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Crisis Panel's Report Parsed Far and Wide

By SEWELL CHAN

WASHINGTON — Behind closed doors, [Ben S. Bernanke](#), the [Federal Reserve](#) chairman, called it “the worst financial crisis in global history, including [the Great Depression](#).”

He said that 12 of the country's 13 most important financial institutions, including [Goldman Sachs](#), had been on the verge of collapse “within a week or two.” (The apparent exception: [JPMorgan Chase](#).)

Imagining the impact of a [Citigroup](#) bankruptcy, he recalled, was “sort of like saying, ‘Well, four out of your five heart ventricles are fine, and the fifth one is lousy.’” (The human heart actually has two.)

Mr. Bernanke's remarks, from a November 2009 interview with government investigators, were among the fresh details in the blow-by-blow chronicle of regulatory negligence and Wall Street recklessness released Thursday by a federal commission.

The report by the [Financial Crisis Inquiry Commission](#) draws on more than 700 interviews, millions of e-mail exchanges and other records that have not previously been disclosed.

While the official 633-page document comes after the Dodd-Frank law tightened up [financial regulation](#), its findings are certain to be pored over for years — and not just by historians.

On Wall Street, analysts were already scouring 1,200 supporting documents the panel released on its

Web site; an additional 700 documents and some 300 transcripts of audio interviews are to be posted before the panel's mandate expires Feb. 13.

The report examined the risky mortgage loans that helped build the housing bubble; the packaging of those loans into exotic securities that were sold to investors; and the heedless placement of giant bets on those investments.

Enabling those developments, the panel found, were a bias toward deregulation by government officials, and mismanagement by financiers who failed to perceive the risks.

The Fed, under Mr. Bernanke's predecessor, **Alan Greenspan**, failed to develop mortgage lending standards that could have stemmed the flow of bad mortgages into the financial pipeline, the panel found. "The Federal Reserve was clearly the steward of lending standards in this country," said one commissioner, John W. Thompson, a technology executive. "They chose not to act."

Mr. Greenspan declined to comment.

Just as the 10-member commission splintered along partisan lines — with the four Republican members offering two separate dissents — so did the response to the document.

"We certainly applaud the efforts of the commission," the White House press secretary, Robert Gibbs, said, in remarks echoed by Senator **Tim Johnson**, Democrat of South Dakota, the new chairman of the Senate Banking Committee.

But Representative Spencer T. Bachus, Republican of Alabama and the new chairman of the House Financial Services Committee, said that the panel had "failed to reach even a rough consensus on the causes of the financial crisis" and that the Democratic majority had been "minimizing the role of **Fannie Mae** and **Freddie Mac** in causing the crisis."

Those two mortgage finance entities, the main report found, contributed to the 2008 crisis but were not among its chief causes.

It concluded that Fannie and Freddie had loosened underwriting standards, bought and guaranteed riskier loans and increased their purchases of mortgage-backed securities because they were fearful of losing more market share to Wall Street competitors.

The main report said that was not because of the government's affordable-housing goals, which conservatives like Peter J. Wallison, a Republican commissioner, believed were the primary culprit.

The culpability of the housing finance agencies is likely to influence debate in Congress over the future of housing finance. But the bulk of the report consists of a long, well-known narrative that is largely beyond dispute.

The report offered new details about how Citigroup and the [American International Group](#), which received bailouts, were internally divided as the crisis worsened: some parts of each company continued to invest in housing-related investments even as others pulled away.

It offered new evidence that officials at Citigroup and [Merrill Lynch](#) had portrayed mortgage-related investments to investors as being safer than they really were. It noted — Goldman's denials to the contrary — that “Goldman has been criticized — and sued — for selling its subprime mortgage securities to clients while simultaneously betting against those securities.”

It showed that the Fed and the [Treasury Department](#) had been plunged into uncertainty and hesitation after [Bear Stearns](#) was sold to JPMorgan Chase in March 2008, which contributed to a series of “inconsistent” bailout-related decisions later that year.

Neither the Fed nor the Treasury commented on the report, nor did most of the financial institutions mentioned in it, though a spokeswoman said Citigroup was “a fundamentally different company today than it was before the crisis.”

Sprinkled throughout the report were vivid quotes from major players.

Sabeth Siddique, a top Fed regulator, described how his 2005 warnings about the surge in

“irresponsible loans” had prompted an “ideological turf war” within the Fed — and resistance from bankers who had accused him of “denying the American dream” to potential home borrowers.

The Office of Thrift Supervision, a soon-to-be-closed agency that was supposed to regulate A.I.G., was so outmatched that its former director, John M. Reich, compared it to “a gnat on an elephant.”

Some bankers came across as simply bumbling. [E. Stanley O’Neal](#), chief executive of Merrill Lynch, told the commission about a “dawning awareness” through September 2007 that mortgage securities had been causing disastrous losses at the firm; weeks later, the report noted, he walked away with a severance package worth \$161.5 million.

The [Lehman Brothers](#) bankruptcy in September 2008, which sent markets into a tailspin and led to a string of costly bailouts and was probably the most dramatic moment of the crisis, was reviewed in depth in the report.

The prominent Wall Street banking lawyer H. Rodgin Cohen, who represented Lehman among other big banks, said he thought the government, in refusing to bail out Lehman, had seemed that it was “playing a game of chicken,” hoping that other institutions would save Lehman.

The commission’s chairman, Phil Angelides, said he hoped the report would help bear witness to a preventable catastrophe. “Some on Wall Street and Washington with a stake in the status quo may be tempted to wipe from memory this crisis or to suggest again that no one could have seen or prevented it,” he said.

But little on Wall Street has changed. One commissioner, Byron S. Georgiou, a Nevada lawyer, said the financial system was “not really very different” today from before the crisis.

“In fact, the concentration of financial assets in the largest commercial and investment banks is really significantly higher today than it was in the run-up to the crisis, as a result of the evisceration of some of the institutions, and the consolidation and merger of others into larger institutions,” he said.

Susanne Craig contributed reporting from New York.



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