

What Caused the Financial Crisis?

Quotes by Bankers and Other Experts

Excerpts from many of these quotes are featured in our video, "What Caused the Financial Crisis? True Confessions from Bankers."

<http://www.responsiblelending.org/mortgage-lending/tools-resources/bankers-confess-bad-lending.html>

Ben Bernanke, Chairman of the Federal Reserve Board

"That conclusion suggests that the best response to the housing bubble would have been regulatory, not monetary. Stronger regulation and supervision aimed at problems with underwriting practices and lenders' risk management would have been a more effective and surgical approach to constraining the housing bubble than a general increase in interest rates."

"Monetary Policy and the Housing Bubble," a speech given at the annual meeting of the American Economic Association in Atlanta, Georgia -- January 3, 2010

"Although the high rate of delinquency has a number of causes, it seems clear that unfair or deceptive acts and practices by lenders resulted in the extension of many loans, particularly high-cost loans, that were inappropriate for or misled the borrower."

- Written statement by Chairman Bernanke, July 14, 2008

Jamie Dimon, Chairman and CEO, JPMorgan Chase & Co.

"The mortgage market meltdown occurred for a number of reasons, but new and poorly underwritten mortgage products were a significant contributor... "

*- Testimony to Financial Crisis Inquiry Commission (FCIC)
Washington, D.C. – January 13, 2010*

David Einhorn, CEO of Greenhorn Capital

"What strikes me the most about the recent credit market crisis is how fast the world is trying to go back to business as usual. In my view, the crisis wasn't an accident. We didn't get unlucky. The crisis came because there have been a lot of bad practices and a lot of bad ideas."

- Speech given at 17th Annual Graham & Dodd Investing breakfast (October 19, 2007).

Alan Greenspan, former chairman of the Federal Reserve board

"The big demand was not so much on the part of the borrowers as it was on the part of the suppliers who were giving loans which really most people couldn't afford."

- Jon Meacham and Daniel Gross, "The Oracle Reveals All," Newsweek online, interview with Greenspan.

Speaker Jon Husted, Ohio House of Representatives (R)

"We as a nation have \$9.5 trillion in debt. This is \$31,500 per consumer. We have a consumer debt that is \$8,300 per capita. That is crippling our economy as a result. We have witnessed irresponsible lending as a major factor in slowing our economy. It's not just consumers, but its very large banks and firms on Wall Street."

http://california.newamerica.net/blogposts/2009/a_free_market_republicans_take_on_payday_lendi_nq-24660

Brian T. Moynihan, CEO and President, Bank of America

"Over the course of this crisis, we as an industry caused a lot of damage. Never has it been clearer how mistakes made by financial companies can affect Main Street, and we need to learn the lessons of the past few years."

*- Testimony to Financial Crisis Inquiry Commission (FCIC)
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Scott Stern, CEO of Lenders One

The truth is that many of us in the industry were deeply distressed by the growing practice of pushing high risk loans on borrowers who had no reasonable expectation of

being able to repay the mortgage. Disclosures were often less than adequate, and faced with a bewildering array of loan terms, borrowers tended to trust their mortgage banker or broker. The broken trust that resulted has damaged borrower confidence in the mortgage industry. I liken the situation to that of a doctor and patient dealing with a medical procedure. The patient bears some reasonable risk. But they don't bear the risk of malpractice by the doctor. In our industry, we have frankly seen too much mortgage malpractice.

- Testimony before the Senate Banking Committee
Washington, D.C.
April 10, 2008

John Robbins, long-time industry executive and former chairman of the Mortgage Bankers Association

During the lending boom, the industry developed products that were "extremely risky that were pushed by everybody up and down the food chain," Mr. Robbins said. "We forgot about our customers, and making money and our commission checks were more important," he said.

Kate Berry, "Wachovia Alum Has Tips for an Industry Rebound," American Banker (September 15, 2008)

Mark Zandi, Chief Economist, Moody's Analytics

"Even after mortgage loans started going bad en masse, the confusing mix of federal and state agencies that made up the nation's regulatory structure had difficulty responding. After regulators finally began to speak up about subprime and the other types of mortgage loans that had spun out of control, such lending was already on its way to extinction. What regulators had to say was all but irrelevant.

Yet even the combination of a flawed financial system, cash-flush global investors and lax regulators could not, by itself, have created the subprime financial shock. The essential final ingredient was hubris: a belief that the ordinary rules of economics and finance no longer applied."

Introduction to Zandi's book, Financial Shock.

What Did NOT Cause the Crisis?

Christopher Cox (SEC Chairman), Alan Greenspan, John Snow (former Treasury secretary)

When questioned in a House Oversight Committee meeting on October 23, 2008, all three agreed that All agreed that Fannie Mae and Freddie Mac were not the primary cause of the subprime meltdown.

<http://thinkprogress.org/2008/10/23/mica-waxman/>

John Dugan, Comptroller of the Currency

"CRA [the Community Reinvestment Act, a longstanding program for encouraging more lending in minority neighborhoods] is not the culprit behind the subprime mortgage lending abuses, or the broader credit quality issues in the marketplace."

Press release issued on November 19, 2008, quoting Mr. Dugan in a speech to the Enterprise Annual Network Conference

Randall Krozner, formerly on the Federal Reserve Board, now a Professor of Economics at the University of Chicago

"The very small share of all higher-priced (home) loans originated that can reasonably be attributed to CRA makes it hard to imagine how this law could have contributed in any meaningful way to the current subprime crisis."

Speaking at a conference, as quoted in a Reuters article
<http://www.reuters.com/article/idUSN0332633420081203>