

Inquiry Is Missing Bottom Line

By [JOE NOCERA](#), New York Times, January 28, 2011

There was something almost comical about the way the [Financial Crisis Inquiry Commission](#) released its report on Thursday morning.

About a week ago, reporters were told they would get a sneak preview of the report the morning of its release. The location was undisclosed. Over the next few days, further details emerged. Washington-based reporters were directed to a building at [George Washington University](#); for those of us in New York, the offices of PublicAffairs, which was publishing the report as a paperback book, would serve as our safehouse. The doors would open at 7:20 a.m., we were instructed, but the report was embargoed until 10 a.m., when the Democratic commissioners would officially unveil it at a press conference.

I got to PublicAffairs a little after 7:30, where I was handed a nondisclosure form and asked to turn in my cellphone. Then my minders gave me a thick, 545-page paperback — the report! — and I joined four other journalists in a small conference room, where I poured myself some coffee and turned on my laptop to take notes. It goes without saying that Internet access was blocked.

Never mind that earlier in the week, Sewell Chan of The New York Times had reviewed the report for [a front-page article](#) that laid out many of the commission's conclusions. Or that Peter Wallison, the [American Enterprise Institute](#) scholar and the fourth Republican F.C.I.C. commissioner, had already released his own, one-man dissent — a lonely, loony cri de coeur that placed the blame for the financial crisis entirely on [Fannie Mae](#), [Freddie Mac](#) and federal home ownership policies, a position so contrary to the facts that even his fellow Republican commissioners did not agree with him.

Silly though the secrecy was, it was easy to understand how the commissioners might get a little carried away. They had spent nearly a year and a half immersed in the financial crisis, trying to tickle out its causes. They had interviewed 700 witnesses and reviewed countless documents. They felt they had something important to say. A little cloak and dagger might give the release some extra P.R. oomph.

But it didn't take long to realize that this was hardly the financial equivalent of the [WikiLeaks](#) cables. The F.C.I.C. report has its strengths — and its weaknesses. It adds color to the fraudulent actions, regulatory missteps and Wall Street mendacity that we've long known about. What it doesn't do, though, is propose a satisfying theory that explains why so many people did so many wrong, and wrong-headed, things in the years leading up to the financial crisis.

Partly, I wound up thinking, it's because the events of September 2008 are still too raw and recent; truly, it will be decades before we can achieve anything approaching real perspective. But there is a second reason as well: the "why" is so obvious that it remains hidden in plain sight.

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First, the strengths of the report. “There is a great deal of new depth to many of the events that people know about,” said Phil Angelides, the chairman of the commission, when I spoke to him late Thursday. He’s right about that. The commission’s investigators made good use of all those documents they gathered. It is not news that [Angelo Mozilo](#) of Countrywide sometimes worried about his company’s dive into subprime mortgages; what is news is that as early as 2004, he was predicting that “the unprecedented stretching of all aspects of credit standards could cause a bump in the road that could bring with it catastrophic consequences,” according to a Mozilo e-mail released by the F.C.I.C.

The commission report does a nice job analyzing one synthetic [collateralized debt obligation](#), as a way to represent all the problems caused by these financial Frankenstein monsters. (It also makes the point — of which I have long been convinced — that synthetic C.D.O.’s both extended and amplified the crisis, because they made it possible for Wall Street to bet on particularly toxic tranches of mortgage-backed securities over and over again.)

The commission’s analysis of the role of Fannie Mae and Freddie Mac — a hotly contested battleground — is utterly persuasive. You may recall a few months ago, when I scoffed at Mr. Wallison’s contention that Fannie Mae and Freddie Mac were ground zero for the financial crisis, he told me that he had seen internal documents that would prove him right. His dissent does not deliver the goods. Instead, it is the report itself that is chock-a-block with internal documents conclusively showing that the two government-sponsored entities followed Wall Street and the subprime companies off the cliff, rather than the other way around.

The F.C.I.C. is the first to take a close look at the missteps at [Citigroup](#), which virtually every book about the financial crisis has overlooked. It is a devastating portrait of negligence at the top — including the once sainted [Robert Rubin](#). It homes in on the unconscionable willingness of federal regulators to look the other way at destructive subprime lending practices. It digs into [A.I.G.](#), [Goldman Sachs](#), [Merrill Lynch](#), [Lehman Brothers](#), [Moody’s](#), the Federal Reserve, Countrywide, Ameriquest and others. It’s a very long list.

Which is also one of its key weaknesses: the report has a kitchen sink quality that actually detracts from our ability to truly understand why the crisis took place. In their joint dissent, the three Republican commissioners complain that the report “is more an account of bad events than a focused explanation of what happened and why. When everything is important, nothing is.” The commission, they argue, could have done with less investigation and more analysis. Having plowed through all 545 pages, I’d have to say that they have a point.

The Republicans point out, for instance, that the abolition of the [Glass-Steagall Act](#), which had separated commercial banking from Wall Street businesses like securities underwriting, really had nothing to do with the crisis, nor did derivatives not related to credit — yet both are discussed in the report. They complain that fraud alone is an inadequate explanation for the rise of the subprime industry. They criticize the majority for being so narrowly focused on America — which does little to explain why so many European nations, many of them with no subprime machinery, also had a housing bubble.

Yet the Republican 30,000-foot view of the crisis has its own drawback: it's so bloodless it's almost as if they are saying nobody is responsible for the bad things that took place in the years leading up to the crisis. When I spoke to Keith Hennessey, a research fellow at the Hoover Institution and one of the co-authors of the Republican dissent, he told me that he and the other Republicans agreed with many of the investigative thrusts of the final reports. (It didn't help that the Republicans had only 27 pages to express their views, compared to the Democrats' 500-plus pages.)

The question, he said, wasn't whether there were bad actors or fraudulent practices — “of course there were, and they did awful things,” he said — but whether the particular actions of particular people had been the primary reasons for the financial crisis. “If you take that view, then you are saying that the crisis was foreseeable and preventable. I think the real answer is: we don't know,” Mr. Hennessey said. The inability of the Democrats and Republicans on the panel to agree on this question was one of the primary reasons the Republicans split from the Democratic majority and wrote a dissent.

At the press conference introducing the report, Mr. Angelides made no bones about where he stood on this question: “This was an avoidable crisis,” he said bluntly. As the report puts it, “The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire.” If only regulators had been willing to regulate; if only Wall Street had done proper due diligence on the mortgages it was securitizing; if only subprime companies had acted more honorably; if only the credit ratings agencies had said “no” when asked to slap triple-A ratings on subprime junk. If only, if only, if only.

But I wonder. Had there been a Dutch Tulip Inquiry Commission nearly four centuries ago, it would no doubt have found tulip salesmen who fraudulently persuaded people to borrow money they could never pay back to buy tulips. It would have criticized the regulators who looked the other way at the sleazy practices of tulip growers. It would have found speculators trying to corner the tulip market. But centuries later, we all understand that the roots of tulipmania were less the actions of particular Dutchmen than the fact that the entire society was suffering under the delusion that tulip prices could only go up. That's what bubbles are: they're examples of mass delusions.

Was it really any different this time? In truth, it wasn't. To have so many people acting so foolishly required the same kind of delusion, only this time around, it was about housing prices. Getting to the bottom of that requires less the skills of an investigator than the talents of a psychologist.

There is a telling moment in the commission's report, when some A.I.G. executives are questioning whether they should stop insuring triple-A tranches of C.D.O.'s, which have become increasingly risky. In search of answers, they visit a housing analyst at [Bear Stearns](#). One A.I.G. consultant later recalled that “the analyst was so optimistic about the housing market that they thought he was ‘out of his mind’ and ‘must be on drugs or something.’ ” But of course he wasn't on drugs. His hallucinogen was the housing bubble.

In pushing the idea that the crisis was avoidable, Mr. Angelides is also trying to make an additional point: if we just do it better next time, we will avoid the next crisis. I'm all for holding the bad actors accountable, and to the extent the F.C.I.C. has done that, I tip my hat. But mass delusions, alas, are part of the human condition, and no report, no matter how scathing, is going to change that.

And thus the question really isn't whether it will happen again. It's when.