Outline for

Final Report of the

Financial Crisis Inquiry Commission

June ~~14~~28, 2010

For Discussion Purposes Only

What follows is a summary of the four main sections of the report. Preceding these main sections would be an introductory section discussing the crisis and the main themes of the report~~.~~, including the causes of the crisis. In addition, a concluding section would come at the end of the report.

Section I. ____________________

This section is meant to establish the tableau for the financial crisis. Among other things, this section will examine America's financial and economic conditions in the decades leading up to the early 2000s. In these decades, household and business debt rose dramatically as access to credit increased and costs of borrowing fell. This section will trace the ~~changing structure of~~changes in the~~ US~~ financial system, including the growth of markets, such as "shadow banking markets" and securitization; evolution of financial products, such as over-the-counter derivatives; and the increased use of very short-term funding~~.~~ and structural changes such as the conversion of partnerships to publicly-traded entities. This section will explore the degree to which, in both the US and abroad, market participants underpriced risks and regulators and policy makers underestimated risks. This section will also discuss ways in which financial institutions took on increasingly risky and nontransparent positions, often with slim capital. This discussion will address the extent to which failures in risk management and corporate governance, including compensation incentives, may have played a role. This section would also include a discussion of the changes in the regulation of the financial system and the broad forces behind those changes, including the influence that the financial sector may have had over financial policy, regulation, and oversight. Many of these trends and changes in financial markets may have been encouraged by the view that the US was experiencing a "great moderation."

Section II. ______________________

This section will explore the credit boom as well as the historic decline in home prices. As liquidity rose globally, and monetary policy remained accommodative, long- and short-term interest rates were remarkably low. Overall, market participants began aggressively to chase returns and risk premiums fell. Asset bubbles appeared in housing, commercial real estate, and other ~~assets.~~markets. Among other things, this section will discuss how the housing bubble, with historic records in home price appreciation, may have been ~~fueled~~caused by factors such as the domestic and international investors who desired AAA assets with higher yields, US homeownership policy, aggressive mortgage lending (including the increased offering of exotic and inappropriate mortgages), and securitization~~.~~ (including the use of credit derivatives). This section will also explore the potential role played by important participants in this bubble, including individuals who borrowed beyond their ability to repay, speculators, mortgage originators, and financial institutions, including the Government-Sponsored Enterprises. This section will examine warning signs that may have been unappreciated, overlooked, or ignored by those in a position to see them and act on them, including policy makers, regulators, corporate management, and the credit rating agencies. This section will discuss asset bubbles in other countries as well and in what ways the US housing bubble, in particular, was unique.

After historic home price appreciation, home prices fell at historic rates. Losses on mortgage-related assets brought down mortgage originators and major financial institutions including the GSEs. The bursting of the housing bubble and the drying up of mortgage lending generated a devastating foreclosure crisis~~. The~~, which will be discussed in this section. In addition, this section will trace the extraordinary losses faced across the system (in the US and abroad) resulting from the collapse of the housing bubble.

Section III. ___________________________

This section will discuss the collapse or near-collapse of major financial firms, the freezing of credit, and the drying up of liquidity—exploring how a not-unprecedented collapse of a bubble helped to trigger a crisis in the financial system. Among other things, the section will explore ~~how~~what caused the crisis to spread, including the downward spiral in asset values; what markets (such as securitization markets), products (such as derivatives), and firms (both shadow banking and traditional banking firms) played a key role in the spreading of the crisis; the role played by management at these firms in the crisis; the extent to which contagion put so many markets in crisis; and the reasons and degree to which financial markets, firms, ~~and~~ regulators, and policy makers failed to respond to warning signs, prepare for this decline in value, and act in advance of the crisis. This section will also examine the role of the failure or near-failure of firms considered too big to fail by ~~policy makers,~~ market participants, ~~and~~ the firms themselves~~.~~, and policy makers—as well as the related actions taken by policy makers leading up to and during the crisis. Finally, this section will explore how other countries have fared ~~during~~in the ~~depths of this~~ongoing international financial crisis.

Section IV.______________________________

This section will describe how the foreclosure crisis and ensuing financial crisis led to the economic crisis, a deep recession with ongoing economic pain, exploring how the financial system and the real economy are deeply interrelated. This section will also stress the international interconnectedness of the financial system and the world economy.