How did the credit crisis happen, and who is responsible?

<u>If you have watched all of the videos selected to be displayed at www.questfundingservices.us, on the /subprimevideos.html page, you should have come to these conclusions:</u>

- The investment banks, lenders bond ratings agencies, etc, took advantage of the deregulation of securities and regulatory oversight that has accelerated in the last decade or two. This deregulation included the repeal of the Glass-Steagle Act (GSA), from 1933, with the 1999 establishment of the Gramm-Leach-Bliley Act (GLBA). GSA was instituted because, after the 1929 stock market crash, it was felt that investment banks had been overly speculative…even risky. *GLBA eliminated the GSA restrictions against affiliations between commercial and investment banks.* (Bear in mind that billions of dollars of the mortgages that have now "gone bad" were originated by the investment banks, themselves, through their own lending divisions.)
- Credit default swaps (CDS's) were specifically structured and referred to in a manner that made them appear to be something other than insurance, making them exempt from insurance regulation and reserve requirements…but they are, without a doubt, insurance.
- Unlike conventional insurance, credit default swaps were sold in a manner that likens them more to sports betting, or "betting the 'don'ts'" at a craps table: The purchasers of the CDS's were, in stock market parlance were, able to "short-sell/short" the underlying securities without ever owning them. (Buying a life insurance policy on someone you do not know is not permitted. But buying this CDS "insurance" on a security that you don't own is permitted.) What is most disturbing is that some of the Wall Street investment banks were "shorting" the same securities that they created and were hyping their investors to purchase…in other words, they were betting against their own investors!
- What is even more astounding is the volume of credit default swaps that were sold: Because their cost was fairly inexpensive, an estimated $50-60 **trillion** in CDS's were sold on about $1.75 trillion of collateralized mortgage obligations over about 3 years. To put that in perspective, their total sales over a few years, by themselves, equaled <u>*the total annual world gross national product* of ALL goods and services.</u>
- In many cases, the investment bankers were selling MBS and/or their derivatives (CMO's, or Collateralized Mortgage Obligations) before the underlying mortgages were even originated…by simply stating the characteristics of the mortgages that would be purchased to back the securities in the future.
- The investment bankers, by paying the bonds rating agencies to rate the mortgage backed securities, and their derivative instruments, and by developing the standards and procedures to be used in the rating process, compromised the impartiality of the ratings agencies.
- The investment bankers, by helping the ratings agencies to rate the securities as "AAA", regardless of their actual strength, was a fraud on those to whom they sold those securities.
- The investment bankers, by buying credit default swaps, as well as selling them to others, were, in effect, betting against those to whom they were selling the underlying securities.
- The ratings agencies, by failing to actually investigate the nature and quality of the mortgages that backed MBS and derivatives, evaded their responsibility to adequately, impartially and competently rate those securities or the mortgages that backed them. When the securities/derivatives were sold before the underlying mortgage collateral was originated, the ratings agencies could only take take the word of the investment bankers that the collateral that would support the securities would be top grade. It is almost impossible to believe that this is how this market operated!
- Whether knowingly because of greed, or because of unfettered optimism or ignorance, the lenders and investment bankers allowed potential personal and company gains to cause them to shirk their responsibility not to create and sell worthless financial instruments.
- The lenders of the underlying mortgages dodged their responsibility to ethically underwrite only loans that are not likely to end up in default in the foreseeable future following their settlement. This is not to deny that frauds were committed by borrowers, appraisers, real estate agents, title companies and mortgage brokers. But, it also cannot be denied that billions of dollars of worthless mortgages were originated, without the need for fraud, because the underwriting standards were so lax or minimal, in conflict with basic good sense loan origination policy.

The result of all of the above is that the government is coming down hard, in a regulatory fashion, against all mortgage brokers and appraisers, even though a large number of them had the ethics and responsible attitude not to assist in originating knowingly "shaky" loans. And, the large lenders, ratings agencies and investment bankers are, for the most part, getting of "scot-free" for their major role in almost destroying the entire economy of the world.

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