

WORKING THREAD ON FCIC REPORT

I keep trying to immerse myself in the FCIC Report, but keep getting distracted—I guess I'll have to read it this weekend. But it's high time I put up a working thread for the rest of you.

The report itself is here.

Lambert Strether has made 1147 of the backup documents released by the FCIC available here.

And Masaccio sent me this observation from the report last night:

The number of suspicious activity reports—reports of possible financial crimes filed by depository banks and their affiliates—related to mortgage fraud grew 20-fold between 1996 and 2005 and then more than doubled again between 2005 and 2009.

p. 22 in the .pdf

This means that the regulators were not doing their jobs under the Bank Secrecy Act, the PATRIOT ACT and other laws. These laws are designed to enable prosecutors and regulators to spot money-laundering and other crimes.

Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in “catastrophic consequences.” Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in “financial and reputational catastrophe” for the firm. But they did not stop.

And the report documents that major financial institutions ineffectively sampled loans they were purchasing to package and sell to investors. They knew a significant percentage of the sampled loans did not meet their own underwriting standards or those of the originators. Nonetheless, they sold those securities to investors. The Commission's review of many prospectuses provided to investors found that this critical information was not disclosed.

That is tantamount to saying that these people committed crimes. They sold securities with documents that were knowingly false.