THE FINANCIAL CRISIS INQUIRY COMMISSION
SEPTEMBER 17, 2009

Phil Angelides:

As I said, the principal purpose of today's meeting is for the public to have a chance to hear from commissioners and for us to discuss in this setting the important work in front of us. And so I will be calling on each of the commissioners to make statements about our work, and I'm going to start today by making some opening remarks as chairman of this commission.

It's my honor to address all of you this morning as we begin the important work we have been charged with undertaking on behalf of the American people. I'm grateful to Speaker Pelosi and Majority Leader Reid for giving me the chance to serve as chairman of this commission. As I said earlier, I want to thank Vice Chairman Thomas for his extraordinary cooperation, and I look forward to working with him and all of my fellow commissioners in the task ahead.

This bipartisan commission has been given a critical mission, one that is of clear national importance and one that must be conducted without politics or partisanship of any kind: to examine the causes of the financial and economic crisis that has gripped this country and to report our findings to the Congress, the president, and the American people.

It's a challenge that is in many respects daunting and complex, but at its core, simple and straightforward. We have been called upon to conduct a full and fair investigation in the best interest of this nation, pursuing the truth, uncovering the facts, and providing an unbiased historical accounting of what brought our financial system and our economic system to its knees.

That is what the American people deserve, and this is what we are obliged to do. In this critical instance, if we do not learn from history, we are unlikely to fully recover from it. As we meet today, nearly $7 million Americans have lost their jobs since the economic downturn began. Nearly $25 million Americans, over 16 percent of our workforce, are unemployed, underemployed because they can't find full-time work, or have given up looking for work.

Over 2 million families have lost their homes to foreclosure in the last three years, and over 10 million have been in the foreclosure process at some point during that period. In the Central Valley of California, from which Vice Chairman Thomas and I hail, alone there have been more than 100,000 foreclosures since 2006. And U.S. households have seen over $13 trillion in wealth evaporate, with retirement accounts and life savings swept away as the markets declined.

One year ago this week, we witnessed the implosion of our financial markets, yet the fuses for that cataclysm were undoubtedly lit years before. It is our job to diligently and doggedly follow those fuses to their origins.

It is my hope that the findings of this commission can help the president, Congress, market participants, and the public reach the best judgments about how to fix our financial system. How we conduct our work will say much about the credibility with which our work is viewed.

First of all, it is essential that our investigation proceed on the basis of facts and evidence and not according to the opinion or political leanings of any member of this commission or the Congress that empowered us. Indeed, the law which created the commission calls on us to determine the causes of this crisis, not to offer our prescriptions for the future, although we are free to do so.

Secondly, we have an obligation to conduct this investigation with a seriousness commensurate with the crisis we are investigating. The 9/11 Commission conducted over 1,200 interviews, reviewed over 2.5 million pages of documents, and held 12 days of public hearings. We should be similarly thorough.

Our job is not to engage in public posturing. It is to pursue the evidence wherever it leads, to leave no financial stone unturned. In the course of doing so, we may well find criminal activity, as well as egregious practices that were not only permitted, but exalted. Our job is not to presume the worst actions and intentions, but to follow their trail wherever and whenever we find them.

Thirdly, we must move as quickly as we can in fulfilling our duties. Our final report is due in just 15 months. We will seek the records we need from government agencies, financial institutions, and others. We will begin holding public hearings by December. We must proceed with fairness and professionalism and, if need be, we will use our subpoena power to ensure that we can fulfill our statutory mandate.

Finally, we should make our investigation and our findings as clear and as relevant to the public as we possibly can. Yes, this crisis is about the arcane and the complex -- CDOs, CMBS, RMBS, credit default swaps -- but it is also about a deep financial trauma that has affected millions of families and threatened the viability of our system of capital.

We must write a history that is factual, substantive, and understandable. If we do this right, our work can serve as an antidote -- much as the Pecora hearings did in the l930s -- to the kinds of financial market practices that none of us would want to see be repeated ever again.

Let me conclude with this thought, as we begin this inquiry and these proceedings: There is much anger across this country, and justifiably so, about what has transpired. The public's trust in our financial system has been badly shaken. Many Americans who abided by all of the rules now find themselves out of work, devastated by foreclosures, uncertain of their future prospects.

There is a hunger to see those who profited from irresponsibility to take responsibility, for wrongdoers to be held accountable. Yet the most important task in front of us is shed light, not heat, for us to take stock of what has happened and to give a true accounting so the important work of restoring faith in our economic system can begin.

In the wake of the market crash of 1929, there was a whole generation of Americans who would not put their money at risk in what they considered to be the casino of the stock market. The Dow Jones Industrial Average did not regain its 1929 peak for 25 years. We can ill afford a similar prolonged lack of faith and trust.

It is my hope that together we can rebuild and sustain a system of capital that helps us create enterprises of value, puts millions of Americans to work so they can support their families and fulfill their dreams, and that provides the foundation for a new era of broadly shared prosperity.

I'm looking forward to this work. I'm looking forward to working with my commissioners. And I'm looking forward to all of us doing a service for the nation.

Brooksley Born:

BORN: We're here today because the country and, indeed, the world have been experiencing the worst and most severe financial crisis since the Great Depression. The American people, the Obama administration, and Congress need to know and understand the causes of this crisis so that steps can be taken to prevent it from recurring.

The Financial Crisis Inquiry Commission's responsibility is to ensure that the country has the information to put in place needed protections against the excesses of financial markets. It is my hope that the work of the commission will be a foundation for the implementation of significant financial regulatory reform and will serve as a reminder to future generations of Americans that robust regulation of the financial market is critically important to the stability of our economy.

Of course, a great deal of analysis of the causes of the crisis has already occurred. And the nature of a number of the causes is already well known. The administration and Congress should not await the commission's report, but should move forward promptly to adopt measures needed to address these known causes.

We now understand that one of the major causes of the current crisis was the failure of government to oversee the financial markets and to enforce reasonable rules designed to protect the public interest.

For many years, this country was prosperous, and its markets grew and thrived. Powerful financial interests, including many of our largest banks and investment banks, argued that regulation was no longer needed, that markets were inherently self-regulatory, and that they and other market participants, rather than government, could be relied upon to oversee the market.

Tragically, lawmakers and regulators began to act on those fallacious assumptions. Some public safeguards were dismantled. Banking supervision was relaxed in various respects. A number of existing rules were not enforced vigorously. New financial products, new financial markets, and new financial intermediaries were developed, but in many instances were not subject to government oversight.

The resulting regulatory gaps and failures set the scene for the market excesses that caused the current financial crisis. The credit bubble, a housing bubble, food and energy bubbles, and a stock market bubble were created and went unchecked by government regulation.

Financial regulators did not recognize the tremendous risks that were created in the system and that eventually caused a near collapse of the economy.

Experience has now clearly shown that financial markets are not self-regulatory. Market participants understandably pursue their own self-interests and cannot be relied upon to protect the public interest.

As we have now witnessed, without appropriate rules in place and government oversight and enforcement, activities in the market can harm the economy as a whole and can cause widespread losses of jobs, homes, savings and businesses.

The erroneous belief in the effectiveness of self-regulation has played a major role in bringing our economy to its knees and has cost the American taxpayers trillions of dollars. It is now critically important to identify and examine the regulatory gaps and failures so that they may be eliminated and so that our regulatory financial structure can be strengthened. The profound shortcoming of government regulation must be remedied.

One area that must be addressed is the unregulated, over-the-counter derivatives market. As a result of pressures from a number of the country's largest financial institutions, Congress passed a statute in 2000 that eliminated virtually all government regulation of these complex financial instruments. Thus, no federal or state regulator has oversight responsibilities or regulatory powers over this market. The market is totally opaque and is now often referred to as the dark market.

It is enormous. At its height a little over a year ago in June 2008, the reported size of the market exceeded $680 trillion in notional value. Through rampant speculation and excessive leverage, over-the-counter derivatives spread and multiplied risk throughout the economy and played a major role in the financial crisis.

They include the credit default swaps disastrously sold by AIG and many of the toxic assets sold by our biggest banks. Warren Buffett has appropriately dubbed them "financial weapons of mass destruction."

This market continues to be totally unregulated and to pose grave dangers to the economy. It's critically important for Congress to act now to impose the rules necessary to protect the public. As time passes and the economy appears to be stabilizing, there is a danger that the sense of urgency to adopt these important reforms may diminish.

Some powerful financial instruments have begun to mobilize forces to prevent meaningful reform and to return to business as usual. The country cannot afford to listen to the siren song of self-regulation and to delay or weaken our response to the crisis. If we as a people do not learn from our experiences and respond appropriately, we will be doomed to repeat them.

The commission must fully investigate the role that over-the-counter derivatives and other regulatory gaps and failures have played in the current crisis, along with all other significant causes. This is a massive task to perform in 15 months. We need the assistance of Congress, financial regulators, experts, financial intermediaries, investors and consumers to provide us with information and analysis about the causes of the crisis and the failures of financial institutions.

I hope that such assistance will be generously extended, and I look forward to working with my fellow commissioners on this important and challenging task. Thanks.

Keith Hennessey:

First, I'd like to thank Senator McConnell for appointing me to this commission. And I want in particular to thank you and Vice Chairman Thomas for your work getting us started and Mr. Greene for agreeing to contribute his expertise and experience to what we're about to do.

I think I bring a somewhat unique perspective to our work. I looked at an old calendar yesterday, and one year and one day ago, I hosted the Roosevelt Room briefing for President Bush at which Secretary Paulson and Chairman Bernanke presented their recommendation to intervene to prevent AIG from failing suddenly.

Three hundred sixty-four days ago, I hosted the decisional meeting at which President Bush accepted the Paulson-Bernanke recommendation to propose the TARP. And the following night, I stayed up until 1 a.m., where we drafted the famous three pages of legislative language for the TARP.

I coordinated the policy process for President Bush that led to the loans that went to G.M. and Chrysler in late December of last year. And throughout 2008 and 2009, and for several years before that, I served on President Bush's National Economic Council staff working on issues including financial regulatory and housing policy.

I hope to share some of my insider's view on what happened, and I hope to help the commission and the public understand how the options looked to policymakers who were dealing with the crisis in real time, operating with imperfect information and severe constraints. Our task is now one of hindsight, where we know what happened. I think it's critical to remember that the past is unknown, but the future is always uncertain.

I think what we're doing here is very important. We also need to make sure that it's relevant. We have a reporting deadline of 15 months from now. I am afraid that, if we wait that long to produce any usable information, then the work of this commission will be far less relevant to the policy-making process.

The administration and the Congress say they want to move legislation this fall addressing certain causes of the crisis. Frankly, I doubt they will succeed in doing so, but at the same time, I think it's essential that we contribute whatever useful information and analysis we can to those policy-making debates before they finish.

I surmise that most people in positions of power are not particularly excited that this commission exists. The administration has already offered its policy proposals, and the president did not call for the creation of this commission. The congressional committee chairs say they want to move legislation this fall, and the regulatory agencies are beginning their bureaucratic jockeying for position.

Many of the affected constituencies in the financial sector are thinking about how to play defense against the work that we do. Other than the members of Congress who created this panel and a couple hundred million Americans who are justifiably furious with what happened last year in Washington and Wall Street, I'm not sure who wants us to succeed.

I believe the solution is for us to move quickly and aggressively. And I urge you and the chairman to develop a mechanism for the commission to produce useful information to the public and policy-makers over the course of the next year-and-a-quarter. If we hold all of our information until next December, our work will be irrelevant.

There's a temptation in this kind of process to look for villains, and indeed some have already been found and locked up. I expect we will uncover more. In Washington, the easiest solution is often to form an unruly political mob and march on Wall Street, and we have seen some of that behavior over the past year.

I believe that another part of our job is to help Washington policy-makers look in the mirror and realize that there are systemic political pressures that created or exacerbated these problems, whether they are the iron triangles of particular financial interests working to weaken their oversight and regulation, or various sub-sectors using legislation as a competitive battleground, or the overwhelming bipartisan desire to do ever more to encourage homeownership, without regard for the adverse consequences of their actions.

I strongly believe that politically popular laws enacted by Congress greatly contributed to the crisis, and I think it is essential we understand those causes (OFF-MIKE)

Even having been on the inside throughout the crisis, I have a lot of unanswered questions. I have built a list of 20 questions that I think are important to answer, inspired by the list of topics directed to us by Congress. I won't read all 20 questions here today, but I do want to highlight a few. I will provide my fellow commissioners with the full list of 20 questions, and I'll also post them this afternoon on my blog at keithhennessey.com.

Here, then, are 6 of those 20 topics. If we as a commission could understand and answer these questions, I think we could significantly advance the understanding of what happened and help policy-makers address the root causes.

Number one, what were the relative contributions to a credit bubble in the U.S. of, A, changes in global savings; B, changes in relative savings between the U.S. and other countries, especially large developing countries; and, C, low interest-rate policies of the Greenspan Fed?

Two, to what extent did well-intentioned policies designed to encourage the expansion of homeownership contribute to a relaxation of lending standards and people buying houses they could not and would never be able to afford?

Three, did the Capital Purchase Program of TARP work? Was it the right decision to use taxpayer funds to provide public capital to the largest financial institutions to prevent systemic failure? In retrospect, was the decision to use TARP resources for direct equity investment, rather than to buy troubled assets, a wise one? And was $700 billion a reasonable number, given the circumstances?

Four, was there a legally and economically viable option available to save Lehman? If so, based on what we know now, should Lehman have been saved?

Five, I think that several heavily regulated large financial institutions failed both because they were highly leveraged and because they made bad bets. Did regulatory examiners miss both elements? If they didn't miss them, why did regulators allow these institutions to place themselves and the financial system at so much risk?

And, six, to what extent did three aspects of Fannie Mae and Freddie Mac -- their dominant position in mortgage securitization; their large retained portfolios of mortgage-based assets; and their legal treatment as equivalent to U.S. government debt -- cause or contribute to three resultant failures, one, the insolvency of Fannie and Freddie; two, the lowering of credit standards for mortgages; and, three, the failure or anticipated failure of other financial institutions?

If anyone in the public is interested in the other questions, I'll post them today. And I want to hit three process points before concluding:

One, is I want to thank you and the vice chairman for including the whistleblower protections. I think those are very important. I will work with Mr. Greene on the details to make sure that we can get the information that we need.

Two, I know there's been some discussion about whether we should produce recommendations. I am in favor of doing so.

And, three, I'd like to offer a concrete suggestion that I think can get us started quickly. I think we should build a timeline, what we sometimes call the tick-tock. I have a big-picture timeline that we used in the administration that I can contribute to get us started. I know the New York Fed has built a couple of excellent timelines, one domestic, one international.

I think that a timeline is a document that is (inaudible) mechanically created, can be expanded over time. You can drill down to all levels of depth. And I think it can help frame and drive a lot of (inaudible).

Thank you, Mr. Chairman. I look forward to working with you and other members of the commission.

Byron Georgiou:

Thank you very much, Mr. Chairman and Mr. Vice Chairman, for your leadership of this commission. And I welcome Tom to -- having joined us literally a day or two ago.

My name is Byron Georgiou. I'd like to begin by thanking Senate Majority Leader Harry Reid for granting me the privilege of participating in the important work of this Financial Crisis Inquiry Commission, on behalf of the American people who have suffered so much. Too many have lost their jobs, their homes, and their retirement benefits in the course of this continuing crisis.

Although we 10 commissioners come from diverse walks of life and professional experiences and were chosen by four different congressional appointing authorities, I am confident that, as citizens of good faith, we can and will work together collegially over the next 15 months, in the words of the statute, quote, "to examine the causes of the current financial and economic crisis in the United States," specifically the roles of 22 enumerated factors.

In addition, we are charged with, quote, "examining the causes of the collapse of each major financial institution that failed, including institutions that were acquired to prevent their failure or was likely to have failed, if not for the receipt of exceptional government assistance from the secretary of the treasury."

A recent poll found that over 60 percent of American taxpayers feel they were taken advantage of by the leaders of those private-sector financial institutions that were rescued by the massive infusion of public-sector capital that has added significantly to the federal debt load that will be borne by all U.S. citizens for generations to come. They resent the notion that, in the good times, the private sector should be able to retain the gains, but in the bad times they should be able to socialize the losses through a government rescue.

We owe all Americans nothing less than our best efforts to investigate and explain to them in terms we can all understand the factors that caused this economic crisis so that prescriptions can be devised by policy-makers to avoid the terrible human consequences of a repetition of this financial collapse.

In Nevada, where I come from, we are the state with the highest percentage of homeowners who are underwater on their mortgages, who owe more money on their homes than their homes are worth, and the highest percentage of homes in foreclosure. It is extremely difficult for hard-working homeowners who are losing their homes to understand why they are not at least as deserving of a break from the federal government as the financial institutions rescued because they were determined to be, quote, "too big to fail."

This commission is specifically charged to investigate, quote, "the concept that certain institutions are too big to fail and its impact on market expectations," end quote, and the role of, quote, "capital requirements and regulations on leverage and liquidity."

Taken together, these two factors suggest an investigation into whether the crisis was caused, in part, by a failure to mandate increased capital reserves or private-sector capital guarantees on the part of institutions that have attained the, quote, "too-big-to-fail status," so that if they suffer losses greater in amount than they -- than they anticipated, someone other than the taxpayer will be in a position to bail them out to avoid the dire societal consequences of their failure.

Another area of investigation we're charged with focuses on the abandonment of responsibility by the creators of securities for the consequences of the potential failure of those securities to perform as represented to purchasing investors. This is prescribed by section I, quote, "lending practices and securitization," including the originate-to-distribute model for extending credit and transferring risk.

We have proceeded far beyond the idyllic banking model of the local building and loan institution immortalized in the Jimmy Stewart classic Christmas movie "It's a Wonderful Life," where the bank collects deposits from local citizens and lends to local citizens based on their creditworthiness as assessed by bankers who personally know them and their standing in the community.

Those bankers only lent when they were quite satisfied the loan would be repaid because the bank held the loan to maturity and all depositors were counting on the loan to be repaid in full with interest so that the bank would have funds to honor its obligations to depositors.

No one is suggesting that we can or should return to those halcyon days, but our commission is charged by the Congress with investigating the extent to which the economic crisis was caused by financial institution ability, indeed, intention from inception to abandon all responsibility for the ultimate performance of assets by creating them with the intention of transferring the risk of failure of those assets to some other party or institution.

We are charged to investigate under section B, quote, "the quality of due diligence undertaken by financial institutions," which many believe has been less diligent than it should have been, precisely because the originators of the assets knew they would never have to suffer the consequences if the assets failed or, in common parlance, became toxic.

Many see this abdication of responsibility for the performance of exotic and not-so-exotic assets as a significant factor that contributed to the economic collapse.

Clearly, we have much important work to do. I promise that, with my fellow commissioners, I will do my level best to honor our pledge to the American people to shed as much light as possible on the causes of this financial and economic crisis so that we can avoid the enormous pain that would result from its repetition.

Senator Robert Graham:

Thank you, Mr. Chairman. And I wish to thank you and Vice Chairman Thomas for this commission and leadership (OFF-MIKE) completion of our assigned task that you have started by the wise selection of Tom Greene to be our executive director.

I also would like to thank Senate Majority Leader Harry Reid for the opportunity to be part of this important effort.

I am going to use some medical metaphors, first, because I think they are appropriate and, second, because health care has been said to be sucking all the oxygen out of the political system in Washington. So we will take advantage of that overconsumption of oxygen.

First, the guiding principle of this commission should be do no harm. There are those who have already stated that this commission is a -- designed to be a source of delay, eventually leading to the acceptance of the status quo, which created the very environment from which this crisis has sprung.

But some say we have already missed the window of opportunity, the window of opportunity driven by the extreme sense of panic, which has begun to dissipate. Evidence of that is an examination of statements made a year ago this week about the urgency of never letting this happen again and the fact that a year has passed with no significant action taken to reform the system.

This commission has a critical responsibility not to contribute to this cynicism (inaudible) organizing itself to be an effective provider of assistance to the decision-makers and not a contributor to procrastination and delay.

In the medical area, there are two fundamental steps in dealing with the ill patient. First is to diagnose the problem, and second is to prescribe against that diagnosis.

In the vast majority of medical instances, those two functions -- diagnosis and prescription -- are vested in the same person or the same institution. Congress has elected to divide those functions in this case, giving us the responsibility to diagnose the problem and present our diagnosis to the Congress, which will then use it in its policy decisions.

If that bifurcated system is to be effective, there must be a high degree of synchronization between what this commission does and what the Congress intends to do. As an example, it is my understanding that the House Financial Services Committee has announced a series of public hearings in the balance of this year on specific topics.

One of, if not the first of those topics will be the proposal to establish an agency specifically designed for consumer protection. If that is, in fact, the case, then I think the message to this commission is that that issue of, what did the current institution do in terms of providing adequate consumer protection and what is our diagnosis of why they have seemed to have failed so many of our fellow citizens?

And, finally, we are faced with an overload in America's public intensive care wards. We have a crisis in health care. We have a crisis in financial institutions. And maybe most fundamentally, we have a crisis in confidence in public institutions.

There is an organization founded by Congress during the administration of President Eisenhower called the National Conference on Citizenship. Each year, the conference issues a report on the civic health index of America. The report which was issued last week for the year 2009 contains many alarming and disturbing findings.

A survey of 1,500 Americans had a question which asked, what -- in what public -- what institution do you have a great deal of confidence? For the executive branch, 6 percent of Americans said they had a great deal of confidence. In the Congress, 6 percent of the American people said they had a great deal of confidence. And in financial institutions, 6 percent of the American people said they had a great deal of confidence.

Friends, I would suggest that that is not only in the intensive care ward, but in the ward for those who are closest to death. We can make a contribution to the further collapse of public confidence by missing the opportunity to demonstrate that Democratic institutions can serve the public interest.

We should strive to do so. This inquiry must follow the facts to their logical and full conclusion. We must strive to be apartisan in the manner in which we proceed towards the goal of a unanimous report which will command the attention of the American people and the Congress.

And I strongly implore our fellow commissioners to strive to the attainment of these objectives. The American people need not only the analysis that we are going to provide, but they need the confidence that their institutions can function for their benefit.

Heather Murren:

Thank you, Mr. Chairman.

And thanks to Vice Chairman Thomas, both of you, for your leadership, and also to Tom Greene for coming on board to help us accomplish our mission.

These are certainly difficult days in the lives of Americans and in the life of our country. And no one has been spared the economic hardship that has afflicted every city, every suburb, and every small town in America.

It is also in these times of hardship that Americans typically renew their sense of character and also find a sense of renewal, meaning that, yes, we make mistakes, but we learn from them and we improve.

It is a tremendous honor to have been appointed to the Financial Crisis Inquiry Commission, and I thank Senator Reid for giving the responsibility to me to serve the American people.

It is also an enormous responsibility. There is a great lesson to be learned in what's happened to our economy and also to our confidence. And it's imperative that we as individuals, institutions, and, indeed, as a country learn from these mistakes, or we are destined to repeat them.

It is also imperative that we have a financial system that we can trust. Trust in our institutions is a very central principle of the free-market system and at the core of a successful democracy. And that trust, sadly, has been shattered, and it needs to be restored.

I would like to be clear at the outset: I believe in economic freedom. Individuals and businesses should have every opportunity to pursue and to enjoy the fruits of their hard work and successes. But I also believe in accountability, that these same individuals and businesses need to be held accountable for their failures, whether these be failures of judgment or of character.

And no one doubts that profound and devastating mistakes have been made. Some were mistakes of ignorance; others of greed; and still others because of lack of concern for the consequence of one's decisions. But regardless of the cause, we can all see the outcome: sky-high unemployment, sky-high home foreclosures, and the loss of faith in the future.

Every American family from Connecticut to California has been affected. And in my home state of Nevada, with the devastation of jobs, homes, home values, and savings has been breathtaking and historic. But nothing can really compare to the loss of our dreams and aspirations, the one we hold for ourselves and also for other people that we care about.

And over the last year, Americans have often come together in mutual support to talk to each other and to share our anxieties and our fears about what this new reality means to all of us. And at the end of these conversations, the inevitable question is asked: How could this ever have happened?

And I think that we all deserve to have this question answered. And I assure you we will get answers.

The commission has a critical role to play in bringing to life the facts surrounding the financial collapse, the impact of which we all continue to endure. And the commission will engage in rigorous, unbiased, and fearless research into the acts and events surrounding the crisis.

We will seek to provide a factual record to understand how the events unfolded, how the system failed, and what are the broad policy lessons to be learned from the failures. We will do this in a spirit of collaboration, independent, objectivity and responsibility.

I look forward to serving on the commission. I believe it can make a significant contribution to our collective understanding of what happened, and I think it can inform our best thinking going forward to take preventative measures to prevent it from occurring in the future.

On my part, I hope to bring light into areas that have been obscured by complexity, and to alleviate some of the anxieties that have been -- that have arisen from this kind of obscurity, and to deliver answers that will make for a more informed population, a stronger country, and a better tomorrow.

Douglas Holtz-Eakin:

Thank you, Mr. Chairman, Mr. Vice Chairman.

I, too, will begin with some thanks to Senator McConnell for the privilege to join this commission and the opportunity to serve the American people. I think, like my fellow commissioners, have been struck at the number of people who are interested in providing (inaudible) so I want to thank in advance the -- the skilled, experienced kind of senior people in both the public and private sector who really are interested in seeking the truth in this area. It's a tribute to the best traditions of American public service that the commission will probably have a hard time picking among those who want to serve than attracting a capable staff.

And I want to begin by thanking Tom Greene, congratulating him, I think, but thanking him, I'm sure, for his willingness to serve as executive director.

And I want to thank my fellow commissioners, and especially the leadership that we have seen so far from Chairman Angelides and Vice Chairman Thomas. The character of this commission has thus far been infused by a spirit of bipartisanship that I find pleasing, and I hope that it continues to characterize the efforts of this commission.

We must seek nothing short of a bipartisan pursuit of the facts that leads to a nonpartisan statement of an understanding about the roots of this crisis. We should disagree, but we should disagree about the right thing, which is the issues, and not about the political implications of our findings. And I look forward to continuing the -- the strong beginning we've had in that -- in that area.

The efforts of this commission are in many ways the kinds of things on which I built my career. A founding tenet of what I have done thus far is the belief that fact-based research combined with strong public education can be the foundation for better public policy. And that is, indeed, our goal in this commission.

We do have a dauntingly broad mandate and a terrifyingly short timetable, but I believe we can make significant progress in understanding the roots of this crisis. It has been likened to a tsunami that swept across the American economy, and that analogy, I think, is useful in pursuing the questions that I share, along with the American people, about what happened.

What was the source of this great wave? What triggered this event which caused such harm to the American economy? A leading suspect, I think, is a housing bubble which generated a large subprime mortgage crisis. The commission should investigate this, but all other candidates for the initial wave that -- that triggered the crisis. And I think we'll need to understand the -- the overall macroeconomic, monetary environment in which we saw large run-up in mortgage borrowing and, indeed, a broad expansion of credit availability.

Now, what were the key features of the market of this country? What were the legal and regulatory structures of the U.S. housing market? Did federal and state regulators fail to enforce their statutory, regulatory, supervisory obligations? How did the notion of too big to fail influence the participants in this market, especially the housing GSEs and then later other big banks?

Now, had this crisis been confined to one or two financial products, we would not be here today. But it was not confined. So what were the key features that allowed this wave to build and spread across broader regions of the economy?

I think there are important questions about the incentives for regulatory arbitrage and the model of originate to distribute in securitization and transferring risk. What were the important policies that affected firms' financial performance? How did accounting practices, like mark-to-market, influence the crisis? What was the role of off-balance-sheet entities? What are the key institutional factors (inaudible) quality and due diligence by financial institutions and rating agencies, and the affiliations between depository and non-depository institutions?

There are many questions that we need to understand about how this wave spread through the financial system. And, finally, why did the backstops fail? Why was this permitted to wash over and into the Main Street economy of America? What were the role of capital requirements and the inadequacy of capital backing? What were the regulatory failures that were meant to stop this from harming so much of the American economy?

These, I think, are the key elements in our -- our job, which is to understanding (inaudible) and educate the roots of this crisis so that we may better prepare our public policies to prevent it from a recurrence.

One often hears an alternative narrative in which this crisis is pinned on the actions of a few individuals or large institutions characterized by greed. While I believe the evidence will likely lead one to find that there are those who broke norms or even laws, I'm skeptical that that kind of focus will ever completely provide a satisfactory explanation for what we've experienced.

I hope this commission will not only pursue those investigations, but also serve to identify the broader political, economic and other incentives that ultimately caused this country's financial institutions to behave in the way that any would, given the environment in which they operate.

I look forward to joining in this effort with my fellow commissioners and in the work that awaits us in the months to come. Thank you.

John Thompson:

Thank you very much, Mr. Chairman and Mr. Vice Chairman. It's truly an honor to be a part of this team.

I'd also offer a special thanks to Speaker Pelosi for allowing me to serve our country in this manner.

And, Tom, congratulations to you for joining the team, as well.

Much has already been said about and written about the collapse of the global financial markets in 2008 and the extraordinary efforts taken by governments around the world to restore confidence in the individual markets. As such, there has been many or there have been many thoughtful exposes written about the causes of the disaster, the global desire for appropriate reforms to ensure that we put proper measures in place to avoid and mitigate the future reoccurrence, and a desire to ensure that we have a better understanding of interdependencies of the global markets and the actions being taken by all of its proposals.

That being said, I'm personally struck by the fact that many, if not all, of our country's financial calamities, dating back to the Great Depression and beyond, have one common feature: an overabundance of the application of leverage and unwarranted or unchecked risk.

We seem to be unable to recognize a similar pattern of behavior from our past experiences, regardless of how recent those experiences may have been. Furthermore, we've seen a lack of vigilance in the application of laws and regulations to ensure that we don't make similar mistakes, even when using modern technologies or modern jargon.

Our commission must focus on the search for coherent answers to a series of questions that many, if not all American citizens would like to better understand. I think the focus of our group can be distilled down to a few basic, but important questions about the rules and motivations that existed during the creation and eventual collapse of the recent financial bubble.

Those questions might include, one, what were the contributing factors associated with the housing bubble that set the stage for the overall collapse of the U.S. and global financial system? Areas such as major legislative changes, geopolitical battles, pressures from the Federal Reserve policy, inter-industry competition, and a range of small triggers may very well have set the stage for the eventual collapse.

Two, were there visible warning signs that were ignored by trained professionals with stewardship responsibility operating within the system, hence, our government, financial services institutions, and, in some respects, U.S. citizens, as well?

Two areas that I would suggest might deserve closer inspection include the seemingly unsustainable rise in housing prices and the emergence of creative financial terms when we abandon the true measure of personal risk.

Three, that the regulators understand the complexity of the financial derivatives market, its global interdependencies, and act appropriately to ensure the safety of the system. The rapid growth of off-balance-sheet obligations taken on by many financial institutions and the use of antiquated tools or processes for measuring risk may very well be at the root cause.

And finally, how significant was the greed factor in individual compensation or in the companies' motivation as they took unnecessary and unwarranted risk?

These are all very complex topics and will undoubtedly have a diverse set of issues and opinions associated with all of them, as we set our path forward. However, we must constrain our quest for answers to the most -- most relevant issues and avoid spinning our wheels, particularly in light of the short amount of time we have to do this work.

We must stay focused on the few issues that, in fact, will make the path forward less painful than the experience of the American people over the last 12 months.

The U.S. economy and our leadership in the global economy have their foundation in the simple ideal of rewarding risk. The success of many global industries in our company -- our country -- automobiles, farming, information technology, and pharmaceuticals -- have set the stage for our global competitiveness. Therefore, we must focus our energies to ensure that we continue to reward appropriate risk, prudent risk, and establish safeguards to ward off reckless behavior that puts the entire economy at risk.

The opportunities that lie ahead for us in areas such as clean energy, biotech, water availability for the masses, and carbon emission control all represent areas where risk will be required and therefore it demands that we stay focused.

While there seems to be too little time to tackle such a complex set of issues, streamlining our approach to a few powerful questions will help us explore the path and create a more productive path forward. In doing so, we can drive toward consensus on the four issues and build a foundation for consensus on recommendations for regulatory reform, changes in corporate risk management within certain sectors of our economy, and legislative actions necessary to improve overall market effectiveness.

In addition, we must not overlook the global nature of our modern financial systems and keep in mind that some of the unique sovereign issues that exist outside of the U.S. must be brought into the fold, as well.

We must balance our time in searching for facts and answers with building thoughtful recommendations for the future. To be effective in their implementation, the recommendations will not only need the support of the Congress and the executive branch, but will need the support of the U.S. industry (inaudible) the changes.

We must spend an appropriate amount of time sharing our ideas with the people who will be impacted most and have the most to gain from a systemic overhaul. Our goal should be to create a document not just for the Congress or the president, but one for the American people, so they understand and have a real sense of not just what happened, but what steps will be taken to avoid a future calamity. In doing so, each of them can become a champion for changing the system through their support of those who drive real change in our economy.

I look forward to being a part of this. It's an honor to be a part of this commission.

Peter Wallison:

Thank you very much, Mr. Chairman.

I'm delighted to have this opportunity to explore the causes of the financial crisis in depth. I'd like to thank House Minority Leader John Boehner for nominating me for this role.

The commission's work is important for the simple reason that, in public policy as well as medicine, and to follow up Senator Graham's analogy, in public policy as well as medicine, the diagnosis determines the prescription. Congress, the president, and the American people should want to know the central causes of the crisis before our Congress adopts legislation that is supposed to prevent a recurrence. That only makes sense (inaudible) for the purpose of delay.

Accordingly, while we will find that there are many contributing elements to this complex and many faceted problem, we will have done a service for the American people if we are able to identify the key elements without which the crisis would not have occurred. This will enable Congress to enact legislation that actually deals with the causes of this financial crisis.

I've spent several years examining and writing about the activities of Fannie Mae and Freddie Mac and the housing policies of the U.S. government. In this work, I have found that there are approximately 25 million subprime and other non-prime loans, known as Alt-A loans, that are now on the books of banks and financial institutions in this country and abroad.

These weak loans, which total over $4 trillion, constitute almost 50 percent of all mortgages in the United States. They began to default at very high rates in 2007, when housing prices leveled off, and were responsible for the failure of Bear Stearns and ultimately Lehman Brothers, which is what many people regard as the starting point for the financial crisis in 2008.

The result was the painful recession we are now experiencing and will continue to experience as long as the mortgage market and the housing market is as weak as it is because of all the defaults.

The number and percentage of weak mortgage loans on the balance sheet -- balance sheets of banks and other financial institutions is an unprecedented situation in this country. In all other housing bubbles in the past, we have never had anything like it.

Why do so many -- why are there so many subprime and Alt-A mortgages in our housing finance system? Was it the result of government policy, something else, or a combination of factors? What were the changes in the financial system that led this time to the creation and distribution of these toxic loans?

These are questions that the commission should explore. And if our diagnosis is thorough and persuasive, Congress will have a factual basis to enact the appropriate legislation.

In closing, I want to ask the -- I want to thank the chairman and vice chairman for the work they have done thus far to get the commission up and running. I've been much impressed with the quality of their leadership and with the objectivity, the diligence and motivations of my fellow commissioners.

Tom Greene's willingness to take on the role of executive director, a seven-day-a-week job, for at least the next 14 months is quite impressive and is also well -- a strong expression of the willingness of many people throughout this country who have volunteered to work for this organization.

There is a lot more work to do, and time is very short. But it's good to see that we are finally getting underway. Thank you.

Bill Thomas:

I, too, want to thank Republican leader Senator McConnell and Republican leader Congressman Boehner for this opportunity. I do have to tell you, I do appreciate a little more than I did before what Lazarus must have felt like. Looking up at a picture of a younger me, sitting on a dais that I never thought I'd (inaudible) there's no question that this commission had a political birth. Notwithstanding that, you can either talk about your birth or get on with your life.

And, frankly, this commission's life (inaudible) very, very important. It's one of the reasons I said yes to them, was that this commission getting to yes, and I fervently hope that we'll be unanimous, is a job that needs to get done in the way that perhaps only this commission could do it.

There are going to be all kinds of monograph articles written by scholars, academics and others about what happened. We already know that there are relevant congressional committees moving forward with their particular jurisdictions, focusing on the issue as their jurisdictions allows them.

The one thing that this commission can do that I don't think any of the others can do is to simply accept no boundaries. We can be interdisciplinary. We can move in directions honoring the statutory requirements that Congress placed on us. To me, the real constraint is time.

However, with the actually pleasant circumstance of having the chairman and the vice chairman from California, there's one thing that Californians know -- we've lived with them -- and that's earthquakes. And we had earthquake, as has been indicated. And one of the inevitable factors with earthquakes is that there are aftershocks.

And for someone to think this was an event that we're now on the other side of it and it isn't going to have ongoing repercussions for some time perhaps need to read our final report when we produce it.

One of the things that hasn't been mentioned -- and we've reached a point where (inaudible) you're familiar with the old saying, everything has been said, but not everyone has said it, so one of the things I do want to contribute is that what concerns me most is -- and it's obviously a simple fact (inaudible) ethnocentricity (inaudible) looking at us and what happened to us -- it's going to be one of the primary motivators, because we're closest to those who were impacted in a negative way.

But more and more, we're becoming familiar with natural mutations of virus, with manmade viruses, computers and this one of a financial nature, and the effect they have on today's much smaller world, both in time and distance, and how woeful and uncoordinated nation-state response to all (inaudible) both natural and manmade.

And one of my real concerns is that we might be able to make a contribution toward the understanding that inevitably as we get to be even more interdependent, as the world's timelines are shrunk and distances become even less a factor, that we realize how much we have to rely on everyone, not just those in the United States, but around the world.

The other factor of being Lazarus and coming back is to listen to the comment -- and I just want to thank all the commissioners for performing in a way that neither the chairman and I have to present your bona fides, although there are in print over on the tables in order to look at, because simply what you heard here this morning gives us an understanding of the depth and breadth that we have around us.

But one of the advantages of having been around as long as I have, for decades (inaudible) is that I -- I get to listen to Commissioner Born, and quietly and to myself, I say, Commissioner, you're absolutely right (inaudible) years ago, we wouldn't be in the position we are now, at least in one significant facet.

I want to thank Commissioner Hennessey for his public confession of guilt right off the top, in terms of his role and -- and involvement, which will be absolutely crucial (inaudible) when you have the resource in the room and you move forward, it makes a real difference, one, in the timeline, but, two, understanding rather than a two-dimensional understanding of what went on, that full three dimensions.

And, of course, the senator and I are very familiar with polls and just how much a poll really counts. Four decades ago, I decided to put my name on the ballot, and I went from one of the top two or three in admiration polls as a professor to one or two at the bottom, just, I think, ahead of used car salesman, with the simple fact of placing my name on the ballot.

So you do have to take into consideration the experience these commissioners bring. So we've got some folk who have been involved in the political arena. We've had some people who have been regulators. We've got an economist, a scholar.

But I am very pleased with the leadership's creation -- perhaps even without the full understanding of what they were doing -- in producing a commission -- and you've heard from two of the private-sector folks who are on this commission -- because, frankly, you can approach risk -- and Commissioner Thompson focused his comments on risk, and I -- I appreciate that -- you can look at it as a -- in a conceptual way.

But unless you live it and breathe it and get up every morning with it as part of the decision-making process you have to face, you just don't appreciate the real role that risk played in this.

The other hat I wore for a long time was Ways and Means Committee chairman. And maybe a macabre joke now, but we used to talk about the fact that with estate tax going to zero in 2010, one of the major employment opportunities will be food taster.

And one of the things I really need to focus on -- and I think others have expressed that to the point, as well -- that, frankly, where it comes to risk, those who are involved with determining or rating it probably ought to have a taste of -- of what it is that they've rated, which would tend to sober a lot of them up.

We can avoid, you know, almost the philosophical arguments about, are we going to be in a jungle? Are we going to have (inaudible) plans? But, really, the points you've heard by the other commissioners, the approach that we're going to take, the opportunities that we'll have in putting together professionals who have in-depth, appropriate knowledge assisting us in putting together a document was, in fact, one of the primary reasons that I said yes to Senator McConnell and Congressman Boehner.

One of the unforeseen payoffs is the fact that I've gotten to know Phil a little closer. And the thing that I can help contribute, along with the senator, is how you deal with the environment that ultimately (inaudible) with some of the things that we might reject.

I do want to at this time, Mr. Chairman, thank the institutions of the House. We're created in an odd-numbered year; therefore, we are a creature of the House. But I want to thank the Chief Administrative Office, the Committee on Standards of Official Conduct -- that was another one I was on over the years -- House Administration Office for assisting us in getting up and running, especially with the legal, as well as the structural aspects of it.

And so, Mr. Chairman, you've heard from us. All of us have laid out concerns and interests. There will be a lot more specificity in that as we go forward. But you've had a chance to hear them (inaudible) background. This is going to be an exciting adventure, but more importantly, I believe we have the pieces that will allow us to provide to the American people a useful tool, one to understand better what happened, two, to assist those who have the ultimate responsibility in determining how to make sure it doesn't happen again, with, indeed, some suggestions, perhaps the tools to deal with that.

So, Mr. Chairman, thank you very much.