

On July 27 I sent out a report titled "How Did We Get Into This Financial Mess?" to which I got many responses. Here they are with my comments when appropriate.

by Jason Leavitt
LeavittBrothers.com

Nicely written, but why did you ignore the involvement of the overwhelmingly Republican congress that put that bill on Clinton's desk? All bills come down to the quality of execution and implementation, all of which took place under Bush. If my memory is correct, Gramm, Leach and Bliley were all Republicans. After having been beaten into political submission over straight sex, Clinton would have signed most anything. While what you write is correct, you stopped short of the real source of the responsibility for the passage of that bill. -- Vince H

Hi Vince,

The report was in no way, shape or form political in nature. I did not blame Clinton because of his political party; I blamed him for what he did. I am fully aware Gramm, Leach and Bliley are Republicans, but it was Bill Clinton who signed his name to the bill. The argument that Clinton would have signed anything is not acceptable. If the buck doesn't stop at the President's desk, then where does it stop?

As far as execution goes, I'm not sure I buy that. The bill permitted financial companies to become vertically aligned, and they took full advantage off it. Bear Sterns certainly overexposed themselves (that's there own fault), but did they break any laws?

I skimmed the article: [How Did We Get Into This Financial Mess?](#)

Some of the culprits not listed are the ones shorting the dollar. We aren't using dollars at the same value they had 6 months prior to a Republican administration beginning about 8 years ago.

Warren Buffet, Bill Gates, [George] Soros and most likely wealthy Arabic oil tycoons have been shorting the dollar for sometime now. The buck doesn't go as far as it once did. That has really helped precipitate this mess.

Who's to blame? Depends on who you ask.

A friend I went to school with was standing beside her father as he was rocking in a chair. The family dog was swinging its tail under the rocker then out as it came

down. As timing would have it the dog eventually got its tail ran over by the rocker. It reacted by biting Barbara. She screamed, "shit!" Her dad slapped her in the face for cussing. Who's to blame?

All Barbara knew was she was bit then slapped! Too funny.

Recently I saw Warren advertising for a local (Houston) furniture company. I thought the only thing better than having a house full of new furniture would be having a house one could afford. With the weak dollar Buffet has helped to cause people really shouldn't be loading up with obligations they might not be able to meet. If they still can afford their mortgage they might be positioning to take on the final straw that will break their fiscal camel.

I don't think he cares who causes his cash flow. He probably did those ads for free. -- Gene Y.

Hi Gene,

Buffett, Gates and Soros are dirt poor compared to the Chinese government, the Russian government, etc. There's no way any speculator or group of speculators – no matter how wealthy – can influence the currency markets because they are just too big.

On another note, I see no relationship between the falling dollar and appreciating home prices. Perhaps increased lumber, steel, copper etc prices slightly raised the price of a new home, but when an existing home goes on the market and within 2 days, 5 different parties are trying to out-bid each other for it, that's has nothing to do with a falling dollar and everything to do with mass psychology.

The repeal of Glass-Steagall was yes the catalyst - agreed - you're conveying my message of the past decade.

Mainstream media misses the mark.

Along with this 37 year old experiment since the loss of the gold standard.

Watch bonds - a yield of sub 4 with inflation north to 10?

A generational trade lies ahead

best,
David

Jason that was a great letter this week very well done. -- Doug S

A president is 100% responsible for the results of a given bill that bears the president's signature. -- Anonymous

I agree

Well said Jason,

I started originating mortgages in 1994, and the only entity that received 100 percent financing then was a veteran. In fact back then if you had 50 percent down and no verifiable source of income that equaled no mortgage. Then came I believe Barclays with the 70 percent loan to value No Doc program. I believe Headlands bought Barclays and then Greenpoint bought them and slowly up went the loan to value on the No Doc programs, but you still had to have great credit scores, no housing payment shock and considerable assets.

Then came the 2000 plus years, I kept shaking my head going I cannot believe this, they just kept loosening and loosening the lending guidelines...until we got to a 580 minimum fico, 100 percent financing and No Doc. Unbelievable, I never ever ever completed one of these questionable transactions. I believe a lender should determine if the individual has the ability and the willingness to repay the mortgage. My marketing was to 720 fico, 80 percent loan to value or less, high net worth individuals who wanted to reduce the interest expense and/or the term of the mortgage in order to enhance their overall financial picture.

So now my wife and I and three kids starve because America decided to forget to ask the question "can I afford this home".

One group of individuals that really really really should [have] questioned the type of mortgages they were approving is the Underwriters of the mortgages. Every mortgage transaction has to go to an Underwriter for approval. Maybe they could have said come on you guys this is not good lending practices. The Underwriter is there to protect the ultimate investor, whoever that may be in the Secondary Market...for example Fannie, Freddie, Bear Sterns, Morgan Stanley etc. -- David K

David,

I too was baffled by what I saw....interest only loans, no money down loans, non-savvy speculators buying well beyond their means...everyone and their brother getting their real estate license...people who clearly couldn't afford to buy a house, buying a house. I honestly could not believe what I was seeing. A house would go on the market, and within a couple days, 5 parties were trying to out-bid each other. Read [Extraordinary Popular Delusions and the Madness of Crowds](#). It really is no different than bubbles going back 100's of years.

On a side note, I've bought two properties in the last two years (primary residence and vacation condo). In both cases I was analyzed to the nth degree. I couldn't believe it. In the case of the condo, I showed them a bank account with enough money to pay cash, and they still wanted more info. I didn't mind, but I also didn't understand why I had to jump through so many hoops.

As you've implied, perhaps the middlemen (I think you are one of them) should bear more of the blame (not you specifically you because it seems like you

refused to lower your standards). They could have easily said, "No, I'm sorry, you can't afford that house."

Jason, this was very well written and thought through. As a commercial banker, turned investment banker, I am in full agreement that the repeal of Glass-Steagall was the beginning of the mess we are in today even though I supported it at the time. I saw the conflicts and saw this sub prime mess coming and have personally laid the blame on the repeal of Glass-Steagall when discussing this issue with friends. -- Dan A

Dan,

Thanks. I am not an expert...just a trader with a decent amount of knowledge. It's good to hear someone in the industry recognizes the problems that were created.

Jason - your "How Did We Get Into This Financial Mess?" is really well thought out and succinct – the best I've read to date. Congratulations! -- David H

This article is excellent! Thank you for your work and putting this out. -- Yves R

Excellent, excellent work on bringing to light the Glass-Steagall Act. The Big 3 media, etc., would never ever shine a dark light on their hero(s). We don't live in an open society. The "little guy" always makes life easier for the fat cats by unknowingly bending over at their every whim. Perhaps with the internet, and watchdogs such as Leavitt Brothers, IBD, etc., eventually we will have a better informed society. You're getting a lot closer to getting my sub dollars with stuff like this. You already deserve it with your videos. Soon bro, soon. Keep up the good work. Patrick P

Patrick,

Thanks for the comments. I'm in total agreement with you. The mainstream media will never cover this. Flip on CNBC – most commercials are from financial institutions. CNBC isn't stupid. They're not going to call out their main revenue stream.

That is a very compelling article written about the financial disaster that is exploding in the States. As a person who sold her home at the top of the market, sensing doom and gloom was near - even in Canada - I can't believe what is happening. Thank you for sharing your incredible insight into this mess and for exposing those who you feel should bear some of the responsibility for creating this chaos. -- Emilie

You are completely wrong about Greenspan. In 1994 Congress granted the Fed powers to control the mortgage market COMPLETELY. At any time Greenspan

could have gone as far as to TERMINATE all mortgage lending (if he had wanted to). Yes. TERMINATE. While nobody is suggesting he should have done so, he could have put a stop to the nonsense at a stroke.

Why is this so hard for people to grasp? -- Anonymous

Hi,

Can you please substantiate your comments?

The Fed had the power to terminate all lending? Can you offer evidence to support this?

We still live in a free society, and as long as a law isn't broken or someone's rights aren't being infringed on, on what basis can the Fed or Federal Gov't tell us what we can and can't do?

You see, that's where we disagree. Municipalities introduce rules and regulations as and when needed. For example, if a little-used road becomes popular, a new speed limit may be imposed. If a new drug is deemed to be dangerous, the FDA may restrict its use. If a new word is seen to be against the public interest, the FTC may restrict it and fine you (Howard Stern!) many hundreds of thousands of dollars for using it on-air.

I could go on and on.

For God's sake, if the Fed sees banks lending money to poor schmucks WHO HAVEN'T A HOPE IN HELL OF EVER PAYING IT BACK, don't you think they have a duty to intervene?????????

The Fed intervene? It's it a private company? What jurisdiction do they have? Last I checked, they aren't part of the executive branch, legislative branch or judiciary branch. I'm not sure I'd want to give the Fed more power than it already has.

Jason,

Your article on the financial crisis in this country is probably the single best explanation I have read to date. It was a very explicit article and well written.

Thank you.

Yes, I believe Sandy Wile was CEO of Citigroup at the time and he is looking over Bill Clinton's right shoulder.

Ed G

What actually happened was Clinton signed Gramm-Leach-Bliley, which negated Glass Steagall. This bill was authored by Republicans and the vote was along party lines in the Senate with the Republicans in the majority making it happen.

Check out the Senate vote for and against...

| | | |
|-------------------|------------------|--------------------|
| YEAs ---54 | Lugar (R-IN) | Daschle (D-SD) |
| Abraham (R-MI) | Mack (R-FL) | Dodd (D-CT) |
| Allard (R-CO) | McCain (R-AZ) | Dorgan (D-ND) |
| Ashcroft (R-MO) | McConnell (R-KY) | Durbin (D-IL) |
| Bennett (R-UT) | Murkowski (R-AK) | Edwards (D-NC) |
| Bond (R-MO) | Nickles (R-OK) | Feingold (D-WI) |
| Brownback (R-KS) | Roberts (R-KS) | Feinstein (D-CA) |
| Bunning (R-KY) | Roth (R-DE) | Graham (D-FL) |
| Burns (R-MT) | Santorum (R-PA) | Harkin (D-IA) |
| Campbell (R-CO) | Sessions (R-AL) | Inouye (D-HI) |
| Chafee, J. (R-RI) | Shelby (R-AL) | Johnson (D-SD) |
| Cochran (R-MS) | Smith (R-NH) | Kennedy (D-MA) |
| Collins (R-ME) | Smith (R-OR) | Kerrey (D-NE) |
| Coverdell (R-GA) | Snowe (R-ME) | Kerry (D-MA) |
| Craig (R-ID) | Specter (R-PA) | Kohl (D-WI) |
| Crapo (R-ID) | Stevens (R-AK) | Landrieu (D-LA) |
| DeWine (R-OH) | Thomas (R-WY) | Lautenberg (D-NJ) |
| Domenici (R-NM) | Thompson (R-TN) | Leahy (D-VT) |
| Enzi (R-WY) | Thurmond (R-SC) | Levin (D-MI) |
| Frist (R-TN) | Voinovich (R-OH) | Lieberman (D-CT) |
| Gorton (R-WA) | Warner (R-VA) | Lincoln (D-AR) |
| Gramm (R-TX) | | Mikulski (D-MD) |
| Grams (R-MN) | NAYs ---44 | Moynihan (D-NY) |
| Grassley (R-IA) | Akaka (D-HI) | Murray (D-WA) |
| Gregg (R-NH) | Baucus (D-MT) | Reed (D-RI) |
| Hagel (R-NE) | Bayh (D-IN) | Reid (D-NV) |
| Hatch (R-UT) | Biden (D-DE) | Robb (D-VA) |
| Helms (R-NC) | Bingaman (D-NM) | Rockefeller (D-WV) |
| Hollings (D-SC) | Boxer (D-CA) | Sarbanes (D-MD) |
| Hutchinson (R-AR) | Breaux (D-LA) | Schumer (D-NY) |
| Hutchison (R-TX) | Bryan (D-NV) | Torricelli (D-NJ) |
| Jeffords (R-VT) | Byrd (D-WV) | Wellstone (D-MN) |
| Kyl (R-AZ) | Cleland (D-GA) | Wyden (D-OR) |
| Lott (R-MS) | Conrad (D-ND) | |

The house vote was more lopsided and bi-partisan. While Conyers, Waxman and Kucinich voted against it, Pelosi and many, many other Democratic leaders voted for it.

The point being, this amazingly foolish bill, negating one of the major reforms after the Great Depression, was passed and signed off by BOTH parties.

They are all in on it. Americans live in a fantasy that one party or the other is responsible and that one party or the other is going to fix things.

We have, in reality, a one party system. To me, democracy in the U.S. is a fairy tale to keep the sheeple in line. We live in a fascist country. Congress and the Executive are owned by the corporations. You can't even get to the point of being able to run for federal office without being underwritten by them.

Hi,

Thanks for the voting record of the bill. My comments about Bill Clinton were not political in nature. There were not anti-Clinton or anti-Democrat. They were based on what was done, not who did it.

We have a system of checks and balances, so when a bill passes – especially in this case – the fingerprints of both parties are on it.

If Clinton didn't pass the bill, George Bush probably would have and we'd still be in this mess.

I agree with you. Both parties are responsible, but if Clinton chose not to sign the bill, it would not have passed. It didn't have enough support in the Senate.

Jason,

Your essay is very well done and I enjoyed reading it. Here is another part of that story.

Beginning in 1986, I was a partner and president of a privately held company called WSC Investment Services. We sold it to Sungard Data Systems in 1998. In the 1990's Sungard acquired many privately held Wall Street companies in the information processing business and then were acquired themselves a few years later.

In 1988, the brokerage firms were required by new IRS regulations to report tax information to their retail clients that held CMOs, CDOs and any other asset backed security. At that time, none of the brokers maintained individual investor position cost basis after the month they purchased the security. So they knew what a client owned but didn't know the cost basis and didn't know how to calculate and apply the reporting rates of the asset backed securities to the individual client positions because Fannie and Freddie and other asset backed issuers didn't make that information available since they hadn't been asked.

We created a business that collected that information from Fannie, Freddie and all other asset backed issuers. We then developed a service that applied that data to the individual customer data at every brokerage firm. This enabled the brokers to include the required reporting on client 1099s. When we started the service most people thought it was insignificant and that there were relatively few of these securities. However, they were all wrong. There were thousands and thousands of them. They were created to provide a certain interest rate of return and risk level to the issuer's best customers. The asset pools were divided into tranches, the French word for part. There were frequently 15 to 18 or 19 of these parts. The institutional customer for whom the deal was structured got the best

return and the least risk. Each tranche after that got less return and more risk. Retail investors got the worst returns and the most risk.

We had a partner in our business that is a wealthy family office of significant size and sophistication and a few times a year we presented a review of our business to them. At first they were astonished that this kind of security was being issued since no one could know the real risk of that pool since they were sold and resold so many times. They used to say, "If you can't know the value of the assets in an investment, then the value has to be considered zero." At one meeting, one of them shook his head and described these bonds as "the nuclear waste of the bond business". He had no idea how correct he was.

Here is my key point. This whole thing began in the 1980s and it seems that no one noticed until about 2007. But I can tell you that based on my experience of trying to initially build our business that if the choice of a Wall Streeter is to do the right thing or make money, there is never a question of which it will be. It's about the money.

Sincerely,

Bob M

Bob,

Thanks for the story. I've often wondered myself if I had the opportunity to buy a basket of loans that couldn't be individually scrutinized, would I do it? I'm not sure. What if S&P gave the basket a triple-A rating? Then would I buy? I'm still not sure. I want to know what I'm buying. I've never bought a stock because Goldman gave it a 'buy' rating. I probably wouldn't buy something simply because S&P gave it a 'triple-A' rating.

Jason,

I agree with most of your hypothesis with the exception that just Bill Clinton was responsible.

One of the chief architects of the Gramm-Leach bill was a Republican – Phil Gramm who McCain had as his co-chairman! I blame congress and especially the Senate. McCain needs a lot of help in the financial area but he'd better pick better advisers than one of the people who helped start this mess.

FAU

FAU,

I was not solely blaming Clinton...I just went back in time and asked: "if this mess could have been cut off at the root, where would that opportunity be?"
The Senate and House passed the bill. Everyone's name is on it.

As far as McCain and his expertise in financial matters.....he and Obama are painfully clueless when it comes to business and the economy. Neither one of

them has any business/economic experience whatsoever. They both need a lot of help.

Great thesis Jason. I have been working on a commentary on this mess and this is definitely one major piece to the puzzle I had not fully recognized. – Nick A.

Jason, a great piece of writing and logic in your [report]...sending it to all my friends. You've obviously put in a lot of thought before arriving at a solid conclusion. – David S.

Thanks David. Actually I didn't put that much time into it. ☹️ I'm sure I missed a few parties that should have been mentioned, and I probably failed to mention items about those who are in the document.

Jason, the [report] was an eye opener for me indeed. I too will print out a few copies of this to pass along. Kudos to you, great read!! – Chris V.

Jason, that was right on.....I could not have said it any better. It wasn't 1 year later I remember many of my clients taking money out of the market and into real estate. Chicago was first. Yes, FLIPPERS and until this day I have maybe half the clients left and guess what happened – they all lost a lot of money, I mean tons of money. The net worths of the people I still talk with are down 50 to 80%. – Mike W.

Mike,

This is a theory I heard back in 2000 and 2001. The stock market was falling, and since money needs to find a home, it was being funneled into the real estate market rather than the stock market. There's nothing wrong with this (if one is to buy a condo or townhouse and rent it out), but to buy 5 with the intention of flipping them, well, many found out the hard way the real estate market isn't as liquid as the stock market. 😊

Wow Jason, what a read, really interesting analysis on credit crisis, and rather convincing too. And the picture at the end too...Great writing! - FY

The End.