

Conducted w/ Wendy Edelberg, Greg Feldberg, AF,

Notes

by

Adam

Paul

- Vincent Reinhart - Friday, Sept 10, 2010
- I. TARP as administered?
 - II. Bear as worst still worst
 - III. Cong. did change law does it appear to be enough ~~at~~ Fed?

WB - Causes of crisis

A Reg on bin side

"high return to get complicated"

"complicated tax & innovations"

"Reg - tax arbitrage" - "by rocket scientists"

"intricate landscape... take advantage of every arb advantage"

B → "Basel II was admission of defeat for largest institutions"

→ Blunted market discipline

"Fewest takeovers in finance"

C) Hard to run a LCFI

- allowed SIVs

WE - Inst v. Markets?

demand for complexity b/c of reg

Market - Product Differentiation

"illusion of market price - (1) really mark to model"

put less capital

WE - why does it have to be bespoke

WE- Did Fed appreciate? complexity?
"BS not too Big CD too interconnected"

WE- BS - why complex?

- Harder to replicate

"I don't think BS betting too much on BS"

What Fed meeting?

Deposit recording?

FDIC plan is to pay all listed as account name

- for 30 yrs FDIC supported by Fed uniform record of depositors - Industry said it was too costly.

WE- Fed?

SPV was underappreciated

↳ contractually no recourse to holding company, reputational risk.

"I did not appreciate extent to which contractual form did not protect parent."

WE- Solvency Problem - how does this differ from liquidity?

Aug 9 2007 - auctions at Hedge funds

"My complaint is that by his diagnosing problem used wrong instruments made ~~people~~ run worse"
- Should have been Treasury

Still don't know other resolutions

"Failure to communicate to Congress"

Greg - were investments I Banker inherently fragile

"I think my stand was wrong"

"Too low capital requirement"

International Comp. for regulation

"Fed created a section on syst risk

I Banks not regulated by the Fed

"Fed wanted to use Pres. working group but
Sec of Treasury runs that group"

WE - Basel II

Interest of 2 Failures

I. Rely on markets for discipline

II. Underappreciation

WE - Compensation abuses

"also part of monitoring problem"

"Do you intervene in comp or do you
figure out why equity owners don't exert
discipline"

GF

→ "Housing was a critical collateral to the
credit sector"

→ "Initiating shock were worse when tied to
Liquidity as collateral?"

GF - Was fragility new
"We as a nation versus housing"
"International crisis in Asia - massive demand for reserves. [also in ME's].
Foreign official sector wanted government grade securities - again see Basel II - foreign off. - was a lot in the first."

"Increased reliance upon leverage!"

WE - Monetary Policy - Yield curve
02-04

"I don't take Taylor crit seriously"
↳ small effect on capital value of homes
- monetary policy works through interest rates

"I would plead not guilty - Mon policy did not cause -"

Policy gradualism - is an anomaly. Isn't all its cut out to be. Fed kept yield curve steeper - Carry trade went on longer

WE - Inflation

Fed fascination w/ PC Price index
→ less disinflation pressure than previously understood.

Fed really did believe much more policy based on where leaders' went more to

WE - Known crash?

2007 - Mishkin thought he had crystal ball

Increased Reg + supervision

WE - Greenspan Fed - Fed could move fast
"could take more risk"

"Ironic, GS said C low risk will be rewarded"

"That's a conundrum"

=
Fair macro tranquility w/ effective supervision but it's hard to say that this should be done in good times"

WE - Culture of Fed to question + be concerned?
culture

"Yes - clear blinder description of silos
& not enough"

Bernanke really did try to lose to culture -
"9/11 lessons learned included needing more attention to systemic risk"

"Bernanke one of first regrets was a report on systemic risk - did run against culture"

GF - what derog.
"Not challenging industry."

Ferguson Task Force - one reason Fed got bigger - lessons from events of 9/11.

Staff presentation on housing market
- 2005, what would happen

WE - GS - no way he could go to Cong & ask for more reg. of housing?

"No question" - look at distribution of questions on Humph Hawkins for (1) FF, reg, T&A.

Board got 39,000 comments on disclosure change - held up for months as a result

"It would be a brazen cheat - especially on house side - to get in front of committee like that to say build too many houses."

Financial Stability Reports