field did, in terms of producing this kind of dynamic. We learned in particular I discussed what aggression dynamic was and how it operates. The short answer is that bad ethics drives good ethics out of the market place. In these circumstances markets become perverse. And we learned how the CEO’s, running these frauds where able to suborn the suppose controls and deliberately set off echoe fraud epidemics in other professions and fields. And we saw how the industry tried to produce a regulatory race to the bottom to destroy effective regulation. [09:09]

So what is this control fraud stuff? That's when a seemingly legitimately entity: governmental sector, private sector or non-profits, is used by those who control it as a weapon to defraud others. So that seemingly legitimacy is important part of the problem that makes us complaisant and allows them to cause great increased damage. And plays off of the reputable language in the study that I was talking about. There are various varieties of these frauds in the private sector. I am going to concentrate on when they use accounting as their weapon and the primary direct victims are creditors and shareholders. If finance, the weapon of choice is accounting. [10:00]

So what we learn overall that this control frauds where causing greater financial losses than all other forms of property crimes combined. And the subsequent research from that time that these are the frauds that aim and kills tens of thousands of people. And we learned the CEO, when he or she is the crook, poses such a unique danger. First, they are able to suborn all the controls, because those controls ultimately report to the CEO. Second, they are able to optimize the entity for fraud. Third, they are able to do all this using seemingly normal corporate mechanisms, which makes prosecution much more difficult when they use those means to lout. And four, the boast audacious actually shapes the external environment, to create even more perverse incentives to creating these aggression dynamics. Key thing that Akerlof and Romer emphasize by the regulators, by the national commission, by the criminologists as well, and that is fraud is a sure thing. Matemathecily guaranteed if you use these accounting processes. [11:18]

So here is the recipe for accounting fraud for a lender or for a purchaser in the field, such as we are examining now and the current crisis. It has four ingredients. 1. Grow massively. This is if possible 50% annually. 2. Making or purchasing really really crappy loans. 3. While employing extreme leverage and 4. While setting aside only trivial reserves for the inevitable catastrophic losses. In accounting jargon this is the all provision. [11:59]

There are actually three sure things that this recipe produces. 1. There is sure thing in the near term that the firm will report record income. 2. Sure thing in modern life that with modern executive bonuses, the controlling officers will be made wealthy and they will wealthy promptly. And 3. This recipe if you think through the four ingredients again, is ideal for maximizing real economic losses. In edition to these three sure things, is another thing that frequently happens. And that is this is superb recipe for hyper-inflating bubbles. Because or after all, what do you do under this recipe when you face with overcapacity and a glut? You lend like crazy, even into the teeth of the glut. [12:51]

So it’s optimal for hyper-inflating bubbles. The saying in the trade is a rolling loan gathers no loss. What that means is that as long as we get the bubble to inflate, we can simply refinance the loan, and we can dramatic defer loss recognition. Not losses, but loss recognition. And third. It is these massive bubbles as we have seen that are really mass, weapons of mass destruction. [13:23]

So here is what Akerlof and Romer chose to conclude their famous 1993 article with four emphasis.

> "Neither the public nor economists foresaw that sales and loan deregulation was bound to produce looting. Notice how powerful this statement they make. Without, you know, vezo words. Nor, unaware of the concept, could they have known how serious it would be. This the regulators in the field who understood from the beginning, found lukewarm support, at best for their cause. Now we know better. If we learn from experience, history need not repeat itself."

Well we didn't know better, we as a species, but in fact if you would look at work on this crisis. Even work discussing fraud in this crisis, you will see virtually never are Akerlof and Romer cited. Nor is Akerlof 1970 on lemons market cited. Even though its an article about control fraud in large part. Right, even the fact that it is about control fraud is something that an economist would be amazed about. This is the line where they said the passage where they talked about the sure thing.

> "Many Economists still seem not to understand that a combination of circumstances in the 1980's made it easy to lute a financial institution with little risk of prosecution. Once this is cleat, it becomes obvious that high-risk strategies that would pay off only in some states of the world were only for the timid. Hint, moral hazards is what he is talking about. Why abuse the system to pursue a gamble that might pay off, when you can exploit a sure thing with little risk of prosecution?"

And they go on to emperically estimate the role of fraud in a series of crisis. [15:30]

Akerlof is also the person who first, in economics literature, that talked about aggressions dynamic in this context. Where he said,

> "dishonesty tend to drive honest dealing out of the market. The cost of dishonesty, therefore, lies not only in the amount of which the purchaser is cheated; the cost also must include the loss incurred from driving legitimate business out of existence."

Now, Akerlof is a really smart guy, but there where smart before him, and there is this guy Jonathan Swift, who put it this way:

> "The Lilliputians look upon fraud as a greater crime than theft. For they allege, care and vigilance, with a very common misunderstanding, can protect a man's goods from thieves, but honesty hath no fence against superiors cunning. Where fraud is permitted or connived at, or hath no law to punish it, or I would say no regulatory cops to enforce it, the honest dealer is always undone, and the kanve gets the advantage." [16:42]

So this is been understood long before economist began looking at the subject. Now I am going to skip through a number of these things about how wonderful we where, I will point this one out. This was the, done bother to try distinguishing them because there was no difference. So, the financial crisis inquiry commission looked into this cause, causes of this crisis and concludes widespread failures in financial regulation and supervision proved devastating to the stability of the nation's financial markets. The sentries where they were not at the post, due to the widely accepted faith in self-correcting nature of market and the ability of the financial institutions to effectively police themselves. Having gone through it but we have a long explanation in criminology about why private discipline does not simply fail, but its actually oxymoronic. The creditors actually fund the frauds; as opposed to actually discipline the frauds. Right? So, the most of the losses are suffered by the creditors not the shareholders in these circumstances. And why regulators are therefore unique, because we are the only control that the CEO cannot hire and fire. That doesn't mean we are immune, there's a vast literature on attempts to influence us, but potentially we have bring a unique strength because of that. [18:10]

Now we get to the study by your colleague which as I said has driven the nail, a final nail in the coffin of any claim that there really couldn't be any fraud by financial institutions. So, they went through and created two measures of miss-representation of asset quality, misreported occupancy status of borrower and misreported second liens, by comparing the characteristics of mortgages disclosed to investors. Now the investors are the folks that are buying these loans and they are packaging the to creating mortgage backed securities. More specifically private label, in other words not Fanny and Freddie. All right? With actually characteristics that where available at the time through a dataset matched by a credit bureau. About one of every ten loans has one of these misrepresentations. Now that's extraordinary. Right, to have fraud one roughly tenth of the time in the sale mortgage loans, it guarantees a national crisis. Right to be there. [19:10]

But the authors recognize, that they are forced by the nature of data to some extent, an old joke, to look under the lamppost. Right, you can look at some things using data, but you cant look at the broader frauds in the same, using the same mechanisms. So they recognize quite appropriately that other literature has established, there is vastly more fraud then this, in some other categories. Our work concentrate on liars loans for example, in criminology. In this, but just in these two areas, the extent of fraud was sufficient that it was going to cause a national crisis. And this is literally, well figuratively, this is the one tenth of the iceberg. Not the nine tenth of the iceberg. And they note that a lot of this fraud, half of they studied in some sense, and that is the second leans occurred at the institutions level. Because it is the same lender that made the first lean and the second lean. So obviously we know about the second lean. But then when they sold the loan packages, no no, there is no second lean on these, there is only a first lean. Right, that's a fraud that must come from the lender. That's a control fraud in our jargon. They can't answer the question with their methodologies , now criticism is just the nature of the beast, as to disclosures about whether borrower intended to occupy. Though that falsification could have come from the borrower, it could have come from the loan broker, it could have come from loan officers, it could have come from all of them combined, working together, all right. [21:16]

And the study shows that the lenders where frequently aware of the risk, they surely aware of the risk in the context of the second, but their pricing indicates that they where at least somewhat aware of the risk in the case of the owner occupied misrepresentations. Here is the key, one of two key takeaways in the limited time that I have that I'll emphasize. A significantly degree of misrepresentation exist across all reputable intermediaries involved in the sale of the mortgages. The emphasis is in the original. An in other points they call it the most reputable financial institutions in America, which I will agree with and that makes our point about seemingly legitimate entities. That is the point, that is the point that Lanning Brewer the head of the criminal division, and Holder simply do not get. That people who wear nice suits and sit in the CEO's office, can be and are criminals. That what we are describing are pervasive fraudulent institutions, and they are supposedly most reputable. That should be immensely scary. [22:41]

This is incredibly powerful and important study. And it can have big bucks effect just in these two categories, the tune of repurchase 160 billion. That does not mean losses, but that losses could be a very significant portion of this. All right, I want to get to, this one as well. These misrepresentations are not instances of the classic asymmetric information problem in which the buyers know less then the sellers. Rather we can contend that they are instances where in the process of contractual disclosure by the sellers, buyers received false information on the characteristics of the assets. Now I have added the emphasis to the word classic. And this I would disagree with, right. I agree that this is classical how Akerlof is thought in economics and in b schools, but that is not what Akerlof's study shows. Akerlof study shows classically that one of the best ways to maximize the asymmetry of information is to lie. But to lie to lie though deceive, which fraud is all about. So this is in fact when we study in criminology absolute classic mechanism, its just not thought that way in other schools. Who have never heard of, well maybe they have heard of criminology, but I am sure they have never read any of our stuff. [24:19]

Now I will end with this white, there is a neat little touch here. A loan with misrepresented borrower's occupancy status have about a 9.4% higher chance of default, compared with loans with similar characteristics and where the property was truthfully reported as being the primary residence of borrower. Okay let me put that in plain English, I am not suggestion that they were not being plain, but this is not a specialist audience. What the authors is saying is this, its important whether the borrower is going to occupy the home. Borrowers wear its your primary dwelling, the opportunity cost of losing it is you and your family are thrown out on the street often. It is a big deal, and therefore you rarely will default if you have any other alternative if in an owner occupied dwelling. Right, so institutions charge people who are not going to be occupants significantly more. It is not in this study, but usually around the range of a hundred basis points or more, all right. So they looked and they said, okay we are looking at a group that actually are not occupying the home and we are going to compare them in their defaults to a group that also is not occupying the home. So they are both real estate speculators in common parlots. But they are not the same. The group that lies poses a substantially increased risk of default, which of course is telling us exactly what lending has told us for centuries, and criminology has told us. And that is the people who lie and are the movants, who are the ones who are taking the lead in line are a vastly greater risk. [26:41]

Now what’s really interesting is they do the same type of thing about the second leans. And they find very little difference in these two categories. And that’s suggests strongly that it was the institutions, as apposed to borrowers, who were putting the lies in liars loans about second leans. [27:04]

So, to sum it all up, we unfortunately don’t, didn’t know better. We utterly ignored the possibility of fraud. We created the most criminalgenic environment in history and we produced endemic fraud in our most reputable institutions who drove this financial crisis and hyper inflated the bubble. I don’t have time to present, but it was massive fraud in other areas, in particular in liar’s loans. Thank you very much. [27:39]

Harvet J. Goldschmid: [27:44] Thank you, Bill. I do want to come back and discuss, but maybe we will go on a little bit. The 1980s S&L crisis, the Sarbanes Oxley period, WorldCom, Enron, Lynn and I worked with. And now the recent 2007, 8, 9 financial crisis have various things in common. Certainly one of them you correctly point out is the deregulatory Bush, and foolish deregulation. Another would be the lack of anyone looking over people peoples shoulder, but there are differences too that are quite substantial. The S&L if I remember correctly, I'm no expert, it was easy to loot, and it was particularly easy to loot because you had government guarantees of loans, you were building up your cash hold at a point were there were withdrawn oversight. And there were certainly Veno fraud during that period, people went to prison. In the Sarbanes Oxley period the WorldCom and Enron, again we had prosecution with hard core things. When we sent the CEO of Enron and CEO of WorldCom to prison and whole bunches of others, we had self dealing and Veno Acts. [29:10] Do you think this time are the same, and why haven't we had more prosecution this time around?

William K. Black: Okay, so the short but not short answer to all of this is, first, while we know, most people don't understand that we have nearly a million people in the criminal justice system, not the people in prison, but people working in it. And of those, roughly, on a really good day, roughly 2500 elite white collar crime investigations. And most days are not good days. We have roughly, slightly over 1300 industries in the United States, so there are fewer than two FBI agents per industry. One: they obviously don't have expertise in the industry. Two: they obviously don't patrol a beat, so they only come when there's a criminal referral. And criminal referrals, here's a hint, Enron never filed a criminal referral on it's leadershit. And no bank or savings and loans does either, so the regulatory agencies, and that includes the SEC in this context, are absolutely essential. In the S&L crisis the head of the agency made it a top agency priority to A: target the frauds and drive them out of business through receivership and B: and to bring enforcement and criminal prosecutions. The agency made over 30000 criminal referrals to do that. In the current crisis the same agency, the offices, through supervision which was supposed to regulate countrywide WaMu, IndyMac, the whole host of, yes, the whole host of them made zero criminal referrals. [31:14] So the fundamental answer is they got no referrals. They never did what would have been considered, we would use the word investigation to describe a single major player in the current crisis, and so our mantra in Elite White Collar criminology is: “if you don’t look, you don’t find”, and they didn’t look.

Harvet J. Goldschmid: And they were very slow at getting of the ground. A difference between Enron, WorldCom and the spirit. Its time to get Mike, Mike Norman, chief economist, oh, I’m sorry. (Mumbling…) No, no. I’m going alphabetically. Norman comes before Turner, I know that. (Mumbling) Chef Economist

Mike Norman [32:17]: “Alright, good evening. I’ll start.. I want to thank Rohan for inviting me here. I, I got an email, I think it was back in September out of the clear blue somebody invited me to speak at Columbia law school. I was flabbergasted to say the least, uhm, very flattered. Uhm, I wasn’t sure how he found me, I think it was through my blog and I think the connection with most of the speakers that have been in this series is the modern monetary theory, Bill, teaching at UMKC, you’ve had people like Warren Mosler here, Stephanie Kelton, Randy Ray, Scott Fullwiler, I think you know a lot of these people and actually I met, you know Warren Mosler, any of you? I met him, I guess its about 11 years now, in 2002, and just a little on my background. I have a degree in economics, I went to Pen undergrad, I went to UCAL to do graduate school in the late seventies. I didn't out to do economics, I just kind of decided after Penn I decided to go out to California because I wanted to surf, and I got in to UCLA easily. People were like "why are you leaving Penn to go ot UCLA?" and back then it wasn't a highly rated academic school, it was a jot school. I just feel like going out to California and, and I actually wanted to get in to the movies, I wanted to get in to Hollywood, and I started to do some small films, I was in a couple of small films, and I was thinking "wow, life is great". I had this little Italian sports car, convertible, and one day I am just sitting at a stop light, it's a red light, heh, life is beautiful. I am getting my start at Hollywood, and all of a sudden I hear a screech and a crash, and this car in the opposing lane who was going to make a left turn got rear ended, sent this car careening in to me, broadside. I mean, my car was totaled; it's a miracle that I got out of that thing alive, and that was it! I mean, I was stuck in LA, I was a broke student, I had no money, I had no car, which, if you are in LA without a car, that's death, even today, right? And I was like "Now what am I going to do? My Hollywood dreams are dashed" So I thought "well, I guess I'll just go back to New York, and I guess I'll go work on Wall Street. [34:43] And who knows, you know, so, we never know what the end of that story might have been, but, you know what's funny? I always tell people and I tell this to my kids, and people that I meet. We always try to control every little detail of our lives, right? Like micromanaged, but then something can come out of nowhere and completely change the course of your life and you have no control over that whatsoever, you just have to go with it. So here I am today, before you, the movie star that may have been, but the economist who is right now, modern monetary theory. So anyway, my background last thirty-four years on Wall Street, started basically at Merrill Lynch. I am a former member and trader on four different exchanges: Future Exchanges, New York Futures Exchanges, NYMEX, COMEX and Chicago Mercantile Exchange. I managed some money for Paul Tudor Jones for a while, and Tudor Investment Corporation, I was a proprietary trader for Credit Swiss and Swiss Bank Corporation before, so this bank corporation was bought by UBS. I lived in Switzerland actually for ten years, uhm, I am an economist as I mentioned, activist and seeker of the truth, yes, yes. [35:57] Uhm, we are here today, this whole series, right, is, eh, I changed the title a little bit, its Modern Money and the Public Purpose, but I am going to be talking mostly about my views from Wall Street as a trader for the last thirty-four years so I, I called it Markets and the Public purpose, and, you know, I got a little philosophical here, because we have, uhm, former regulators with us, great guys, and by the way, when Rohan told me, you know, I was invited to come here, and he said Bill Black was on the panel, I thought I had to debate Bill Black, and I was like “no way man, I’m not doing that”. not, not because I thought I’d do a bad job. I think I could have done a god job, but Bill Black, he’s the man. I agree with everything he says, I didn’t want to debate him, so I was almost ready to bow out of this thing, but I guess that we have regulators here, and I got a little bit philosophical here. Uhm, it’s always good to take an idea to its logical extreme, right, because you hear a lot, especially nowadays on regulations, it’s killing the economy, and you know, we’re here, trying to say that it was the relaxation or the stripping away of regulations that got us in to this mess. We have guys like Bill Black you know, showing us that this is what happened, that is the t truth, but there’s a whole belief system out there that it was the regulators that are the problem, and we are regulating too much now and we have to have this kind of very laissez-faire and you know, the most popular book out there now who's what, you know, Atlas Shrugged, Fountainhead, Ayn Rand, right? [37:41] How many of you are fans, right? Good, good. So you take an idea and you take it to its logical extreme, like lets not have, lets not have any regulation. Lets not have any government at all. Every man for himself. So I like, so I am a big fan of Thomas Hobbes, sixteenth century English philosopher, where he wrote in his seminal work, Leviathan, "life without government will be a jungle state. In that state, each person would have a right or a license to everything", like these criminals in the banks, right? That's what they believed, that's what's happening, right? It's a jungle state. Hobbes argued that would lead to a "war against all" and in such a state people feared death, and lacked both the things necessary for a good life and the hope of being able to toil to attainment. So in order to avoid it, what happens? People come together and they establish a social contract, a civil society. And to these people who preach and ram, I ask them all the time, show me one example, give me one example of a state or a nation that exists where everybody just does whatever they want, okay? I mean, I'm a pretty big guy, I can go out there and take from a lot of people if I wanted to, and you don't have to be big. You could use a weapon; you could use a gun, right? [39:07] But people, human beings, we don't want to live in a jungle state, so this is the great contradiction I find among these people who go out there and say we don't need regulation. Regulation is ruining everything. The government is ruining everything. So show me an example where that doesn't exist, where live is wonderful. I'll show you where it is. It is in the jungle; in the animal world. And you know something? Even in the animal world there are societal structures that exist. It's not all just craziness do whatever you want, so that's a lie, okay? That itself is a fraud, and it is ignorance. It is people speaking from pure ignorance. And look, our own constitution, right? We forget about this a lot, the preamble to our own constitution, because..you know, we hear people say “it’s unconstitutional” and “the government is getting involved where it shouldn’t get involved” and “we shouldn’t be spending money and that’s unconstitutional” and we are broke and this and that. But here it is, the framers wrote this down, this is their very words. We, the people of the United States, in order to form a more perfect union, established justice. We have a justice department; we have a justice system, as flawed as it is, okay. And sure, domestic tranquility, we have law enforcement, as bad as that is. And provide for the common defense, o boy do we know that. Its not even defense anymore, it is provide for the common war. We spend trillions of dollars on that. Promote the general [40:38] welfare; there it is! What’s the general welfare? Creating a society, where people have a state of well being, where they can achieve the things that they want to achieve. That’s one of the basic things in the framing of the constitution; it’s right in there. Forget about that part, and I’m not a legal scholar, but I think this has been used as an argument in courts of law and it has been like, kind of thrown out. You can’t use that for some reason, but there it is, in the constitution. I’m always amazed at that, like we can’t spend money, as a government, to ensure that kids aren’t starving, and that people have a decent place to live, and that our roads and that our bridges and our infrastructure are okay and intact. We live in this country of unbelievable abundance, and we always talk as if there is lack. There is not lack; there is abundance. There it is, we ignore it, okay? Promote the general welfare. Here’s my friend Warren Mosler, I’m going to use his quote, start off with my talk about the financial sector where he says “the financial sector is a lot more trouble than it’s worth” and boy, let me tell you something: truer words were never spoken. And.. [42:02] Harvey, there is Paul Walker not quite exactly the one that you used, but this was from a talk he gave at the New York, at the Economic Club of New

York, I think it was back in 2008, where he said, wait on, this is Paul Walker, the god of gods of central bankers, right?.. ”I have found very little evidence that vast amounts of innovation in financial markets in recent years have had a visible effect on the productivity of the economy. Maybe you can show me that I am wrong. All I know is that the economy was rising very nicely in the 1950s and 1960s without all of these innovations. Indeed, it was quite good in the 1980s without credit-default swaps and without securitization and without CDOs”. And let me show you something folks. Take a look at this chart. I’m just going to come around here because I want to show you. This is a chart of GDP, our real gross domestic product, going back to 1950, and this is year over year percent change. We have had some dips, okay, in the fifties and sixties, but look at the peaks. All the peaks were higher, and once you got in to the 1980s, when you know, this whole, you know, doctrine of deregulation started. Look at what happened: we have collapsed. Look at what happened with the exponential growth of the financial industry that coincided exactly with that point in time. Collapsed(!), okay? [43:37] The explosion in the growth of this started. What benefit did we get? The growth fell of a cliff, and it is still falling of a cliff. So he is absolutely right, Walker, when he said that. His act showed me, the only thing it did, the only thing it did, is increase the risk in the system. That’s it. And enriched people who were involved in this business, which is basically a casino type economy, all right. [44:12] Look at this: in 1972, when the United States population was 200 million people, we built 2.6 million homes. And back then, the banks would issue the mortgage, they would hold the mortgage, they would service the mortgage, it was a plain vanilla bank. The only things the banks did back then in 1972 was lend people money, that’s it. They didn’t do derivatives. They didn’t have prop debts, trading array. We built 2.6 million homes. In 2006, the height of the real estate bubble, when the US population was 300 million, we added 100 million people, what happened? We built 2.6 million homes. What changed? Exactly the same. I'll tell you what changed. The financial sector had become unwieldy and massive amount of intermediation was involved. There was no longer the bank making the mortgage to you. [45:09] It was the bank making a mortgage to somebody and that was sold to somebody else and that was sold to somebody else and that thing was used as collateral for some other crazy thing, and at least if you said everybody in America had a house, and they had a job, and they, you know, the general wealth, the promoting of the general welfare was taken care of, at least you could say it was worth it. But, was it worth it? There is no way you could say it was worth it. The amount of productivity was exactly the same. However, we injected an enormous amount of risk, and we are going through the unwinding of that risk right now, and it is literally killing millions of people, including kids. In 2007 40% of all corporate profits went to the financial sector. 40%, that's an amazing, crazy number, for doing what? For basically redistributing the money in the economy. That's all it does, that's all Wall Street does. Does it build a road? Does it police your street? Does it put out fires? Does it educate your kids? Does it build a bridge? Does it create water and sewer system? It just moves the money around in the economy. And 40% of our GDP went to that. Now, you have to think, especially now again, when we hear all these complaints from people about the government, and all they do is just redistribution. [46:50] And they are taxing, which they're not, okay, but they say..its always a phony argument, but its redistribution and it's not fair. Is this fair? This is the largest redistribution..and this is the wanted, you know, we cant attack this, right? I mean, we can, the three of us, the four of us, but nobody pays attention. But you can't attack it, why, because it's the wanted, capitalistic system, it's the private sector, we got to leave it alone, because it knows what to do, okay? And government is bad, and it is terrible, and it is horrible, but this the capitalism at work, the private sector, you got to leave it alone, or it knows what to do. It knows what to do, o boy it sure did, right? I mean look at what it did. The US has the largest, again, okay, what did we get out of it? Like, lets go back to that chart up there. What do we get out of it? Maybe I'm right, maybe I'm wrong, look, I'm all about truth as I said. I'm an..like, my thing is honesty. I hate labels, al right? People say to me "oh, you're a democrat, you're a republican, you're a socialist, you're this, you're that". I hate labels. Labels are stupid, okay? It's for people who can't think. They have to compartmentalize everything into like a word, right? If you show me, if you could show me that all of this was good, and we came out of it somehow with some great results, I'll embrace it, man. You know, when I met Warren Mosler ..[48:26] Here's a funny story. I don't want to take up too much time, I know, you know, we are under a time constraint here. I was invited to go to a Bloomberg seminar where Warren Mosler was speaking, and at that point, see, because I learned economics from all the wrong, and it's still wrong, okay? Academic economics is just, it has no relevance, it's ridiculous, it's ridiculous, but still I learned it back in the seventies and it was already ridiculous then. But I remember at that point when, you know, and I spent ten years as a Fox Business..as a Fox News contributer and then Fox Business and, you know, I used to spout all this stuff like we are broke, and we are out of money, and the dollar is going to collapse, and who's going to lend us money and all this wrong stuff. I was like, I had that in me, and I met Warren Mosler, and you know, he is the most polite, patient guy, such a sweet guy. And I'm in this room (laughs) and I got up. He is talking about, you know, imports are a benefit, exports are a cost, you know, all this stuff like that. And I'm like "what, are you crazy?" I got up, "you don't know what you are talking about!" I was rude to the guy, and he is such a nice guy, and he was patient, and he was trying to show me, and I, you know. But I went out of that, I went out of that seminar, and I went home and something, it was like, you know, like a seed was planted in my head, and I started to think about all these things and I'm like "wait a minute, wait a minute! I had it all wrong, the whole time, this guy, he enlightened me" and you know what Warren said? [50:00] We became great, great friends and we talk almost on a daily basis, he said, you know, "Once you learn that, Mike, your live will be miserable from now on." [50:10] And he was absolutely right, and I blame him for that, because it is miserable! But that's every day I go through these fights with people, trying to show them like that's not reality, dude what you're thinking there, this is the reality. Trying to show them, but they are so, they are so locked in to their dogma. Anyway, here we go, Wall Street, okay? The vaunted Wall Street. And I have a, I have a personal story by the way, about, I'll just run through this: Goldman Sachs, right? Remember the whole Subprime fiasco. Goldman Sachs admits to fraud! They were like "yea, we did it!" You know, Bill was talking about stuff like the hiding, right? And you know, smart guys like Bill, they see it, they point it out. Other people maybe.. Goldman Sachs didn't even hide it. He's like "yea, we did it, so what?" and they get a little fine, right? They paid eight hundred million for a trade they made billions on these trades, right. They, you know, creates some security, that they, that was the Paulson trade, that John Paulson, this obscure money manager who was managing maybe like a hundred million dollars. Nobody had ever heard of him for forty years, okay? You had guys like George Soros Tudor Jones, and eh, Stanley Druckenmiller you know, these were like the, you know, the A list of hedge fund managers, the superstars. [51:31] Who knew about john Paulson? Then John Paulson goes to Goldman Sachs, and he says "I want you to create a security for me, an instrument, that has the most, every single of the worst, shittiest", excuse me, "you know, loans and mortgages in there that you could possibly, that you know they are going to blow up, and I want you to go out there and sell that, I'm going to bet against that thing". It was a sure thing, it was totally rigged, right? And that's exactly what Goldman Sachs did. They created that instrument for him, then they went overseas to Germany and these little landesbanks and stuff like that. And they sold, they told these people it was great, triple-A rated, right? The thing blew up, that's how he made his twenty billion dollars. I' running out of time. I'm going to tell you a little (brief interruption) uhm. I'll just, I'll land on a personal story. I worked for a short period of time, which was not included in my little bio there, at Standard Imports, okay. One of the enablers in this whole thing. In two thousand, I worked at Standard Imports, and I was in the instruction finance division, that's the division that raided all of this crappy garbage, uh, this mortgage stuff. And I wrote a piece at the time, about General Motors. General Motor's stock in two thousand was trading at an all time high eighty dollars a share. [52:59] I wrote a negative analytical piece, where I talked about these really way over the top rosy assumptions of GMAC, their financing unit, about how they were expecting to make all this money on leases and stuff like that. And to me it seemed like the slightest little bump in the road economically speaking, if the economy slows down, because I am an economist, I look through that prism. This stuff is going to implode! So the chief auto analyst at S&P, this guy named Scott Sprinson, he was furious at this thing that I wrote. And we got in to this big argument, which eventually led to me being fired. I got fired, all right? I was allowed to resign, but let's call it what it was, it was a firing. Fast forward; General Motors goes bankrupt. The public has to bail it out, okay? I was fired, Scott Sprinson is still over there, at his post at Standard Imports, and a few years later I was over at Fox News, and I met, uhm, Terry, uhm, McGraw, who is the chief, CEO of McGraw Hill which owns S&P and I told him about that story, and he was like "oh ghe, that's too bad, Mike", you know, so, anyway, I had a little bit more but I'll leave it over to Lynn right now. Thank you very much! [54:32]"

Harvet J. Goldschmid: [54:36] Okay, I think we will go right on to Lynn Turner. Lynn Turner, to give you a drop of background. Currently the principal at a forensic accounting firm. He's held all kinds of jobs, but most important by far, at least in my view is chef accountant at SEC. We began the same day I should tell you. I began as general council in 1998, Lynn began, and he remains one of my favorite people, although he does drive you crazy at times. Lynn: "only at times?" Only at times. He is thoughtful. He is certainly one of the great figures in accounting in the United States and the world. He did practice for a long while with the predecessor PWC Coopers and Lybrand. He brings to everything a breath of intelligence and political power, and a nice, nice laugh, gets us to laugh more. With that, Lynn, you are on your own.
Lynn E. Turner: [55:39] Thank you Harvey. That's high praise, coming from you a person who I think was probably the greatest general council that SEC ever had. I worked with a number of general councils at the commission, but Harvey was just superb and someone who could always find a way to make it work. The other general council I worked with always, uhm, says, this is how we have done it as SEC for a hundred years, and we will be doing it that way for the next hundred years and they were right. Harvey came in though, and Harvey was a breath of fresh air. Harvey always found a way to make things work, so, kudos to Harvey. Let me start out, this is a hard act to follow. Both these guys are just fantastic, but, probably going to modify my presentation a little bit here. Let me start out by talking about GAO study, and of course, GAO is a non partisan congressional body, and this study came out just this

last month, and it talked about what the impact of this thing is, or has been on [56:52] Americans, and it is, it is truly stunning, stunning numbers what is done to this country. Students in college well know the impact. Many have had a very difficult time getting jobs, they're back with mom and dad, thank goodness for mom and dad, but, eh, you know, it's not where they prefer to be. So its tough times, but 9.1 trillion dollars, that was about the size of the entire stock market back at the time of the dot com crash. The numbers are phenomenal. And for the first time since 1945, in all of America, the value of the homes was less than the value of the amount of debt that has been taken out to buy those homes. Not by a small amount, but by 3.7 trillion. We'd have to go back 67 years, two thirds of a century, right? Coming out of WWII, as the soldiers came home and started to buy homes to find that same scenario and we all know about the costs of unemployment, the costs of lost returns for those that are in retirement or about to hit retirement. International monetary fund has done some calculations that said the impact on the losses from the economy in general, the GDP was 13 trillion. That puts us price tag at 22 trillion dollars, and think about that in the context of if we shut down the US economy, shut down Manhattan, shut down Wall Street. No one went to work, the bank shut down, no services provided, nothing was done. This country just ground to a halt. No manufacturing, no new cars, no nothing. It would take a year and a half of that to equal the 22 trillion dollars. That's the type of damage that was impacted on this country, and I find it absolutely phenomenal when people like Jamie Diamond go out there and say lets have a cost benefit analysis, you know. It's stupidity beyond belief. [59:35] This is a short cost benefit analysis. We don't want to see this happen again. The problem though, is that no one views themselves as being accountable for this, and I think if you look at what transpires, one can start to understand that we all like to blame the bankers. First blame the bankers. I'd like a few scalps myself. I think there should have been some scalps, some probably more than a few. But unfortunately that's not happened. Harvey had talked about Rest Bill while there weren't prosecutions when I was at the commission the first time. As Bill Clinton was getting ready to leave office, the deputy attorney at the time was a guy by the name of Eric Holder. And, Eric, we got a proposal at the SEC, that the White House would pardon Michael Milken. We opposed it, the then director of enforcement, a great guy, wrote a letter to the White House saying we oppose it. We leaked it to the New York Times and the story comes out and they come back and they still want to pardon Michael Milken after what he'd done and then Arthur Levitt wrote a fine letter to the White House opposing it and we leaked it to the New York Times and that one didn't go through. But Holder was the one reviewing these, and the next one was Mark Rich, and Holder approved the pardon of Mark Rich. On this time though, they didn't call us, they didn't ask us, they just went and did it. [61:32] Now, if you got an attorney general who believes its fine to go get those guys a pass in essence with the opportunity to raise money then for the Clinton library. Is there any question as why you are not getting prosecutions? If you got that type of mentality at the top of that agency, and keep in mind the number three attorney at the department of justice, was the monitor at AIG who was put in place after this Spitzer accord and was supposed to be overseeing this organization, seeing that it was working and was controlled and was functioning alright, and we all know that was a miserable failure. If you had gone after AIG, who would have had implications for the number three guy at DOJ, and in fact, the person inside AIG who blows the whistle on it initially, writes a letter that goes all the way up to the board, had worked with Eastern District and Eastern District had decided to indict when the DOJ said we want to review all the files in Washington DC. And then DOJ and

Washington DC opposed doing indictments and bringing anyone to trial. So, we aren't going to have prosecutions, it's, we now have gone past statue of limitations on most of these cases, anyway. So unfortunately despite 22 trillion in destruction to Americans across the board, our department of justice thought it wasn't enough to bring these people to trial. [62:22] There were a lot of causes, heard some of those already, I think in general when I look at these, there are, you can put them typically in three buckets. One was lack of transparency, we didn't always have on a broad basis a clear picture of the quality of loans that the banks were doing. There was some of that out there, but not as broad as it should have been. There was not a clear transparency at the lack of conflicts, the lack of independence at places like Standards and Poor's. And the credit agency or at the banking agencies there certainly was a lack of accountability because no one was getting taken to task for what they were doing. Perhaps much along the lines of what we just heard, everyone got lost in this notion of the greater buck and forgot about the greater good. And I would say many people in America did that when we talk about all these mortgage loans, the real estate agents were selling the homes, the loan originators that knew what they were doing with these bad loans, these are next door neighbor type people, these are people on street, these aren't the Rubins, Chuck Princess, and they all knew exactly what they were doing, we were like in a drunken stupor, if you will. And what I found over the years dealing as a regulator and dealing with the markets is you are talking about putting people together with gargantuous sums of money. And when you take a person and put them out there with a pile of gold around them, they are going to act differently. There is a reason we built a fence and big tall walls around Fort Knox. [65:22] And when you have a capital market, you have more money floating around than what you have at Fort Knox, and if you haven't built the fences, people will be people and will walk out the door with that money, and so you have to build a regulatory scheme that regulates people and you often hear, Harvey and I would often hear at the commission "oh we don't want to regulate peoples behavior", but that's what the markets are all about. And only if you can have fair and orderly markets brought by a fair amount of regulation, thoughtful regulation though, there is a difference between regulation just for the sake of regulation and thoughtful regulation. But only if you have protections that ensure a high degree of transparency, a high degree of accountability, and you've taken care of the independence, made sure that there aren't conflicts and what conflicts do exist are made readily transparent to everyone. That's the only time you can have a market work, and today people are nervous about the markets, people are not investing today in the markets like they should and it's slowing us down. So why did it happen? Obviously we had bankers, they were incented for volume not quality. Everyone was out doing it, the next door neighbor who is the big mortgage originator, the real estate lender, no one had skin in the game, it was all about making money, it was not only a run away train, it was a bad movie. This was, the country in general was in suspended disbelief. And I remember there's a Business Week article back in around 2006. I went back through my stack of Business Weeks when this whole thing blew up, and sure enough, there is an outstanding article before it all blows up, that talks about, in full public view, about the fact that we are building homes at a faster rate than we have ever built before, that its, the rate of homes that we are building is far outstripping demand and we are building up a tremendous excess inventory, I mean it's not like it wasn't known. People saw it, regulators ignored it, investors ignored it, and when no one had skin in the game and thought no one would get caught but could continue to get phenomenal fees that real estate agents that closed more houses, they made more, if you were an originator, more originations more, if you are a banker after you could package these and sell them you made more, and it's just the way people behave, and if you don't have regulations that slow down the train, it always happens. I have been around to see the corporate M&A scandals at the late 60s early 70s like Penn Central that Harvey will remember well. The S&Ls that Bill Black talked about, I was at the SEC for the dot coms, and now this one. And every single one is the same characteristic of a large group of people getting carried away with excess compensation and with regulators no one putting on the breaks. In fact, in this case though, is even worse, because the state of North Carolina, another state AGs tried to put the breaks on, tried to stop some of the predatory lending, and governments own office of the Office of the Comptroller of the Currency regulating 10000 banks in the country, sued the state of North Carolina to prevent them from putting on the breaks on predatory lending. Our own government sued, and actually won and the Supreme Court level. Thereby enhancing the level of destructive damage done to the country. The SEC as we all know oversaw the five, failed to oversee the five banks, in the Lucas report basically said the SEC was on side of Lehman but clueless didn't even understand what was going on. CFTC didn't even have the money, didn't have the staff, they were like someone going in to a fight with a water gun, they were out gunned, out matched and didn't have the leadership, which they currently have to get them there, and their attorneys. We are talking about a law school to get attorneys roped and drafted every single one of these agreements. The attorneys were facilitators, the attorneys, the legal profession played a major, major role here. And we've seen the legal profession move from being in the business of justice to just being in the business of business these days, and so we've seen a serious [70:21] degradation in the quality ethics of the law firms and what law firms are willing and not willing to do, they have solely become advocates for whoever will turn around pam, a hired gun is probably the best description of the legal profession today. There are some that do good work, but it's certainly diminished from what it was, talked about S&P, the auditors, my own profession. If you go back and look at the other reports on BFA from 2007-2010 not a single word changes. It's the same report, and yet, if you look at BFA, here's a bank that went through serious deterioration, serious problems and auditors told us nothing about it. Our own accounting standard setters, when Harvey and I were at the commission, we pressed hard to get them to require greater disclosures and in fact they have undertaken a project to require greater disclosures to give us much better information about loans and a few years after Harvey and I left the banking regulators, the Fed and the OCC quashed that project, so we didn't see the data that we could have seen to put breaks on some of this. Now I remember this, it interesting, the due diligence was bad. I was sitting back here with Morgan Stanley in a meeting. Top people at Morgan Stanley and they were talking about doing these underwritings the commercial papers stuffed with the money market loans and they were talking about how they are getting class from the companies at 4 o'clock in the afternoon and would fund a new offering, yet that day, and I asked them because I have gone through these episodes myself as an executive or as an auditor. I said I have actually worked on Wall Street, and I said "how can you do any due diligence?" and then he said "we can't, we just can't do it, but" and I said so "why do you expose yourself to that risk?" and they said "because Lynn, if we don't do it, the next guy will do it". And that became the mentality on Wall Street, so the notion of ethics on Wall Street is like an oxymoron, unbelievable. On the board of directors that oversaw these in August of '08, I was with the longest serving director on board of Merrill Lynch. And by that point in time Merrill Lynch was in serious trouble and within a month of being sold. So one of the largest investment banks in the world, in the US, phenomenal reputation, and we were talking and I said “well, you know, you guys are kind of dire straits and all here, and all” and this director turns to me, she said “you know, Lynn, I thought about it and I thought about it” and this director has been on the executive committee, been around on Merrill Lynch for over a dozen years, chair of the Audit Committee, and she turns around, she says “I’ve thought about it, I’ve thought about it, Lynn, but you know, Lynn, if I had to do it all over again, I have found there’s not a single thing, there’s not a single thing I’d do differently”. And I’m sitting here thinking “you are a director on a company this size and its going belly up, and there is nothing you would do differently?” I mean, and to have those type of people or a person I greatly admire, a good person on the executive committee of board of AIG that same year, end of July, first of August, we’re out on a rafting/fishing trip and I’d seen their disclosures, I have been reading them, of course this before they blew up that got 60 billion in three real estate portfolios. And I just noticed that they’re most recent earnings release were just come out of AIG and in black and white they said “we’re not going to have a dollar of loss in our real estate portfolio”. [74:20] A 60 billion dollar portfolio. Now, 60 billion of real estate, that’s a big portfolio. I don’t think God could manage a 60 billion dollar portfolio in real estate and not have a single dollar of loss. But here these people, god like people at AIG, and they’re actually publicly saying “we are not going to have a dollar loss”, you know. And the director I was concerned about him and I pulled him to the side as we got off the river “hey, you know, you guys got these disclosures, if you look at this, you guys, this isn’t good, and there’s three or four studies that had you guys out on the street. Its doubtful that you guys are going to be able to sustain this, it looks like you have some pretty sizable losses”. And the director put his arm around me, kind of a fatherly way, and he says “Lynn, on the board of AIG we have looked at this thoroughly, we have top to bottom, I will guarantee you Lynn, we are not going to have one dollar of loss” and you know, he was right. They didn’t, they over a hundred billion dollars of losses, you know before it was all said and done. [75:32] So, clearly there was a problem there, but there’s some more stories like that. It’s just amazing to see. Congress got involved, investors I think are at fault here too. Here Michael talk about Goldman Sachs and the Abacus Transaction. I have actually gone back and looked at it. It was true, it was truly a rigged transaction rigged by Goldman and Paulson, there’s no question about that. But if you went back and actually red the offering memorandum, there were principally three large foreign institutions that went in to that, the German bank and a couple of others. But if you red that offering document, you would have to have been brain dead, I mean brain dead to have invested in that. And any investor who have done their home work at Abacus Transaction, couldn’t have fulfilled any fiduciary responsibility to the people who’s money they were managing when they made that investment. So certainly Goldman and others who were involved structuring Paulson bear responsibility. The asset managers who put the money in there should have been taken to task as well, there’s no question about it. [77:00] We talked about the financial crisis commission, Bill and Michael talked about that its not just here, you got to look at it around the world. Anytime you just put money together make it easy for a lot of people to make money, it happens. So what we got to do, we got to get Dodd Frank implemented. Unfortunately, it’s fantastic people, the bankers especially talk about all the costs of Dodd Frank, half of it has not even been put in place yet. I’m amazed that it’s costing them so much, since they haven’t had to do anything, you know. I’m wondering what they’re spending money on. And, I think until we go back and reenact Glass Steagall Act. I was on a panel with the chair at the audit committee, at J.P. Morgan in the last two weeks and I made this comment, I was surprised that he actually agreed that banks had gotten too big to manage and eventually we were going to have to break up the banks. I said we probably had to do it in ten to twenty years. He said it were more likely to be in the next five to seven years. Here's a former director of one of the federal reserve banks and like I said, the chair of the audit committee at J.P. Morgan, so I'm not sure he and Jamie agree on that point. (Mumble) yeah. Well, Jamie is Jamie, what can you say, you know. As I told the audience, I got a little 18 month old granddaughter, just a great little lady. But every once in a while when I spoil her I'll give her back to mom and she whines. [78:41] And I was talking about how, you know she'll whine once in a while but I got to tell you, I have never heard anyone whine like Jamie Diamond. We do need, if we're going to fix things, we got to get back to accountability. You got to go find prosecutors and regulators, it's back to the Elizabeth Warren question, when are we going to take these banks to trial again? And till they do we just will not get it, unfortunately one of the promises every time the regulators do start to move, you get congress jumps all over them, and moves to cut their funding, to prevent them from doing that. We need regulators that are independent of the banks, that's certainly not where we are at today. Harvey and I were both in a meeting with the federal reserve, actually with all the banking regulators at the time, and it was this issue about loan losses and making them more transparent and all and we were just starting and Allen Greenspan was down at the end of the table, and just shortly within five minutes into the conversation Allen turned to Arthur, Harvey and me who were all sitting there together and Allen says "what does it matter if you fudge the numbers a little bit, what does it matter if the banks fudges the numbers a little bit?" I think we now know the answer to that question, you know. Thank goodness we had Harvey there to respond, because he responded in a most professional manner. I would have responded differently, but anyway. We got to get people at the fed and in the Dodd Frank original proposal there was a solution. In the drafted Dodd Frank that was issued in November 2009, they stripped all of the examinations supervisory responsibility out of the fed, out of the OCC and put it in to a new agency that couldn't be captured, and that's what needs to be done. And unfortunately, the fed and the banks launched a big lobbying effort with Chris Dutton and the rest of the banking committee and that got taken out of the Dodd Frank. Until we get that back in, you won't get things fixed. We've talked about improved transparency, we got to get it towards where the banks just have to disclose much more information about the credit quality. They always opposed it, they fed has opposed it, they always say that there will be a run on the bank if you put that information out there. [81:17] We've gone through a number of banking crises now without that information out there and it's not working. Sooner or later someone's going to learn a lesson and realize by putting the information out there, you'll allow people to turn around and bring discipline to the market at an early enough time that it causes the banks to change. The largest bank in Colorado ever to fail, failed in this crises, it was bigger than Silverado, they got a lot of attention because of the Bush involvements during the S&L crises. But in this bank, it turned out, the state regulator brought this out, that the federal banking regulators fore-five years earlier had started writing an examination report saying that this was in trouble, making bad loans, and requesting changes. Over a four-five period not a single change got made, not a single in management got made, not a single change in directors got made, and then the bank failed. Those reports should have been made public all along. They wouldn't have caused a run on the banks, but what's more likely is they would have caused the people at that bank to change what they were doing, that's what you got to do to regulate behavior here and until we get that, we aren't going to have that, and the same thing needs to happen at SCC, by the way. And finally, we got to deal something with congress. Congress constantly beats regulators to death. I always knew when someone was in town, meeting with their congressional people, because I get a call from congressional staff and then you'd see in the public filings about campaign contributions, that someone opposing something have been there, and they'd call you up and they waste your time, call you and criticize you for doing something. And it's just not a healthy process. We've seen what's going on with the sequestration and the other things, it's congress is a miserable failure and it doesn't, isn't helping things. But fixes, will it happen? Will it prevent the next one? No. We just don't have what we need to have in Washington at this point in time, so I suspect in the next dozen years or so, we'll get back on that train and the train will get going again and kabom, we will have another repeat.

Prepared by Emil Saue and Henrik J.F. Holmberg