FCIC + great sources

US Gov investigates Financial Crisis. Other experts share their analysis.

Al Mac studies explanations of the economic train wreck.
I seek out more info regarding various alleged "statements of fact" in various sources.

Alister William Macintyre notes

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Table of Contents

First time visitors (1 May 12)

If you are a first timer to Al Mac research notes on "Economic Disasters – past present future", note that they are currently organized into several broad categories of information:

1. ***Education***: Before this research effort, I already knew some relevant stuff, but this effort has opened my eyes to additional dimensions and depths. In this section I try to share what I thought I knew before, and what I have learned, which was new to me, which means I need to rethink prior conclusions. This subject is a landscape of information, which we are all navigating along different paths, where perhaps we can learn from each other's discoveries. This is also a snapshot of where I am on understanding these realities, to help other people evaluate whether "what I know" could be of any help to you or not. Also whether the places, I credit as sources, sound like they could be valuable to you also.

2. ***FAQ: How did we get into this mess?*** I try to structure an explanation starting with simple questions, then sequence the info flow, so that good answers inspire related questions, which grow a shared understanding of the big picture.

3. ***Red Flag warnings of economic trouble ahead***. Ordinary people, without good education in economic events rare risks, might not recognize

impending trouble, but we have higher expectations of people in certain areas of responsibility, with certain skill sets. The red flags are organized into a time line format. With natural disasters, we might have 50 years where nature behaves a certain way, then 1 day of chaos, where the average population, without good forecast education, could be totally unprepared. But there were indicators that the trouble was coming, which we need the science to detect and interpret. Similarly, with an economic crisis, there are indications in advance, which need detection, and then do something constructive about them.

4. ***FCIC investigation results***. This is a US government investigation into the financial crisis, whose release triggered my start of putting research notes into this document. As indicated in these notes, I continue to reference other primary sources.
5. ***Next Economic Crisis speculation***. The red flags continue. Can we decipher what they are telling us, and demand more responsibility in the future from policy makers? In many cases, what the voters believe drives our politicians, so there will need to be improved public education and debate.
6. ***Glossary of Terminology***.

Visit again later (1 May 11)

Heading then (date) ... the date in parentheses is when I last updated that "chapter."
This so when I share newer editions of notes with interested contacts, they can see where I have most recently updated what content.

Introduction (1 May 11)

From time to time, I read various sources doing analysis on some causes of recent disasters, during which there are references to red flags which should have alerted people to impending doom, so its effects could have been mitigated. This leads me ponder what red flags may exist today, to warn of us of tomorrow's disasters.

Early April 2011 I started reading the USA Government report on our financial crisis.[1] I had previously read lots of other stuff on the mess, and written up some notes elsewhere, such as my **Glossary of Housing** (and other) **Challenges in Haiti**, and how similar they are to the mess in USA: Some relevant notes there are copied here, to help with clarification.

- Man Made mess, easy to create, nightmare to fix
- Government too weak, or divided, to solve anything

[1] http://fcic.law.stanford.edu/

- Private Enterprise gone wild, and corrupt
- Policy makers in government and industry do not understand, cannot fix, or have conflicts of interest due to revolving door of regulators and the regulated
- Systemic breaches in accountability and ethics at all levels
- As the situation evolves in reality, lots new crooks enter the game

Thus, a lot of what I am seeing in the US government conclusions are familiar, but there's also gems there, which I had not previously seen.

This is an ugly story about an economic train wreck, which quite probably may happen again, although no two wrecks are identical. In the immediate aftermath of the crisis, we were told that the problem was caused by stupid consumers in the housing market, who lied on mortgage applications, to get loans they really could not afford. Later, we learned consumers had been duped by massive fraud, where government regulators had failed to fulfill their fiduciary responsibilities. Then more details came out, indicating that version of reality was an over simplification.

When the economy is running fine, people take a lot for granted, and don't pay attention to details that might indicate it won't be running fine for much longer. There's now a lot of anger in the news, where people want someone to be held accountable, and most people think it is Wall Street bankers at the root of the problem. FCIC clearly lays out that the responsible actors are a heck of a lot more people than Wall Street bankers, who created, maintained, and pawned off, a stinking mountain of toxic assets, which has caused more damage than any EPA super-fund environmental disaster. Unfortunately, this report is not as readable as the 9-11 commission report.

NTSB investigates transportation accidents then says here's what caused them, what we need to do to fix things so this never happens again, then after several accidents for same reason, higher ups decide to implement the fixes.

Congress, in its infinite wisdom, only asked FCIC to find out the causes of the train wreck which some of us call economic melt-down, financial earthquake, great recession, etc., not what to do to prevent it ever happening again, so we can reasonably expect more these economic train wrecks, before the causes get fixed, if they get fixed.

I have also been studying physical disasters like storms, earthquakes, tsunamis, leading to related human disasters, like nuclear accidents, where it would appear the damage could have been seriously mitigated, but was not. I may incorporate some of these lessons not being learned in here, since the financial disasters and the physical disasters share human responsibility for not doing a better job of risk management. In time I may rename this document to reflect this wider concept of lessons not learned.

Initially I called this document "**FCIC**" after my primary source, but then changed it to "**Economy Disaster**" as I checked out additional sources to explore my understanding.

Primary Sources (1 May 11)

FCIC = Financial Crisis Inquiry Commission.[2] This commission was created by Congress and the President May 2009 to investigate causes of the most devastating financial and economic crisis since the Great Depression. The commission interviewed over 700 witnesses, held 19 public hearings, examined millions of pages of documents, never previously made public. Then in January 2011 they published their findings, in a report (which I have started reading), and on websites. This report, and what is on the websites, fulfills what was asked of them by Congress and the President, and now they are trying to explain their findings to the American public.

- http://fcic.law.stanford.edu/

Game Over, how to prosper in the coming shattered economic collapse,[3] by Stephen Leeb,[4] published in 2009 by Business Plus in Hatchette Book Group.[5]

Dr. Leeb first tells you just how bad things are, in our wrecked economy, by exposing the basic suppositions of our institutions, and how quickly outdated they've become. Warning bells are sounding especially for Americans looking forward to a relaxing retirement and living off their savings, investments, Social Security, and Medicare. The time to sit up and take action is now.

Dr. Leeb provides a clear-cut and well-crafted financial road map to protect every investor in the years to come. Specifically, he reveals which key investments will steadily rise . . . the best ways to hedge surging inflation . . . and which sectors will boom.

Key Articles and TV documentaries, such as:

- CNBC-David Faber-The House of Cards-Video[6].
- Unwisdom of Elites in NY Times.[7]

The significance, of what we learn from these sources, is generally referenced throughout these research notes. Some sources I am still studying, will add to these notes as I continue to wade thru them,

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[2] Not to be confused with FCIC = Federal Crop Insurance Corporation, within the US Department of Agriculture http://www.rma.usda.gov/fcic/
[3] http://www.hachettebookgroup.com/books_9780446557368.htm
[4] http://www.hachettebookgroup.com/authors_Stephen-Leeb-%281016743%29.htm
[5] http://www.hachettebookgroup.com/
[6] http://video.cnbc.com/gallery/?video=1145392808
[7] http://www.nytimes.com/2011/05/09/opinion/09krugman.html?_r=2

Document structuring (1 May 04)

Topic sub-titles end in a date signifying when that info last updated, so by viewing table of contents, we see where most recent input to these research notes, especially aiding people with copy of an earlier version.

Digit 0 in front of month means 2010.

Digit 1 in front of month means 2011.

Version numbers are incremented, with this document periodically uploaded various places[8] for convenience of other people who can then pick and choose which of my research efforts they wish to download.

Users of my research hold Alister Wm. Macintyre harmless, and also the places I upload my research to, and agree that my copyright is reserved and that the information is available for the intended purpose of helping understand what's needed for recovery of our financial system, if that is even possible, and mitigating future disasters. Some of my research content is direct quotes from other sources. I try to give credit every time I do this. Where I have info without attribution, most of it will be what I got out of studying the FCIC report.

Al Mac Politics (1 May 11)

In these research notes, I am highly critical of the actions of many people, so perhaps it is fair that I share a summary of where I stand on the political spectrum. I think of myself as an intellectual, whose beliefs have selected the best of what many different ideologies have to offer. I am generally introverted introspective, trying to listen politely to the views of others, but when someone expresses what I consider to be hateful speech, I have been known to tell them "I am a N-lover." With friends, I often say "We need to agree to disagree, because obviously we are not going to change each other's minds, and continuing with this discussion can only be annoying."

I am a fiscal conservative and social humanitarian with personal responsibility.

- ***Fiscal Conservative*** means I believe in a strong military capability to defend the nation, and a strong economic ability to pay for that. During the Cold War, I believed the Republican party stood for this. I do not believe that any more. Now it is just rhetoric when they call for those values. They do not practice them in Congress. Some day they may return to those roots. It does not look like that's probable any time soon.

- If we do not fix our current economic disaster, many aspects of our economy will get much worse. We have to spend wisely to fix it. The deficit will have to suffer temporarily, while we do so. During the era of Democratic Bill Clinton in the White

[8] http://www.haiti.prizm.org/ and see my Linked In profile http://www.linkedin.com/in/almacintyre box net files / economy folder

House, with a Republican Congress, our elected leaders eliminated the deficit. We got a budget surplus. Economic times were much healthier then. We need to get back to that, improve the economy sufficiently so that we can fix the deficit without crashing the economy. I do not know how. That is one of the reasons for these research notes. Study and Learn, so maybe I can figure out how.

- ***Social Humanitarian*** means I take from the Democratic liberal principles the notion that as a society, we have an obligation to have safety nets to help out our fellow man, when they are down on their luck, through no fault of their own. And maybe we even should give a helping hand to people in trouble, through fault of their own.
- We collect taxes for various stated purposes. I am in favor of this, and believe that money ought to go to those purposes, where the tax rate and management of the funds should strive to be wise enough to satisfy those purposes. I believe that several areas of our political economic system have become broken, and need fixing. Throwing out benefits, to balance the deficit, is unacceptable to me. People paid those taxes to pay for those benefits.
- ***Personal Responsibility*** means I believe we need to be accountable for our own actions, and inactions. This draws from Libertarian politics, although I am not a Libertarian. Seems to me, they are very opposed to Social Humanitarian philosophy.

Al Mac Education (1 May 04)

Before picking up FCIC info[9] to study, I thought I already knew a lot about this topic from reading several books, watching C-Span, and other sources of information. FCIC added to my collection of knowledge and understanding. Here is a summary of how FCIC clarified my comprehension.

Splintered Regulators (1 Apr 08)

I already knew that the financial industry was able to game the regulators by having transactions cross regions regulated by different sets of regulators. Here are the regions:

- All types of lending, including Mortgages, were supposed to be governed by rules written by the FED,[10] authorized by Truth in Lending, passed by Congress in 1968. The FED wrote regulation Z to handle that in 1969, with enforcement left up to the various regulators over the different kinds of lenders.

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[9] http://fcic.law.stanford.edu/

[10] See The FED in terminology.

- Mortgage brokers were licensed by the state, but not supervised nor regulated.
- Mortgage practices of state banks were supposed to be regulated by state regulators, the FED, and FDIC.[11]
- National banks were supposed to be regulated by the OCC.[12]
- Thrifts, or Savings and Loans, were supposed to be regulated by state regulators, and the OTS.[13]
- Non-bank lenders were supposed to be regulated by the FTC,[14] authorized by Truth in Lending. HUD[15] told FCIC[16] that they thought FTC did not have the staff to do this properly.
- Securities were supposed to be regulated by the SEC.[17]
- As we see in other sections of these notes, there was a lot of activity outside of what the regulations covered. See SHADOW BANKING.

Mortgages into Securities (1 Apr 06)

Prior to studying the FCIC data, I had no idea that so many mortgages were typically rolled into one security. The FCIC has a case study using one Mortgage backed Security to help understand the process.[18]

Here I am summarizing the flow of info, sufficiently to show the complexity of the dealing in assets with the potential to become toxic, and the intensity of potentially unfamiliar terminology. Much more data, than I have excerpted here, is on the FCIC site.

On June 9, 2006, Citigroup agreed to purchase approximately $1 billion in loans from New Century. The characteristics of the loans to be purchased were spelled out at that time, as was the price: Citi would pay $102.55 for every $100 in mortgage balance. The Trade ticket and "Stip sheet" (stipulation) sheet summarize the details of the deal and the pool which would be created.

Through late July and August, one or two at a time, loans were pulled from the pool for legal issues, because they had been sold into other pools, or for other reasons.

As the loan purchase was closing on August 29th, New Century sent a final list of the 4,521 loans they were selling. Citi personnel saw violations of the initial agreement: 14 NINA loans

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11 FDIC = Federal Deposit Insurance Corporation.
12 OCC = Office of Comptroller of the Currency.
13 OTS = Office of Thrift Supervision.
14 FTC = Federal Trade Commission.
15 HUD = Housing and Urban Development.
16 See FCIC in terminology – what these notes are all about.
17 SEC = Securities and Exchange Commission.
18 http://fcic.law.stanford.edu/resource/staff-data-projects
http://fcic.law.stanford.edu/resource/staff-data-projects/story-of-a-security

(no income, no assets) and too few loans with prepayment penalties. They forced New Century to keep the 14 NINA loans and bargained the price down to account for the other problems.

With the loans settled, $978.6 million had to be moved from Citigroup to New Century. These loans were funded by a series of warehouse lines with individual loans serving as the collateral. New Century sent Citi the wire instructions; Citi sent the money, and the individual lenders released the loans as they were paid back.

- Wire instructions
- Tracking email from Citi to New Century
- Release letters

Citi then began to market the various tranches[19] of this mortgage-backed security

- Prospectus
- Fannie Mae term sheet

To sell the bonds, Citi needed the rating agencies to rate them. On September 11, S&P ran its model and confirmed the ratings of the individual tranches. When the deal was priced on September 12, the interest rates on some of the bonds were slightly different than those S&P had originally modeled. The final models were run on September 26 as the deal was closing. S&P sent the final ratings letter to Citi. For rating this deal, S&P earned $135,000. (A second agency, Moody's, earned $208,000.)

- Moody's invoice
- S&P Invoice
- S&P ratings letter to Citi
- S&P final deal summary
- S&P ratings summary doc
- S&P pre-closing checklist
- True sale letter
- Model runs 9-11
- Model runs 9-26
- Waterfall
- Moody's rating memo

When the deal closed on September 26 , Citi had lined up investors around the world. Banks and funds in England, Germany, Italy, France, and China all bought pieces of the deal.

Some investors merit special mention:

- Fannie Mae bought the A1 tranche

[19] Tranches = various types of mortgage backed securities and CDO bonds. See CDO etc. in terminology section.

- Cheyne Finance, one of the first SIVs to collapse, bought the M1 tranche
- Parvest Euribor, one of the hedge funds owned by Paribas that froze redemptions, bought the M2 tranche
- Bear Stearns Asset Management and JP Morgan Chase's securities lending group were also investors

- Senior investors
- Mezzanine investors

Most of the mezzanine tranches were bought by CDOs, including the cash deal Kleros Real Estate III.

In addition to cash deals, a number of synthetic/hybrid CDOs held credit default swaps (CDS) referencing the lower-rated tranches of this deal. These included Volans Funding 2007-1, Glacier Funding CDO V, and Auriga CDO

- **Marketing documents for some of the synthetic CDOs that referenced the deal**
- Auriga Pitchbook
- Auriga Offering Circular
- Auriga Term Sheet
- Volans 2007-1 Pitch Book
- Volans-2007-1 Term Sheet
- Volans 2007-1 CDO Offering Circular
- Glacier Funding V Term Sheet
- Glacier Funding V Pitchbook

Wells Fargo was chosen as the servicer of the loans and U.S. Bank as the trustee. As servicer, Wells processes payments from the borrowers and makes any necessary payments to the investors. Their responsibilities also include dealing with borrowers who miss payments and possibly foreclosing on those borrowers who are seriously delinquent.

- Pooling and servicing agreement

The bonds would perform as long as the mortgages did.

- July 10, 2007: Moody's downgraded 399 residential mortgage-backed securities—the lower three tranches of this deal were among these downgrades
- August 9, 2007: BNP Paribas froze redemptions
- August 28, 2007: Cheyne Finance announced funding trouble
- October 11, 2007: More mass downgrades issued, including tranches of this deal

By 2008, foreclosures were rampant among these loans and loan modifications had begun. The lower-rated tranches were all wiped out. The A1 and some of the A2s were still performing. By late 2009, all the tranches had been downgraded.

By September 2010, many borrowers whose loans were included in this securitization had moved or refinanced their mortgages; by that point, 1,917 had entered foreclosure (mostly in Florida and California), and 729 had started loan modifications. Of the 1,715 loans still active loans, 579 were seriously past due in their payments or currently in foreclosure.

- Data on 4,499 loans

Sept 2010 in California, 494 homes lost, 119 loans still active.

Sept 2010 in Florida, 197 homes lost, 73 loans still active.

Sept 2010 in Arizona, 88 homes lost, 24 loans still active.

Sept 2010 in Nevada, 76 homes lost, 10 loans still active.

Derivatives vs. Securities (1 Apr 07)

This terminology is used very heavily, defined in more detail in terminology section elsewhere. Here I try to differentiate their overall significance.

Derivatives are exchanges of financial objects of similar value, gambling on future price changes or interest rate changes, or risks. They do not form new capital. They are typically transacted in over-the-counter (OTC) markets, which are not centralized nor regulated, even though there is US legislation for regulating exchanges where they can also be transacted, and which can be interpreted as demanding that derivatives go through such exchanges.

Securities are the formation of new capital, even though underlying mortgage loans may be based on fictitious data.

Mitigation Resolution Path (1 Apr 05)

Could this mess have been avoided? Can we avoid it again, or are we doomed to repeat similar history from time to time?

1. Financial Panics prior to Great Depression
2. 1929 Crash and Great Depression
3. Savings and Loan Crisis
4. Sub-Prime Mortgage scandal leading to Housing Bubble Burst, Financial Earthquake, Economic Meltdown, Great Recession, whatever you want to call it.

Aside from issues of the repairability of damage from the economic crash, could the crash itself have been mitigated better? What can or should be done to avoid a repeat of history of figuratively getting on a train, and after it is up to speed, it is obvious to some people that it is on a collision course to a disaster they feel powerless to avert? It is both an issue of how individual passengers may be able to escape, and policy for the nation, and the world.

Prior Understanding Mitigation (1 May 11)

A summary of what I thought I learned from studying this subject before FCIC input to my brain.

My understanding of many concepts are foggy. It is not critical that I understand this, rather it is critical that regulators and Attorneys General have staff who comprehend it, and when they explain it to legislators and administrative leadership at state and federal level, partisan politics does not block constructive resolution.

Some voter education is needed. For example, every time gas prices spike, our leaders declare they will investigate price gouging, and take serious action if they find any such perpetrators. They never do, because the problem is not price gouging, the problem are surveys which ask voters what they think are the major causes, so then the politicians cater to those opinion polls, instead of taking serious action to address our real problems.

Same situation with financial problems. If the voters lack clear understanding of cause and effect, then negative advertising is successful with politics as usual. The same people, who caused the crisis, remain in charge to place us at risk again.

FCIC Illumination Mitigation (1 Apr 05)

A summary of what more I learned about this subject thanks to FCIC input to my brain.

My understanding of many concepts are still foggy. There are a few added clear spots in the fog, but there's still vast amounts of fog than clarity in my brain.

FCIC showed clearly that state Attorneys General understood this, and could have averted the crisis, had it not been for active opposition to their proposed solutions by clueless federal regulators, more interested in their turf than national economic security. The US Supreme Court ruled on the side of the clueless federal regulators, while several US Attorney Generals were oblivious to this battle. Had the US Supreme Court ruled in the other direction, several US states would have escaped this financial disaster, setting examples for other states, and nations to follow their example.

Thus, in addition to our nation divided by Democrat and Republican partisan politics, there's also turf wars between federals and states. We need better balancing between states rights and promoting interstate commerce, which does not prohibit states from cracking down on what amounts to organized financial crime syndicates operating inside state borders, money laundering citizen assets into oblivion, otherwise known as federally registered banks whose federal regulators do nothing to stop the crime wave.

FCIC was only tasked with figuring out causes of the mess, not with suggesting solutions.

Mark comments on Mitigation (1 Apr 04)

I got an e-mail from Mark Weisz which I think is relevant to putting this in perspective. This was triggered, in part, by my remarks on recent disasters.[20] In part, I said:

I am studying several complex theories. How come mankind seems incapable of mitigating very serious risks?

- The world wide global financial earthquake was man made and avoidable.
- The Japanese tsunami was predictable, and the nuclear disasters avoidable.
- The Haiti earthquake was predicted, 2 years in advance, and nothing was done to mitigate the risk.
- Katrina was simulated 1 year in advance, mitigation figured out, but nothing implemented in time.
- 9/11 should not have been a surprise.
- Pearl Harbor could have been averted.
- The UN has lessons learned from 40 years of disasters, can't seem to apply them.

QUOTE

Planning for disasters is boring and expensive and thankless, a job for government bureaucrats or low-level private company employees with limited imagination (and limited budgets, unwisely allocated with political, rather than practical, conditions in mind) or maybe TOO vivid an imagination. The threat is usually perceived by the general public--which is busy feeling sorry for itself, and watching "American Idol"--as being either unlikely, or far off into the future, or both.

Ironically, you're hoping all your preparations are a waste of time and effort, i.e., that the planned-for disaster never happens. Every year that passes with no disaster makes it seem less likely--although in all probability it becomes more likely--pushing preparedness further onto the back burner.

People who anticipate and prepare for disasters are seldom heroes. They bore others at cocktail parties, unless they have a relatively interesting hobby, like stamp collecting. Inevitably they become victims of Monday-morning quarterbacking, because in spite of what might be their herculean efforts, the disaster still causes a great deal of harm. Who cares--or even believes--that you saved 100,000 citizens by intelligent assessments of risk and resource allocation if 10,000 died anyway? Those 10,000 are still on you. If you're lucky you're one of them.

Heroes come to the fore after the disaster strikes, when the daring rescue of even a single

[20] http://www.facebook.com/notes/alister-wm-macintyre/when-no-one-is-in-charge/10150149305359267

life becomes front page news. We adore post-traumatic drama, not prophylactic wisdom.

Even the worst disasters become old news and complacency sets in. Or they pile up, and people tune them out or otherwise become numb. They begin to worry about more immediate problems, like Charlie Sheen, Snooki, or the Kardashian sisters. Those tedious Cassandras who warn of dangers--which to most people are distant, even absurd, abstractions--become shrill, or marginalized, or thought of as kooks.

There's a group out there warning of the dire consequences of an asteroid hitting the Earth, and seriously tracking the paths of potentially catastrophic galactic particles. They're not getting a lot of attention. Could we really do anything to prevent another Tunguska? And who in their right mind would put up the money?

Nobody I know here in New England has earthquake insurance. Even at a paltry $100 a year, it's a complete waste of money.

Unless an earthquake strikes.

Take care all,

Mark

P.S. Guess I was wrong on one point, now that I think of it. The job of disaster planner isn't entirely thankless. None of us could forget former President George W. Bush's now immortal words to the hapless political hack who ran FEMA (himself a stereotype for the quality of person who usually aspires to such posts) when Hurricane Katrina devastated the Gulf Coast:

"You're doin' a heckuva job, Brownie."

UNQUOTE

More questions about Mitigation (1 Apr 05)

The above clarifications lead to more questions.

Can deregulation work?

We see nasty consequences of when it fails, such as California's artificial energy crisis, engineered by Enron.

Where does it work?

- Airline industry
- Computer industry

- Telecommunications

Where we think it is working, might be the calm before some scandal crisis or storm breaks.

US Constitution has a system of checks and balances between administrative, legislative, judicial, military, civil service, etc. so that if any area has people abusing their authority and powers, the rest of the system can reign them in to restore balance. This is because the exercise of excessive force draws attention to itself, and the majority has a high degree of respect for the Constitutional system.

However in this economic disaster, we had federal regulators sitting on their hands, not performing their due diligence. They had authority to stop the impending train wreck. Many thousands of people were screaming at them about it, what needed to be done, but they took no action other than to block state authorities trying to save individual states, and the US Supreme Court ruled on the side of the clueless federal regulators.

Is that breakdown in our system fixable?

History FAQ (1 May 11)

Q. Was the recent financial earthquake, great recession, economic meltdown train wreck, or whatever we want to call it, something that is part of the natural cycle of boom growth recession depression, or were there people doing things which were counter-productive to the best interests of our economy? If so, do some segments of our overall population have greater responsibility for the disaster than others?

A. This was a man made disaster, where thousands of humans took actions to cause it. It does not appear that they deliberately brought this crisis, except for 9/11 creating opportunities for economic mischief. Rather there was a lot of criminal negligence, fraud, greed, ignorant behavior, excessive risk taking, which collectively brought down our economic house of cards. We may never have a full accounting of all the responsible parties. We continue to learn more info as there are more and more investigations.

Q. The events which are seen as a disaster, to most people, are the foreclosures, massive unemployment, corporations either go under, or need government bailout. While there may have been prior events which contributed, what were the primary causes?

A. It was a combination.

Q: This is a very complex topic. Are there any resources which help put it all in good perspective for us?

A: A lot is explained by CNBC-David Faber-The House of Cards-Video[21]. You need to watch it from beginning to end, because many dots are shared, then over time connected,

[21] http://video.cnbc.com/gallery/?video=1145392808

although not as clearly as I would like in some cases. Also see [Unwisdom of Elites](http://www.nytimes.com/2011/05/09/opinion/09krugman.html?_r=2), by Paul Krugman, in the New York Times.[22]

The FCIC also has lots.[23] This research document has my notes on what I have learned so far from studying the FCIC, then going outside of its resources to look up additional information on some of the issues which it raises.

Q: The mortgage refinancing was started because Greenspan cut the prime interest rates. Why did Greenspan cut interest rates?

A: 9/11 occurred in a recession, which was partially due to the dot com bubble collapse. It was the duty of Greenspan and the FED to do what they could to help the economy from things getting worse then, so they cut interest rates to stimulate the economy.

The purpose of interest rates up or down was unrelated to the housing mortgages, but it had a huge effect on them.

Q: One of the causes of the housing bubble was rising prices for houses. What caused the rising prices?

A: Supply and Demand. When many people want to buy something, and there is a fixed supply of the something, the price generally goes up. Also this fueled the building of more homes.

Q: How come many people wanted to buy homes, which was one of the causes of the housing bubble? Didn't lots of people always want to buy homes?

A: Once upon a time F+F (Fannie Mae and Freddie Mac) drove the mortgage market. Mortgage lenders would make loans only to good risk home buyers, because that was the only kind F+F would buy, then F+F securitized the good risk mortgages to many investors, like pension funds. Lenders would use the cash from the sale of the loans to F+F, to finance additional mortgages to more good risk home buyers.

Good risk home buyers were people, where facts could be verified:

- They had a good job, and their pay rate could be verified.
- Their tax returns, over several years, could be examined.
- Their other financial obligations could be identified.
- They had money in the bank. They could make a good down payment.
- They had a good credit rating.

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[22] http://www.nytimes.com/2011/05/09/opinion/09krugman.html?_r=2 Thanks to **Lee Vanderheiden** for pointing out this link to me.
[23] http://fcic.law.stanford.edu/

- It was obvious from their financial situation that they could continue to make the payments on time, unless something drastically changed with their financial situation.

But then F+F had an accounting scandal, which undermined confidence in them, so Wall Street got into the act of doing F+F job. This happened 2001-2002, about the same time the interest rates went down, making sense for many people to refinance their mortgages. Wall Street did not care just about good risk mortgages, only about making lots of money in a short time period, so they told the lenders they would accept sub-prime mortgages, where the buyers situations below good home risks.

- Don't need to verify the facts.
- Unemployed can get a home.
- Disabled can get a home.
- Bad credit rating can get a home.
- Can't do a down payment, no problem.

This also opened the door for fraudulent mortgage sales. If false facts could go on the paperwork, and not be verified by anyone, then crooks could enter the mortgage business.

To be able to compete in the new mortgage market F+F also had to accept the riskier loans.

Investors, around the world, had high confidence in US economy. There was a demand for what Wall Street was selling. This demand for more stuff from Wall Street, led Wall Street to put more pressure on the Mortgage sellers to find more people to sell homes to. Many people, in the supply line, were commission driven – sell more faster, earn more money.

How buy and sell toxic assets? (1 Apr 07)

Q: Why did Wall Street accept bad sub-prime risks? Didn't they know those were toxic assets?

A: So long as they could find investors to buy the securitized mortgages, in structured CDOs (collateralized debt obligation), that meant profits for their financial institutions, which hired clerks fresh out of business school, and paid them bonuses based on how much of this stuff they could rapidly push through the system.

Initially, they figured if they only mortgaged ½ the value of a home, if the deal went bad, and they had to foreclose, the full value of the home would more than make up their losses. However, it was not unusual for the lenders to provide home owners two and three mortgages on the same property, so between the different outfits, the ½ deal was a fiction.

Q: If the assets were toxic, how come investors bought them?

A: Wall Street took pieces of mortgages, good and bad, mixed them together with other types of securities, such as stocks and bonds, into a mixture too complicated for anyone to figure out. Greenspan is quoted on the House of Cards video as stating he could not figure them out.[24] If Greenspan, with an army of economists and mathematicians to help him, cannot figure them out, how can an ordinary investor? They sold them with the triple A rating. Investors were sold by the triple A rating, not because anyone understood what they were buying.

Q: If the underlying assets were toxic, how did the CDO's get triple A ratings?

A: It may not be possible to prove it, but the companies, which did the ratings, are suspected of being unduly pressured by Wall Street bankers. They got paid nice fees for putting good ratings on CDO's. If they refused to provide triple A ratings, they did not get paid, and the bankers would take the CDO's to some other rating agency.

Q: Where were government regulators in all this?

A: Lobbied out of the picture by banking lobbyists, who went after regulatory agencies, state legislators, and congress, to relax rules, so the financial industry could do anything it pleased, without the traditional checks and balances.

Why ARMs? (1 Apr 10)

Q: One of the reasons for the housing market collapse was many homeowners unable to pay higher interest rate ARM (Adjustable Rate Mortgages). Why did homeowners get the ARM in first place, if they could not pay them if the interest rates went up?

A: Many did not understand how quickly they could kick in. They thought they could refinance instead, which might have been possible if housing values were continuing to rise, and there wasn't the huge increase in foreclosures. Some were misled by fraudulent sellers of mortgage loans. An adjustable-rate mortgage (ARM) gave buyers even lower initial payments or made a larger house affordable—unless interest rates rose.

Q: Didn't the mortgages come with paperwork explaining all this?

A: The paperwork was voluminous, beyond comprehension of many new home buyers. Plus, the mortgage paperwork supposedly just explained the mortgage, not economic theory.

Q: One of the reasons for the housing market collapse was many homeowners unable to pay higher interest rate ARM (Adjustable Rate Mortgages). What caused the interest rates to go up?

A: The FED regulates prime interest rate. They increased it.

Q: Higher interest rate ARM (Adjustable Rate Mortgages) kicked in higher rates that many homeowners could not afford to pay, because Greenspan increased the interest rates. Why did Greenspan increase interest rates?

A: It was part of the job of Greenspan and the FED to provide balance to the overall economy. They saw that the economy had apparently recovered from the prior recession, so

[24] http://video.cnbc.com/gallery/?video=1145392808

it was time to restore balance to the interest rates. They had no idea of the size of the housing crisis.

The purpose of interest rates up or down was unrelated to the housing mortgages, but it had a huge effect on them.

Q: The economy was in a mess right after 9/11, then was doing great later when the FED thought it was time to raise interest rates. What were some of the things the mortgage market was doing to contribute to the good economy?

A: So long as people could refinance their homes, they could get cash out of the mortgages, by increasing the principle, and spend that cash on other things, such as conspicuous spending; home improvements; open a business. Much of the USA economy has been driven by consumer spending.

Q: When the housing boom ended, how come the financial industry crashed so hard and fast? Hadn't they made oodles of money buying and selling mortgages, and the CDOs they packaged as marketable securities?

A: To expedite the flow of money, the financial industry was operating on huge leverage, or margins, where at any given moment they owed 100 times as much money as they actually had. So long as the gravy train continued flowing, they got all that money. When the train stopped, they went bankrupt.

Crash triggered (1 Apr 07)

Q: What caused the gravy train to stop flowing?

A:

1. When the FED saw that the economy had recovered from the previous recession, it was time to raise the interest rates again, like they had done in all prior recoveries, to keep the economy in balance.
2. This meant the higher interest ARMs (Adjustable Rate Mortgages) kicked in, which large numbers of home owners could not pay.
3. So the world found out that US Triple A ratings included a lot of junk, so the world no longer wanted to buy any US financial products.
4. So the income stream through CDOs dried up, so Wall Street could no longer sell them.
5. So Wall Street no longer wanted to buy Mortgages, not even those which met F+F standards.
6. So the Mortgage lenders no longer were willing to refinance Mortgages, or sell new Mortgages to new home buyers.
7. No more new home buyers, so housing prices stopped rising.

8. No one to buy the foreclosed, so housing prices began to fall.

Q: Why did the world not want to buy any US financial products any more?

A: When trillions of dollars of US financial products are shown to be both worthless and have triple A ratings, potential investors do not know what US financial products are not worthless.

Red Flag Warnings (1 Apr 04)

Conceptually, before most disasters, there are red flag warnings of impending doom. The challenges are for humans to see those alerts, know what to do to figure out the situation, mitigate the risks, try to prevent the disaster, or diminish its effects.

Prior Understanding Warnings (1 Apr 04)

A summary of what I learned from studying this subject before FCIC input to my brain.

I had thought very few people saw this coming, were considered to be crazy kooks without good understanding of economics, drowned out by mass of professionals who thought they knew better.

FCIC Illumination Warnings (1 Apr 11)

A summary of what more I learned about this subject thanks to FCIC input to my brain.

An astronomical number of people saw this coming, took their cases to the top:

- Congress
- FBI
- The FED, Greenspan[25] then Bernanki[26]
- Federal and State regulators
- US Supreme Court
- And more

They were ignored, blocked, punitive action taken against some whistle blowers, told that their evidence was anecdotal and thus worthless, the steamroller to economic disaster continued.

Here are some examples of red flag warnings to illustrate that it is bogus to claim such warnings were non-existent. Many more are in the FCIC report. Some of the vehicles assisting the train to wreck, were relatively new inventions.

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[25] http://en.wikipedia.org/wiki/Alan_Greenspan
[26] http://www.federalreserve.gov/aboutthefed/bios/board/bernanke.htm

The evidence says to me that the train wreck could be seen coming, but not its timing.

1977 (1 Apr 07)

Community Reinvestment Act passed, see CRA in terminology.

1980's and 1990's (1 Apr 08)

In terminology, see

- FIRREA
- S+L (Savings and Loan) Crisis.
- TRS

FCIC figure 4.1 shows[27] that until 1980, pay rates of people inside and outside the financial industry were approximately the same. Then pay for people inside the financial industry went way up, compared to people outside that industry. This is because changes in SEC rules meant that bankers were no longer gambling with their own partnership money, but with shareholder's money.

1990 (1 May 04)

In terminology, see: Equity Swap invented.

1992 (1 Apr 07)

In terminology, see OFHEO.

1994 big losses (1 Apr 07)

Procter and Gamble reported a pre-tax loss of $157 million, the largest derivatives loss, so far, by a non-financial firm. This was due to an interest and foreign exchange derivative sold to it by Bankers Trust. P+G sued BT. The suit was settled when BT forgave most of the money owed by P+G.

The same year, CFTC (Commodity Futures Trading Commission) and SEC (Securities and Exchange Commission) fined Bankers Trust $10 million for misleading Gibson Greeting Cards on interest rate swaps resulting in a mark-to-market loss of $23 million, which was more than the prior year of Gibson profits.

In late 1994, Orange County in California said they had lost $1.5 billion, speculating in OTC (over the counter) derivatives, so they were filing for bankruptcy, the largest for a municipality in US history. Their derivatives dealer, Merrill Lynch, paid $400 million to settle claims. In response, the GAO (Government Accountability Office) issued a report on

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[27] http://fcic.law.stanford.edu/resource/graphics See **Compensation in Financial and Nonfinancial Sectors** about ½ way down the page.

risks in financial OTC derivatives.[28] Congress held hearings, but failed to regulate OTC derivatives in the face of fierce lobbying by the OTC market and Greenspan.

Concurrently banking lobbying against regulators, state legislators, and Congress paid off. They got the 1994 Riegle-Neal Interstate Banking and Branching Efficiency Act which opened the door to massive mergers of banking institutions, and closed the door on small local banks ability to compete.

It's like Walmarts vs. corner grocery store, for community banking.

In terminology, see:

- CDS (Credit Default Swap invented)
- HOEPA

1996 (1 Apr 07)

Japan's Sumitomo Corporation lost $ 2.6 billion in copper commodities traded on the London Exchange. CFTC (Commodity Futures Trading Commission) charged the company with using derivatives to manipulate copper prices, including using OTC (over the counter) derivatives contracts to disguise their speculation and to finance the scheme. Sumitomo settled with CFTC via $150 million for fines and restitution. CFTC also charged Merrill Lynch with knowingly and intentionally aiding abetting and assisting the manipulation of copper prices. Merrill settled with a fine of $15 million.[29]

The 1996 Economic Growth and Regulatory Paperwork Reduction Act required federal regulators to review their rules every decade, and solicit comments on "outdated, unnecessary, and unduly burdensome rules."

While I agree with this in principle, the system needs a spokesperson who remembers the causes of Great Depression, S+L Crisis, etc. who can speak up for rules designed to prevent something like that happening again some time.

1998 leverage (1 Apr 08)

CFTC (Commodity Futures Trading Commission) tried to start regulating OTC (over the counter) derivatives, because of a string of major losses in that market, but this effort collapsed under vigorous bombardment from other regulators, vehemently opposed to this.

In August 1998, Russia defaulted on part of its national debt.

Later in 1998, The Federal Reserve Bank of New York organized a $ 3.6 billion recapitalization of LTCM (Long Term Capital Management) by 14 major OTC (over the

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[28] GAO, "Financial Derivatives: Actions Needed to Protect the Financial System," GGD-94-133 (Report to Congressional Requesters), May 18, 1994.

[29] Commodity Futures Trading Commission, "Division of Enforcement" (www.cftc.gov/anr/anrenf98.htm).

counter) derivative dealers. LTCM, a large hedge fund, had amassed over $ 1 trillion in OTC derivatives, and over $ 125 billion in securities, on $ 4.8 billion in assets, without the knowledge of its major derivatives counter parties or federal regulators. That's a leverage ratio of 1:225, apparently legal within the deregulated SHADOW BANKING financial industry. This leverage gamble led to LTCM insolvency in the wake of Russian default.

Greenspan continued to lobby for total deregulation of derivatives, and his viewpoint was successful with Congress in 2000, whose legislation also pre-empted state laws on gaming and bucket shops (illegal brokerage operations).

1999 repeal Glass Steagall (1 Apr 09)

In 1999 Gramm-Leach-Bliley Act repealed most of Glass Steagall – See Glass Steagall in Terminology definitions. The FED-Light provision, in that act, led to a review of regulations and risks, which in turn resulted in March 1999, the FED, FDIC, OCC, and OTS, jointly issuing guidelines for sub-prime lending. The guidelines only applied to regulated banks and thrifts, and were non-binding on them.

In 1999, ¾ of sub-prime mortgages were a first mortgage (implying ¼ were second or third), while 82% of those first mortgages were refinancings rather than a home purchase (implying that 18% were home purchases), and 59% of those refinancings were cash outs where home-owners increased the principal debt, whittling away at their equity.

Late 1990's (1 Apr 06)

There were requests for help, in the late 1990's to the FED (supervises banks) and OTS (Office of Thrift Supervision,[30] which supervises Savings and Loans), both of which had authority to set or revise mortgage lending rules to put a stop to practices which were placing at risk both home owners and investors. These requests came from many cities in Ohio, and other states, and consumer advocacy groups.

2000 Dot Com crash (1 Apr 10)

In Spring 2000, in response to many complaints of predatory lending, and at the urging of members of Congress, HUD and Treasury secretaries convened the National Predatory Lending Task Force, including a spectrum of industry and academic interests. As the FED had done 3 years earlier, it went on a national road tour of public hearings and found patterns of predatory lending in the sub-prime market, questionable practices, fraud and abuse. The task force made recommendations. Nothing happened to change the rules.

The Dot Com bubble crash[31] contributed to a recession. Several large companies could not survive the economic turn-around, including WorldCom,[32] which was found to have been

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[30] http://www.ots.treas.gov/
[31] http://www.cnet.com/1990-11136_1-6278387-1.html?tag=cnetfd.sd
[32] http://en.wikipedia.org/wiki/Worldcom WorldCom collapse was July 2002.

using improper accounting practices to inflate its value, which led to them going bankrupt, the third largest company to go bankrupt in US history.

The Dot Com bubble was approx 1995 to 2000, crashing in 2000. This bubble then crash was similar to other history of technological advances, when people had lots of confidence in where the technology might go, much faster than it actually did, such as with the steam engine and railroads in 1840s, automobile and radio in 1920s, transistor electronics in the 1950's.

There's lots of speculation what triggered the collapse.[33]

Some of the companies had great ideas, so if they gained popularity, they could become profitable companies, but too many were competing for this to happen with all of them.

There were expanded business expenditures associated with the Y2K crisis, then we got past that, and business expenditures for computers declined.

The NASDAQ[34] Technology Composite index peaked at 5,000 March 2000, then in April, the Justice Dept anti-trust case ruled that Microsoft was an Monopoly.

HUD (The Dept of Housing and Urban Development)[35] and The Treasury issued a joint June 2000 report, on predatory lending, which made recommendations to reduce risk to borrowers.

By the end of 2000, the economy had grown 39 straight quarters.

In terminology, see OTC.

2000 US Budget Surplus (1 May 12)

10 years later, there is much talk what needs to be done about the deficit, if jobs creation takes priority over that, and how best to deal with multiple national needs. A key question might be "What happened to the 2000 US Budget Surplus?" This is addressed in "Unwisdom of Elites" in NY Times.[36] There were three main causes for this going away:

1. There were the Bush tax cuts, which added roughly $2 trillion to the national debt over a decade. I believe their justification was to stimulate our economy, at a time of recession. Whether they did so or not, has yet to be proven. It seems to me, that they are ideologically driven, where Republicans are honoring Reagan's trickle down theory.

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33 http://en.wikipedia.org/wiki/Dot-com_bubble
34 http://www.nasdaq.com/ http://en.wikipedia.org/wiki/Nasdaq
National **A**ssociation of **S**ecurities **D**ealers **A**utomated **Q**uotations
35 http://portal.hud.gov/portal/page/portal/HUD
36 http://www.nytimes.com/2011/05/09/opinion/09krugman.html?_r=2

2. There were the wars in Iraq and Afghanistan, which added an additional $1.1 trillion or so. We probably would have had neither of these wars, were it not for 9/11 and false intelligence regarding Saddam's fabled Weapons of Mass Destruction.
3. The Great Recession, which led both to a collapse in revenue and to a sharp rise in spending on unemployment insurance and other safety-net programs. This was triggered by a runaway financial sector, empowered by reckless deregulation, where politicians were "persuaded" this was a good idea, by education from a campaign of lobbyist spending which was one of the highest efforts in US history.

Here is a graphic, showing how much was contributed by each of the major causes.[37]

1. Bush Tax cuts the most.
2. Economic downturn second
3. Wars minor by comparison
4. Stimulus rapidly declining effect on deficit.
5. Tarp, Fannie, Freddie, no longer has effect.

Similar events occurred in Europe. Here is a graphic showing their plunging economies.[38]

Before the crisis, Iceland had no national debt, no deficit, they were fully paid up, operating a balanced national budget. Iceland's banks engaged in risky behavior, the government of Iceland bailed them out, and now is bankrupt. The nations of the European Common Market all had systems to regulate and manage their financial industry, but then they went to the Euro single currency, without implementing any similar systems for the Euro, which they had had for their individual national financial systems. The result was a crook-friendly system.

2001 F+F Enron 9/11 (1 May 04)

By the beginning of 2001, the economy was slowing, even though unemployment remained at a 30-year low of 4%. The FED tried to stimulate the economy by lowering the interest rate, throughout the year, getting to 1.75%, the lowest in 40 years. The recession seemed to end and seemed mild, so Wall Street thought monetary policy was working.

In 2001, 4% of prime borrowers with a mortgage selected an ARM (Adjustable Rate Mortgage).

In 2000 CitiGroup purchased ***Associates First***, the 2nd largest sub-prime mortgage lender in the country, after Household Finance. Associates First owned some small banks in Utah Delaware and South Dakota. This altered mixture of regulators over these operations. FTC (The Federal Trade Commission) found that Associates First had pressured borrowers to refinance into expensive mortgages and to buy expensive mortgage insurance. CitiGroup

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[37] http://maddowblog.msnbc.msn.com/_news/2011/05/11/6625706-its-about-the-taxes
[38] http://www.bbc.co.uk/news/business-13361934

settled with FTC over Associates' "systematic and widespread deceptive and abusive lending practices."

The New York Fed used the occasion of Citigroup's next proposed acquisition—European American Bank on Long Island, New York, to launch another investigation into mortgage lending practices of CitiGroup conglomerate. The Fed eventually accused Citi - Financial of converting unsecured personal loans (usually for borrowers in financial trouble) into home equity loans without properly assessing the borrower's ability to repay.

Between March 2000 and March 2001, the NASDAQ[39] fell by almost 2/3. Investors had been bullish on the dot com high tech companies, and had relied on fraudulent research reports from the financial institutions promoting investment in them. The SEC (Securities and Exchange Commission) fined several for this behavior.

2000-2001 there was an accounting scandal with Fannie Mae and Freddie Mac which undermined their dominance of the mortgage market. Wall Street stepped in, and changed the rules. 9/11 arrived in a US recession, partly due to the dot com bubble collapse, so the FED lowered interest rates to try to stimulate the economy. See FAQ elsewhere in education section.

In 2001 an accounting scandal[40] came to light at Enron,[41] which ultimately led to their bankruptcy which was largest in US history, until WorldCom the next year, then Lehman Brothers in 2008. The scandal also destroyed Arthur Anderson, which at the time had been one of the largest Accounting firms. Many financial firms were found complicit in Enron scandals, and were fined by the SEC.

The FED[42] amended regulations which made the situation worse. Apparently they only had a foggy understanding of the train on a collision course with economic disaster.

FDIC[43] Chairman Sheila C. Blair said the FED only addressed a narrow range of predatory lending "issues" at a time when "really poorly underwritten" "payment shock loans" were beginning to proliferate, placing "pressure" on traditional banks to follow suit.

Several groups went directly to Greenspan to describe a "metamorphosis" in the lending industry, such as:

- Flipping loans
- Growing sloppiness in paperwork, not crediting payments appropriately or miscalculating accounts

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[39] http://www.nasdaq.com/ http://en.wikipedia.org/wiki/Nasdaq
National **A**ssociation of **S**ecurities **D**ealers **A**utomated **Q**uotations
[40] http://en.wikipedia.org/wiki/Enron#2001_Accounting_scandal
[41] http://business.nmsu.edu/~dboje/enron/chronology.htm
[42] http://www.federalreserve.gov/
[43] http://www.fdic.gov/

- Misinforming seniors about reverse mortgages
- Predatory lending practices

In Terminology See: Arbitrage.

2001 economy and Bin Laden (1 May 04)

Rachel Maddow lays a lot of blame for our economic woes on bin Laden.[44] Ok, I agree:

- The high cost of the war in Iraq, Afghanistan, war on terrorism, Dept of Homeland Security, Gitmo … there's a lot of contributions to the national debt, which can be laid on the doorstep of 9/11 … expenses which would never have been approved by Washington DC politics, without the contributions of bin Laden on 9/11.
- If it had not been for 9/11, we would not have had the economic downturn, which led the Fed to lower the interest rates, which led to the sub-prime mortgage problems which were CAUSED by crooked banking industry, and lack of regulator oversight. This led to housing bubble collapse, massive foreclosures, consumer spending collapse, massive job loss. This in turn led to the economic train wreck, financial earthquake, great recession, economic melt down, or whatever you want to call it.

However, if American capitalism had not shipped manufacturing jobs overseas, turning the American economy into consumer spending, dependent on good jobs for consumers, or if the banking industry had not been crooked, or if government oversight had done its job, we also would not be in this economic mess. So while bin Laden contributed to our economic mess, many other people are also responsible.

There are problems with our economy, which I do not believe bin Laden has any responsibility for. The rising price of gasoline is dependent on world-wide supply not able to meet the demand, such as from India and China, combined with the impact of commodity market speculators without any government oversight. Bin Laden was not responsible for the BP Gulf Oil Spill.

Those Bush Tax cuts for the most wealthy, which are the subject of much DC politics today, were probably started to help prop up an economy which was knocked down by bin Laden. When 9/11 came along, the economy was in a slow recovery from a recession associated with the dot com bubble collapse. Without 9/11, we would not have got those tax cuts, or started the sub-prime mortgage train wreck.

2002 (1 Apr 10)

Although the nation lost 340,000 non-farm jobs in 2002, there was an uptick in housing construction jobs thanks to mortgage rates at a 40 year low.

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44 http://maddowblog.msnbc.msn.com/_news/2011/05/03/6576196-bin-laden-sought-to-bankrupt-america-and-nearly-did

FED Governor Edward M. Gramlich,[45] said in a 2002 speech, that the FED was receiving "increasing reports of abusive, unethical, and in some cases, illegal, lending practices."

Eight States Attorneys General won a court case in 2002 against one mortgage lender which had been deceiving consumers into taking out loans with hefty fees, then packaging the loans for sale to Lehman Brothers. Borrowers received $ 60 million compensation. Other lenders stepped into the void when this outfit went out of business.

July 2002 WorldCom filed for bankruptcy.[46] This was the largest in US history until the 2008 Wall Street melt downs.

2003 (1 Apr 10)

In 2003, 10% of prime borrowers with a mortgage selected an ARM (Adjustable Rate Mortgage). (up from 4% in 2001) Lenders refinanced over 15 million mortgages, approx 1 in four, an unprecedented rate. Does that mean there were an estimated 60 million mortgages for an estimated 300 million Americans?[47]

The value of sub-prime loans almost doubled from 2001 to 2003, climbing to $310 billion. In 2000, 52% were securitized. In 2003, it was 63%. Sub-prime was dominated by a narrowing field of ever-larger firms; the marginal players from the past decade had merged or vanished. By 2003, the top 25 sub-prime lenders made 93% of those loans, up from 47% in 1996.

There were now three main kinds of companies in the sub-prime origination and securitization business:

- commercial banks and thrifts,
- Wall Street investment banks,
- and independent mortgage lenders.

It appeared the nation was having a jobless recovery from the recession of 2001. More production, without more jobs. For those with jobs, wages were stagnant. The FED thought there was a low chance of deflation, and would prevent that by keeping interest rates low.

2004 (1 May 04)

In 2004, 21% of prime borrowers with a mortgage selected an ARM (Adjustable Rate Mortgage). (up from 4% in 2001, and 10% in 2003) Among sub-prime borrowers, already heavy users of ARMs, it rose from around 60% to 76%. Homeownership increased steadily, peaking at 69.2% of households in 2004. Historically for every $1,000 increase in home

[45] http://en.wikipedia.org/wiki/Edward_Gramlich
[46] http://en.wikipedia.org/wiki/Worldcom#Bankruptcy
[47] http://www.google.com/publicdata?ds=uspopulation&met=population&tdim=true&dl=en&hl=en&q=us+population http://quickfacts.census.gov/qfd/states/00000.html

values, we could expect $50 more in household spending. But this increased because it was now easier to tap into home equity.

The FED did a 2004 survey of what people were spending the money on, which they took out of their home equity.

- 45% used it for expenses such as medical bills, taxes, electronics, and vacations, or to consolidate debt;
- 31% used it for home improvements;
- 24% used it to purchase more real estate, cars, investments, clothing, or jewelry.

In 2004, the Federal Bureau of Investigation warned of an "epidemic" in mortgage fraud, an important credit risk of nonprime mortgage lending, which, they said, could lead to "a problem which could have as much impact as the S&L crisis".[32][33][34][35]

A 2004 SEC decision related to the net capital rule allowed USA investment banks to issue substantially more debt, which was then used to help fund the housing bubble through purchases of mortgage-backed securities.[65]

In Terminology See: Energy (NC coal plants).

2005 Federal Regulator Corruption and Ameriquest Fraud (1 May 06)

Several financial institutions independent analysis found bubbles, so they got out of danger by 2005, just in time. In terminology, see Everyone Greed. Housing boom peaked in 2005.

From 2002 to 2005, residential construction had contributed three times more to the economy than it had contributed on average since 1990.

The Congressional Budget Office estimated that between 1998 and 2005, consumer spending accounted for between 67% and 168% of GDP growth in any one year, rising above 100% when their spending growth offset declines in the rest of the economy. At the same time, personal saving rates declined from 5.2% to 1.4%.

Ameriquest's head of internal fraud investigations was laid off after reporting a mountain of fraud problems to senior management. The FCIC report has many stories like that throughout the US financial industry.

Several states investigated Ameriquest for:

- Blatant fraud and mirepresnetation
- Fraudulent predatory lending
- Increasing loan interest rates
- Inflating home appraisals
- Making promises, then in closing, switching to catastrophic consequences for the customers

- Promising better terms, then never delivering
- Refinancing abuses

Ameriquest perfected schemes, then many other mortgage lenders copied them.

Ultimately 49 states and the District of Columbia joined lawsuit against Ameriquest on behalf of 140,000 borrowers, winning a **$ 325 million** settlement, but during the 2002-2005 investigation, Ameriquest made **$ 217.9 billion** in loans sold to Wall Street securitization.

In this Red Flags Time Line, See:

- 2011 ***Washington Mutual*** (WaMu) and Office of Thrift Supervision (***OTS***), roles documented in ***Levin-Coburn*** US Senate report on key causes of the Financial Crisis.[48] While there were multiple years of corruption and criminal negligence, stuff began to go seriously south in 2005.

In Terminology, See:

- OTS;
- Ponzi.

2006 (1 May 06)

Household debt rose from 80% of disposable personal income in 1993 to almost 130% by mid-2006. More than ¾ of this increase was mortgage debt. Part of the increase was from new home purchases, part from new debt on older homes.

The SEC had tried to get hedge fund advisers to register with the SEC, but in 2006 the US District Court of Appeals for DC struck down SEC rulemaking on this, after being sued by an investment adviser and hedge fund.

In terminology, see SARs. Nov 2006, FinCen published analysis showing a 20 fold increase in mortgage fraud 1996 to 2005, discovered through voluntary disclosures. Totals believed to really be larger for several reasons, including 2/3 mortgage loans originated by mortgage brokers not subject to any federal standard or oversight.

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[48] http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.
PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

FCIC created graphics to illustrate problems. See the one labeled "Sub-prime Mortgage Originations" showing 2006 peak.[49]

US Housing bubble peaked in 2006[50]

See in terminology:

- Bubble Burst
- Energy (NC coal plants)
- Everyone Greed
- Housing Bubble

2007 (1 May 06)

Greenspan retired. Bernanki became head of the FED.

Between 2001 and 2007 mortgage debt nationally nearly doubled. USA household debt as a percentage of annual disposable personal income was 127% at the end of 2007, versus 77% in 1990.[49]

From 2000 to 2007 a coalition of appraisal organizations collected a petition signed by 11,000 appraisers. This was delivered to Washington DC officials. They charged that lenders were pressuring them to place fraudulently high prices on properties, black listing any appraiser who wouldn't cooperate.

See PBS video on economic meltdown, where housing market beginning of end in 2007.[51]

Different people disagree precisely when the financial crisis began. Here is a Wikipedia list of theories = causes of the world-wide financial crisis.[52]

Australia recession started.[53]

In this Red Flags Time Line, See:

- 2011 ***Levin-Coburn*** US Senate report, on key causes of the Financial Crisis,[54] documenting

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[49] http://fcic.law.stanford.edu/resource/graphics

[50] My sources conflict on whether this happened in 2005 or 2006, but they all agree it did happen.
Figure 6.2 in FCIC report shows this dramatically. April 2006 was when home prices switched from rising to falling, in which the curve was more dramatic for Arizona, California, Florida, and Nevada..
http://en.wikipedia.org/wiki/Financial_crisis_%282007%E2%80%93present%29

[51] http://www.pbs.org/wgbh/pages/frontline/meltdown/cron/

[52] http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010

[53] http://en.wikipedia.org/wiki/2007%E2%80%9310_recession_in_Australia

[54] http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.
PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

- July 2007 mass ratings downgrades by ***Moody***'s and ***Standard & Poor***'s which exposed the risky nature of mortgage-related investments which, just months before, the same firms had deemed to be as safe as Treasury bills.
- In 2007, ***Goldman Sachs*** realized the mortgage market was in decline, it took actions to profit from that decline at the expense of its clients. Goldman's Structured Products Group twice amassed and profited from large net short positions in mortgage related securities. At the same time the firm was betting against the mortgage market as a whole, Goldman assembled and aggressively marketed to its clients poor quality CDOs that it actively bet against by taking large short positions in those transactions.

In Terminology, See:

- Chindia surpasses USA production;
- Everyone Greed;
- OCC role in US Supreme Court ruling in favor of crooked banking and either clueless, or criminally negligent, federal regulators;
- Securities market peaked.

2008 (1 May 14)

By June 2008, the U.S. shadow banking system was approximately the same size as the U.S. traditional depository banking system.[55]

U.S. home mortgage debt relative to gross domestic product (GDP) increased from an average of 46% during the 1990s to 73% during 2008, reaching $10.5 trillion.[50]

In 1981, U.S. private debt was 123% of GDP; by the third quarter of 2008, it was 290%.[51]

See PBS video on economic meltdown, showing how Bear Stearns destroyed itself through toxic mortgage assets, and their associated unregulated CDOs, in 2008.[56] This is rapidly followed by Fannie and Freddie; then Lehman Brothers; AIG; Goldman Sachs and Morgan Stanley; Washington Mutual Bank.

Congress passes the TARP bailout bill.

The bill gives the Treasury secretary "broad authority" to purchase $700 billion in mortgage assets from the banks. But six lines of text buried deep within the bill authorize Treasury to provide capital injections. Soon after the bill's passage, Secretary of the Treasury Paulson abandons the idea of buying the toxic assets.

Behavior in the financial industries has been blamed for financial disasters around the world. But it is now evident that there were other actors participating in risky behavior. I have seen some people arguing that US insistence on global "free markets" and other elements of US

[55] http://en.wikipedia.org/wiki/Shadow_banking_system
[56] http://www.pbs.org/wgbh/pages/frontline/meltdown/cron/

banking policy, for the rest of the world, through various UN bodies, contributed to the other nations copying US flawed economic theory.

- Belgium financial disaster.[57]
- Iceland financial disaster.[58]
- Irish financial disaster.[59]
- Latvia financial disaster.[60]
- Russia financial disaster.[61]
- Spain financial disaster.[62]
- Ukraine financial disaster.[63]

Leeb[64] reports, leading aluminum producer Alcoa reported record revenues, not surprising since aluminum prices have tripled since 2000. However, earnings were disappointing, because energy costs, to mine aluminum, have dramatically increased.

Lynn Szymoniak, an attorney who specializes in white-collar crime, is widely considered on Capitol Hill to be one of the nation's top experts on foreclosure law. When Deutsche Bank attempted to jack up the interest rate on the mortgage for her Palm Beach Gardens, Fla., home in May 2008, she contested the move, setting off an investigation which unveiled mountains of forged signatures and fraudulent bank paperwork associated with the foreclosure process.

Szymoniak alerted other attorneys, neighborhood advocates, lawmakers and the media about the apparent rampant fraud. She appeared on "60 Minutes" to discuss the broader foreclosure scandal [video at the link in footnote].[65] In May 2008, she was notified that the interest rate on her adjustable-rate mortgage was being raised, increasing her monthly payments by about $1,000. But the terms of her mortgage only allowed interest-rate hikes at certain dates. This led to law suit between her and the bank, because she never signed any agreement approving the bank doing as it pleases in violation of the contract.

The courts ruled against the bank, which continues to take illogical actions which observers have all sorts of abuse-of-power conspiracy theories to explain.

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57 http://en.wikipedia.org/wiki/2008%E2%80%932009_Belgian_financial_crisis
58 http://en.wikipedia.org/wiki/2008%E2%80%932011_Icelandic_financial_crisis
59 http://en.wikipedia.org/wiki/2008%E2%80%932010_Irish_financial_crisis
60 http://en.wikipedia.org/wiki/2008%E2%80%932009_Latvian_financial_crisis
61 http://en.wikipedia.org/wiki/2008%E2%80%932009_Russian_financial_crisis
62 http://en.wikipedia.org/wiki/2008%E2%80%932009_Spanish_financial_crisis
63 http://en.wikipedia.org/wiki/2008%E2%80%932009_Ukrainian_financial_crisis
64 Stephen Leeb in book = Game Over.
65 http://www.huffingtonpost.com/2011/05/13/deutsche-bank-lynn-szymoniak_n_861900.html

In Terminology See:

- Alumimum;
- Commercial Paper;
- Commodities;
- Federal Housing Finance Agency created;
- Oil;
- Shadow Banking System;
- TARP.

2009 (1 May 06)

More nations had financial troubles.

- Dubai;[66]

2002 thru 2009, humanity has been consuming four times as much oil as we have been able to add to reserves.[67]

In Terminology See:

- FCIC started;
- Oil.

Late 2000's (1 Apr 07)

Financial Crises around the world.[68]

- Africa;[69]
- Asia;[70]
- South America;[71]

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[66] http://en.wikipedia.org/wiki/Dubai_World_2009_debt_standstill#2009_debt_standstill
[67] Leeb book = Game Over.
[68] http://en.wikipedia.org/wiki/Financial_crisis_%282007%E2%80%93present%29
http://en.wikipedia.org/wiki/Economic_crisis_of_2008
[69] http://en.wikipedia.org/wiki/Late-2000s_recession_in_Africa
[70] http://en.wikipedia.org/wiki/Late-2000s_recession_in_Asia
[71] http://en.wikipedia.org/wiki/2007%E2%80%9310_recession_in_South_America

2010 (1 Apr 07)

Behavior in the financial industries have been blamed for financial disasters around the world. But it is now evident that there were other actors participating in risky behavior.

European financial crises[72] including Portugal, Ireland, Greece,[3] Spain[4], (sometimes referred to as "PIGS") and Belgium. This in turn led to crises in other nations, whose banking institutions were heavily involved in the other parts of the European Common Market earlier obviously in serious trouble.

In terminology, see ***Qualified Written Request*** for how to do the following.

A home owner proved in small claims court that his bank had engaged in many unethical actions against him, and by so doing was in violation of several laws. The bank sent no one in answer to small court summons, as part of their practice of ignoring all his efforts to get problem resolution, while they piled more and more improper fees and charges upon him, so the judgment was in his favor.

From there, he proved to the court system that the bank was still ignoring its obligations, so he got a legal order to **foreclose the branch bank**, which had been ignoring him, and all its assets, to be sold at sheriff's auction to get the money which was due him. It was news media stories of the impending auction that sufficiently attracted the attention of senior people at Wells Fargo to wake up at the last minute to its fiduciary responsibilities.

In Terminology See:

- Under Water (statistic).

2011 (1 May 12)

UK and The Netherlands are suing ***Iceland*** over deposits lost when Iceland's Banks had their 2008 melt-down.[73] British and Dutch depositors were bailed out by their governments, which want to be reimbursed. The issue will now be referred to an international court, the European Free Trade Association Surveillance Authority. Solving the dispute is also seen as key to Iceland's chances of joining the EU.

Japan suffers a series of disasters: earthquake; tsunami; nuclear; weather. I study them in detail in other research notes. Of relevance to the economy, Japan has cornered the market on many industrial commodities which the entire world depends upon, but now Japanese production has been crippled, due to these disasters.[74]

April saw the release of 635 page Senators Levin-Coburn report on key causes of the Financial Crisis.[75] The report catalogs conflicts of interest, heedless risk-taking and

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[72] http://en.wikipedia.org/wiki/2008%E2%80%932009_Greek_financial_crisis
[73] http://www.bbc.co.uk/news/business-13029210
[74] http://www.bbc.co.uk/news/13218449
[75] http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d

failures of federal oversight which helped push the country into the deepest recession since the Great Depression. Among the report's highlights are the following:

- High Risk Lending
- Regulatory Failures
- Inflated Credit Ratings
- Investment Banks and Structured Finance

US Congress has been battling over the Debt Ceiling. Bernanke warns that this battle, if not resolved, could be harmful to USA in the world economy.[76] It might "cause interest rates on mortgages... to rise, rattle financial markets and hurt the economy". In the worst case, it risks a Lehman-style meltdown, he told the Senate banking committee.

Echoing what I had earlier extracted from Stephen Leeb's book "Game Over", the UN says that at current consumption rates, the world will be consuming resources three times the current rate, by the middle of the 21st century[77] (assuming we don't run out of some of them) according to the latest report in a series by the UN Environment Programme's (Unep)[78] International Resources Panel.[79]

Already the world is running out of cheap and high quality sources of some essential materials such as oil, copper and gold, the supplies of which, in turn, require ever-rising volumes of fossil fuels and freshwater to produce.

The combination of population growth, continuing high levels of consumption in industrialized countries, and increased demand for material goods - particularly in nations such as China, India and Brazil - saw total resource use grow eight-fold in the 20th Century.

2011 High Risk Lending Analysis (1 May 03)

With an eye on short term profits, ***Washington Mutual*** launched a strategy of high-risk mortgage lending in early 2005, even as the bank's own top executives stated that the

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PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse
FOOTNOTE EXHIBIT LOCATOR (by FN and Bates)
FN 107 - 1342 (pgs 1-1037)
FN 1343 - 1459 (pgs 1038-2164)
FN 1462 - 1576 (pgs 2165-3003)
FN 1584 - 1622 (pgs 3004-3448)
FN 1623 - 2406 (pgs 3449-4484)
FN 2409 - 2706 (pgs 4485-5459)
FN 2724 - 2831 (pgs 5460-5901)

[76] http://www.bbc.co.uk/news/business-13380471
[77] http://www.bbc.co.uk/news/science-environment-13376416
[78] http://www.unep.org/
[79] http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=2641&ArticleID=8734&l=en

condition of the housing market "signifies a bubble" with risks which "will come back to haunt us." Executives forged ahead despite repeated warnings from inside and outside the bank that the risks were excessive, its lending standards and risk management systems were deficient, and many of its loans were tainted by fraud or prone to early default.

WaMu's chief credit officer complained at one point that "any attempts to enforce a more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization." From 2003 to 2006, WaMu shifted its loan originations from low risk, fixed rate mortgages, which fell from 64% to 25% of its loan originations, to high risk loans, which jumped from 19% to 55% of its originations.

WaMu and its subprime lender, ***Long Beach Mortgage***, securitized hundreds of billions of dollars in high risk, poor quality, sometimes fraudulent mortgages, at times without full disclosure to investors, weakening U.S. financial markets. New analysis shows how WaMu sold some of its high risk loans to Fannie Mae and Freddie Mac, and played one off the other to make more money.

2011 Regulatory Failures Analysis (1 May 03)

The Office of Thrift Supervision (OTS), Washington Mutual's primary regulator, repeatedly failed to correct WaMu's unsafe and unsound lending practices, despite logging nearly 500 serious deficiencies at the bank over five years, from 2003 to 2008.

New information details the regulator's deference to bank management and how it used the bank's short term profits to excuse high risk activities. Although WaMu recorded increasing problems from its high risk loans, including delinquencies that doubled year after year in its risky Option Adjustable Rate Mortgage (ARM) portfolio, OTS examiners failed to clamp down on WaMu's high risk lending.

OTS did not even consider bringing an enforcement action against the bank until it began losing substantial sums in 2008. OTS also failed until 2008, to lower the bank's overall high rating or the rating awarded to WaMu's management, despite the bank's ongoing failure to correct serious deficiencies.

When the Federal Deposit Insurance Corporation (FDIC) advocated taking tougher action, OTS officials not only refused, but impeded FDIC oversight of the bank.

When the New York State Attorney General sued two appraisal firms for colluding with WaMu to inflate property values, OTS took nearly a year to conduct its own investigation and finally recommended taking action -- a week after the bank had failed. The OTS Director treated WaMu, which was its largest thrift and supplied 15% of the agency's budget, as a "constituent" and struck an apologetic tone when informing WaMu's CEO of its decision to take an enforcement action. When diligent oversight conflicted with OTS officials' desire to protect their "constituent" and the agency's own turf, they ignored their oversight responsibilities.

2011 Inflated Credit Ratings analysis (1 May 03)

The Report concludes that the most immediate cause of the financial crisis was the July 2007 mass ratings downgrades by ***Moody***'s and ***Standard & Poor***'s which exposed the risky nature of mortgage-related investments that, just months before, the same firms had deemed to be as safe as Treasury bills.

The result was a collapse in the value of mortgage related securities which devastated investors. Internal emails show that credit rating agency personnel knew their ratings would not "hold" and delayed imposing tougher ratings criteria to "massage the … numbers to preserve market share."

Even after they finally adjusted their risk models to reflect the higher risk mortgages being issued, the firms often failed to apply the revised models to existing securities, and helped investment banks rush risky investments to market before tougher rating criteria took effect. They also continued to pull in lucrative fees of up to $135,000 to rate a mortgage backed security and up to $750,000 to rate a collateralized debt obligation (CDO) – fees that might have been lost if they angered issuers by providing lower ratings.

The mass rating downgrades they finally initiated were not an effort to come clean, but were necessitated by skyrocketing mortgage delinquencies and securities plummeting in value. In the end, over 90% of the AAA ratings given to mortgage backed securities in 2006 and 2007 were downgraded to junk status, including 75 out of 75 AAA-rated Long Beach securities issued in 2006. When sound credit ratings conflicted with collecting profitable fees, credit rating agencies chose the fees.

2011 Investment Banks and Structured Finance analysis (1 May 03)

Investment banks, reviewed by the Subcommittee, assembled and sold billions of dollars in mortgage-related investments which flooded financial markets with high-risk assets. They charged $1 to $8 million in fees to construct, underwrite, and market a mortgage-backed security, and $5 to $10 million per CDO.

New documents detail how ***Deutsche Bank*** helped assembled a $1.1 billion CDO known as Gemstone 7, stood by as it was filled it with low-quality assets that its top CDO trader referred to as "crap" and "pigs," and rushed to sell it "before the market falls off a cliff." Deutsche Bank lost $4.5 billion when the mortgage market collapsed, but would have lost even more if it had not cut its losses by selling CDOs like Gemstone.

When ***Goldman Sachs*** realized the mortgage market was in decline, it took actions to profit from that decline at the expense of its clients. New documents detail how, in 2007, Goldman's Structured Products Group twice amassed and profited from large net short positions in mortgage related securities. At the same time the firm was betting against the mortgage market as a whole, Goldman assembled and aggressively marketed to its clients poor quality CDOs that it actively bet against by taking large short positions in those transactions. New documents and information detail how Goldman recommended four CDOs, Hudson, Anderson, Timberwolf, and Abacus, to its clients without fully disclosing key information about those products, Goldman's own market views, or its adverse economic interests.

For example, in Hudson, Goldman told investors that its interests were "aligned" with theirs when, in fact, Goldman held 100% of the short side of the CDO and had adverse interests to the investors, and described Hudson's assets were "sourced from the Street," when in fact, Goldman had selected and priced the assets without any third party involvement. New documents also reveal that, at one point in May 2007, Goldman Sachs unsuccessfully tried to execute a "short squeeze" in the mortgage market so that Goldman could scoop up short positions at artificially depressed prices and profit as the mortgage market declined.

2011 More Finger Pointing (1 May 04)

The ***Senate Permanent Subcommittee on Investigations***[80] has spent two years looking at the behavior of Wall Street banks at the time of the credit crisis. It says ***Goldman Sachs*** lied, in testimony to Congress. Goldman's defense is that the top executives told the truth as they knew it, so either they were lied to, or they were incompetent, but not criminal.[81]

The USA is suing **Deutsche bank**. Federal Housing Administration (FHA) rules say lenders must make sure the borrower will be able to repay the loan, but the Justice Department claims Deutsche did not do so.[82] As we have seen from this entire research effort, this behavior became a standard with the sub-prime mortgage scandal. The lawsuit is one of the first targeting mortgage lenders under the federal False Claims Act. So shall we be seeing thousands more such lawsuits?

2011 bin Laden killed, stock market dramatic changes (1 May 06)

On Sunday May 01, President Obama announced to the world that Osama bin Laden had been killed by a US military raid in Pakistan.

Prices of many industrial commodities, which are imported by the USA, dropped sharply.[83]

Other reasons are cited, than bin Laden news, for the fall in prices, which do not entirely make sense to me.[84]

If US and EU economies are in trouble, wouldn't that cause an INCREASE in the cost of imported commodities?

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80 http://hsgac.senate.gov/public/index.cfm?FuseAction=Subcommittees.Investigations
81 http://www.bbc.co.uk/news/business-13077509
82 http://www.bbc.co.uk/news/business-13273533
83 http://www.reuters.com/article/2011/05/04/us-markets-global-idUSTRE71H0EB20110504
84 http://www.bbc.co.uk/news/business-13301784

Concurrently the China economy boom may be slowing down.

However another theory is that JPM (***JP Morgan***) was getting killed on their open short silver positions, so they pumped up the market, then "doubled-down" on their short positions, then collapsed the silver market the last few days to help them break even[85].

2011 China # 2 USA # 17 in Green Tech (1 May 09)

According to a report, commissioned by the World Wildlife Fund for Nature, when it comes to the development of green technologies:[86]

- Denmark is # 1
- China is # 2, growing 77% per year
- USA is # 17

The report was prepared by Roland Berger Strategy Consultants, a global firm based in Germany. It gathered data on 38 countries from energy associations, bank and brokerage reports, investor presentations, the International Energy Agency and a score of other sources. It measured the earnings from producing renewables like biofuels, wind turbines and thermal equipment, and energy efficiency technology such as low-energy lighting and insulation.

2013 (1 Apr 14)

The world will run out of Indium, an essential industrial commodity, estimates Leeb.[87] In Terminology see: Commodities; Indium; Oil. Here also see 2020.

2016 (1 May 04)

Brett Arends, in his 2011 April 25th Marketwatch article[88] entitled "IMF Bombshell: Age of America Nears End" reports that the IMF has predicted 2016 as the year when China's economy overtakes that of the United States.

2017 (1 Apr 12)

The world will run out of Lead, an essential industrial commodity, estimates Leeb.[89] In Terminology see: Commodities; Lead; Oil.

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[85] http://www.inflation.us/jpmorgancoveringsilver.html

[86] http://www.reliablenews.com/e78100-us-ranks-17-as-clean-tech-producer-china-is-no-2

[87] Game Over by Stephen Leeb, published 2009.

[88] http://www.marketwatch.com/story/imf-bombshell-age-of-america-about-to-end-2011-04-25

[89] Game Over by Stephen Leeb, published 2009.

2018 (1 Apr 12)

The world will run out of Silver, an essential industrial commodity, estimates Leeb.[90] In Terminology see: Commodities; Oil; Silver.

2020 (1 Apr 14)

The world will run out of Indium, an essential industrial commodity, estimates New Scientist.[91] In Terminology see: Commodities; Indium; Oil. Here also see 2013.

2022 (1 Apr 12)

The world will run out of Antimony, an essential industrial commodity, estimates Leeb.[92] In Terminology see: Antimony; Commodities; Oil.

2026 (1 Apr 12)

The world will run out of Tin, an essential industrial commodity, estimates Leeb.[93] In Terminology see: Commodities; Oil; Tin.

2028 (1 Apr 12)

The world will run out of Uranium, an essential industrial commodity, estimates Leeb.[94] In Terminology see: Commodities; Oil; Uranium.

2029 (1 May 15)

Asteroid 99942 Aphophis is expected to have a near miss[95] with planet Earth.[96] About three Earth diameters will separate Apophis and Earth when the 400-meter asteroid hurtles by Earth's gravity.[97] The asteroid is relatively small, about the length of three football fields, with additional visitations expected in 2035 2036 2037. Scientists are carefully monitoring it, to estimate odds of hitting us.

Remember that the disaster which wiped out the dinosaurs generated earthquakes larger than 10.0 magnitude, and humans need YEARS of advance warning if we are to protect ourselves from a similar event wiping out the humans. NASA hopes to land instruments on this Asteroid, before it gets to Earth, to measure what happens to the Asteroid as it passes thru

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90 Game Over by Stephen Leeb, published 2009.
91 ^ "How Long Will it Last?". *New Scientist* **194** (2605): 38–39. May 26, 2007. ISSN 0262-4079
92 Game Over by Stephen Leeb, published 2009.
93 Game Over by Stephen Leeb, published 2009.
94 Game Over by Stephen Leeb, published 2009.
95 Terminology problem: If something is a "Near-Miss", that means that it did hit and just almost did not. A Near-hit is more of a correct description of the would be event, as the object came ever so close to hitting something, but missed.

96 http://astronomer.proboards.com/index.cgi?board=asteroids&action=display&thread=2356
97 http://www.physorg.com/news5839.html
http://astronomer.proboards.com/index.cgi?board=asteroids&action=display&thread=2356#ixzz1MPCoT8hN

our gravity. Let's hope they don't nudge it by accident, in the process (of planting the instruments). For more info on earthquakes etc. triggered by large rocks from the sky, see in my research notes "**Lessons**" (which we should learn regarding recent disasters, like in Japan).

The world will run out of Tantalum, an essential industrial commodity, estimates Leeb.[98] In Terminology see: Commodities; Oil; Tantalum.

FCIC Conclusions (1 Apr 03)

Their conclusions are also here on the web.[99] I have rephrased them somewhat, and summarized what I think are the important points, to be more inclusive of what I think they are not saying clearly, and to make the info easier for me to understand. In the process I may have introduced some inadvertent errors.

- This was a man made, avoidable disaster. It was not a few bad actors, and it was not everyone, but it was a lot of people responsible.
- In the 19th century, American financial institutions were plagued by panics, so early in the 20th century a collection of safeguards were installed to protect our financial system. These safeguards were dismantled near the end of the 20th century.
- There were warning signs of the disaster,[100] that had they been acted upon, it could have been averted. Many thousands of messengers were scorned, and in some cases punitive action taken against the messengers. Possibly if any one warning had been heeded, the crisis might have been averted. Regulators had ample power to stop this. They chose not to. The disaster was years in the making. There were massive warnings delivered to all relevant agencies with the power to stop this from happening. They did not, due to GROUP THINK.[101]
- Systemic breaches in accountability and ethics, at all levels.
- Key policy makers ill prepared, lacking full understanding of financial system they oversee.
- There was a widespread government ideology that deregulation works. If the government stays out of interfering in business, market competition will lead to best

[98] Game Over by Stephen Leeb, published 2009.
[99] http://fcic.law.stanford.edu/report/conclusions = 27 pages, so you can see I have greatly summarized key points in my notes.
[100] On Facebook, Pat Stephenson suggests an Excellent Book about early Red Flags Warnings, the essence of capitalism and Democracy from Harvard U. professor Bruce R. Scott "The Concept of Capitalism" http://www.amazon.ca/Concept-Capitalism-Bruce-R-Scott/dp/3642031099 Thanks Pat.
[101] See Terminology definitions section.

products and services, and self-correcting any problems without government involvement. This meant there was no opposition to lobbyists dismantling or weakening government standards or guarantees for investors and home owners.

- Widespread failures in financial regulation, including by the Treasury Department, the Federal Reserve Board, the Federal Reserve Bank of New York, and SEC.
- In the past, the financial industry had not made unsound loans, because they did not want to be stuck with something which could default. But now that mortgages could be sold in the securities market, lenders made a small fortune by selling snake oil, Florida swamp land, or whatever, to unsophisticated home owners, then sold those mortgages to unsuspecting investors, who in turn re-sold them to others, and this would continue until the financial musical chairs ran out of unsuspecting fools.
- The amount of interest paid on various investments, and the eagerness of people to invest in them, is often based on what the credit rating agencies have to say about them. But in deregulation, these agencies accepted bribes (except in deregulation the term "bribe" is changed to "fee") from companies to inflate the value of the investments. Also the companies switched from paying intelligent people to do evaluations, to using computer models which no one understood, and which turned out to be flawed.
- Dramatic breakdown in Corporate Governance, many financial firms recklessly taking on too much risk.
- Explosive mix of excessive borrowing and risk by households and by Wall Street, at a time when wages were stagnant. It was a gold rush mentality.
- Lenders made loans they knew could not be paid, then packaged those loans in fraudulent packages to other institutions.
- Permitting the growth of a housing bubble, which was sure to fail, leading to millions of Americans without homes, jobs, savings, or other accumulated assets. The values of the mortgages became artificially inflated, with people borrowing against them at a level which could not be sustained or paid. The losses were magnified by derivatives such as synthetic securities.
- I have written elsewhere about robo-signers who signed legal mortgage documents without reading any of the contents, a violation of federal law because of what the signature means. FCIC found that same mentality throughout many legal documents in the entire financial industry. Companies were buying and selling financial instruments with zero comprehension of what they constituted. This is how come $ trillions of what were really expenses and risks, ended up on the books as paper assets.
- Trillions of dollars in risky toxic mortgages became embedded throughout the financial system, as mortgage-related securities were packaged, repackaged, and sold to investors around the world.

- Government inaction permitting the growth of companies "too big to fail" then decision to bail them out of the messes of their own making.

- The nature of many Wall Street firms changed—from relatively staid private partnerships to publicly traded corporations taking greater and more diverse kinds of risks.
- Compensation systems encouraged big risks, short term gambles.
- As of 2007, the five major investment banks—Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley—were operating with extraordinarily thin capital. By one measure, their leverage ratios were as high as 40 to 1, meaning for every $40 in assets, there was only $1 in capital to cover losses. Less than a 3% drop in asset values could wipe out a firm. To make matters worse, much of their borrowing was short-term, in the overnight market—meaning the borrowing had to be renewed each and every day. Freddie Mac and Fannie Mae were operating on 75 to 1.
- When companies acquire other companies, the end goal is to make more money, with less costs. If the merger is done properly, there will be a spike of higher expenses in transition so the top owners understand their new acquisitions, and go through conversions so the data from the dissimilar structures can flow into a manageable big picture. Very few mergers are done properly.

There were a number of theories, by various people which the commission looked into. Some widely believed causes of the crisis are NOT on the above list, because the commission investigation concluded they did not play as significant a role as what is on the list.

Missing Conclusions (1 Apr 02)

Here are conclusions I have seen in my other readings, which I have not yet seen in the FCIC report. They may in fact be there, and I have not yet come to that part.

- If you have a company which is ONLY in a particular business, and it is overseen by regulators who oversee THAT particular kind of business, then the regulators have a good chance of finding problems, if they are properly funded, so they can inspect a good spectrum of the industry. But instead, we have moved to businesses which are active in a wide spectrum of activities, where some of them are outside of any regulation, and those which are regulated are governed by many different agencies which can never see the whole picture.
- What regulations do exist, are often so cumbersome and complex, that the only enterprises in regulated industries are the "too big to fail", because agile competitive have too large a paperwork burden to cross to get into the business.
- We have a legal system which says "If you do X" then there are certain government regulations which apply, but if a company "does Y" and Y is not explicitly mentioned in any laws, then there are no regulations which apply. As we have seen from a parade of recent financial scandals before the latest, businesses constantly come up with new things to do, get into horrible trouble, then laws are passed to

prevent re-occurrence of THAT trouble, while businesses come up with new things, with each scandal far worse than the previous.[102]

- Companies, engaged in new risks, did not have anyone on their board of directors who understood risks. They had people from a spectrum of past history in insurance, government, real estate, military, a vast spectrum of professions, but not in the parts that evaluated risks. They assumed that by hiring people with various skills, that was good enough. But anyone who has worked in business knows there is a hierarchy of reporting to managers who do not have the professional know-how of all the people who report to them. If a manager says "Do X" which you know is a bad idea, within your professional expertise, you may try to educate them, but usually either you do X, or you lose your job and someone else does X.
- Companies are off-shoring all sorts of job functions to people who do not understand Western commerce.
- Computer models should be designed, verified, tested, audited by people who understand the statistical science which is the basis of the model. All too often they are designed by lowest paid clerks, who have zero relevant training, while companies buy and use software packages, with zero inspection to verify their internal mathematics are valid, or relevant to how they are being used.
- To be a mortgage broker, you need a license from state government. In many states in the USA, it is easier and cheaper to get this license than to get an automobile driver's license. In many US states, there is next to no government oversight of what mortgage brokers are doing.
- In the absence of government oversight, good laws regulations and enforcement, marketplace competition means that crooks beat out good guys, to the point that soon there are no good guys left in the business.
- This mess was started in the aftermath of 9-11, where our economy was in a mess (nothing compared to today), due to the crack down of security against all sorts of traffic in and out of the USA – legitimate business, tourism, foreign students – which meant security, to protect us against the threat of terrorism, was also gumming up large chunks of the economy, so financial regulators looked for ways to fuel economic growth, taking us into other areas of risk.
- A mindset about who could be crooked.
    - Madoff was one of the biggest financial crooks in recent US history.[103] For years before the SEC learned that fact, there were people supplying the SEC with chapter and verse of his crookedness. No action was taken by the SEC because Madoff was formerly head of the NY Stock Exchange. He was too important, in their eyes, to be a crook.
    - Remember BCCI, the Bank of Crooks and Criminals International? Their crookedness was never caught by banking regulators, because so long as a bank sends reports to the government saying "We are doing OK" the government accepts that. It is only the banks saying "We are in trouble" which get audited. BCCI was found out due to a Customs and Border sting where they followed the money associated with some smuggling operations.

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[102] When this happened, we thought it was a bad scandal, but since then, far worse have occurred. http://wallstreetfollies.com/diagrams.htm

[103] http://projects.exeter.ac.uk/RDavies/arian/scandals/classic.html#madoff

Next Crises Speculation (1 Apr 11)

Many recent disasters have been a combination of natural phenomena, where we can debate how predictable, and mankind unpreparedness for what can reasonably be expected. As we study recent disasters, and what should be done about them, we find parallels.

Economic Collapse coming (1 Apr 11)

David Cantey told me about this book he is reading, which inspired me to get it also.[104] Some of its content parallels FCIC lessons.

Game Over, the coming economic collapse, by Stephen Leeb.

First ½ of the book explains our shattered economy, financial tsunami to come, somewhat reminiscent of the book "The Limits to Growth", which I read when I was in college approx 50 years ago. This problem is made worse by complacency in denial of the coming train wreck, like that which could have mitigated the disaster explained by FCIC, similar to what I saw in "Future Shock" back in my college days, and contemporary readings where people become accustomed to a contemporary normalcy, not want to believe things can get worse.

Second ½ of Leeb's book is on how to prosper in the coming alternate reality.

Oxymoron = Civilization Survival (1 Apr 12)

Time is running out to solve many commodities resource shortage challenges.

Any solution requires large inputs of the very resources which are becoming ever more difficult to find and afford.

Terminology see: Commodities; Energy; Oil.

Commodity Pricing (1 Apr 12)

There is a loop of interconnected negative feedback.

1. Commodity prices drop (for whatever reasons), and more get consumed, by people who can afford the lower prices.
2. Critical new projects get shut down, because prices are not high enough to make the alternative solutions competitive.
3. Demand for commodities rise, as the economy recovers.
4. Shortages drive commodity prices back up again.
5. We need those critical alternative projects.

[104] Thanks David.

Limits to Growth (1 Apr 12)

"Limits to Growth" was a 1972 book modeling the growth of our civilization against finite resources which our civilization depends upon.[105] My memories of the time this was last a hot topic, were that the book came under criticism on several key topics:

- The software, used to calculate the results, was claimed to be not sophisticated enough for the complexity of the challenges, and also claimed to be flawed programming.
- The notion that some resources were finite, that's a theory, an assumption. Other people believed human development into space would go much faster than it actually has, and that we would find asteroids and other places to mine essential commodities of our civilization.
- How some commodities come into existence, are theories. Where does oil come from? Are there activities, within our planet, that create more? Maybe there are none, but saying there are none can close the door on scientific research to find such.

The original authors have come out with new and improved editions, while independent researchers have compared the original predictions with what has happened in reality. It appears that they were much more correct than we thought at the time of publication.

The purpose, of the Limits to Growth, was not to make specific predictions, but to explain the problems.

There have been massive critics of this book, but I have come to learn that many people have an agenda other than the truth, which complicates any analysis.

Terminology etc. (1 Apr 06)

Everywhere there are unfamiliar concepts, acronyms, terminology, etc. which are at the root of the financial crisis. Here is what I have figured out so far. Some "definitions" may get expanded later. Much of this content is stuff I found when reading the FCIC report, then I went on the web to get an expanded clarification of the concepts. See their glossary here: http://fcic.law.stanford.edu/resource/glossary#c I have combined their definitions with my growing efforts to understand what the concepts mean.

When I have something in all capital letters, that means I intend to define that in this section, but I might not yet have a satisfactory definition. In some cases, I may just have the word or phrase in all caps without definition, basically a reminder to myself that a good definition is needed there.

[105] http://en.wikipedia.org/wiki/Limits_to_Growth

I have many more definitions, relevant to this topic, in the USA Housing section of my **Glossary of Housing** (and other) **Challenges in Haiti**. I shall copy some definitions from there to here, which I think are relevant.

A + Definitions (1 Apr 14)

ABCP = asset-backed commercial paper = Short-term debt secured by assets.

ABS = asset-backed security. = Debt instrument secured by assets such as mortgages, credit card loans or auto loans.

ABX.HE = A series of derivatives indices constructed from the prices of 20 credit default swaps that each reference individual subprime mortgage-backed securities; akin to an index like the Dow Jones Industrial Average.

Affordable Housing Goals were originally set by the Department of Housing and Urban Development (now by the Federal Housing Finance Agency) for Fannie Mae and Freddie Mac to allocate a specified part of their mortgage business to serve low- and moderate-income borrowers.

AG = Attorney General = The chief law enforcement officer of the US, or of a state. During the mortgage scandal which led up to the financial crisis, the US attorney general's focus was on national security, not financial security. This office did not realize the economic security significance of the unfolding crisis, so did not pay attention to any of the warning signs.

AIG = American International Group

Aluminum is an industrial commodity metal, which the world is running out of the ability to produce,[106] according to Leeb,[107] although this seems unbelievable when I read about it in Wikipedia,[108] and other sources.
30% of US needs were imported in 1999, 44% in 2006.
82% of the world's production or reserves are in developing countries.[109]
In producing Aluminum, Energy is the biggest single expense. To produce 1 ton of Aluminum, it is necessary to consume 35 barrels of Oil, or its equivalent, in energy. **At current rates of Aluminum production, it consumes 2% of Oil production**.[110]
This logic applies to many industrial chemicals. Some mines have stopped, due to such increasing costs.

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[106] In Terminology, see Commodities; Energy; Oil. See 2008 in Red Flag warnings time line.
[107] Leeb Book = "Game Over."
[108] http://en.wikipedia.org/wiki/Aluminium
[109] As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
[110] See Oil, and Oil. Peak.

What do we use Aluminum for?[111]

- Alloys in Aerospace;
- Buildings;
- Electrical transmission lines;
- Electronics;
- Explosives;
- Magnets;
- Packaging;
- Paint;
- Rocket Fuel;
- Transportation;
- Lots more applications.[112]

When recycling aluminum cans, note that 100% of the aluminum can be recovered and re-used.

Antimony is an industrial commodity chemical, which the world is running out of,[113] according to Leeb.[114]
85% of US needs were imported in 1999, 100% in 2006.
97.5% of the world's production or reserves are in developing countries.[115]
84% of it comes from China,[116] according to Wikipedia.[117]
13 years worth are left, per Leeb[118] as of 2009, if the rest of the world consumes it at ½ the US rate.

What do we use Antimony for?[119]

- Acids;
- Alloys;
- Ball bearings;
- Chemistry;
- fire retardants;
- microelectronics;
- nuclear power plants;
- Safety matches.

111 http://en.wikipedia.org/wiki/Aluminium
112 http://sam.davyson.com/as/physics/aluminium/siteus/uses.html
113 See Commodities; Energy; Oil; Silver.
114 Leeb Book = "Game Over."
115 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
116 In my opinion, it is a mistake to call China a "developing country." A more accurate name would be "economic power house."
117 http://en.wikipedia.org/wiki/Antimony#Production
118 Stephen Leeb book = "Game Over."
119 http://en.wikipedia.org/wiki/Antimony http://chemistry.about.com/od/elementfacts/a/antimony.htm

ANWR = Anwar National Wildlife Refuge. If that area was opened up to oil production, it would take 5-10 years to implement, and would only produce 1 million barrels of oil a day, which is a drop in the bucket which is rapidly emptying. See: Commodities; Oil, Peak.

APPRAISAL INFLATION – Imagine a home selling for $ 200,000 which an appraiser says is worth $ 175,000. In this case, the bank is not going to loan $ 180,000 for a mortgage to the new buyer. A 2003 survey found that 55% of appraisers felt pressured to inflate their appraised value of homes, to help mortgage brokers make deals. By 2006 this had climbed to 90%. Most of the pressure came from mortgage brokers, but some from real estate agents, lenders, and borrowers themselves. Clients would hire someone else, if they did not get the appraisal they wanted. Changes in regulations removed protection for honest appraisers, so deregulation made the industry more criminal-friendly.

ARBITRAGE – In 2001 the Fed made a new rule. When banks held onto the securitization of a mortgage, they were expected to retain $1 of assets for every $1 coming from the security, a LEVERAGE of 1:1. Since the requirement had previously been 8% or 1 to 14.5, this incentified banks to rapidly sell off mortgage securities. Also: the lower the risk rating, the higher the capital requirement. An investment in AAA might require $1.6 capital requirement, but the same value investment in BB would require $16 or 10 times higher. This meant that when the crisis began to unravel, and securities lost their triple-A ratings, institutions left holding toxic assets would suddenly need more assets to remain afloat.

ARMs = adjustable-rate mortgage. They are mortgages whose interest rate changes periodically over time. This makes it cheaper to get in the door of home ownership, but pay more in the long run, like an automobile purchase with very little down, so the total to be paid on credit is more, meaning more to pay interest on, and because less down, the interest rates are higher.[120] Financial outfits selling consumers on these ARMs apparently did not do such a great job of explaining them, because when the interest rates shot up, many borrowers were taken by surprise.

ARS = auction rate securities. = Long-term bonds whose interest rate may be reset at regular short-term intervals by an auction process.

BANK BETTING = a form of gambling which regulators allowed financial institutions to start engaging in, late in the 20th century.

This is terminology I created while trying to wrap my mind around what's going on using analogies of what I am familiar with. It appears evident from overall context that there are activities which were prohibited in early law and regulation, then regulators relaxed the rules, then legislators eliminated the rules.

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[120] In 2009 I traded in my 1986 Honda Civic for a 2007 Honda Accord. I thought the interest on the car loan was obscene ($ 5,000.00), so I cashed in a life insurance policy to get the loan paid off much faster.

Ordinary people often bet on the results of a sports game, a horse race, whether stocks and bonds will go up or down in value, or an election. Thanks to the changes by regulators then legislators, banks were now allowed to invest in anything, including financial objects which paid off, or cost lots later, because they were based on future values of all sorts of commodities, currencies.

There is nothing inherently unethical or improper in such betting or gambling, it is only a major risk if you invest so much of your assets that you stand to lose your shirt, because you have risked all your assets, or used LEVERAGE or MARGIN such that you now owe more debt than you have assets..

Banking Fraud + Definitions (1 Apr 07)

Banking Fraud explained by example

> When a home-owner's attorney questioned claims by a BoA representative, regarding why eligibility for loan modification had been denied, BoA sent the attorney an electronic copy of the original loan agreement, which had been altered to show BoA's current claims, in contradiction to the language in the original agreement as signed by the home-owner.[121]
>
> Countrywide sold a North Carolina woman's home at a foreclosure sale, even though she was making the timely payments required under a consent order entered in bankruptcy court.[122]

Bank Holding Company = Company that controls a bank.
BCCI = Bank of Crooks and Criminals International.[123]
BoA and BofA = Bank of America

Boom and Bust Economic Theory – See Everyone Greed

Boycott is named after Charles Boycott,[124] who was the land agent of an absentee landlord. Some people in Ireland lost their homes, then no one would talk with the new occupants of the home, or with the greedy landlord or his agents, would not sell them any products, would not work on their property. Boycotts are legal most everywhere. What is sometimes not legal are secondary boycotts.

Boycott, Secondary: Suppose we the people do not like what some company is doing in its hiring practices, outsourcing, foreclosing, environmental behavior, etc. We follow its

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[121] Detailed on page 8 of Ms T's written testimony to the Senate Banking committee. Her testimony is chock full of instances of systemic fraud against home owners by the mortgage financing industry.
[122] See page 15 of Ms T's written testimony to the Senate Banking committee. Her testimony has hundreds of examples like this, showing systemic fraud in the banking industry, which goes beyond occasional innocent errors.
[123] That was not its official name. I forget what the official name was.
[124] http://en.wikipedia.org/wiki/Boycott US 9th circuit had a judicial conference in Aug 2010, later shown on C-Span, where we learned about Charles Boycott.

delivery vehicles around to identify where it is doing business, note where its logo is posted, then picket those places to tell the customers there what our objections are to the outfit it is doing business with. This kind of selective consumer buying decision is illegal some places.

Broker Dealer = A firm, often the subsidiary of an investment bank, that buys and sells securities for itself and others.

Bubbles+ Definitions (1 May 11)

Bubble Burst … many executives and government officials testified to the FCIC[125] that it was a surprise to them that the Housing Bubble Burst, and also the extent of the consequences was a surprise. What are reasonable expectations for anyone working in an industry which can have bubbles? Also see EVERYONE GREED and HOUSING BUBBLE.

Is it valid to believe that a bubble will inflate to infinity? Do bubbles burst sufficiently infrequently that it is reasonable that each time this happens, most people, who are invested in the bubble, will be surprised? Apparently yes, ignorance of bubbles and results is very widespread.

Bubbles which have burst in recent financial history:

- Dot com bubble[126]
- Housing bubble of Israel[127]
- Housing bubbles in 15 nations in the 2000ds[128]
- Housing bubbles in approx ½ the 50 US states[129]
- Japan bubble[130]
- South Sea bubble in 18th century[131]
- Tulip bubble in 17th century Holland[132] is perhaps the first in history to be explained
- 1997 Asian financial crisis[133]

Possibly part of the problem is that Economic bubbles[134] are not part of secondary school education.[135] Thus, we cannot expect most people in business to be aware of them. Are

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125 http://fcic.law.stanford.edu/
126 http://en.wikipedia.org/wiki/Dot-com_bubble
http://projects.exeter.ac.uk/RDavies/arian/scandals/classic.html#dotcom
127 http://en.wikipedia.org/wiki/Israel%27s_housing_bubble
128 http://en.wikipedia.org/wiki/World_real_estate_bubble_of_2007#Real_estate_bubbles_in_the_2000s
129 http://en.wikipedia.org/wiki/United_States_housing_bubble
130 http://www.sjsu.edu/faculty/watkins/bubble.htm
131 http://en.wikipedia.org/wiki/South_Sea_Bubble
132 http://en.wikipedia.org/wiki/Tulip_bubble
133 http://en.wikipedia.org/wiki/1997_Asian_Financial_Crisis
134 http://en.wikipedia.org/wiki/Economic_bubble
http://csinvestor.com/investing-guide/economic-bubbles/
http://www.businesspundit.com/10-most-bizarre-economic-bubbles-in-history/
135 My memories of secondary school education: the only economics was standard retail commerce. Even in college, 50 years ago, the only economics I got was economic geography, in which I had to change majors to

they taught as part of an MBA? From what I can see in Wikipedia, and some other sources,[136] bubbles do occur regularly, but if a person is not involved in the commodities of the bubble, they may be oblivious to the details. Also, some writers treat them as bizarre, as opposed to risks we should watch out for. Thus, the recent Housing bubbles were the first in history to have an effect on the mass of the population.

What drives a bubble? Credit margin leverage availability abuse.
What looks like a bubble, but is not a bubble? Peak Oil.

I grew up in an era where we were taught, or I was given to understand, that overall the stock market values go up, some will fall, but if we diversify our investments, the losses will be more than made up by the gains. It turns out that with occasional stock market crashes, that is not a valid belief. However, many people believed it, and also believed that principle applies to many other investments.

Bob Speth points out that what I thought I was taught, or given to understand, was flawed.

It is true that the stock and other markets' values rise and fall. However, diversification does not guarantee that there will be no losses within a market or across different markets. Over the long term, diversification is a means to reduce risk by not having all assets tied up in one investment class. Basically, diversification can 'average out' losses and gains when markets are functionally normally, if the diversification is structured properly. To "believe" that diversification does more than that is folly.

Unfortunately, humans love their beliefs no matter how dangerous those beliefs are.

Budget Surplus: In Red Flags Time-Line, see:

- 2000 – how nations went from healthy economies to utter ruin

Bush Tax Cuts: In Red Flags Time-Line, see:

- 2000 – how nations went from healthy economies to utter ruin

C+ Definitions (1 Apr 14)

CAPITAL = Assets minus liabilities; what a firm owns minus what it owes. Regulators often require financial firms to hold minimum levels of capital. Wall Street often does not obey the rules, tries to game the rules, misleads Congress and regulators.

Citi = Citigroup

CDO = collateralized debt obligation. Type of security often composed of the riskier portions of mortgage-backed securities. CDOs turned out to be some of the most TOXIC

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get access to it. However, OUTSIDE the classroom, I read "The Limits to Growth" and studied economic theories OTHER than Keynesian, falling in love with Henry George philosophy.

[136] http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/historical/bubbles.html
http://www.scientificamerican.com/article.cfm?id=the-science-of-economic-bubbles

ASSETS during the crisis. FCIC compiled [a library](http://fcic.law.stanford.edu/resource/staff-data-projects/cdo-Library) of selected CDO documents, including the offering documents and marketing materials for many of these structured products.[137] FCIC also has [charts](http://fcic.law.stanford.edu/resource/staff-data-projects/cdo-charts) showing some of their characteristics.[138]

CDO, hybrid = A CDO backed by collateral found in both cash CDOs and synthetic CDOs.

CDO squared = CDO that holds other CDOs.

CDOs, synthetic = gambling on what will happen, where you can have the identical bet multiplied many times, so if you lose, you lose a lot. A CDO that holds credit default swaps that reference assets (rather than holding cash assets), allowing investors to make bets for or against those referenced assets.

Think of it like going to a local bookie and they will only take up to some credit limit, so you go to a bunch of other bookies to make the same bet. Then when you lose, instead of one bookie coming to break your legs, an army of bookies come to break every bone in your body.

CDS = credit default swap, a type of credit OTC derivative allowing a purchaser of the swap to transfer loan default risk to a seller of the swap. The seller agrees to pay the purchaser if a default event occurs. The purchaser does not need to own the loan covered by the swap. Think of them as like insurance … if this or that deal goes bad, then you either get your money back, or some of it, from the CDS payout.

The concept of the ***credit default swap*** emerged in 1994, when JPMorgan utilized the swap to transfer the credit risk of its client, Exxon, to the European Bank of Reconstruction and Development. Since then, the demand for CDS has increased substantially.

CEA = Commodity Exchange Act = current federal law governing derivatives and derivatives markets, which created the Commodity Exchange Commission as the responsible regulatory authority.

CFTC = Commodity Futures Trading Commission.

Chindia + Definitions (1 May 04)

Chindia = China and India, two nations which should no longer be called "Developing Nations" but "economic power houses". Their growth is rapidly consuming resources that the West used to take for granted. Chindia has a combined population of 2 ½ billion people. In 2007 Chindia surpassed USA in terms of production. At current rates of

137 http://fcic.law.stanford.edu/resource/staff-data-projects/cdo-Library
138 http://fcic.law.stanford.edu/resource/staff-data-projects/cdo-charts

developing, the developing world and Chindia will never reach the post industrial reality enjoyed in the West, because we will run out of key commodities first.[139]

See Commodities, Energy, Oil.

Chromium is an industrial commodity chemical, which the world is running out of,[140] according to Leeb.[141]
75% of US needs were imported in 1999 and 2006.
99.9% of the world's production or reserves are in developing countries.[142]
40 years worth are left, per Leeb as of 2009, if rest of world consumes it at ½ the US rate.

CME = Chicago Mercantile Exchange

Collateral =

Commercial Paper, see CP

Commercial Paper Funding Facility = Emergency program created by the Federal Reserve in 2008 to purchase three-month unsecured and asset-backed commercial paper from eligible companies.

Commodities + Definitions (1 May 12)

Commodities, Industrial – As explained in *OIL*, The world is rapidly using up many of the building blocks of our civilization. Time is running out to develop alternatives. According to Leeb,[143] the following metals are at risk, and mutually interdependent with each other, and with energy:

- Aluminum
- Antimony
- Chromium
- Copper
- Gallium
- Indium
- Lead
- Nickel

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139 According to Leeb Book = "Game Over."
140 See Commodities; Energy; Oil.
141 Leeb Book = "Game Over."
142 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
143 Book = "Game Over."

- Platinum
- Rhodium
- Silver
- Tarrallium
- Tin
- Uranium
- Zinc

See each of these commodities in terminology, where Leeb estimated years until we run-out, were published in 2009. I copied his #s, did not recalculate for current day, except in the red flag list of years of warnings.

Trying to get more of any one of these resources, taxes supplies of the others.

I suspect many of these commodities are critical components of products imported by the USA.

In the book "Limits to Growth", is the notion that for any commodity we consume, there is a tendency for the rate of consumption to increase, so you can't just divide current consumption rate into world reserves estimate to get years estimate left.

Commodities Markets:

- ***Commodities Futures Markets*** = bet on what the prices will be at a point in the future. This is supposed to help producers manage their cash flow, by promising to pay particular prices in the future. But in addition to the real supply and demand actors in such markets, there are the speculators, participating with extreme margin leverage, spending $1,000.00 to get $10,000.00 worth of some commodity, then selling it before they have to take delivery. Trader gambling has a much larger impact on commodity price volatility than actual supply and demand.
- ***Commodities Spot Markets*** = what the prices are right now.

Commodities, Peak = ***Peak Commodities*** = The point at which increased supply of some commodity can no longer satisfy increases in demand for that commodity. See: Chindia; Energy; Oil; Water.

Commodities, Peak, Absolute = ***Absolute Peak Commodities*** =When we get to the point at which, to extract some commodity, refine it appropriately, and deliver to where needed, it costs more to get it, than we'll possibly be able to sell it for. See: Chindia; Energy; Oil.

Commodity Futures Trading Commission = Independent federal agency that regulates trading in futures and options.

CONFLICTS OF INTEREST contributed to the financial disaster.[144]

- Lobbyists direct their attention to Congress, state legislatures, regulators. When any elected leader seeks to increase regulation of any industry, that industry often funds a smear campaign in the next election, to get that person unelected.
- Credit Agencies are paid, to issue credit ratings, by the organizations which want good ratings.
- There is a "revolving door" of personnel between major financial institutions, the Treasury Department, and Treasury bailout programs.
- There is a "revolving door" between major financial institutions and the [Securities and Exchange Commission](#) (SEC), which is supposed to monitor them.

Copper is an industrial commodity metal, which the world is running out of,[145] according to Leeb.[146]
27% of US needs were imported in 1999, 50% in 2006.
86% of the world's production or reserves are in developing countries.
38 years worth are left, per Leeb as of 2009, if rest of world consumes it at ½ the US rate.
The world is running out of cheap oil, copper, and gold, says UNEP 2011 report.[147]

COOKS, TOO MANY … when there are a mountain of different regulators each over a portion of the financial industry, and when they need to agree on some change in policy, there will be many leaders to need to reach a consensus with, and decisions could take years. This reminds me of the old saying "When seconds count, the police are minutes away."

Counter Party = A party to a contract.

CP = COMMERCIAL PAPER = short term UNSECURED LOANS from financial industry to companies, made outside of the government regulated portion of the financial industry, part of the SHADOW BANKING SYSTEM.

CPP = Capital Purchase Program = TARP program providing financial assistance to 700-plus U.S. financial institutions through the purchase of senior preferred shares in the corporations on standardized terms.

CRA = Community Reinvestment Act = 1977 federal law encouraging depository institutions to make loans and provide services in the local communities in which they take deposits.

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144 http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010
145 See Commodities; Energy; Oil.
146 Leeb Book = "Game Over."
147 http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=2641&ArticleID=8734&l=en

Credit + Definitions (1 Apr 06)

Credit Enhancement = Insurance or other protection that may be purchased for a loan or pool of loans to offset losses in the event of default.

Credit Loss = Loss from delayed payments or defaults on loans.

Credit Rating Agency = Private company that evaluates the credit quality of securities and provides ratings on those securities; the largest are Fitch Ratings, Moody's Investors Service, and Standard & Poor's.

Once upon a time this industry could be relied upon to provide accurate data, but to the extent that its data is supplied by an industry which has lots of errors and subjective inferences, and ratings paid for by fees, there has been a dip in public confidence. Efforts are being made to repair this damage. Here is a relevant June 2010 FCIC background report: **Credibility of Credit Ratings, the Investment Decisions Made Based on those Ratings, and the Financial Crisis**
Credit Ratings and The Financial Crisis (PDF)

Credit Risk = Risk to a lender that a borrower will fail to repay the loan.

CSE = Consolidated Supervised Entities Program = A Securities and Exchange Commission program created in 2004 and terminated in 2008 that provided voluntary supervision for the five largest investment bank conglomerates.

Debt to Income Ratio = One measure of a borrower's ability to repay a loan, generally calculated by dividing the borrower's monthly debt payments by gross monthly income.

DEED = Document showing who has ownership title to a home, similar to the pink slip on an automobile. The owner should have this in an important place, like a safety deposit box. The government should also have a copy of this as a public record, where the public does not get to see social security # and other personal confidential info on the home owner. This was the OLD system, until the Banking Industry came up with the MERS system to keep track of changes in who owns what property, without going through the Courthouse Records system. Was it legal for the MERS system to replace the government system? This is now being hotly disputed in every state of USA, with judges ruling in both directions. It needs to work its way up to the US Supreme Court.[148] Also see MORTGAGE and PUBLIC RECORDS.

Delinquency Rate = The number of loans for which borrowers fail to make timely loan payments divided by total loans.

Depository Institution = Financial institution, such as a commercial bank, thrift (savings and loan), or credit union, that accepts deposits, including deposits insured by the FDIC.

[148] See OCC case which the Supreme Court needs to rethink.

Derivatives + Definitions (1 May 06)

DERIVATIVES = a financial gimmick to BET on, SPECULATE on, or HEDGE against changes in prices, values, and events. Think of it like stock market gambling on the changing values of deals between companies. Financial contract whose price is determined (derived) from the value of an underlying asset, rate, index, or event.

The USA has had derivatives markets since 1851 when the Chicago Board of Trade began trading contracts for future delivery, providing farmers the opportunity to negotiate a guaranteed price for their crops before they were harvested. The modern derivatives market began in the 1970s as a result of two major events.

The first event was the breakdown of the Bretton Woods international fixed exchange rate system, which reintroduced exchange rate fluctuations into the financial system.

The second event was the creation of an options pricing formula by Fischer Black and Myron Scholes in 1973. It allowed investors to calculate the value of an option from the market price of the referenced item.

There are two primary economic benefits provided by derivatives markets: *risk shifting* and *price discovery*.

Here are relevant 2010 FCIC background reports: **The Role of Derivatives in the Financial Crisis**
Overview on Derivatives (PDF)
Credit Derivatives and Mortgage-Related Derivatives (PDF)

Derivatives Benefit of Price Discovery:

Derivatives markets have advantages over cash markets in providing price discovery. Due to their lower trading costs, greater liquidity and the standardization of the reference entity, derivatives markets often serve as the primary markets for determining the prices of commodities, financial assets and the market value of certain risks and events. The benefits of price discovery are increased when derivatives are traded on exchanges or through clearing houses which provide greater public access to price information.

Derivatives Benefit of Risk Shifting:

Market participants can use derivatives to shift their risks either to hedge, reducing their overall risks, or to speculate, adding to their existing risks.
Used effectively, derivatives can help to promote market efficiencies by enabling individuals or entities to shift the risk they are unwilling or unable to assume to those who are able or willing to do so.

Derivatives Benefit of Risk Shifting via Hedging:

When derivatives are used for hedging, they reduce or eliminate the exposure to an existing risk. For example, a bank with long-term assets and short-term funding liabilities can use an interest rate swap to hedge against fluctuations in its funding costs by paying a fixed interest rate and receiving a variable payment linked to an interest rate similar to those on its short-term liabilities. This derivative would generate a higher payment to the bank when short-term interest rates increased, thus compensating the bank when the market rate increased on its variable rate funding. Another example is a European investor that wants the equity price risk of high-tech U.S. firms but does not want the exchange rate risk between the dollar and the euro. A foreign exchange swap or option could be used to reduce the exchange rate risk and enable the investor to retain the risk and return of the high tech stock portfolio.

Derivatives Market Size

There are three ways to measure the size of the derivatives market: *notional amount outstanding*, *gross market value*, and *trading volume*.
In general, measuring the size of the OTC derivatives market is difficult because the markets are unregulated and there are no transactional reporting requirements.

Derivatives Regulation

The first federal law governing derivatives was the Futures Trading Act of 1921. However, the Supreme Court ruled it unconstitutional.[149] So Congress passed the Grain Futures Act in 1922. The current federal law governing derivatives and derivatives markets is the Commodity Exchange Act (CEA), which created the Commodity Exchange Commission as the responsible regulatory authority. First passed in 1936, the CEA has undergone numerous amendments.

Derivatives Risks

Derivatives pose potential risks to firms and to the financial system. Derivatives transactions are generally leveraged since parties to these transactions initiate the transaction with little money down. In any financial transaction, the degree of leverage is determined by the collateral required to secure the transaction. If no collateral is required then the economic leverage is infinite. While the use of leverage has the potential to yield high returns relative to the capital invested, it also has the potential to yield large losses.

Derivatives Speculation

One purpose of derivatives is for *speculating*, which is when an individual or firm takes a position through derivatives with a directional view of the market. For example, a trader can buy a *call option* whose value increases with an increase in the price of an underlying stock. A *call option* is a contract that provides the contract holder the right to buy a specific quantity of an underlying security from the option seller at a specified price, also known as the *strike price*. If the stock's price rises above the option's strike price, the trader could profit by exercising the option to buy at the strike price and then sell at the higher prevailing market price.

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[149] Hill v. Wallace 259 U.S. 44 (1922)

Deutsche Bank

The USA is suing **Deutsche bank**. Federal Housing Administration (FHA) rules say lenders must make sure the borrower will be able to repay the loan, but the Justice Department claims Deutsche did not do so.[150]

In the Red Flags Time Line, see: 2011 ***Levin-Coburn*** US Senate report, on key causes of the Financial Crisis,[151] documenting how ***Deutsche Bank*** helped assembled a $1.1 billion CDO known as Gemstone 7, stood by as it was filled it with low-quality assets that its top CDO trader referred to as "crap" and "pigs," and rushed to sell it "before the market falls off a cliff." Deutsche Bank lost $4.5 billion when the mortgage market collapsed, but would have lost even more if it had not cut its losses by selling CDOs like Gemstone.

See CDO; FHA.

Documentation Bungled + Definitions (1 Apr 06)

Documentation Issues by example:[152]

- If documentation problems prove to be pervasive and, more importantly, throw into doubt the ownership of not only foreclosed properties but also pooled mortgages, the consequences could be severe. Clear and uncontested property rights were the foundation of the USA housing market, until the banking oligarchy broke the old system and replaced it with a new broken system, including a mortgage servicing industry prone to record-keeping errors. They were able to do this via lobbyists pressuring regulators and legislators to deregulate rules that previously prohibited the banking industry from engaging in certain risky practices. There are now battles in the court system whether it is legitimate for banking practices to circumvent to old courthouse system.
- If these rights fall into question, that historical foundation could collapse.
- Borrowers may be unable to determine whether they are sending their monthly payments to the right people.
- Judges may block any effort to foreclose, even in cases where borrowers have failed to make regular payments.
- Multiple banks may attempt to foreclose upon the same property.
- Borrowers who have already suffered foreclosure may seek to regain title to their homes and force any new owners to move out.

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150 http://www.bbc.co.uk/news/business-13273533

151 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d

Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.

PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

152 Sources include US Congressional Oversight;

- Would-be buyers and sellers could find themselves in limbo, unable to know with any certainty whether they can safely buy or sell a home.
- Real Estate developers could have long delays, thanks to uncertainty whether the land ownership documentation has any validity, or if the land has been stolen from someone else via bank fraud.
- If such problems were to arise on a large scale, the housing market could experience even greater disruptions than have already occurred, resulting in significant harm to major financial institutions.
- If a Wall Street bank were to discover that, due to shoddily executed paperwork, it still owns millions of defaulted mortgages that it thought it sold off years ago, it could face billions of dollars in unexpected losses.

Dual Track System + Definitions (1 Mar 31)

- One track is the mortgage servicer working its way thru foreclosure process.
- Other track is the loan modification outfit working its way through whether that can be granted, and if so will it work out.
- Different companies are contacting the home owner, regarding what's happening in the two tracks. It is extremely confusing to them.
- In theory, the foreclosure process will run to the very end, then stop right before asking the judge to sign off on implementing the foreclosure, then sit there so long as the loan modification is working. As soon as the home owner misses one payment, the foreclosure runs to a conclusion.
- In reality, this system is broken, thanks to crooks in the system, and poor accounting communication practices. Many people are getting foreclosed even though they never missed a payment.

E + Definitions (1 May 11)

Developing more ***Energy*** resources requires big inputs of other commodities, such as iron ore, zinc, copper, and small amounts of some precious metals such as Silver.[153] In terminology, see commodities; oil; and each of these named inputs, for info on the world supply getting depleted how fast, and more expensive to mine, due to Oil prices rising.

Example: in May 2004, Duke Energy started planning construction of two coal burning power plants in North Carolina. In Nov 2006, they canceled one of these plants because construction costs had risen more than 80% due to rising prices for copper, nickel, stainless steel, and other commodities, essential to the project. This rise in costs applies to all manner of new power plants, and to new mining operations for oil and other commodities.

So I guess we need more mobile drilling platforms, like the one destroyed in the Gulf Oil spill disaster, for use on land and ocean bottom.

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[153] Stephen Leeb in book = "Game Over."

Energy, Peak = ***Peak Energy*** = The point at which increases in energy supply can no longer satisfy increases in demand. See: Commodities; Oil, Peak.

Energy, Peak, Absolute = ***Absolute Peak Energy*** =When we get to the point at which, to extract some energy, and deliver to where needed, we have to expend more energy to get it, than we'll get. See: Commodities; Oil.

An ***equity swap*** is a type of TOTAL RETURN SWAP in which the underlying asset is a stock. While it is unclear when the first equity swaps were used, one of the first major equity swap contracts was a 1990 transaction in which Amoco utilized an equity swap to earn a return on a Japanese stock index.

In general, equity swaps are used by investors as a substitute for directly holding a stock. Equity swaps are similar to other OTC derivative agreements in that two parties agree to exchange sets of future cash flows based on the reference security at a predetermined future date. However, in an equity swap two parties make payments where at least one set of payments is based on the rate of the return on a stock, "basket of stocks," or a stock index. The other set of payments are based on a fixed or floating rate or a return on another stock or index which is assessed at the end of the swap.

Everyone Greed

During the growth of the Housing Boom, many people were investing in housing, because they believed the values could only go in one direction, up. Every time houses bought and sold for more money, or were refinanced with greater value, people were gambling that they would be able to sell again at higher pricing. This process would continue, so long as there were plenty greedy fools willing to gamble. Ultimately the system ran out of gambling fools, and the boom turned into a crash.

This is classic boom and bust economic theory. The boom went from approx 1994 to 2005, where the securities market in mortgage loans peaked in 2007. That's 11-13 years. The collapse would take 1/3 that time, or around 4 years, bottoming out in 2011, except for interruptions by government efforts, and impact of all the crooks in the system. After the collapse, there will be approx 80-90 years until the next housing boom. It takes that long for people to forget the stupid stuff done in the Great Depression, then start doing that stupid stuff again.

Euro, Single Currency of European Common Market. In Red Flags Time-Line, see:

- 2000 – how nations went from healthy economies to utter ruin

Exchanges are centralized places or electronic platforms that bring together all types of market participants under a common set of rules. The two most common types of exchange-traded derivatives are futures and options.

F+ Definitions (1 Apr 06)

Fannie Mae = Nickname for the Federal National Mortgage Association (FNMA), a government-sponsored enterprise providing financing for the home mortgage market.

FCIC = Financial Crisis Inquiry Commission.[154] This commission was created by Congress and the President May 2009 to investigate causes of the most devastating financial and economic crisis since the Great Depression. The commission interviewed over 700 witnesses, held 19 public hearings, examined millions of pages of documents, never previously made public. Then in January 2011 they published their findings, in a report (which I have started reading), and on websites. This report, and what is on the websites, fulfills what was asked of them by Congress and the President, and now they are trying to explain their findings to the American public.

- When I try to go to WWW.FCIC.GOV I get redirected to Stanford U Law
- http://fcic.law.stanford.edu/

Here's why.[155] The Financial Crisis Inquiry Commission (FCIC) created a website dedicated to reporting on matters related to its mission and purpose but by federal mandate the operations of the FCIC ceased to exist on February 13, 2011. However, the FCIC believed it was in the public interest to allow information related to its findings to continue to be made available on a publicly available website. In this capacity, the Rock Center for Corporate Governance at Stanford University and the Robert Crown Law Library at Stanford Law School (SLS) have agreed to host the new website and make the data more accessible in the coming years.

Here are FAQ about the FCIC.[156]

As their report went to print,

- 26 million Americans cannot get work;
- 4 million Americans have been foreclosed;
- 4 ½ million additional Americans are on the road to being foreclosed;
- $ 11 trillion in household wealth has vanished.

The commission compares itself to the NTSB, which I think is a dangerous comparison.

Congress and President did not ask FCIC for policy recommendations what to do to prevent this from happening again, which I think is a bad idea. This could end up being like many

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154 Not to be confused with FCIC = Federal Crop Insurance Corporation, within the US Department of Agriculture http://www.rma.usda.gov/fcic/

155 http://fcic.law.stanford.edu/about

156 http://fcic.law.stanford.edu/about/faqs

other commissions which say "we have these problems" then the reports get read and forgotten.

Here are some relevant FCIC reports. Not a complete directory.

Sep 17, 2009 FCIC First Public Meeting

Oct 20, 2009 FCIC round table discussion on the key issues and events leading up to the crisis and its underlying causes.[157]

Nov 16, 2009 FCIC round table discussion on the key issues and events leading up to the crisis and its underlying causes.[158]

Jan 13-14, 2010 **First Public Hearing of the FCIC**
Enforcement Measures Related to the Financial Crisis (PDF) |
Selected Financial Market & Economic Data (PDF)

Feb 26, 2010 FCIC forum, explores financial crisis causes, at American University Washington College of Law[159]

April 7, 2010 FCIC Washington DC hearing on sub-prime, securitization, GSEs[160]

May 5, 2010 FCIC Washington DC hearing on Shadow Banking[161]

June 2, 2010 FCIC New York City hearing on Credibility of Credit Ratings[162]

June 30, 2010 FCIC Washington DC hearing on role of Derivatives in the crisis[163]

Opening Remarks of Chairman Phil Angelides
Documents for the Record
Charts and Graphs
Official Transcript
Follow Up Documents

Sep 1-2, 2010 FCIC Washington DC hearings on "Too Big To Fail"[164]

2009 Memo to Scott Alvarez (PDF)

Wachovia Documents (PDF)

Lehman Brothers Chronology and Documents (PDF)

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157 http://fcic.law.stanford.edu/hearings/testimony/second-roundtable-discussion
158 http://fcic.law.stanford.edu/hearings/testimony/first-roundtable-discussion
159 http://fcic.law.stanford.edu/hearings/testimony/forum-to-explore-the-causes-of-the-financial-crisis
160 http://fcic.law.stanford.edu/hearings/testimony/subprime-lending-and-securitization-and-enterprises
161 http://fcic.law.stanford.edu/hearings/testimony/the-shadow-banking-system
162 http://fcic.law.stanford.edu/hearings/testimony/credibility-of-credit-ratings-the-investment-decisions
163 http://fcic.law.stanford.edu/hearings/testimony/the-role-of-derivatives-in-the-financial-crisis
164 http://fcic.law.stanford.edu/hearings/testimony/too-big-to-fail-expectations-and-financial-crisis

September 14, 2008 Burke Letter (PDF)

Valukas Report Excerpt (PDF)

JP Morgan Chronology (PDF)

Transcript of Interview of Scott Alvarez and Kiernan Fallon dated March 23, 2010 (PDF)

Chairman Bernanke Follow Up

Dick Fuld Follow Up

FDIC Second Follow Up

Harvey Miller Follow Up

Thomas Baxter Follow Up

Sep 7, 2010 FCIC Bakersfield California hearing[165]

Sep 8, 2010 FCIC hearing at University of Nevada[166]

Sep 21, 2010 FCIC Miami Florida hearing[167]

Sep 23, 2010 FCIC Sacramento California hearing[168]

Jan. 19, 2011 FCIC Announces Date for Final Report

Jan. 24, 2011 FCIC Announces Details for Release of Final Report

Jan. 27, 2011 FCIC Releases Report on the Causes of the Financial Crisis

Feb. 10, 2011 FCIC Releases Additional Material and Concludes Work

April 2011

Leading Articles & Commentary on the Financial Crisis Inquiry Commission

http://fcic-static.law.stanford.edu/cdn_media/fcic-news/FCIC-Key-Articles.pdf

FDIC = Federal Deposit Insurance Corporation = Independent federal agency charged primarily with insuring deposits at financial institutions, examining and supervising some of those institutions, and shutting down failing institutions.

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165 http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-bakersfield
166 http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-nevada
167 http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-miami
168 http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-sacramento

FED+ Definitions (1 Apr 08)

FED, THE = FEDERAL RESERVE is run by a combination of directors from the largest banks, and people appointed by the President, and approved by Congress. Thanks to partisanship in DC, and other reasons, there are often long delays in getting the non-banking leaders in there. This means if all the banks are engaged in the same criminal conspiracy, they can pretty much influence the Fed to not do anything about it.

The Federal Reserve is the U.S. central banking system created in 1913 in response to financial panics, consisting of the Federal Reserve Board in Washington, DC, and 12 Federal Reserve Banks around the country; its mission is to implement monetary policy through such means as setting interest rates, supervising and regulating banking institutions, maintaining the stability of the financial system, and providing financial services to depository institutions.

Federal Housing Finance Agency = Independent federal regulator of government-sponsored enterprises; created by the Housing and Economic Recovery Act of 2008 as successor to the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board.

Federal Reserve Bank of New York = One of 12 regional Federal Reserve Banks, are part of the FED, with responsibility for regulating bank holding companies in New York State and nearby areas.

FED-LITE - In 1999, when the Gramm-Leach-Bliley Act (GLBA) repealed most of Glass-Steagall, it also added some new stuff, such as FED-LITE, which asked the FED to locate and eliminate excessive and duplicate regulations.

FICO Score = A measure of a borrower's creditworthiness based on the borrower's credit data; developed by the Fair Isaac Corporation.

Fin-CEN+ Definitions (1 Apr 07)

FIN-CEN = Financial Crime Enforcement Network, in the Dept of the Treasury, which among other things investigates SARs (Suspicious Activity Reports) from banks. Many types of financial institutions are not required to report SARs. Also financial institutions which are themselves instigators of suspicious activity, probably are blind to the fiduciary responsibility to turn themselves in. FIN-CEN = Treasury office that collects and analyzes information about financial transactions to combat money laundering, terrorist financing, and other financial crimes.

FHA = Federal Housing Administration = Part of the Department of Housing and Urban Development (HUD) that provides insurance on mortgage loans made by FHA-approved lenders.

FHLMC – See Freddie Mac

FIRREA = Financial Institutions Reform Recovery and Enforcement Act of 1989

FNMA – See Fannie Mae

FOMC = Federal Open Market Committee = Its members are the Board of Governors of the Federal Reserve System and certain of the presidents of the Federal Reserve Banks; oversees market conditions and implements monetary policy through such means as setting interest rates.

Foreclosure+ Definitions (1 Apr 07)

Foreclosure = Legal process whereby a mortgage lender gains ownership of the real property securing a defaulted mortgage.

Wikipedia on the Foreclosures – see footnotes.[169]

ForeclosureGate[170]

Foreclosure, Strategic: (by example)

- You are a home owner UNDER WATER, able to pay the mortgage, cannot get loan modification.
- You move out of the house to a cheaper rental property.
- You send the bank the keys to the house in snail mail (***jingle mail***).
- Eventually the bank sells the property at a loss.
- If you are lucky, the property was purchased by a friend, who rents to you the home you have loved, for much less than what you were paying.
- You continue to live in the home you have loved, you may buy it from the friend if you can afford the cash purchase – no more mortgages because the financial industry has demonstrated its untrustworthiness.
- The property is no longer under water. Any payments are reasonable.

Fraud + Definitions (1 May 06)

Fraud, financial

In Red Flags Time Line, see:

- 2001 dot com bubble was found to have been fueled by fraudulent research reports from financial institutions. Wall Street misbehavior did not start with Enron, or sub-prime mortgage scandal, but goes back further in time.
- 2005 Ameriquest opposes internal reform, makes vastly more money on fraud than any penalties.

Fraud Solutions Proposed:

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169 http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010

170 Mother Jones writes on this "The Buck stops nowhere." Congress holds hearings, we hear the same horrible stories, and nothing happens, other than the situation getting worse.

- Connect compensation packages to the full life of the mortgage. When people get huge commissions for making sales, they will make sales including sales of garbage. If they get compensated each year the deal continues to survive, they will focus on making good quality deals.
- Make DUAL TRACK illegal. As soon as mortgage refinance process successfully grants home owner a replacement loan, stop the foreclosure process completely.
- Modernization of Lending Industry – regulators force financial industry to clean up their record-keeping. For example, they could return to the OLD Courthouse system, which worked fine, except for financial crooks.
- Regulate the Mortgage Servicers, just like every other financial institution has traditionally been regulated. See SERVICERS, MORTGAGE.
- Take Servicers out of the Mortgage industry. Who would then do that job? There have been several proposed, noting that there is no such thing as an uncontested third party, since the US government has its fingers in this mixture of investors, loan offerings, etc.
    - New government agency perform the job.
    - New kind of Bankruptcy Court to manage this.
- Treasury Dept be told by Congress that "Protect the Banks" at all costs, is not its only mission.

Fraudulent Document Production and claims:

- When a financial institution claims a document is lost, it might not in fact be lost, it is just too much trouble for them to go look for it in a warehouse of millions of other documents, where they can get misfiled.
- Some institutions do not trust their lawyers to return the original documents, especially if they are switching attorneys, and there might be some disputes when they do so.
- Assuming the claim of lost document is accepted, there is a need to create replacement documents. There is an industry which services the mortgage servicers, which provides new documents, with such tools as counterfeit notary seals. As with everything else, we do not know the extent of this fraudulent activity.

Freddie Mac = Nickname for the Federal Home Loan Mortgage Corporation (FHLMC), a government-sponsored enterprise providing financing for the home mortgage market.

FTC = Federal Trade Commission

In a ***futures*** or ***forwards*** contract the purchase or sale of an asset is designated at a future date but at a price specified today. ***Futures contracts*** are standardized contracts purchased or sold on an exchange, while ***forward contracts*** are less standardized and are traded OTC. In futures and forwards contracts, the risks of changes in the prices of the underlying product (asset, index, rate, etc.) are transferred between counterparties over the life of the contract.

G+ Definitions (1 Apr 12)

Gallium is an industrial commodity chemical, which the world is running out of,[171] according to Leeb.[172]
100% of US needs were imported in 1999, 99% in 2006.
90% of the world's production or reserves are in developing countries.[173]

Gaming the Rules by example:

- Your company will be paying taxes based on inventory totals on a particular date. You have a huge sale in the months immediately before that date, to lower the inventory subject to the tax, then immediately afterwards buy stock back to normal times, when the tax man rules do not apply.
- You have an annual report to stock holders, the government, investors, based on your situation at end of year. Having a high leverage ratio looks bad, so right before year end, you divest yourself of many debts that look bad, then at beginning of new year, you get them back again. During 360 days of the year you are doing the dangerous things, the other 5 you are looking good for auditors, investors, regulators, etc.
- Your sales commissions are based on your gross sales in a time period. So you maximize sales in that period. No matter some are fraudulent, or will fail, if the failures do not have any negative impact on your commissions.

GAO = Government Accountability Office

Germanium is an industrial commodity chemical, which the world is running out of,[174] (see Commodities) according to Leeb.[175]
45% of US needs were imported in 1999, 80% in 2006.
95% of the world's production or reserves are in developing countries.[176]

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[171] See Commodities; Energy; Oil.
[172] Leeb Book = "Game Over."
[173] As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
[174] See Commodities; Energy; Oil.
[175] Leeb Book = "Game Over."

Ginnie Mae = Nickname for the Government National Mortgage Association (GNMA), a government-sponsored enterprise; guarantees pools of VA and FHA mortgages.

Glass Steagall + Definitions (1 May 12)

Glass Steagall[177] = Legislation passed by Congress in 1933 to try to fix a collection of banking problems believed to be among the causes of the crash of 1929 and the Great Depression.

Banking Act of 1933 created the FDIC to insure bank deposits; prohibited commercial banks from underwriting or dealing in most types of securities, barred banks from affiliating with securities firms, and introduced other banking reforms.

Basically this separated the functions of local main street banking and investment Wall Street banking, where it was thought main street banks dealt with real property with predictable values, and Wall Street dealt with financial instruments whose value was speculative.

In 1999, the ***Gramm-Leach-Bliley Act*** (GLBA) repealed the provisions of the Glass-Steagall Act that prohibited affiliations between banks and securities firms, and implemented some new banking regulations. Also see FED-LITE.

To help Congress see the logic in doing this, the financial industry had spent $ 2.7 billion on lobbying, while all other interests had spent $ 1 billion.

Before it was repealed, many financial institutions went to the FED to get permission to do specific acts, prohibited under Glass Steagall and other safety nets dating back to preventing another Great Depression, such as working with certain kinds of securities, diversified proportion of business engaged in different practices. At the same time, the OCC was also relaxing standards, thanks to financial industry lobbies, such as allowing trading of BANK BETTING or SPECULATING and HEDGEs on asset values, commodity values, currency values, interest rates, securities, stock values. This activity is known as DERIVATIVEs.

This was repealed because it was "thought", or banking industry lobbyists convinced Congress, that our economy was so healthy that this protection was no longer needed. Among many effects of the repeal, was that it made it practical for banks to sell mortgage securities from Main Street banking to Wall Street banking, and to start the whole SHADOW BANKING SYSTEM, outside of any regulations.

After the financial crisis could no longer be ignored, many leading politicians have proposed re-instating parts of Glass Steagall.

GLBA = Gramm-Leach-Bliley Act – See Glass Steagall.

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[176] As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.

[177] http://en.wikipedia.org/wiki/Glass%E2%80%93Steagall_Act

GNMA – See Ginnie Mae.

GOLD – Buying this is advised by many of my contacts, as an alternative to alternative investments, and places I have been reading, including:

- Stansberry
- Stephen Leeb
- V.

The world is running out of cheap oil, copper, and gold, says UNEP 2011 report.[178]
Gold protects us during both inflation and deflation. See Commodities; Energy; Oil; Silver.

Goldman Sachs

The ***Senate Permanent Subcommittee on Investigations***[179] spent two years looking at the behavior of Wall Street banks at the time of the credit crisis. In 2011, it said ***Goldman Sachs*** lied, in testimony to Congress. Goldman's defense is that the top executives told the truth as they knew it, so either they were lied to, or they were incompetent, but not criminal.[180]

In the Red Flags Time Line, see:2011 ***Levin-Coburn*** US Senate report, on key causes of the Financial Crisis,[181] documenting that when ***Goldman Sachs*** realized the mortgage market was in decline, it took actions to profit from that decline at the expense of its clients. Goldman's Structured Products Group twice amassed and profited from large net short positions in mortgage related securities. At the same time the firm was betting against the mortgage market as a whole, Goldman assembled and aggressively marketed to its clients poor quality CDOs that it actively bet against by taking large short positions in those transactions.

Group Think = When some organizations are run by consensus, where the unpopular or contrary view point gets drowned out.

- It happens in national intelligence.
- It happens when messengers report things to government officials and departments, where the conventional wisdom there considers the reports to be aberrations or contrary to the current ideology.

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178 http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=2641&ArticleID=8734&l=en
179 http://hsgac.senate.gov/public/index.cfm?FuseAction=Subcommittees.Investigations
180 http://www.bbc.co.uk/news/business-13077509
181 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.
PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

- Shortly before Pearl Harbor, the Japanese plan was known to embassies of neutral nations, and a delegation went to DC to warn America. The reaction was to treat the heads up like it was some kind of Science Fiction, not to be believed.
- It is one of the reasons why tens of thousands of warnings about the impending financial crisis were not acted on, at a time when the crisis could have been averted.
- Madoff got away with financial murder, even though thousands of people reported him to the SEC for decades before his Ponzi scheme ended.

GSEs = government-sponsored enterprises such as Fannie Mae and Freddie Mac, created by the federal government to pursue certain public policy goals designated in its charter.

H+ Definitions (1 Apr 10)

Haircut = The difference between the value of an asset and the amount borrowed against it.

HAMP = Home Affordable Modification Program

HEDGE is not that squared off fence line of bushes separating real estate property lines. It is a way, in finance, to reduce exposure or risk by taking on a new financial contract.

HEDGE FUND = A privately offered investment vehicle exempted from most regulation and oversight; generally open only to high-net-worth investors. Why is it exempted? FCIC conducted an analysis of this activity, shared here.[182]

High Cost + Definitions (1 May 04)

HIGH COST MORTGAGE, as defined by North Carolina 1999 law, is one in which points and fees at origination are more than 5% the total of the loan. This qualified the mortgage for state regulations. There were other state regulations. This did not apply to federally regulated financial institutions.

In 1996 the OTS[183] had prohibited laws like North Carolina's because they were opposed to a hodge podge of different banking regulations across the country. However, many other states copied North Carolina example. State Attorney Generals launched thousands of actions against predatory lending practices, authorized by such laws.

In 2004, OCC[184] joined OTS in enjoining states to not be doing this.

See AG, OCC, OTS.

HIGH RISK LOANS are illustrated in Levin-Coburn US Senate report on key causes of the Financial Crisis.[185] See 2011 in Red Flags Timeline.

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182 http://fcic.law.stanford.edu/resource/staff-data-projects/hedge-fund-survey

183 ***OTS*** = Office of Thrift Supervision (federal agency supervises Savings and Loans).

184 ***OCC*** = Office of Controller of the Currency.

185 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d

HOEPA = Home Ownership and Equity Protection Act. = 1994 federal law that gave the Federal Reserve new responsibility to address abusive and predatory mortgage lending practices. HOEPA prohibited a spectrum of abusive lending practices. The triggers for HOEPA were set too high to catch most abuses, such as in sub-prime mortgages. June 1997, 2 years after HOEPA took effect, the FED held public hearings around the US, seeking comments on the new regulations. They found tons of abuses. A report on the hearings was jointly issued with HUD in July 1998.

The FED generally took no action with its new authorities, which the GAO criticized in a Nov 1999 report.[186] The FED made some suggestions to Congress about actions they thought should be made illegal. Congress did not do so.

In 2000, the FED started another round of hearings under HOEPA, then staff suggested two more reforms, intended to curb abusive lending, both of which were rejected by FED management.

The first would have effectively barred lenders from granting any mortgage, solely on the value of the collateral, and without regard to the borrower's ability to repay. FDIC Chairman Sheila Bair said this was a "one bullet" missed opportunity to prevent disaster. After some changes in FED management, a similar rule was enacted in 2009, after damage had been done.

The second proposal addressed practices such as deceptive advertisements, misrepresenting loan terms, and having consumers sign blank documents—acts that involve fraud, deception, or misrepresentations. It sounds to me that this is something the FTC ought to have rules about.

See GAO, the FED, FDIC, FTC, HUD.

HOME EQUITY = Difference between what you can get for your home in the real estate market vs. how much you owe on the mortgage.[187] If you can get more by selling it, then your

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FN 1623 - 2406 (pgs 3449-4484)
FN 2409 - 2706 (pgs 4485-5459)
FN 2724 - 2831 (pgs 5460-5901)

[186] GAO, "Large Bank Mergers: Fair Lending Review Could Be Enhanced with Better Coordination," GAO/GGD-00–16 (Report to the Honorable Maxine Waters and the Honorable Bernard Sanders, House of Representatives), November 1999, p. 20.
[187] http://en.wikipedia.org/wiki/Home_equity

equity, is the profit over what is left to pay on the mortgage. If mortgage debt is greater than what you can sell the house for, the home equity is negative, and that value is said to be how much the house is UNDER WATER.

Housing Bubble+ Definitions (1 Apr 07)

Housing Bubble … many executives and government officials testified to the FCIC that it was a surprise to them that the Housing Bubble Burst, and also the extent of the consequences was a surprise. Is it valid for business leaders to believe that there can be a Bubble which does not burst, or that contemporary reality is not a bubble?

Are there such things as bubbles, where they deflate naturally and safely? How often?

For example, looking at: http://www.realestateabc.com/graphs/calmedian.htm "California Real Estate Median Prices of Existing Homes since 1968" (1968 was first year that the National Association of Realtors began to track median house prices), we see the following growth of Median Prices (unfortunately the chart ends at 2004). Note that for 1975-1980, we see percentages ramp up as they did in 2002-4. Yet, instead of a bubble burst, a deflation in percentage growth occurred starting in 1981. Based on that history, would anyone be expecting a bubble burst?[188]

See this article about Housing Bubbles.[189] Apparently, a bubble is irrelevant until it bursts as history has periods of price inflation and deflation. The challenge is in determining when price inflation will precipitously drop resulting in a bubble burst. The article was written in June 2005.[190]

Year	Median Price	Increase/Decrease
1968	$23,210	NA
1969	$24,230	4.4%
1970	$24,640	1.7%
1971	$26,880	9.1%
1972	$28,810	7.2%
1973	$31,460	9.2%
1974	$34,610	10.0%
1975	$41,600	20.2%
1976	$48,630	16.9%

188 Thanks to Bob Speth for providing this insight for me.
189 http://www.realestateabc.com/insights/bubble.htm
190 Thanks to Bob Speth for finding this perspective.

1977	$62,290	28.1%
1978	$70,890	13.8%
1979	$84,150	18.7%
1980	$99,550	18.3%
1981	$107,710	8.2%
1982	$111,800	3.8%
1983	$114,370	2.3%
1984	$114,260	-0.1%
1985	$119,860	4.9%
1986	$133,640	11.5%
1987	$142,060	6.3%
1988	$168,200	18.4%
1989	$196,120	16.6%
1990	$193,770	-1.2%
1991	$200,660	3.6%
1992	$197,030	-1.8%
1993	$188,240	-4.5%
1994	$185,010	-1.7%
1995	$178,160	-3.7%
1996	$177,270	-0.5%
1997	$186,490	5.2%
1998	$200,100	7.3%
1999	$217,510	8.7%
2000	$241,350	11.0%
2001	$262,350	8.7%
2002	$316,130	20.5%
2003	$371,520	17.5%
2004	$450,990	21.4%

Wikipedia on the housing bubble – see footnotes.[191]

[191] http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010

Housing and Economic Recovery Act = 2008 law including measures to reform and regulate the GSEs; created the Federal Housing Finance Agency.

HUD = Department of Housing and Urban Development, Cabinet-level federal department responsible for housing policies and programs.

I+ Definitions (1 May 12)

Iceland: In Red Flags Time-Line, see:

- 2000 – how nations went from healthy economies to utter ruin

Identity Theft = In recent years, the fastest growing crime has been identity theft where an individual's identity is fraudulently taken by another person, and in the process the real person's finances are ruined. See PII.

Identity Theft by example: social security # 000-00-0000 (not a real # used for illustration purposes in this example) might belong to a bald headed tall retiree black male called Sam Jones living at 100 Main Street. A red headed short young white woman enters a bank, saying she is Samantha (Sam for short) Jones who was living at 100 Main Street with social security # 000-00-0000 who has just moved to 1,000 Vine Street and needs to open bank accounts under her new address.

Since Sam Jones of 100 Main Street, has an excellent credit rating, Sam Jones of 1,000 Vine Street is able to get great credit, goes out and spends tens of thousands of $ on all sorts of goods and services. But the bills don't get paid, and it is found that whoever was living at 1,000 Vine Street, has up and left with no forwarding address, so the creditors find that Sam Jones is living at 100 Main Street (he was there all along), and send him the bills. Sam Jones, of 100 Main Street, has no knowledge of these debts, disavows them, is inundated with bill collectors, battles them all, and in the process his credit is ruined because of all these alleged unpaid bad debts.

One of the protections against Identity Theft, is to make sure all our PII, such as social security #, is limited who all gets to see that.

Another protection would have been when Sam Jones opens 1,000 Vine Street account, in our example, to send a snail mail confirmation to Sam Jones of 100 Main Street, or attempt to contact by phone. Problem with this solution is the Post Office and phone companies do not ask for identification … ANYONE can claim to be YOU, get your phone book listing and snail mail address delivery changed, to intercept such safeties.

Illiquid Assets = Assets that cannot be easily or quickly sold.

Indium is an industrial commodity chemical, which the world is running out of,[192] according to Leeb.[193]

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192 See Commodities; Energy; Oil.
193 Leeb Book = "Game Over."

100% of US needs were imported in 1999 and 2006.
57% of the world's production or reserves are in developing countries.
4 years worth are left, as of 2009, if the rest of the world consumes it at ½ the US rate.
13 years worth left, as of 2007, according to New Scientist.[194] Wikipedia says content of indium in zinc ore stocks has led to the 13 years left estimate,[195] while the largest miner of the stuff talks about improving techniques so as to extract much more than in the past. Silver is 1/3 as abundant as Indium in our planet, yet we are able to extract 40 times as much, so improved techniques sound reasonable.

What do we use Indium for?[196]
Chemically similar to Aluminum, it is usually found in Zinc ores,[197] used:

- Primarily in transparent electrodes from indium tin oxide in liquid crystal displays and touchscreens;
- Secondarily making particularly low melting point alloys, is a component in some lead-free[198] solders,[199] and nuclear medicine tests, as a radiotracer to follow the movement of labeled proteins and white blood cells in the body.

Insider Crime + Definitions (1 Apr 14)

Insider Crime traditionally referred to the stock market, where someone knows something about a company, which is not known to the general public, and is able to cheat in stock market investment, using that secret knowledge. But in recent years it also has occurred in the real estate market. Example:

- $ 565,000 was sale price of a home.
- $ 535,000 is what is actually paid to the former owner.
- $ 605,000 is the mortgage, listed as 100% financing.
- $ 70,000 is a fast profit for the mortgage broker, practical only when one person is handling all the paperwork which goes to the different actors.
- The mortgage says the home is to be occupied by the buyer, but this never happens, and there are no payments on the mortgage, so the house gets foreclosed.
- $ 325,000 is now the value of the home.

An investigator, who found out about hundreds of incidents like this in one California town, tried to educate the banking industry, was told not to stick his nose where it does not belong. He took it to state regulators who did nothing, so then he went to the FBI. The FBI, in

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194 ^ "How Long Will it Last?". *New Scientist* **194** (2605): 38–39. May 26, 2007. ISSN 0262-4079
195 http://en.wikipedia.org/wiki/Indium
196 http://en.wikipedia.org/wiki/Indium http://www.ask.com/questions-about/Uses-of-Indium
197 Sometimes also found in sulfidic lead, tin, copper, iron ores, all of which are on the endangered metals list.
198 Lead is on the endangered metals list very close behind Indium.
199 Lead-free solders are critical for manufacture of appliances which are not hazardous waste at the end of their natural life cycle.

concert with HUD, Postal Inspectors, and the IRS, said they had found a mortgage scandal which was bigger than the S+L crisis.[200]

Insurance Fraud + Definitions (1 Apr 14)

Insurance Fraud – Here is a case where I have unproveable anecdotal information.

- Insurance company "A" determines that they are being hacked. (illegal)
- They hack into ma bell ISP to back trace the intruder. (also illegal)
- Insurance company "A" determines that the hacker is insurance company "B."
- The information which was taken, were details about some customers with very expensive property. Company "A" flags those accounts to see if they can notice any unusual activity.
- There then are a series of arsons and other criminal attacks on those customers.
- These attacks are followed rapidly by aggressive marketing by representatives of company "B" about how they can do a much better job of covering the customers in various misfortunes, like those which just happened.
- Company "A" investigators trace the perpetrators of the attacks to company "B" but do not go to the authorities with their evidence. (unethical, possibly illegal)
- Lawyers for company "A" visit lawyers for company "B" threatening to go public with the evidence of company "B" personnel criminal behavior. (extortion)
- Company "B" settles for millions of dollars in a secret agreement with company "A" where the agreement includes company "A" not telling the authorities about company "B" misbehavior. (successful revenge)

Interest Only Loan = Loan that allows borrowers to pay interest without repaying principal until the end of the loan term.

Interest rate swaps are the largest OTC derivative by product within the global OTC derivative market followed by foreign exchange derivatives, credit default swaps, and equity swaps. The first major interest rate swap can be traced back to a transaction in 1981 between IBM and the World Bank. Since then, the market for interest rate swaps has steadily increased. Companies use interest rate swaps to change their economic exposures.

Under an interest rate swap, one party agrees to pay another a series of interest payments over the life of the swap based on a pre-specified interest rate that is floating (usually linked to LIBOR, which is the London Interbank Offered Rate) or fixed and based on the notional amount. At the same time, the second party agrees to make payments over the term of the swap based on either a fixed or floating interest rate.

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[200] They were absolutely correct, but the rest of the federal government prevented them from doing anything about this. See GROUP THINK.

Iron Ore (metal): The world is running out of it. See: Commodities; Oil, Peak; Steel.

Justice + Definitions (1 Apr 06)

Justice Dept = Cabinet-level federal department responsible for enforcement of laws and administration of justice, led by the attorney general.

Justice Gap, Access to Justice, see "LAWYER, right to have one."

Lawyer, right to have one, only exists in Criminal Cases in USA.[201] We have all heard that a person, who represents self in a court case, has a fool for a lawyer. Well,

- 70—80 % of people in US civil cases have no lawyer. Sometimes they can afford one but cannot find one to represent them. In 35% of these 70-80% cases, the person without a lawyer is facing a lawyer on the other side. It used to be that 95% of US home owners could not get a lawyer to protect their interests when facing foreclosure, but this has recently dropped to 80% now that there has been discovery of how exposed the financial industry is to risk of being shown to have engaged in fraud.
- ***The system of justice in America is a house on fire***.
    - 4/5 of poor people have serious unmet legal needs
    - 3/5 of middle class people have serious unmet legal needs.
- Civil cases can include:
    - Bankruptcy
    - Child Custody
    - Civil Rights
    - Divorce
    - Domestic Dispute
    - Employment, wrongful job loss
    - Eviction
    - Foreclosure
    - Intellectual Property Piracy
    - Medical Malpractice alleged
    - Student Loans
- Pro SE is the legal terminology for a self-represented litigant, or a person in a civil case who does not have a lawyer.

[201] Right to Counsel exists in ALL types of cases in Europe.

Lead + Definitions (1 May 12)

Lead is an industrial commodity metal, which the world is running out of,[202] close behind Indium, according to Leeb.[203]
20% of US needs were imported in 1999, 50% in 2006.
52% of the world's production or reserves are in developing countries.
8 years worth left, as of 2009, if the rest of the world consumes it at ½ the US rate, according to Stephen Leeb.[204]
18 years worth left, according to environmental analyst Lester Brown, based on an extrapolation of 2% growth per year.[205] With increased interest in recycling, that math may need adjustment.
42 years worth left, as of 2007, according to New Scientist,[206] if we ignore The Limits to Growth[207] logic that consumption grows, concurrent with booming economies, such as in India and China.
Wikipedia says Lead has been widely used in history, because it has been widespread available, easy to mine and work with.[208]

What do we use Lead for?[209]

- part of solders, pewters, antifriction metals, fusible alloys;
- Batteries;
- Building construction, such as plumbing;
- Protection from radiation;
- Weapons;
- Weights.

Some uses have been discontinued due to lead poisoning.[210]

Leverage + Definitions (1 May 04)

LEVERAGE today is like MARGIN in the crash of 1929. LEVERAGE is assets (valuable property) relative to equity[211] (how much profit or loss the owners have after liabilities subtracted from assets). LEVERAGE is a measure of how much debt is used to purchase assets; for example, a leverage ratio of 5:1 means that $5 of assets were purchased with $4 of debt and $1 of capital. Also see HOME EQUITY.

202 See Commodities; Energy; Indium; Oil.
203 Leeb Book = "Game Over."
204 Game Over book on the Endangered Metals List, and whether Civilization will wake up in time to survive.
205 ^ Brown, Lester (2006). *Plan B 2.0: Rescuing a Planet Under Stress and a Civilization in Trouble*. New York: W.W. Norton. p. 109. ISBN 0393328317.
206 ^ "How Long Will it Last?". *New Scientist* **194** (2605): 38–39. May 26, 2007. ISSN 0262-4079
207 See http://en.wikipedia.org/wiki/Limits_to_Growth and my notes section on Next Crisis Speculation.
208 http://en.wikipedia.org/wiki/Lead
209 http://en.wikipedia.org/wiki/Lead http://www.infoplease.com/ce6/sci/A0859212.html
210 http://en.wikipedia.org/wiki/Lead_poisoning
211 http://en.wikipedia.org/wiki/Equity_%28finance%29

Leverage is not just borrowing. If you borrow $100,000 to buy a house, that's borrowing. If you borrow $100,000 to buy a million dollars' worth of homes and then you flip them, that's leverage.[212]

When Equity is microscopic compared to Assets and Liabilities, then small fluctuations in the business can wipe out Owner's Equity. The bigger the Equity proportionality, the more it is safe to risk the Assets. The smaller the Equity proportion, the less it is safe to risk the Assets. Many institutions in the latest financial crisis were disregarding this concept, and risking their entire survival on huge debt supporting their acquisition of assets.

Levin-Coburn US Senate report on key causes of the Financial Crisis.[213] See 2011 in Red Flags Timeline.

LIAR LOANS = another name for Mortgages, once the Sub-Prime scandal took off.

LIBOR = London Interbank Offered Rate, an interest rate at which banks are willing to lend to each other in the London interbank market.

Lipstick on a Pig – The Lipstick are the triple A credit ratings; the Pig is the toxic assets. This phrase explains how toxic assets could be sold to unknowing investors.

Liquidity = Holding cash and/or assets that can be quickly and easily converted to cash.

Liquidity Put = A contract allowing one party to compel the other to buy an asset under certain circumstances. It ensures that there will be a buyer for otherwise illiquid assets.

LTV ratio = Loan to Value ratio = Ratio of the amount of a mortgage to the value of the house, typically expressed as a percentage. "Combined" loan-to-value includes all debt secured by the house, including second mortgages.

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212 http://www.pbs.org/wgbh/pages/frontline/meltdown/themes/howwegothere.html

213 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d

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FN 2409 - 2706 (pgs 4485-5459)

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Margin+ Definitions (1 Apr 14)

MARGIN contributed to the crash of 1929. It used to be that people could buy and sell stocks, and only make a down payment of a tiny fraction of the cost of the stocks, their stock broker "carrying" the balance. If the value of the stock went up, they could sell and realize the full profits without having to pay all the money. If the value fell, there might be a margin call, to reimburse the stock broker, so the stock broker did not lose any money on the deal. This worked fine, so long as the stock market values generally went up, or only went down slowly. When the values went down rapidly, there was a snowball cascade effect, where many people had to rapidly sell other stocks to pay for their margins, which contributed to the other stocks also going rapidly down in value.

The latest financial crisis had a similar mechanism thanks to people owning only a tiny fraction of their mortgages, whose values fluctuated rapidly thanks to what was going on in the securities market, and the crooked players. See LEVERAGE.

Mark to Market = Process by which the reported amount of an asset is adjusted to reflect the market value.

MBS = mortgage-backed security

MERS+ Definitions (1 May 06)

MERS = Mortgage Electronic Registration Systems, Inc. There are several different mortgage servicers performing a similar role, where MERS is the largest. This is a new type of financial institution invented outside the sphere of enterprises subject to government oversight or regulation, so they are able to successfully block efforts by investigators to get answers about alleged accounting irregularities.

Migrant and Temporary workers often suffer the worst in economic downturns.[214]

Mitigation – see Fraud Solutions Proposed

MONEY MARKET FUNDS are typically arrangements with Wall Street financial institutions where we can invest money, which is not FDIC insured, to get returns on our investment greater than we would get from an ordinary bank. Because of their popularity, in times when people trusted Wall Street, this competition undermined Main Street banking, inspiring them to take greater risks to remain in the business of having bank deposits.

Mono Line = Insurance company, such as AMBAC and MBIA, whose single line of business is to guarantee financial products.

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214 http://campaign.r20.constantcontact.com/render?llr=peh9pxbab&v=001vAT3y6bgAL5T_MOnVTQnxkHV6n5l7Mc9JUb_UfrWH1n0FjWPuL3gG7DJ30TATT-zzS15voRHmQN53Je3zGdFObUb8AYtwnX1Z1zXB2WF8RiFjJ99_1ZTLebe-lXCfTElDLs3X5fYddHBrh0oL2IJKHuFJ3gVXOaevtffO1AwpsA0VhbmZO3VBK1wl2-o7QuS

Moody's:

In the Red Flags Time Line, see: 2011 ***Levin-Coburn*** US Senate report, on key causes of the Financial Crisis,[215] documenting July 2007 mass ratings downgrades by ***Moody***'s and ***Standard & Poor***'s which exposed the risky nature of mortgage-related investments which, just months before, the same firms had deemed to be as safe as Treasury bills.

MORTGAGE = Document clearly identifying what financial institution has a lien on real estate property financed by a loan. The government should have a copy of this as a public record, where the public does not get to see social security # and other personal confidential info on the home owner.

This was the OLD system, until the Banking Industry came up with the MERS system to keep track of changes in who owns what property, and who has the mortgage (first lien), 2nd and 3rd liens, without going through the Courthouse Records system.

Was it legal for the MERS system to replace the government system? This is now being hotly disputed in every state of USA, with judges ruling in both directions. It needs to work its way up to the US Supreme Court. Also see DEED and PROMISSARY NOTE.

MORTGAGE BROKERS – more than 200,000 joined the profession during the housing bubble. In Florida, 10,000 of them had criminal records, of whom over 4,000 had been previously convicted of fraud, bank robbery, racketeering, and extortion. Our tax dollars for government regulation and oversight at work.

Mortgage Funding Sources – here is FCIC graphic showing how this evolved over time.[216] See the graphic titled "Funding for Mortgages."

Mortgage Servicer+ Definitions (1 May 04)

Mortgage Servicer[217] = Company that acts as an agent for mortgage holders, collecting and distributing payments from borrowers and handling defaults, modifications, settlements, and foreclosure proceedings.

In theory, this is an organization which collects mortgage payments from home owners, and delivers the money to the bank which owns the mortgage, taking only small fees for its profits.

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215 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
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216 http://fcic.law.stanford.edu/resource/graphics

217 Wikipedia on Mortgage Servicers;

In reality, it is an industry lacking in government regulation or oversight, which is free to sabotage mortgages, because it makes much more money by forcing homes into foreclosure.

Mortgage Underwriting = Process of evaluating the credit characteristics of a mortgage and borrower.

Mortgage-backed security = Debt instrument secured by a pool of mortgages, whether residential or commercial.

NASDAQ[218] = An American Stock Exchange

National US Debt by US President, color coded by political party.[219] From start to end of Presidency, what was the change in national debt vs. GDP?

NAV = net asset value = Value of an asset minus any associated costs; for financial assets, typically changes each trading day.

Negative amortization loan = Loan that allows a borrower to make monthly payments that do not fully cover the interest payment, with the unpaid interest added to the principal of the loan.

Net charge off rate = Ratio of loan losses to total loans.

Nickel is an industrial commodity metal, which the world is running out of[220] according to Leeb.[221]
60% of US needs were imported in 1999 and 2006.
70% of the world's production or reserves are in developing countries.
57 years worth are left, per Leeb in 2009, if rest of world consumes it at ½ the US rate.

NINA = No income, no assets

No One in Charge+ Definitions (1 Apr 06)

NO ONE IN CHARGE – In my study of messes[222] in Haiti, it has become obvious that one of the reasons for the trouble,[223] is there are many critical aspects of Haiti government, and disaster recovery, where no one is in charge.[224]

- No one is in charge of the borders into the nation.[225]

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218 http://www.nasdaq.com/ http://en.wikipedia.org/wiki/Nasdaq
National **A**ssociation of **S**ecurities **D**ealers **A**utomated **Q**uotations
219 http://en.wikipedia.org/wiki/National_debt_by_U.S._presidential_terms
220 See Commodities; Energy; Oil.
221 Leeb Book = "Game Over."
222 I shared this perspective in my Facebook Notes http://www.facebook.com/note.php?note_id=10150149305359267
223 Each of my 1 year reports, shared at http://www.haiti.prizm.org/, look at a different slice of the agencies and problems in Haiti. Many of them would be criminal negligence if it wasn't for it being an international effort (no such thing as criminal in this legal lexicon, when the behavior is authorized by the UN).
224 Many groups of NGOs, foreign governments, etc. may appear to be in charge of some of this, but when we look at the detail, we find ideological differences creating a cold war which is pulling Haiti apart.

- No one is in charge of cooperation between the government of Haiti, the foreign governments there, the NGOs, Civil Society, and UN.[226]
- No one is in charge of enforcing human rights in Haiti.[227]
- No one is in charge of financial responsibility accountability or transparency regarding money pledged or donated supposedly to help aid Haiti relief to recovery.[228]
- No one is in charge of fixing the broken election system.
- No one is in charge of fixing the broken judicial system.
- No one is in charge of fixing the real estate ownership documentation problem. This is a mess which is making reconstruction almost impossible, since land ownership disputes are generally resolved in Haiti through gang warfare.
- No one is in charge of prosecuting NGOs (and others) which raise funds ostensibly for aid to Haiti, then spend the money on something unrelated to Haiti.[229]
- No one is in charge of repairing systemic problems with corruption.
- No one is in charge of solving the problem of children apparently orphaned by the Jan 2010 earthquake. Several foreign nations and NGOs disagree severely over what to do about this problem, which means a war of words, and different groups going in different directions.
- No one is in charge of what to do with the rubble debris from the earthquake. This is a mess which is getting in the way of reconstruction.
- No one is in charge of replacing severe weather shelters (SWS) to protect the population from hurricanes. I estimate over 2 million Haitians are at risk, but most people use the 800,000 Haitians in the tent cities as the official number at risk.

Well we have a similar reality with US financial institutions. There are people supposedly in charge, but some of them are clueless as to what is actually going on.

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[225] The ministry that ran that before the quake, was obliterated by the quake. Several other actors have picked up the ball, and are still learning on the job.

[226] In theory, UN agency OCHA is supposed to be in charge, in partnership with the Gov of Haiti, but there's a vacuum which has been filled with a fragmented mess of tens of thousands of volunteers, UN military, many of them working at cross-purposes.

[227] In theory, the UN is in charge of enforcing international law on universal rights, but the UN military are complicit in violating many of those rights. In theory, regional treaties under OAS etc. should be enforced through those regional associations, but their performance is mixed. In some areas they do a good job, in others their hands are dirty. In theory, protections of the Haitian constitution should be enforced by the Haitian government, but there are apparent oxymorons here.

[228] Various nations get seats on the Interim Recovery Commission because they have pledged oodles of money. It makes no difference to the commission that they have neglected to deliver on their promises.

[229] In theory the governments of the territories, where the money was raised, are in charge, such as IRS and States Attorneys General. In reality they have abdicated this responsibility, and merely warn the public to watch out for such scams.

In theory, US companies are owned by either stock holders from the stock market, or private owners, who should be in charge of decisions. But there is a hierarchy through Board of Directors, which operates like Congress having the function of making decisions for the nation on behalf of the voters, but often not carrying out the express wishes of the voters, by lying in political campaigns, since getting re-elected is more important than being honest.

Then below the company Board of Directors there are the officers and managers running the company, while below Congress there is the Civil Service, and Government Contractors (Beltway Bandits) who are actually supposed to carry out the decisions of the hierarchy. But without good oversight into what is actually going on, the lower echelon can do as they please. Congress seems more interested in finding fault with actions of the opposing political party, than in running the nation.

Non-agency mortgage-backed securities = Mortgage-backed securities sponsored by private companies other than a government-sponsored enterprise (such as Fannie Mae or Freddie Mac); also known as private-label mortgage-backed securities.

Notional amount = A measure of the outstanding amount of over-the-counter derivatives contracts, based on the amount of the underlying referenced assets.

Novation = A process by which counterparties may transfer derivatives positions.

NTSB = National Transportation Safety Board. It investigates aviation and other transportation accidents so that understanding, how they occurred, and how we can prevent them from happening again, we can in fact prevent future such accidents. Nice in theory, but in practice there can be many accidents which NTSB figures out had the same cause, before higher authorities actually act on NTSB recommendations.

OCC+ Definitions (1 Apr 07)

OCC = Office of Controller of the Currency = Independent bureau within Department of Treasury that charters, regulates, and supervises all national banks and certain branches and agencies of foreign banks in the United States.

The OCC supposedly handled oversight of interstate banking, so it considered state investigations and actions regarding alleged crookedness by interstate banks to be in violation of interstate commerce. So OCC ran interference against state actions, without performing oversight which the states felt was prudent. Interstate banks were funding maybe 85% of the fraudulent mortgages created by their affiliated state banks, then purchasing the LIAR LOANs for resale to the securities market. Thus, by having the banking industry fragmented, with different state and federal regulators over different parts of the market, and unable to cooperate with each other, government oversight was effectively broken, with banks taking advantage of these loop holes.

While OCC was successful in blocking many states from doing anything about this, Michigan went after Watchovia Bank for mortgage fraud and violation of state laws

Watchovia sued Michigan, on the grounds that they were under OCC and not state regulation. Many banks and states joined the law suit, banks and banker associations and OCC on Watchovia side, states on Michigan side. The battle lasted 4 years until the US Supreme Court ruled 5-3 against Michigan in April 2007, and on the side of the mortgage fraud, being the responsibility of OCC, which was doing nothing about it. This is one of many examples in chapter I of FCIC showing that there were warning signs of major problems before the crisis imploded.

The FCIC asked for clarification from the actors in this turf war.

Former OCC (Office of Comptroller of Currency) comptrollers alleged that state banks had more problems than federal banks, so that's where the states should be focusing their attention.

State side said national banks funded 21 of 25 largest sub-prime issuers operating with state charters, with the national banks being the end market for abusive loans.

OFHEO = Office of Federal Housing Enterprise Oversight. = Created in 1992 to oversee financial soundness of GSE's like Fannie Mae and Freddie Mac, but without same legal powers of FED over banks or OTS over Savings and Loans; its responsibilities were assumed in 2008 by its successor, the Federal Housing Finance Agency.

Oil + Definitions (1 May 12)

Oil Costs: According to Stephen Leeb,[230] the Canadian Investment Firm BMO has estimated that exploration and production expenditures are 15% of the total costs for oil companies. The rest come from increasing complexity with: transportation; depreciation; office staff; royalties to land owner; marketing; legal fees; taxes; and other ancillary items. Leeb argues that our civilization naturally continues to get more complex, which adds costs to everything.

Oil, Peak = ***Peak Oil***, a concept formulated in the 1950's by geologist M. King Hubbert, whose definition was modified by Stephen Leeb.[231]

Hubbert's definition focused only on supply. Leeb's definition includes supply and demand.

Peak Oil (Leeb definition) = The point at which increases in oil supply can no longer satisfy increase in worldwide demand.

Hubbert's concept is that the first ½ of a commodity, from any oil or mine, is easy and inexpensive to get out, but it gets progressively more difficult and expensive to extract the last of it. With improved technology, we can return to abandoned wells and mines, and eek out some more, until diminishing returns again.

[230] Leeb explains in his book "Game Over."
[231] Leeb explains in his book "Game Over."

World wide there is a similar phenomena. Remember the Gulf Oil spill? The reason, BP was drilling such an ungodly depth of ocean bottom, is the world is running out of easy places to drill to get significant good quality oil. The uglier remnants are more difficult to locate, extract, prepare for usefulness.

The world civilization's gas tank is running on ½ empty. Best estimates are our planet held about 2.2 trillion barrels of oil. Humanity used up ½ of that in the 20^{th} century.

Since the 1970's, world oil production has been declining. Leeb uses many examples to show that it seems extremely unlikely we will get significant more oil from various alleged reserves, technology, nations which claim to have plenty, etc.

At Peak Oil, the world is still getting oil, prices skyrocketing, many people cannot afford.

But at ***Absolute Peak Oil***, we have to invest more energy to pump oil, refine, and truck it to where needed, than the energy value it delivers, so it ceases to make sense to get it. Our economy will grind to a halt, Game Over, unless we have implemented alternative sources of energy for our transportation, homes, businesses, etc.

All of the above logic on oil, also applies to energy, and many other essential commodities of our civilization. The same complacency, which failed to mitigate the recent financial earthquake, and other recent "predictable" "natural" disasters, is also failing to mitigate this threat.

See: ANWR; Commodities, Energy.

Oil Price Increase Causes – is a complex mixture

- Supply and Demand, world wide, as some large nations, like India and China,[232] have rapid industrial growth;
- Some oil producers, such as OPEC, are an oligarchy, trying to control prices to their own benefit;
- Some traditional producers, are moving from developing world producers to developed world consuming more of this product;
- Commodities Futures speculators;
- Production cannot keep up with demand … see Oil, Peak, Absolute
- The world is running out of cheap oil, copper, and gold, says UNEP 2011 report.[233]

See: ANWR; Commodities; Energy; Oil, Peak.

[232] See Chindia.
[233] http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=2641&ArticleID=8734&l=en

Options + Definitions (1 Apr 07)

In an ***options*** contract, the buyer of the contract has the option or the right to buy (call option) or sell (put option) an asset. The price at which the sale takes place is specified at the time the parties enter into the option. ***Swaps*** are contracts to exchange a stream of cash flows on specified future dates based on the value of the underlying asset, price or rate. The two most common swaps are ***interest rate swaps*** and ***currency swaps***. Complex derivatives are created by combining these more simple derivatives with each other or by combining them with traditional securities and loans to create ***hybrid*** instruments or structured securities.

Originate to Distribute = When lenders make loans with the intention of selling them to other financial institutions or investors, as opposed to holding the loans through maturity.

Originate to Hold = When lenders make loans with the intention of holding them through maturity, as opposed to selling them to other financial institutions or investors.

Origination = Process of making a loan, including underwriting, closing, and providing the funds.

OTC = Over-the-counter derivatives deregulated in 2000, and this action was allegedly one of the major causes of the financial disaster.

OTS = Office of Thrift Supervision (federal agency supervises Savings and Loans) = Independent bureau within Treasury that regulates all federally chartered and many state-chartered savings and loans/thrift institutions and their holding companies.

P+ Definitions (1 Apr 12)

PAR is not related to a golf score, but is Face value of a bond.

Payment Option Adjustable Rate Mortgage = (also called payment ARM or option ARM) Mortgages that allow borrowers to pick the amount of payment each month, possibly low enough to increase the principal balance. There are allegations of misrepresentation where the borrowers actually had no say whatsoever in the payment details.

PDCF = Primary Dealer Credit Facility = Program established by the Federal Reserve in March 2008 that allowed eligible companies to borrow cash overnight to finance their securities.

PENN CENTRAL TRANSPORTATION COMPANY filed bankruptcy in 1970's. When it did so, it was the 6th largest non-financial company in the USA. At the time, it had $200 million in "COMMERCIAL PAPER" loans from the financial industry. That industry virtually shut down in a panic. The FED supplied the industry $600 million in loan guarantees, and interest rate adjustments as a stimulus which worked to re-energize it. The industry restructured how it operated, to give the appearance of being a safer investment. See SHADOW BANKING SYSTEM.

PII = personal identity information. See IDENTITY THEFT and PUBLIC RECORDS.

Platinum is an industrial commodity chemical, which the world is running out of (see Commodities) according to Leeb.[234]
92% of US needs were imported in 1999, 95% in 2006.
97.5% of the world's production or reserves are in developing countries.
42 years worth are left, if the rest of the world consumes it at ½ the US rate.
See Commodities; Energy; Oil.

PLS = Private-label mortgage-backed securities – see Non-agency mortgage-backed securities.

Ponzi+ Definitions (1 May 04)

Ponzi scheme[235] is when people are asked to invest in something which promises huge returns. As later people pay in, their payments are used to pay back the first investors. There is no investment in reality, just the manipulator pocketing most of the money, until caught or captured, or manages to run away with it. Maybe we need a new name for the kind of Ponzi schemes used in the Mortgage scandals which caused the current financial crisis.

It would appear as if when a Ponzi scheme is done by one person, that person eventually goes to jail, but when it is done by a major corporation, the federal government runs oversight interference to keep the operation going. See REGULATORY FAILURES.

Example of Ponzi scheme: The notion that the same mortgages may be sold to more than one group of investors. This conspiracy theory used to explain the lack of accounting trails of who owns which securities, or has a legal right to which real estate properties.[236]

Example of Ponzi scheme: Minnesota Assistant Attorney General investigation found that Ameriquest was engaged in blatant and widespread fraud in its description of home owners ability to pay their mortgages, for the purpose of selling the loans to investors. Ultimately this led to 140,000 investors suing Ameriquest for fraudulent loans, with the help of 49 states and DC. Ameriquest paid them off, by making 1,000 times as much additional continuing fraudulent loans, to many more investors, to more than pay off the settlement.

Pooling = Combining and packaging a group of loans to be held by a single entity.

Principal = Amount of Loan borrowed, not counting interest or insurance.

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[234] Leeb Book = "Game Over."
[235] http://en.wikipedia.org/wiki/Ponzi_scheme
[236] See first comment here: http://www.totalmortgage.com/blog/mortgage-rates/senate-foreclosure-hearing-robo-signing-an-affront-to-state-courts/8089

Principal Mortgage Insurance = Insurance on the payment of a mortgage provided by a private firm at additional cost to the borrower to protect the lender.

Promissory Note+ Definitions (1 Apr 07)

PROMISSORY NOTE. This is created at same time as the MORTGAGE. The Mortgage is the declaration what financial institution is providing the LOAN, where the PROMISSARY NOTE is the home owner's promise to pay the loan, with whatever interest rate etc. info spelled out. Unlike the DEED and MORTGAGE, this was never a public record.

The home owner was free at the beginning to shop around to which financial institution offered best deal for HOME LOAN, but once the mortgage and promise to repay are signed, the financial institutions are free to buy and sell SECURITIES containing MORTGAGES with any other institutions.

The Home Owner may not have freedom to change whatever institution is holding the note, or refinance or adjust the deal.

PSA = Pooling and Servicing Agreement

PUBLIC RECORDS = Under the OLD system of real estate owners info being stored in county courthouses (see MERS for info on the NEW system implemented by the banking industry), it was important for the government to uniquely identify the owners, such as with social security # and other personal identity information (PII).

People within a county have a legal right to see public records, by going to the county courthouse. However, there is some expense and inconvenience doing this, so many counties have placed their public records on the Internet, accessible by anyone in the county, and anyone in the world.

In several states, the counties have gotten into trouble, because this shared info included personal identity information (PII) on the real estate owners, which was protected by state law. This placed the counties in an expense quandary, of needing to have two versions of the records, those with the PII info for uniquely identifying owners, and those with that blocked from public view.

Put-Back + Definitions (1 May 06)

Put-Back: When and if the legal process is able to prove mortgage loan documentation fraud by a specific institution, that organization is required to repurchase the loan for the outstanding principal balance plus any accrued interest. If that bank is now out of business, the situation gets more complicated, who has to perform the repurchasing.

A **Qualified Written Request** (QWR) is a specific kind of letter that you can send to your mortgage servicer when you believe there is an error on your mortgage account. See explanation here and in this article, because many web sites have incomplete or misleading info.[237]

Quants = Qualitative Analysis

Regulatory Failures: Levin-Coburn US Senate report on key causes of the Financial Crisis,[238] cites many of them.

However, it is evident that the US Senate report only scratched the surface of a complex topic which I explore in these notes. Some states failed to do their fiduciary responsibility with respect to mortgage brokers operating in their states. Many states recognized predatory practices of banks in their states, passed laws against, took action, but were blocked by federal regulators for a variety of reasons, then the feds let the Wall Street bankers destroy our economy.

In Terminology, see:

- AG;
- Conflicts of Interest;
- Cooks, too many;
- FCIC;
- FIN-CEN;
- Gaming the rules;
- Glass Steagall;
- Group Think;
- High Cost Mortgage;
- HOEPA;
- Insider Crime;
- OCC role in US Supreme Court ruling in favor of crooked banking and either clueless, or criminally negligent, federal regulators;
- Ponzi;
- Shadow Banking;
- S+L crisis;
- Warning Signs.

In Red Flags Time Line, see:

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237 http://www.hud.gov/offices/hsg/ramh/res/reslettr.cfm
http://consumerist.com/2011/02/how-this-philly-homeowner-foreclosed-on-wells-fargo.html

238
http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.
PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

- 1994 (Derivatives drove Orange County CA bankrupt, then the market lobbied Congress to let them drive more victims bankrupt);
- 1998 (Group Think);
- 2001 Fed inadequate vision;
- 2006 US courts rule against regulatory oversight of hedge funds;
- 2011 US Senate investigation conclusions.

Also see section with years of time line of red flags.

REPO = REPOSSESSION. My familiarity with the Repo-market is the mechanism by which the bank seizes our automobile, if we fail to keep up the payments with the bank loan. The repo-man finds where we park our car, and when we are not watching, he and his confederates seize it (legal stealing, since they are authorized by the bank, which is the true owner until the loan is paid off), and take it to the place which will sell it, proceeds to the bank to subtract from balance of loan, then come after you to make up any difference.

REPOS = REPURCHASE AGREEMENTS, however, have a different meaning than what I just stated above. Institutions found they had money invested in securities with low financial return. They wanted to sell them, then spend the money on something with a higher financial return. The REPOS were loans against the low financial return items, for money slightly higher than what could be got if they were in fact sold, using those items as collateral, or security for the loans. REPOS made it fast and easy for institutions to get in and out of investments, seeking better returns.

REPOS = A method of secured lending where the borrower sells securities to the lender as collateral and agrees to repurchase them at a higher price within a short period, often within one day.

However, in 1982, two large lenders defaulted on their REPOS. The FED bailed out the victims of this unregulated financial arrangement. After this incident, most of the REPOS market went to a tri-partner system, where a large clearing bank would hold the collateral and the loan in escrow, on behalf of borrower and loaner, theoretically making the deal more secure.

Recession is defined as two consecutive quarters of negative GDP.

Reverse Mortgage + Definitions (1 May 16)

REVERSE MORTGAGE: Let's suppose you own your home free and clear. (You paid off the mortgage.) You are getting on in years, and your income is barely enough to live on. With a reverse mortgage, you get money from the bank, and their ownership in your property increases. Eventually the bank owns it all, but you get to live in it until you die of old age, and the bank inherits the property. I have unprovable anecdotal information that the mafia is in this banking business, and they sometimes arrange for the elderly to accidentally on purpose die prematurely, after signing up for one of these deals, so the mafia can get the property sooner than if they waited for a natural death.

See discussion of the consequences, of REVOLVING DOOR between industry leaders and their government regulators, in my "**Lessons**" document.

Rhodium is an industrial commodity chemical, which the world is running out of,[239] according to Leeb.[240]
92% of US needs were imported in 1999, 95% in 2006.
97.5% of the world's production or reserves are in developing countries.[241]

ROBO-SIGNING is when people are employed for the purpose of signing legal documents which claim those people can attest to the truth of all claims in the documents, when in fact they have done no such thing.[242]

RTC = Resolution Trust Corporation – See S+L Crisis.

SARs = Suspicious Activity Reports, which banks send to the Treasury Department.

Scam = A confidence game or other fraudulent scheme, especially for making a quick profit; swindle. Selling something which has no value.

SEC = Securities and Exchange Commission = Independent federal agency responsible for protecting investors by enforcing federal securities laws, including regulating stock and security options exchanges and other electronic securities markets, the issuance and sale of securities, broker-dealers, other securities professionals, and investment companies.

Section (13) 3 = Section of the Federal Reserve Act under which the Federal Reserve may make secured loans to nondepository institutions, such as investment banks, under "unusual and exigent" circumstances.

Securitization = Process of pooling debt assets such as mortgages, car loans, and credit card debt into a separate legal entity that then issues a new financial instrument or security for sale to investors.

Shadow Banking + Definitions (1 Apr 06)

SHADOW BANKING SYSTEM = Financial institutions and activities that in some respects parallel banking activities but are subject to less regulation than commercial banks. Institutions include mutual funds, investment banks, and hedge funds.

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239 See Commodities; Energy; Oil.
240 Leeb Book = "Game Over."
241 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
242 Total Mortgage Blog wrote about a Senate Banking hearing, quoting Iowa AG Tom Miller dismissing outright the idea (frequently touted by banks) that robo-signing is a ***"technical issue"***, saying that it is ***"an affront to state courts"***. Thia Blog went a bit further and said that it is an affront to anyone with a modicum of respect for the concept of the rule of law. Miller is one of the people who is leading up the joint attorneys general investigation into foreclosure fraud.

This is one of the major subjects of Chapter II of the FCIC report. Once upon a time, banking services were all regulated by our government. This was initiated after the Great Depression to try to prevent the same kinds of things happening that were believed to have caused the Crash of 1929 and the Great Depression.

Then the financial industry came up with a system of institutions and financial instruments which operated outside of government regulation, and the government let them get away with this. Ultimately this shadow banking system replicated the kinds of behaviors that led to the Great Depression, only this time it was a Great Recession, thanks to some safeguards which had not yet been eroded by the lobbyists.

See COMMERCIAL PAPER, MONEY MARKETS; REPOS.

Because SHADOW BANKING SYSTEM competition was sucking profits from the regulated financial industry, through unfair competition, the regulated financial industry lobbied Congress to become deregulated, which happened in 1980. Then it engaged in the same risky practices as the SHADOW BANKING SYSTEM. If you can't beat them, join them. This opened the door for a wide spectrum of mortgage lending practices that set us on the road to the disaster we are now all familiar with.

The Shadow Banking System, freed of regulations, created a global pool of money where all kinds of investors from all over the world, into all kinds of investments, mixed together without any safety nets.

FCIC conducted a market risk analysis of REPOS and COMMERCIAL PAPER.[243]

Here is a relevant May 2010 FCIC background report: **The Shadow Banking System**
Shadow Banking and the Financial Crisis (PDF)

Wikipedia on Shadow Banking – see footnotes.[244]

Short + Definitions (1 May 06)

Short Sale = The sale of a home for less than the amount owed on the mortgage.

Short Selling = To sell a borrowed security in the expectation of a decline in value. For example, you do not own some stock, but you sell it anyway, then later in the day, you buy it. If the stock price went down between when you sold it, and when you bought it, you have profited on the deal. It is legal to do this when trades are not resolved in real time, but in aggregate at end of trading day. This was demonstrated in the movie Trading Places.

Silver is an industrial commodity metal, which the world is running out of,[245] according to Leeb.[246]

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243 http://fcic.law.stanford.edu/resource/staff-data-projects/market-risk-survey
244 http://en.wikipedia.org/wiki/Shadow_banking_system
http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010
245 See Commodities; Energy; Gold; Lead; Oil.
246 Leeb Book = "Game Over."

14% of US needs were imported in 1999, 65% in 2006.
80% of the world's production or reserves are in developing countries.[247]
9 years worth are left, says Leeb as of 2009, if rest of the world consumes it at ½ the US rate.
Several outfits are advising people to buy Gold and Silver, as an alternative to other investments, and hoard it.
One investment outfit suggested SLW (Silver Wheaton) as a good investment & I am considering it. They buy silver from mines whose primary reason for existence is mining something other than silver, from same mines, which have lots of the primary metal, and some of other metals secondary to primary reason for mine to exist.
Approx 70% of the silver mined in the world, they say, comes as a by-product of other mining.

What do we use Silver for?[248]

- chemical reactions;
- coin currency;
- dentistry;
- disinfectants;
- electronics,[249] electrical contacts, and conductors;
- investment;
- jewelry and ornaments;
- medicine[250] antiseptic;
- mirrors;
- nuclear power control rods;
- photographic film;
- solar energy and solar reflecting;
- stained glass;
- superconducting;
- utensils (silverware);
- water purification.

According to the NW mint,[251] 95% of silver use is in photography, jewelry and silverware, and industry.

SIV = structured investment vehicle = Leveraged special purpose vehicle, funded through medium-term notes and asset-backed commercial paper, that invested in highly rated securities.

247 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
248 http://en.wikipedia.org/wiki/Silver
249 http://www.firstmajestic.com/s/SilverUses.asp
250 http://www.sterling-silver.ws/articles/about-silver/medicinal-uses-of-silver.htm
251 http://bullion.nwtmint.com/silver_uses.php

Solar Cells = An alternative form of energy. See Tellurium, a critical component, which the world is running out of.

SPECULATE = a form of gambling which regulators allowed financial institutions to start engaging in, late in the 20th century.

SPV = special purpose vehicle = Entity created to fulfill a narrow or temporary objective; typically holds a portfolio of assets such as mortgage-backed securities or other debt obligations; often used because of regulatory and bankruptcy advantages.

Standard & Poor's:
In the Red Flags Time Line, see: 2011 ***Levin-Coburn*** US Senate report, on key causes of the Financial Crisis,[252] documenting July 2007 mass ratings downgrades by ***Moody***'s and ***Standard & Poor***'s which exposed the risky nature of mortgage-related investments which, just months before, the same firms had deemed to be as safe as Treasury bills.

STEEL (metal from iron ore) is a critical ingredient in wind turbines. The world is running out of iron ore. Iron ore prices, driven by shortages and world wide demand, are rising faster than oil prices. See: Commodities; Energy; Oil.

Stip = Stipulation, summary of a deal.

SUB PRIME MORTGAGES[253] are like Junk Bonds. Here are relevant April 2010 FCIC background reports: **Subprime Lending and Securitization and Government-Sponsored Enterprises**
Role of Federal Reserve in Bank Supervision and Regulation (PDF)
CRA and The Mortgage Crisis (PDF)
The Mortgage Crisis (PDF)
Government Sponsored Enterprises and the Financial Crisis (PDF)
Securitization and the Mortgage Crisis (PDF)

Wikipedia on Sub Prime Lending – see footnotes.[254]

252
http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d
Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.
PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

253 http://en.wikipedia.org/wiki/Subprime_mortgage_crisis
254 http://en.wikipedia.org/wiki/Causes_of_the_financial_crisis_of_2007%E2%80%932010

Systemic + Definitions (1 Apr 06)

Systemic = A problem which is all over the place, totally non-trivial for professionals to fix. The word Systemic apparently has a somewhat different meaning in the financial world, than in the software world.

Systemic example: BPCS (the ERP of my career for the past 20+ years) is written largely in a version of IBM's RPG programming language. That version of RPG allows for math field values up to 15 digits, with up to 9 decimal places.

When we use less than the maximum field size, IBM handles the rounding, but when we use maximum field sizes, we programmers have a duty to write code to decide what to do with math values that extend outside what fits in the field. The BPCS vendor failed to do this, so for example, when we multiply maximum field values, the extraneous digits which go flying off the edges of the field, can come back in unpredictable ways. For example 1 times zero can get a result of 2, or a value which should be 0.0001 comes back negative 9,999,999,999.99999 because of the 1 which went flying off one end and comes back on the other end.

BPCS comes with tens of thousands of individual programs.

The largest BPCS program, which I have tried to modify, has approx 25,000 lines of source code, of which approx 85% is in variable code, whose values content varies at time of program actually running, so basically for each line of code that I might want to modify, I need to spend 15-20 minutes studying the implications of the variable portion of the code line, to see what it does.

In BPCS programs, which have this failure to manage the math properly, which I have studied, it can be as often as every 10^{th} line of code which is flawed. Thus, I call this a systemic bug, because although it is easy to understand, it is all over the place, non-trivial to get fixed. I did inform the vendor of the problem, naively thinking it was their responsibility to fix, but their tech support said this is how the software is supposed to work. How could programmers think this? Well BPCS vendor not write in RPG, they write in another language which gets translated into RPG, but there are systemic errors in translation.

Systemic Risk = In financial terms, that which poses a threat to the financial system.

Systemic Risk exception = Clause in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) under which the FDIC may commit its funds to rescue a financial institution.

S+L Crisis+ Definitions (1 Apr 08)

S+L Crisis[255] = the failure of 747 Savings and Loan Associations (or thrifts) in the 1980's and 1990's.

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[255] http://en.wikipedia.org/wiki/Savings_and_loan_crisis

My understanding, which may be flawed, is that until the latest crisis, banks used to diversify their investments into different areas of our economy, so if they had losses in one area, profits in the other areas would keep them in business. The banks were regulated, and the government changed the rules on how much they could invest in real estate, lowering the market share, so they had to suddenly withdraw a lot of credit from real estate, causing a real estate collapse, which in turn meant the remaining holdings were more risky, so they had to withdraw more, which accelerated the collapse. A man made disaster, thanks to government error.

The explanation in Wikipedia is more complex.[256] Rules were different for state and federally registered thrifts, there was a real estate market crash, where depositor bank accounts were insured by the government, but perhaps not wisely. If the amount of insurance is not big enough relative to the total banks, or has been raided by legislators for other public activities, then many banks going bust at same time can be a huge drain on the public treasury.

The thrifts were competing with each other to offer consumers better interest rates, so to accomplish that they made riskier real estate investment gambles. The nation had recently had severe inflation, which the federal government was fighting, and ultimately successful. When we live many years with high inflation, or stagnant economy, we get into habits which are not wise to continue when the economy shifts. The thrifts were among those into bad habits. Deregulation opened the door to new kinds of risks, which thrift management was ignorant about, but dived into them, without proper preparation.

Many other reasons cited, which sound eerily like the latest crisis.[257]

Just like the Toxic Assets of the latest economic crisis, there were problem mortgages held by the individual S+Ls in crisis, which the government tried to resolve through Resolution Trust Corporation (RTC), which did not have the resources to resolve them all, so RTC turned to Wall Street for help, which got Wall Street into the business of securitization of sub-prime loans.

FCIC goes into more detail on the S+L Crisis. Towards the end of the 20th century, the FED and OCC and other regulators gave permission for financial institutions to setup a kind of casino gambling system with our economy. The Treasury Dept funded a study to convince Congress to repeal all the “out-dated” safeties to prevent another Great Depression, which “no longer served any useful purpose.” Our tax dollars at work.

FED OCC and Treasury reasoned that financial institutions have strong incentives to protect their shareholders, and would regulate themselves using sensible safeguards. As we

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http://projects.exeter.ac.uk/RDavies/arian/scandals/classic2.html#thrifts
256 http://en.wikipedia.org/wiki/Savings_and_loan_crisis
257 http://www.fdic.gov/bank/historical/s&l/

have seen from a parade of recent financial scandals,[258] this is a theory, an ideology, where empirical evidence is to the contrary.

So freed from the old safeties, the financial industry dived into unregulated gambling with anything in our economy, where other institutions were willing to participate in the BANK BETTING game. The banks had excess investments in the real estate market, which experienced a miniature bubble compared to the more recent disaster. Approximately 3,000 banks and thrifts failed in 1980's and 1990's, thanks to their gambles crashing. By comparison only 243 banks and thrifts had failed from 1934 to the 1980's, when the "out-dated" regulations were in place.

Despite Congress having to pass new legislation in the wake of the S+L crisis, to try to prevent that from happening again, the push was strong to continue deregulation.

T+ Definitions (1 Apr 14)

TAF = Term Auction Facility = Program in which the Federal Reserve made funds available to all depository institutions at once through a regular auction.

TALF = Term Asset Backed Securities Loan Facility = Federal Reserve program, supported by TARP funds, to aid securitization of asset-based loans such as auto loans, student loans, and small business loans.

Tantalum is an industrial commodity chemical, which the world is running out of,[259] according to Leeb.[260]
100% of US needs were imported in 1999 and 2006.
45% of the world's production or reserves are in developing countries.[261]
20 years worth are left, per Leeb in 2009, if rest of the world consumes it at ½ the US rate.

What do we use Tantalum for?[262]

- Alloys;
- Camera lenses;
- electronic equipment such as mobile phones, DVD players, video game systems and computers;
- Medicine - surgical equipment, implants;
- superalloys for jet engine components, chemical process equipment, nuclear reactors, and missile parts.

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258 http://wallstreetfollies.com/diagrams.htm
259 See Commodities; Energy; Oil.
260 Leeb Book = "Game Over."
261 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
262 http://en.wikipedia.org/wiki/Tantalum http://education.jlab.org/itselemental/ele073.html

TARP = Troubled Asset Relief Program of the Department of the Treasury (Treasury) = Government program to address the financial crisis, signed into law in October 2008 to purchase or insure up to $700 billion in assets and equity from financial and other institutions.

Tellurium (Metal) is a critical ingredient in Solar Cells. The world is running out of it,[263] according to Leeb.[264]

Tin is an industrial commodity metal, which the world is running out of,[265] according to Leeb.[266]
85% of US needs were imported in 1999, 80% in 2006.[267]
96% of the world's production or reserves are in developing countries.[268]
17 years worth are left, per Leeb in 20099, if rest of the world consumes it at ½ the US rate.
Wikipedia agrees that Tin is on the endangered metals list.[269]
Tin is produced in a process which uses coal, which also has serious implications here.

What do we use Tin for?[270]

- Alloys;
- corrosion-resistant tin plating of steel;[271]
- Electronics;
- Food packaging (tin cans, made mostly from steel);

Title Insurance: We can purchase insurance on many risks, damage to our property from theft, flood; liability in case of auto accident. With Title Insurance, if there is a disputed claim regarding the right of some outfit to foreclose our property, the insurance company is supposed to defend the home owner rights, provided the home owner does in fact have that kind of insurance.

TOO BIG TO FAIL = If this institution fails, the damage to our economy will be catastrophic, so the government must bail it out instead. Here is a relevant Sept 2010 FCIC background report **Too Big to Fail: Expectations and Impact of Extraordinary Government Intervention and the role of Systemic Risk in the Financial Crisis**
Governmental Rescues of 'Too-Big-To-Fail' Financial Institutions (PDF)

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263 See: Commodities; Energy; Oil.
264 Leeb Book = "Game Over."
265 See: Antimony, Commodities; Energy; Oil.
266 Leeb Book = "Game Over."
267 That is one of the very few "improvements" I have seen.
268 As any nation develops its economy, it uses up its domestic resources, cannot export them any more. See Chindia.
269 http://en.wikipedia.org/wiki/Tin#Production
270 http://en.wikipedia.org/wiki/Tin http://answers.ask.com/Science/Chemistry/what_is_tin_used_for http://education.jlab.org/itselemental/ele050.html
271 Iron Ore, which is used to make Steel, is also on the endangered metals list. See both of them in this terminology.

Toxic + Definitions (1 Apr 07)

Toxic assets would have been Ok to invest in, provided people knew there was high risk of them going bust. People would then have avoided investing all of their money and LEVERAGE in them, they would not have used them to build their financial empires, but by putting almost all their eggs in toxic assets, financed by huge leverage ratios, the result was a 1929 crash for those people.[272]

Toxic securitized mortgage loans, by example.[273]

- Investors in mortgage-backed securities typically demanded certain assurances about the quality of the loans they purchased: for instance, that the borrowers had certain minimum credit ratings and income, or that their homes had appraised for at least a minimum value.
- Allegations have surfaced that banks may have misrepresented the quality of many loans sold for securitization. Banks, found to have provided misrepresentations, could be required to repurchase any affected mortgages.
- Because millions of these mortgages are in default or foreclosure, the result could be extensive capital losses if such repurchase risk is not adequately reserved.

Tranche = From the French, meaning a slice; used to refer to the different types of mortgage-backed securities and CDO bonds that provide specified priorities and amounts of returns: "senior" tranches have the highest priority of returns and therefore the lowest risk/interest rate; mezzanine tranches have mid levels of risk/return; and "equity" (also known as "residual" or "first loss") tranches typically receive any remaining cash flows.

Treasury Dept (or The Treasury) = Treasury of the federal government; prints and mints all currency and coins, collects federal taxes, manages U.S. government debt instruments, supervises national banks and thrifts, and advises on domestic and international fiscal policy. Its mission includes protecting the integrity of the financial system.

TRS = ***Total return swap*** = first introduced in 1987 by Salomon Brothers on mortgage assets. In a total return swap, the underlying reference security can be any security or basket of securities.

TSLF = Term Securities Lending Facility = Emergency program in which the Federal Reserve made up to $200 billion in Treasury securities available to banks or broker/dealers that traded directly with the Federal Reserve.

Under + Definitions (1 Apr 14)

Under Capitalized = Condition in which a business does not have enough capital to meet its needs, or to meet its capital requirements if it is a regulated entity.

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272 http://www.pbs.org/wgbh/pages/frontline/meltdown/themes/howwegothere.html
273 Sources include US Congressional Oversight;

Under Water means the value of the property (what you can get for it on the real estate sales market) is below the value of the mortgage loan still to be paid back. If the value via real estate sale, is greater than what is still owed on the mortgage loan, this is called HOME EQUITY.

In 2010, the total under-water deficit of all US mortgages is greater than the total assets of 100% of USA banks. The bankers are hoping the economy will recover, and drive back up the value of the homes, and that they can hold on to the under water value until it is no longer under water, or sell the inflated toxic asset mortgage values to other fools willing to pay the inflated prices.

The problem is concentrated in certain states, as shown by FCIC graphics – see the one labeled "Under water mortgages."[274]

Many of Al's Pals have reacted to the discovery that "In 2010, the total under-water deficit of all US mortgages is greater than the total assets of 100% of USA banks", with discussion of various perceived implications, so I expand this definition.

I had thought this was a type of toxic asset that TARP was supposed to address.

I have been using the word "fools" after my brother-in-law Dave Cantey used it to describe the securities bubble. The bubble continued, only so long as "fools" could be found to buy the worthless stock at higher and higher prices, with them gambling that they could sell it to other "fools" at even higher prices. When the securities market ran out of "fools", that bubble burst.

Bob Speth wrote:

It is going to be a very long time before prices rise enough to wipe out the under-water deficit given that real estate prices, residential and commercial, were driven up by speculation and not based upon true asset values.

I should clarify "speculation". Much of the increase in home prices, I think, came from more women entering the work force, thereby creating two-incomes families. Two incomes allowed house prices to be bid up making it difficult, if not impossible, for single-income families to buy homes. Hence, Government actions, such as the CRA came about.

The bummer, with any Government plan to help the "fools" that bought properties that they could not afford to pay for, is that people such as my spouse and me who have already paid off the mortgage will not recoup, what for others is the under-water component of our prior mortgage.

[274] http://fcic.law.stanford.edu/resource/graphics

Hence, if a Government plan is enacted for the "fools", the fiscally responsible take a hit. So, who are really the "fools"?

Unintended Consequences mean that people, who should know better, make superficial judgments, without thinking through the consequences and implications of their decisions, then after their laws and mandates have been in effect for a while, and we all witness the horrible side effects, the originators plead ignorance, claiming it is not reasonable that they could have foreseen the consequences of their actions. We see this with legislators, and we see it when they question the captains of industry in the aftermath of economic disasters.

UNSECURED LOANS are best understood by first defining "what is a SECURED LOAN".

Suppose I am buying a car or home, and do not have enough money. If I have a decent job, other assets, where the bank has confidence I will be able to make payments, I can get a bank loan, where what I am buying is SECURITY against the LOAN, or something else of value. If I default on the LOAN, cannot pay on time, then the bank can seize ownership of what I am buying, or whatever I used as security.

Now there are some crooks who deliberately arrange such loans with people suspected of not being able to keep up the payments, knowing they will get some money from the borrower, then be unable to keep up the payments, so the property will be seized and sold to some similar sucker, and the cycle repeats.

With an UNSECURED LOAN, the Bank loans the money with NOTHING to secure it, because they have a high degree of confidence in the person to whom they are doing the loan. See COMMERCIAL PAPER.

Uranium is an industrial commodity energy resource, which the world is running out of (see Commodities) according to Leeb.[275]
76% of US needs were imported in 1999, 84% in 2006.
75% of the world's production or reserves are in developing countries.
19 years worth are left, if the rest of the world consumes it at ½ the US rate.
Al Mac does not believe this. 2/3 of the world's nuclear reactors are being built in Asia.

See Commodities; Energy; Oil.

V+ Definitions (1 May 11)

Vacant Homes – when a property is foreclosed on the owner, it may have tenants able to continue paying the rent, but the bank does not want the headache of insurance and maintenance, so the tenants get evicted. Now scavengers come in, steal the copper wiring, pipes, anything of value. It becomes a drug den, homeless there, rats, roaches. The property

[275] Leeb Book = "Game Over."

is destroyed. But if the bank had accepted the headache of supporting tenants who can pay the rent, the physical value of the property would have been sustained.

War on Terrorism: In Red Flags Time Line, see:

- 2000 Budget Surplus vs. wars in Iraq and Afghanistan
- 2001 9/11 is a major trigger to events leading to our economic disaster
- 2011 bin Laden death has an impact on the stock market

Warehouse loans =

Warning signs – Chapter I of FCIC report has a stream of stories about people seeing the crisis coming, and what they did about it. For example, Greenspan apparently had a revolving door of people coming to inform him what they were seeing. Many other top officials of government and industry were getting similar warnings, but they treated the messengers with scorn, and demotion.[276] There were many thousands of messengers.

Washington Mutual (Wa Mu) was featured in ***Levin-Coburn*** US Senate report on key causes of the Financial Crisis.[277] See 2011 in Red Flags Timeline.

Water – As explained in OIL, our world is rapidly using up many of the building blocks of our civilization. Time is running out to develop alternatives. Although our planet is 70% water, most of that is polluted by mankind, and very expensive to get it converted to clean drinking water. Water does not travel to where most needed by humans. Many places are plagued with droughts or floods. Water is essential to just about every human activity we can name.

Technologies, needed to purify water, have been around for a long time, but they are expensive. I personally favor the notion that the places that pollute it, should be a priority to put a stop to that, so as to lower the expense of others downstream to unpolluted it.

Technologies, needed to move water to where needed, have been around for thousands of years.

Technologies, needed to conserve water, are also not new. Rainwater can be captured, for use in households. Water we use in cooking and cleaning can be re-used to flush our toilets, or water our yard. I also believe that rivers should be damned before the water gets to the

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276 One messenger took the warning to the Board of Directors of a major bank. As a result, he was demoted from supervising 220 people, to supervising 2.

277 http://hsgac.senate.gov/public/index.cfm?FuseAction=Press.MajorityNews&ContentRecord_id=51bf2c79-5056-8059-76a0-6674916e133d

Some links do not seem to be working here … I downloaded a 4 page summary PDF, from which they are working … ask me for REVIEWS / PSI financial report dated April 13, unless you find it on above link.

PSI REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse

sea, so we can use fresh water, to reduce volume needed to go through desalinization. Desalinization takes enormous energy, and has the problem of what to do with the brine.

Repairing and improving our infrastructure to purify water, move water, conserve water, will need various metals, whose mining and developing also requires lots of water. Can some of that be done with polluted water or sea water? Energy and Water are mutually dependent.

See: Commodities; Energy; Oil.

Wind Turbines = An alternative form of energy. See Steel, which they are made out of, which in turn is made out of Iron Ore, which the world is running out of.

Write Downs = Reducing the value of an asset as it is carried on a firm's balance sheet because the market value has fallen.

Zinc is an industrial commodity metal, which the world is running out of (see Commodities) according to Leeb.[278]
30% of US needs were imported in 1999, 65% in 2006.
56% of the world's production or reserves are in developing countries.
34 years worth are left, if the rest of the world consumes it at ½ the US rate.
See Commodities; Energy; Oil.

9/11 commission … they analyzed how come 9/11 happened, and what is needed to prevent that from happening again. Some of their recommendations have not yet been implemented, and some were not subject to any public hearing review, so may be flawed.

278 Leeb Book = "Game Over."