**Agenda for Financial Crisis Inquiry Commission Meeting on**
**Wednesday June 28th and Thursday, June 29, 2010**
**9:00am-5:30pm ET 9:00am-3:15pm ET**
**Woodrow Wilson Center, 4th Floor Conference Room**
**One Woodrow Wilson Plaza**
**1300 Pennsylvania Ave. NW, Washington, D.C. 20004**

**Day 1: Wednesday, July 28th**

**Commissioners Present:**
**John W. Thompson, Peter Wallison, Doug Holtz-Eakin, Keith Hennessey, Brooksley Born, Phil Angelides, Heather Murren, Bill Thomas, Byron Georgiou**

**Commissioners Absent:**
**Bob Graham**

**Staff Present: Gary Cohen, Greg Feldberg, Gretchen Newsom, Scott Ganz, Courtney Mayo, Rob Bachmann, Shaista Ahmed**

**(PA started the meeting at 9:14am)**

**1. <u>Overview of Meeting</u>**
***(9:00-9:15am)***

***PA: Overview of the day. Noticed Commissioners that the budget supplement passed. Noticed the Commissioners that he and Bill met with all the top publishers yesterday in New York – named all the publishing houses. Agents will undertake a bid process for the selection of the publishers. Bill thinks 3-4 realistic possibilities. Staff to circulate the pitch!(completed by GKN) Bill – agents were very good. Wendy/Bill/Phil – detailed possibilities of interactive media front – publishers will incorporate into their bids – economics, resources, and their capability to create an enhanced e-edition of the book. Byron requested data on how many people read books. (PA – most books only sell 5000 copies) PA/BT will report back to everyone on the selection of an agent.***

***PA: overview of takeaways discussion – try to reach a consensus as much as possible.***

***PW: suggestion – we don't spend time today on takeaways – need to get through Section 4.***

***BB: important for the group as a whole to look at the takeaways to give guidance to the staff in drafting the rest of the report. There may be consensus on other topics. Keep agenda as is.***

***JWT: discussion of takeaways will provide a formality to staff on the construction of the report and influence how this gets written.***

***Heather: agrees – we need to come to some general conclusions***

***Bill: if we do takeaways – let's put a time limit on it – not pick language that fits – look at them to put them into consensus/lack of consensus baskets***

***Heather: wants to get to total resolution on the housing issues.***

***Bill: needs to comment on the Issa letter. Spoke on the details of the letter received yesterday – re: Issa's concerns about FCIC and budget. Staff to distribute letter (GKN distributed the letter.***

2. **<u>Session One:</u> Presentation by the Shadow Banking Working Group/ Discussion of Takeaways**
***(9:15-10:30am)***
*<u>Attached</u> Background materials: Shadow Banking Working Group Takeaways*

***DHE: agrees with what was written on the first page – let's quickly cover. Let's discuss what Commissioners think is missing.***

***BB: agrees with Doug on first page consensus items. Disagreement on effect of regulation on shadow banking – whether institutions were lightly regulated and whether this contributed to the crisis. People should speak up on things that are not included.***

***Heather: key questions that the American public is interested in having answers – such as what role housing played in the crisis. The issue of the regulatory environment and shadow banking comes up a lot – we need to articulate the facts and possible conclusions on this matter.***

***Doug: doesn't think area of regulation was important***

***<u>Areas of Disagreement:</u>***
***<u>Role of Regulation</u>***
***<u>DHE: even regulated entities would have survived – yes regulation didn't work well – but not central</u>***
***<u>JT: But wasn't poor regulation a catalyst across the board</u>***
***<u>BB: poor regulation allowed for risky behavior a factor; allowed fragility.</u>***

***Bill: agrees with Heather – what is a question someone could reasonable ask, so we can answer. Important to knock down myths/beliefs so we increase chance of people accepting our platform. Perhaps Q&A in the E-book? How can we hold an agency/people that they failed if the regulation wouldn't have made a difference i.e. "we met the capitalization standard" – the problem is the standard.***

***BB: not just did SEC fail (which she thinks it did) but was there a bigger failure of policy makin?***

***Byron: didn't SEC admit that they failed because they abandoned it? (BB/PA: yes)***

*JWT: no, it was a supervisory failure not a regulatory failure. Clearly regulatory gaps – but supervisory failures.   BT: that is a easy thing to measure*

*DHE – this is an easy thing to measure. On paper, there were more capital requirements than commercial banks – failure of supervisory component – doesn't think there was a regulatory failure. Thinks they wouldn't have failed without regulation.*

*PA: we are in the hindsight business.*

*DHE: we agree on the facts of the SEC – implementation and failure to supervise – we disagree on whether this was central to the crisis.*

*BB: money market funds and hedge fund had light regulation – thinks one characterization is that shadow banking was under regulated/less regulated than commercial banks – personally thinks it did have an impact on the housing bubble – perpetuated through the shadow banking system first. Not THE cause because commercial banks had problems themselves.*

*JWT – prefers under regulated to not regulated.*

*DHE: these activities didn't take deposits, but short term funding and CP – capital ratios not dramatically out of line with commercial banks – not traced to regulatory environment – important – was the Fed Back Stop for commercial*

*PA: let's mark out where we have issues and now AGREEMENT. BB: let's look at where we have consensus.*

*Keith: looking over first page of agreed upon points – for him, he can agree to a lot of these things if put into a section titled commercial banks, investment first- applies to both types of institutions  -can't agree if we attribute to only shadow banking.Put into section – these were problems that were common to commercial and investment banks – doesn't like the name "shadow banking system" – hedge funds weren't a problem.  Definitional problem.*

*PA: it is our obligation to unsilo issues.  Keith – agree in an unsilo-ed context.  PA: lets also discuss some gradients.  But there are some things that were specific to investment banks.*

*JWT: cites: "it is feasible…bullet 3 – last sentence – not sure this is true – housing proportionally was so much bigger than any other sector – doesn't know that commercial real estate was big enough to trigger.*

*BB: Larry Summers position – dry forest – housing was the match for the forest fire.*

*Byron: requested size of commercial real estate to home/mortgage sector – staff to provide.*

*DHE: the heart of this crisis was housing (JWT agrees) – real linkages to the economy – this observation – what goes on in the structure of this industry – could replicate another crisis?*

***BG: when dotcom bubble was narrowly focused in its impact on the economy. –its spread no where near the impact of housing. Too little capital. Byron's theme – at every level 0 institutions and individuals had inadequate risk (skin in the game) – inadequate capital, liquidity, consequence, etc. Don't leave this out – huge impact in many areas.***

***DHE – points to bullet 5 – serious lack of internal risk management – negligence – Byron: wants this to be more explicit – high leverage, low capital.***

***Bill: always ask – how does it relate to housing and this financial crisis. How does it relate to housing and was it causative? Also doesn't want to perpetuate the word "shadow" banking – is there another term? DHE – non deposit financed regulated. BT: define what it is – set of activities. Heather agrees. BT also needs an answer – doesn't understand any dissection of regulation – if the regulations enforced to the hilt would have had no impact – why focused on this? PA: some agree the damn was built correctly. BT: doesn't understand time spent on regulatory argument (deregulation understandable – wild wild west).***

***BB: first to JWT's point – housing being central – agrees – thinks housing was an important trigger (BT: "a" vs "the")- one thing that made it worse was the fragility of the financial sector as a whole – other contributing factors were causal. Regulation – we had adequate regulation in the '40's-60's. What happened was we began to forget lessons of Depression and de-regulation happened. Congress relaxed regulation and financial sector transformed –created fragility.***

***PA: focus on what is in front of us.***

***Heather: agree with Keith and Doug – stay away from common language – redefine "shadow banking" – apply some discipline from this – also – does not want to exclude hedge funds from this – it is a vessel – central to discussions on issues of transparency and where losses and risk was.***

***BB: the first sentence tries to focus on the fact that this was "activities" and "institutions".***

***BG: but also inform the public that "this" is commonly referred to shadow banking.***

***PW: doesn't have a lot of disagreement on first page – thinks the shadow/regulated and not regulated banks were all VICTIMS of the housing problem – looking at the agreements – the one Keith pointed out is of concern. All these things true of banks. Bill's point is true – any regulatory structure will be overwhelemed when a particular problem gets so large – no one could have planned for it. Agrees with all except that we need to include commercial banking.***

***Keith: make a table – first column is insures, GSEs, investment banks, commercial banks, money market funds, hedge funds. Each subject to a different structure of regulation. Was this a legal problem, regulatory problem, supervisory problems. Staff to fill out table – then see where we have agreement. Heather – also same thing for activities (repo) – two tables – entities and activities. Keith thinks we'll see some commonalities.***

***JWT – thinks Bill's description of this as a 100 year storm will connect with audience – but disagrees that no one saw it comeing/couldn't anticipate. There was a regulatory***

*standard on the administration of credit in this country.*

*Bill: accepts that – but thinks there was a far greater significance of criminal activity and fraud. Needs to be discussed.*

*JWT: there were regulatory standards that were overlooked that created the housing bubble.*

*BB: this is part of the shadow banking working group – Keith – said a number of times that hedge funds did not play a role here – not aware of staff work on this – important to know whether it played a role – requested that staff prepare a report on hedge funds and impact/role in the crisis. (Keith – overstatement that didn't play a role – just that we didn't bail them out)*

*Byron: doesn't want to leave people with an easy way out to explain the crisis. Not unpredictable.*

*PA: just to conclude on Page 1 – heard Byron emphasize high leverage/ capital; JWT – ther bubbles – Keith – page one definition of shadow and differentiation of this sector and other – any omissions. Desire to look at how they apply to other sectors – people seem comfortable with first page (Keith – subject for modified version of substance is how we treat other sections). (Bill: 100 year flood- criteria that core of engineers use cost benefit ratio – he heard that no one anticipated the magnitude). PA personally thinks debate is whether we even try to build the bulwark – choice was made to not make the bulwark.*

*JWT: in housing context – if we implemented the credit standards we always had – we would not have had this crisi.*

*BG: no 100 year language – act of God – no impact/could not prevent – not what happened here – we created this problem –human created – could have prevented (BT: that is fair enough)*

*PA: now page 2. Seminal disagreement on whether regulation was causal.*

*JWT: wants to understand the debate around bullet #2.*

*BB/DHE: the disagreement is whether this was causal. (first sentence)*

*Bill: the last sentence in bullet 2 – what does that add to the sentences 2 sentences up – is it the word regulations? Doug doesn't agree it was a cause. DHE – believes deeply that Brooksley and he will still disagree on this. Writing task will be to convey both sides. Bill – lay out why we disagreed. How do we come to conclusions. WE; we are continuing on how shadow banking faired differently than regulated activities – such as the timeline of how they fared.*

3. **Break**
   ***Beverages served at the conference room**
   *(10:30-10:45am)*

4. **Session Two: Presentation by the Housing Working Group/ Discussion of Takeaways** ***(10:45-12:00pm)***

*Attached Background materials: Housing Working Group Takeaways*

***(started at 11:19am)***

***Heather – many points upon which we agreed – three that got moved to disagreement category: outsized compensation and tilited decision making; subprime lending supported by major financial institutions and practices; risky business model of Fannie/Freddie led to its fall – greater market share vs. meeting gov. goals (affordable housing).***

***Heather thinks compensation should be included – seems to be a substantial evidence based compensation structure –well articulated and related entirely to financial performance was how they were compensated – not mission driven.***

***Heather: -subprime lending supported by major financial institutions – market share was a sub-goal that did relate to financial objective – that market share was desirable in areas growing rapidly (subprime mortgages). – attractive financially not just goal wise.***

***Byron: agrees with Heather's outline. Would put in their securitization area – no accountability for ultimate performance of created products. Maybe not "outsized compensation" but lack of connection between performance and goals and performance of products. GSEs were more like private institutions than some would want to admit.***

***PW: In the first section, everyone agreed that housing problem is the major problem – fully agrees with this. JWT said credit standards were a reason housing problem became significant. Byron said it was the bubble. PW will be able to show that credit standards were depreciated because of government housing policy as administered by HUD to try to increase home ownership in US – did it by requiring Fannie/Freddit to make loans that would not have been made under normal conditions – they had to depreciate mortgage standards to make these loans. They went ot 30% to 50% in 2005 – it became difficult for F/F to produce mortgages to meet these standards - money poured into housing industry – created big bubble. No other bubble like this – reason is government was forcing more and more money into housing business to increase home ownership – vouched by statements of HUD persons (F/F0 and banks(things done for CRA) – this is reason for the bubble. Lots of documentation on this – but no documentation on market share. (Fannie was concerned about market share with Freddie but no one else – their problem was that F/F was losing money to meet affordable housing goals – met them by reducing the mortgage standards – result was collapse of bubble and huge number of delinquencies). These are documents from F/F/HUD/banks required to meet CRA requirements. You cannot draw any other conclusion than gradual depreciation of standards were all consequences of government policies.***
***(02:22)***

***HM: this is clear that we have reviewed same documents and come to different conclusions – F power point presentations, statements of their executives – let's not cherry pick our facts. Re: Freddie marketshare – the next bullet is that they are concerned about others in their market share. (citation – Fannie May – strategic crossroads of '05 – pg. 32) If you look at the various documents on what motivated these people – Mudd said under oath that they made conscious decision to undertake market share growth – (what was time frame? – WE – '05/06) – they were not priced to lose***

*money – if goals became unfeasible, we would tell them – the price and performance characteristics – when they listed goals – there are usually 7 – usually 5 are financial and then they reference the community goals – plan in 07 – deepen segment and develop breadth – gain market share. Many pages of double digit income growth and then put this together with compensation – top goal was financial performance. Comparable groups are all for-profit groups. Heather – that si why those two bullets should be included in takeaways.*

*JWT: interested to see that market analysts on Wall Street were saying at the time re: market shares. If Wall Street analyst were downgrading the stock – real leverage in equity component – what did Wall Street say about Fannie/Freddie and correlation to stock price. (Staff to follow up?)*

*DHE: subject of dispute? Heather: motivation for behavior. PW: fundamental issue is decline in credit standards and creation of the bubble. His documentation – F/F trying to reach government goals – doesn't think motive of trying to do for market share is as important to documentation of why they continued to buy these market shares.*

*PW: fundamental issue is the decline of credit standards. Fannie trying desperately to meet affordable housing standards – helped create the bubble.*

*Heather: nature of the debate seems to be shifting. Expansion in this area – why take on more risk in this area – market share or goals – or both. Would argue that they expanded into this to grow market share. Thinks there was an overall decline in market standards and F/F/ was better positioned on this than peers.*

*PA: disagreement as to motivation. Disagreement to contributory share re: overall subprime market. And, issue at hand was relative credit quality – both timing and nature of the loans put into the system.*

*Heather: "Did bad government policy cause the crisis" Would argue that they took on bad loans b/c everyone else was doing it. – policy may have been bad, but it didn't cause the crisis. Thinks lending standards deteriorated across the board for anyone taking out a mortgage. Rest of the world declined lending standards by 50%? F by 10% - they followed – they didn't lead.*

*PA: staff did do a memo re: relative performance of loans by entity.*

*BT: need someone to process 1) to what extent would an implied government coverage assist you in government product and compensation.*

*JWT: s a share loss with an implied government backing – worse.*

*BT: still had a mission that was kind of different that was driven by government policy – to what extent was their fulfillment of that an ability to create a farms system for them which then produced a greater product of marginal system – took better players out of farm system – still drove producing bad stuff by virtue of size and role. PW – right on target.*

*PW: they paid more for these to meet government requirements. They were losing money on these things. Earnings more important than market share. (JWT disagrees). You*

*don't buy lower quality assets to such a degree that you ultimately become insolvent – does not compute.*

*Heather: loss of market share (competitors vertically inetragrate) was costing them business. At the time they entered into this business, they thought it was attractive.*

*Bill: looked at stuff re: market share. Couldn't understand how these people with privliedged relationship could be that concerned by market share –*

*JWT: when you are the market leader and you have a new entry – your only option to maintain share is to reduce price to maintain share. Commercial banks attacked it. While they had profit goals – ultimately for survival – they had to lower standards to compete with other competitors entering market (also meet gov goals). They were market leader – loss 20 pts share.*

*PW: they did this to solely meet the government goals*

*Keith: suppose for the moment, I don't care why they did what they did – do you agree on what they and others in this sector did for housing finance. Heather – yes. This would be enourmously constructive on what they did.*

*Heather – lending standards deteriorated.*

*Keith: put in active sense – fannie and Freddie and private label counterparts lowered standards - significant causal factors.*

*PA and there is a differential rate of standards lowered among these parties.*

*Keith: that gets to the question of whether GSE's were leader of this practice*

*PA: 3 things - credit quality differentiation, timing of what happened, and scale of GSEs*

*Byron: embrace what Keith just said – agreement. Also, for agreement, part of reason why all the entities were able to lower standards and originate product was a lack of consequences to the parties in the failures of their products.*

*Bill: there was an increase in stuff below the line – produce a product that you could pick best and worst – incentive – became quantity rather than quality. Drive to produce more was driven by government policy – also accelerator by private entities that picked up on these things.*

*JWT: timeline would be helpful. (PA – Dwight Jaffe – PW – he is not valid – snicker).*

*JWT: in the 02/03 timeframe, commericial banks and brokerage firms got wise and attacked the market – F/F/ lost market share. Bubble built to point where F/F had to jump back in – not cherry picking at that time to regain market share and meet gov goals – they struggled - again, a timeline would be illustrative. At the moment they realized they had lost so much market share they could only select the crap.*

*PW: re: memo Heather cited – June 27, 2005 – we are at strategic crossroad – stay the course or meet the market where the market is.*

*BT: timeline. Volume?*

*Byron: JWT said they did it cause they were motivated by equity investors – also – by need to meet the metrics that management was compensated on.*

*JWT: don't think they cooked the books for bonuses but for equity – much larger share of compensation*

*DHE: accounting mis-statements are much earlier - -right – ok. Wants staff to explain securitization and mortgages – different incentives than other industries? Did this mis-represent their holdings? When did quality of the assets deteriorate?*

*PA: Pinto data analysis forthcoming from WE.*

*BG: the data which is analyzed in this memo and July 7th memo is proprietary data – cannot be used. Preposterous. WE: they did give us cuts – working with GSEs to get data from them – also getting the data from the market too.*

*Heather: to answer doug's question - Workig group does not have an agreement on the quality of the assets – we generally agree on the general trend of deteriorated asset quality but not GSE vs. private label.*

*PA: no question re: substantial contribution of GSEs to housing bubble. Not insignificant market force. Does believe that affordable housing goals had a marginal (not central) role in pushing activities that may not have happened. Interviewed 52 pople from this industry – only 2 people though these goals were prime reason – responses of interviewees very telling – some role but not driving role. Reviewed strategic plan from 2007. And 2009 study of the cost of the affordable housing loans – 2 types – appears that 4% of their book was targeted affordable housing loans – loans they wouldn't have done less goals. Does believe F/F contributed marketedly once jumped into the bubble – Greenspan – 7%-40% of growth in boom years. Participants yes, but not a driving force. Bill requested data/report – Freddie power point – marginally – CRA goals – marginal impact.*

*Any other omissions from areas of agreement. (Keith's addition added to agreement ; relative impact of quality impact of…)*

*BG: securitization can be good thing and can be abused. DHE doesn't know about the other uses of securitization. Byron wants to know comparison of commercial securitization CMBS and housing securitization. Relates to current state of the crisis – are we in the crisis still.*

*Heather: market share/compensation/ areas of continued disagreement – and whether F/F/ led or followed? Also order of magnitude.*

*PW agrees that F/F business model was flawed. Fundamentally flawed. Pout it on the list – private company back by the government and private company told what to do by the government – goals.*

*Do not agree on whether government goals were central. Do not agree on affordable*

*housing goals being causal.*

*BREAK*

*PA: CRA discussion -Federal Reserve. No correlation with top 10 originators and CRA.*

*PW: people were competing for these loans for variety of purposes. . See National Reinvestment Coalition - $4trillion of commitments. Looks like $1.9 trillion mattered. Only one bank published records on performance of these loans (not just commitments).*

*CRA quality or CRA purposes*

*PW: it was the commitments by the large banks that had an impact.*
*Wall Street wanted to buy CRA loans – to say good quality loan for forgeign bank to hold.*

*(25:00) PA: So we agree that the Community Reinvestment Act itself, the law, did not have an impact?*

*PW: I've always believed that - it was the commitments made by the large banks that had the effect…they were directly related to the CRA because they couldn't have gotten approvals from the regulators for the mergers unless they had made loans that qualified for CRA.*

*PA: but that's not what the record shows or what the Fed says.*

*PW: I think that's what the record shows. What the Fed says, I don't pay too much attention to because at this point, no wants to take credit or blame for what happened.*

*Consensus on Point one – CRA lending assessment requirements/areas in geographic areas were too small of scale to have a role in the crisis.*

*PW (later): I've always believed the assessment area loans were too small to have a major affect.*

*PW: non performing CRA loans added substantially to the low quality mortgage group that caused the financial crisis.*

*PW agrees that mergers didn't get turned down.*

*PA and PW differ on correlation of originators and purchasers and CRA.*

*WE: commitments typically made to low and moderate income minority households – just by throwing darts – you would hit these targets.*

*WE: Fico scores.*

*One area we can agree on – assessment numbers too small to have an effect.*

*PW: why did they make the loans in connection with the mergers? PA can't agree to this.*

5. **<u>Break for Lunch</u>**
***Served at the conference room**
***(12:00-12:45pm)***

6. **<u>Session Three:</u> Presentation by the Credit Rating Agencies Working Group/ Discussion of Takeaways**
***(12:45-2:00)***
*ATTACHED Background materials: Credit Rating Agencies Working Group Takeaways*

***(1:54pm)***

*(Byron/Bob-absent/Keith)*

***Byron reviewed all areas of consensus – except strike "may have" caused moral hazard – it did cause it, right?***

***Byron thinks another point of agreement would be "rating agency discipline was undermined by limited liability.***

***Keith – 4th one is true but incomplete – not a standalone takeaway. May not in fact be feasible for rating agency to have liability. PW concurs.***

***PA – what other entities are afforded by free speech protection?***

***PA – number of things the group agreed to except Peter.***

***JWT: why is #7 included – first sentence Ok. But that Moodys did not protect its brand should not be included. BT – compound sentences don't work. All – get this down to the bare essentials.***

***PW: These problems may all be related to rating mortgages.***

***Keith – the business model combined with the growth in that sector. JWT – with the duopoly. PA/BB –***

***Heather – distill this list down to the basic points.***

***BT: heard an awful lot of derogatory statements about rating agencies. Thinks this was all driven by Money. Needs to be on the list.***

***PW: not fair to treat people at rating agencies as a sub-human category who were not paid much. Go a little too – far important, but not most important.***

***PA: we do know a significant amount about what happened at this institutions and what happendED in this arena. Maybe these points do need to be slimmed down and combined. See Graham chart presented at hearing. We did find there were warning signs and when they rated employees, their system was not soley based on ratings quality – more on market share, promotion. This is an area we should be able to come to a broad agreement – we need to try harder to get there.***

***PW – doesn't think we have enough to draw conclusions- need more info on their models.***

***BB: all knowledgeable people knew that the rating agencies screwed up majorly – we have done an indepth investigation and learned a lot of the underpinning reasons for why Moody's screwed up in such a major ways. Doesn't want to just go with the first three points – would be useful for the American people .***

***JWT: not suggesting we settle on 3, but we should slim it down. Ferret out most relevant portions.***

***BG wants to refine list to facts and find commonality and come back to the group.***

***JWT – try to draw some agreement around #5 as the nucleus.***

***PW: this is incomplete because haven't heard back from other areas – immediately went to item 5 – if what they did in other areas was simliary then this raises questions about failure of asset backed securities.***

***Keith: flawed models or flawed assumptions? Different AAA risk profiles? Some sort of description on who this bad information was used to create problems. and the result of it damage wise. (Staff should focus on this)***

***DHE: came to conclusion that ratings did matter- we need to document the timeline/facts on how these ratings became so important – relied on it too much – didn't do due diligence. (Staff should focus on this) PA: in bullet pt 2 – but needs to be beefed up.***

***PA: Be carful to distinguish to distinguish what we know about standard products.***

***BG: like capital arbitrage 9not regulatory arbitrage)***

***PW: very little testimony from people saying they relied on the ratings. IF they did – they would be stupid.***

***PA – clear and evident.***

**7.** ~~**Session Four: Presentation by the Derivatives Working Group/ Discussion of Takeaways**~~
~~***(2:00-3:15)***~~
~~*FORTHCOMING Background materials: Derivatives Working Group Takeaways*~~
*(The Derivatives Working Group will meet immediately after retreat sessions conclude today, from 3:45-6:00pm)*

**8.** **Break**
***Beverages served at the conference room**
***(2:00-2:15)***

**9.** **Session Five: Discussion of List of Priority Institutions**
***(2:15-3:15pm)***

*Attached Background materials: Draft List of Priority Institutions*

***(Lots of complaints that we need to end by 3:45 and are behind schedule)***

***(3:29pm) Wendy presented the memo. PA: if you look at the context of our statute – this represents that list without limiting scope. Staff also presented additional institutions . countrywide is already being examined. DHE – what si being asked? PA: direction to staff. DHE – hugh liquidity run that killed the institution – focus on the liquidity run rather than a full scrub of the institution. Keith – first list of 3 lists?PA: first list is recommended staff list to meet our statutory requirement. Second list is additional institutions to be added to first list. What is the output/product? WE: for a number of these – it will be an investigative report. Fundamentally, within the report wee discuss the causes of WaMu's failure – they were major investigation by PSI – we won't reinvent the wheel, but will get comfortable or additional info.***

***KH/DHE: IndyMac, Countrywide, GMAC, National City Corp. etc. added list.***

***Byron: treasury support column. Thanks we need to have more. Thinks we need a column on Federal Reserve.***

***WE: GMAC doable.***

***PA likes the primary list – undisputable it was the biggest. Countrywide fits b/c big. If we add PNC and IndyMac – there has to be a reasonable rationale.***

***(Doug departed at 3:46pm; Byron departed at 3:38pm)***

***How do we determine who would have failed?***

***PA: put as part of the report. Not sure we produce a list. Just weave into the narrative of our report. Add the four additional.***

**10. Session Six: Other Items of Business**
*(3:15-3:45pm)*

**Day 2: July 29th**

**Commissioners Present:**
**John W. Thompson, Peter Wallison, Doug Holtz-Eakin, Keith Hennessey, Brooksley Born, Phil Angelides, Heather Murren, Bill Thomas, Byron Georgiou**

**Commissioners Absent:**
**Bob Graham**

**Staff Present: Gary Cohen, Greg Feldberg, Gretchen Newsom, Scott Ganz, Courtney Mayo, Rob Bachmann, Shaista Ahmed, Ron Borzekowski**

**1.** <u>Session One:</u> **Draft Section 4 of the Report**
***(9:00-10:30am)***
*FORTHCOMING Background materials: Draft Section 4 with Commissioners' comments compiled*

<u>**PA: revised schedule for production of the report will be sent forth on Monday.**</u>
<u>**PA: will try to adjourn by 3:00pm today.**</u>
<u>**First handle the general comments and then the text.**</u>
<u>**BT: this may not be a productive process. Staff has got to suck it up – produce better quality. Finger and toes – finger nails and toe nails. Reach level of "acceptable". Staff needs to produce actual material and be sensitive to member nuances.**</u>

<u>**JWT: timeline, concerns about structure. Struggling with how story will be told.**</u>
<u>**Byron: agrees with Bill – focus on key points. Need to refocus on the structure of the report. Decide what areas we are going to do and not do. Stick to the new schedule – structure busy lives.**</u>

<u>**Keith: PA needs to identify biggest questions and work toward resolutions. Such as we need to resolve how important regulation was on shadow banking. Keith has a chapter structure.**</u>

<u>**PA: we should evaluate the major thoughts of the Commissioners, and**</u>

<u>**Heather: 9/11. Need general themes and timeline.**</u>

<u>**PW: what happened and why it happened. First deal with what happened and then why it happened.**</u>

<u>**PA: staff needs to be hard at work at the "what happened" – Commissioners need to come to closure on why it happened.**</u>

<u>**JWT: general agreement that cornerstone of crisis was housing. Let's start with housing. Simplify a complex topic to a few things people can get arms around.**</u>

<u>**BB: global and domestic.**</u>

<u>**Switching to other DOC – Section IV.**</u>

<u>**Break –**</u>

<u>**PA/BT - Staff will take a hard long look at both outlines and report back to the Commission. Can they be combined? What are differences?**</u>

<u>**PA: process for putting things on the agenda.**</u>

<u>**JWT: thought that business meetings were used for new issues/points of contention.**</u>

<u>**PA: more emphasis on how we order and how tell the story.**</u>

**We need to figure out how to have those discussions**

**Comments on mega structure of current structure to staff ASAP for analysis by Commission. Members to submit by Monday! By Wednesday of next week, staff to produce When we meet next – talk about critical issues of substance.**

**PA – would like to get the significant comments.**

**2. Break**
***Beverages served at the conference room**
***(10:30-10:45am)***

**3. Session One Continued: Draft Section 4 of the Report**
***(10:45-12:15pm)***

**4. Break for Lunch**
***Served at the conference room**
***(12:15-1:00pm)***

**5. Session One Continued: Draft Section 4 of the Report**
***(1:00-2:00)***

**6. Session Two: Discussions of forthcoming sections of the report**
***(2:00-3:00)***

***Commissioners to provide comments on outline to Wendy by Monday COB***
***New production schedule to Commissioners on Monday***

***JWT – process – too much email. Keith – Wendy should do weekly emails. PA: no preliminary drafts.***

***Top Issues/General Issues we have Disagreement on that are important – Due Next Friday. (9ish?) Simple.***

***"You and he have been the Chair and Vice Chair up until now". ~Byron***

**7. Wrap Up and Adjournment**
***(3:00-3:15pm)***

**A. Specific Takeaways with which the whole Working Group agreed**

- The definition of shadow banking should focus on activities and institutions. There is significant overlap between the traditional and shadow banking sectors.
- Shadow banking markets were very fragile due to the combination of high leverage, short-term funding, risky assets, a lack of a formal backstop via deposit insurance or the Discount Window, and light and ineffective regulation. Liquidity problems first appeared in the shadow banking system. Funds borrowed short-term were essentially unstable. Many lenders focused on counterparty risk rather than the quality of collateral. When signs of credit trouble emerged, lenders such as mutual funds and hedge funds as well as money lent in the interbank lending markets quickly withdrew, causing liquidity pressures, asset sales, and diminished capital.
- The mortgage market was a trigger that set off the crisis. The unexpected fall in housing prices created losses for levered households and for levered investors who had bought mortgage-backed instruments. However, there were asset bubbles and/or deterioration in underwriting standards in other markets. For example, bubbles occurred and underwriting standards declined in the commercial real estate sector. It is feasible that a crisis in a different sector could have had similar repercussions due to the fragility of the financial system.
- Certain products were particularly important in spreading and in some cases increasing risk. These include, among others, subprime CDOs, CDO-squareds, synthetic CDOs, and asset-backed commercial paper programs that invested in MBS and CDOs.
- Risk management failures were a cause of the crisis. Corporate leadership and risk management failed on a grand scale at many institutions, such as Fannie Mae and Freddie Mac among the GSEs, Bear, Lehman, and Merrill Lynch among investment banks and Citigroup and Wachovia among commercial banks.
- Lack of transparency made the crisis worse. There are several components of this argument, including, but not limited to: (1) it was difficult for investors to understand their exposures to subprime mortgages embedded in shadow banking instruments such as CDOs and ABCP; (2) it was difficult to measure counterparty risk because counterparties' relative exposures were unknown; (3) mark-to-market was difficult when trading dried up.
- The shadow banking system grew to great scale without proper evaluation of risks and regulation: by the time of the crisis, the shadow banking system rivaled the traditional banking system in scale and impact. It grew partly in response to evolving market conditions and partly as a matter of regulatory arbitrage. Policy makers consciously did not reign in the growth of the shadow banking system,
- Many warning signs were ignored both in the public and private sector: there were many warnings signs that were ignored (e.g. as evidenced in monthly SEC reports, internal concerns at Bear re their mortgage book and ability to weather a storm), but also significant knowledge re the risks of the shadow banking system (e.g. as evidenced by speeches given by Geithner re shadow banking risks, etc; known levels of leverage, illiquidity, and short term borrowing) that similarly were not acted upon. These warning signs, combined with all of the red and yellow lights re the housing bubble and potential bust, should have signaled a system at risk of unraveling.

**B. Specific Takeaways on which Commissioner Born and Commissioner Holtz-Eakin have not reached consensus**

- The Working Group discussed two ideas of a "common shock": a liquidity shock (hoarding by liquidity providers, redemption requests, etc.) and a mortgage shock (exposure to mortgages was the common thread for institutions that suffered runs or actual losses). The group agreed to explore these themes and that more research was needed to weight them properly.
- Was poor supervision, deregulation, and/or inattention to the shadow banking sector a cause of the crisis? The hearing focused on the failures of the SEC's investment bank supervision program, both in its capital framework and in the way that it was implemented. Commercial bank supervisors also did not fully understand the exposures some banks and their affiliates had to the shadow banking sector. Some key parts of the shadow banking system were largely unregulated, such as the commercial paper market and the repo market or poorly supervised. Some regulation, notably the SEC's CSE program failed. The Working Group agreed with these observations but did not reach consensus that poor supervision or a deregulatory trend were causal. In addition, the Working Group did not agree that a lack of regulations was a cause of the crisis.
- The role of the relationship between the shadow banking system and the traditional banking system still needs to be addressed. The Working Group did not come to agreement on how the interplay may have played a role in the causes of the crisis.
- Interconnectedness vs. common shock. A common theme is that interconnectedness among large financial firms created systemic risk. We do not have a consensus as to what we mean by interconnectedness.
- Role of compensation. The Working Group agreed that risk management failures generally were a cause of the crisis. However, the group did not agree whether compensation amounts and asymmetric compensation incentives should be considered an important aspect of risk management failures or a significant contributor to the crisis.

**Takeaways from R and I plan/hearing on Suprime Lending, Securitization, and the GSEs**

**As of 7/22/2010**

**Materials for Session 2 of July 28th FCIC Meeting**

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**A. Specific Takeaways with which the whole Working Group agreed**

- **Subprime lending and securitization led to significant losses at case study institutions:** Both Fannie Mae and Citi experienced significant losses/write-downs due to subprime lending related activities, requiring substantial taxpayer assistance.
- **There was untrammeled growth in subprime/alt A/risky mortgages:** unsustainable, toxic loans polluted the financial system and fueled the housing bubble and bust; there was an explosion of mortgage debt (mortgage debt in country double from 2000-2006)
- **Lending standards collapsed:** there was a dramatic deterioration of lending standards. creation and marketing of new mortgage products destined to fail – dependent on ever rising prices, unrelated to ability to pay, etc ( delinquencies on subprime ARM that reach 40% plus!). An open factual item: how much of the market was fraudulent or a result of predatory lending (see section below re more information needed).
- **There was a complete failure of accountability and responsibility throughout the lending system:** a failure at all levels – from loan brokers to originators to securitizers to corporate board rooms – to do due diligence, to detect deficiencies and fraud, to act responsibly, to heed warning signs, to perform reasonable stress tests, to use basic guideposts such as ability to pay, etc.
- **Regulators, principally the Fed, failed to rein in risky home lending:** the Fed could have, but didn't constrain dangerous subprime lending, despite warnings, evidence of the housing bubble, information regarding unfair and deceptive lending, and warnings re fraud. No effective regulations, no enforcement re: unfair and deceptive lending, no oversight of non-bank subsidiaries. Deregulatory ideology was crippling. Pre – GLB roll backs to Glass Steagall facilitated the securitization market by regulated institutions. OCC's preemption efforts curtailed state efforts to curtail unfair and deceptive lending.
- **There were significant regulatory gaps and failures in financial institution oversight:** beyond the failure to rein in subprime lending, the regulators of Citi and Fannie failed to stop practices that led to enormous losses. Despite spotting some of the problems (e.g. Fed halt on Citi acquisitions, OCC concerns in 2005, OFHEO concerns), there were significant regulatory weaknesses and gaps. In the case of OFHEO, regulators were further hamstrung by lack of clout and authority.
- **Corporate leadership/ risk management failed on a grand scale:** both at Fannie and at Citi, there was a dramatic failure of risk management and corporate management. At Citi, there was a striking lack of knowledge by corporate heads re exposure and risks (e.g. $13 billion exposure that becomes $55 billion, liquidity puts, RMBS unit slowing up/ CDO unit accelerating, Bowen warnings re quality of mortgages). At Fannie, extraordinary risk with high leverage, acceleration of purchase/guaranteeing of high risk loans. No real internal restraints at either organization.
- **Excessive leverage put institutions, and ultimately the taxpayers, at risk:** leverage was outsized at both Citi and Fannie. Even more so with off-balance sheet at Citi and portfolio/guarantee book at Fannie. So little capital, so much risk.

**B. Specific Takeaways with which Commissioner Wallison does not concur**

- **There is no evidence, at least to date, that would suggest that the CRA was a driver of subprime lending and securitization:** among other things, there does not appear to be a correlation between the level of subprime activities/losses between institutions subject to the CRA and those not subject to it. Studies presented to the commission do not support the view that the CRA was a factor.
- **The single most important cause of the financial crisis is abdication of personal responsibility, abandonment of a sense of basic fair play and the glorification of self- interest** that has poisoned our culture from the individual to corporations and regulators. Very few people seem to be willing to sacrifice money or time to ensure the health of their customers, fellow citizens or the legacy that they leave personally and professionally.
- **Outsized compensation and tilted incentives shaped decisions:** at both Fannie and Citi, outsized compensation and asymmetric compensation incentives encouraged big bets. Enormous upside for short term performance, no real economic downside equivalent to that in real economy. No clawbacks. Compensation system for all along the way – from brokers to originators to securitizers to corporate management – was tilted towards origination and securitization of risky mortgage loans. Comp clearly did not reflect real results/value creation at Citi/Fannie.
- **Subprime lending was supported in significant ways by major financial institutions and financial markets:** while a significant amount of subprime lending was done by mortgage lending companies, they could not have done so without the support of warehouse lines provided by institutions like Citi, securitization markets, creation of exotic products such as mezzanine CDOs, CDO2, and CDS and purchase/guarantees by the GSEs.
- **Fannie Mae's flawed business model and risky practices led to its fall:** Fannie Mae's flawed business model – a private corporation with shareholder/profit/compensation incentives coupled with an implicit/explicit government guarantee - ultimately proved fatal. Faced with loss of market share to the Wall Street/PLS (GSE origination share dropped by 57% on 2003 to 37% in 2005), Fannie increased its risky loan activities to regain market share and to drive future earnings, while secondarily meeting affordable housing goals. Based on the data reviewed to date, it appears that Fannie followed Wall Street/PLS – rather than led – in driving the subprime lending market. Additionally, it appears that default rates for GSE loans have been lower than Wall Street/PLS mortgages with similar risk characteristics. Nonetheless, Fannie (and Freddie) was a disaster.

**C. Big Thoughts/Reactions to Testimony with which Commissioner Wallison does not concur**

- **Human actions vs. the perfect storm:** there seems to be little recognition by the financial sector of the link between the activities/practices in which they engaged and the crisis which those activities/practices precipitated. It is striking the extent to which all fingers point away.
- **The absence of any real consequences:** the lack of repercussions for both public and financial leaders contributed to a lack of self examination and critical analysis –they very qualities required to constrain risk in the bubble and needed to change behavior and avoid future risks and disaster.
- **No recognition of collective responsibility:** there is/was very little recognition of collective responsibility or the need to balance private actions with the sustainability of the overall system.

- **“No one saw it coming”:** the financial sector and responsible public officials ignored many warning signs in data and at the ground level. This was in no small part due to the separation of the financial sector and regulators from the real economy and communities across the nation.
- **Casino:** struck by the extent to which financial sector became a casino with enormous capital/resources/talent were devoted to financial engineering/betting of no real value to the real economy or the mortgage markets –e.g. CDOs/CDO2/synthetic CDOs, etc.
- **Cause and effect:** the effect of the crisis was to leave the financial system and its participants protected and supported while tens of millions of Americans lost their jobs, their homes, and their life savings.

**Takeaways from Research and Investigation Plan on Credit Rating Agencies**

**As of 7/26/2010**

**Materials for Session 3 of July 28th FCIC Meeting**

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**Takeaways with which the whole Working Group agreed**

1. The ratings agencies (RAs) were major enablers of the issuance and purchase of toxic mortgage related securities, the failure of which contributed significantly to the financial crisis. Their ratings helped fuel the proliferation of mortgage related securities and their massive downgrades helped accelerate the downward spiral of those securities. They bear major responsibility for the crisis.
2. Ratings were vital and central to the operation of the mortgage related securities business – e.g. they were needed by issuers; they were utilized and, in some cases needed, by investors; they were used in determining regulatory capital, etc. The RAs failed in their responsibility to deliver credible ratings to the marketplace. There was a huge gap between the reliance on and competence of the ratings.
3. The status of the RAs as NRSROs, and the limitations and beneficial treatment in regulations, federal, and state laws surrounding NRSRO highly-rated securities and NRSRO rated securities more broadly, may have created moral hazard because financial institutions and other investors took the SEC designation as NRSRO as a government certification of agencies' legitimacy and the ratings' accuracy. In fact, the SEC did not do follow up examinations of the NRSROs to ensure that ratings were being accurately or appropriately assessed.

**Takeaways with which Commissioner Wallison did not concur with all or some portions of the following:**

1. The RAs relied on flawed models to issue deeply flawed ratings on mortgage related securities, failing to undertake any real due diligence on the assets underlying the securities and continuing to rely on those models even after it became obvious that the models were wrong. The models failed, among other things, to take into account reasonable stress scenarios as evidenced by the fact that significant downgrades begin in 3Q 2007 when national housing prices had dropped only about 4% from the peak.
2. The RAs failed to heed many red and yellow flashing lights indicating significant problems in the housing/mortgage sector. As an example, Moody's failed to heed the October 2006 analysis by Mark Zandi predicting a "crash" in the housing market in 20 major metropolitan areas. Indeed, the evidence indicates that, upon the receipt of warnings and negative information, Moody's continued accelerating its issuance of ratings on mortgage-related securities, rather than make necessary adjustments.
3. The RAs abysmally failed in their central mission – to provide quality ratings on securities for the benefit of investors. As an example, Moody's failed to provide the resources necessary to issue

quality ratings, despite record earnings and profits. It pushed ratings out the door – issuing more than 30 AAA ratings each and every working day in 2007- without adequate review and analysis. The rating agencies were not an independent party in the process.

4. The RAs placed business/profit considerations above the quality and integrity of their ratings. For example, Moody's did not provide adequate personnel or resources to do the job right, despite record profits and revenues and dramatic growth in the structured products business. They failed to say "no" to rating securities of dubious quality. They based compensation on five factors – three of which were related to market share, revenues, and marketing and admitted that the factor relating to ratings quality was not immediately measurable in a compensation system geared to annual performance. Management made it abundantly clear, in many respects, that market share was a driving goal.
5. The RAs business model was fundamentally flawed in many respects:

   1) an effective duopoly that assured a flow of business notwithstanding quality, pricing, etc;

   2) an issuer pays model that allowed issuers to place pressure on the RAs under the threat of removing business which would, in turn, marginally reduce revenues and market share;

   3) an inherent conflict between profit goals and the role of a gatekeeper. Ratings ended up being "AAA" to satisfy the issuer/customer.

   4) a set of legal protections which shielded the RAs from the consequences of their mistakes and

   5) the outsourcing of critical gatekeeper(and sometimes statutory) duties to a for profit entity.

   6) the credit rating agencies got paid when the issuance was sold, not when the issuance was rated, creating an incentive to make sure the issuance was saleable.

6. The structure of the business, largely a duopoly, created a bad environment for encouraging incisive, critical analysis. Instead, as economic theory suggests, this duopoly competed for market share by bending to the needs of issuers, not on price or the quality of the rating.
7. There was a clear failure of corporate governance and management at Moody's. The shareholders, the board, and the management failed to take the steps necessary to ensure the quality of ratings on tens of thousands of mortgage related securities – a key service/product of the company – and failed to take the management actions needed to ensure the sustainability of the company and its value. The damage to the company and its shareholders was enormous (Moody's did not protect its brand) as was the damage to the overall financial system and economy.
8. The structured finance rating committees lacked specific expertise in the housing business, the area in which they were required to be experts. There were no "boots on the ground" in housing markets. The ratings committees use theoretical analysis that did not have any connection to the market. There was not an effective iterative process whereby new information was used to enhance the models and ratings.
9. There were no clawbacks of salaries, bonuses, or fees if the ratings were wrong, which led to insufficient accountability.
10. The issuers themselves bear responsibility for the faulty ratings, given their intimate involvement in manipulating the models and intimidating the rating agencies.

11. Moody's acted to increase short-term profits by gaining market share to the detriment of its long-term viability; the marketplace eventually lost faith in their ratings.
12. Because there was more money to be made in banking, employees repeatedly left rating agencies to join investment banks. This one-way street led employees at rating agencies to be uncritical of deals issued by potential future employers.

**Material for Session 5 of July 28th FCIC Meeting –**

**Discussion of List of Priority Institutions**

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## M E M O R A N D U M
## Financial Crisis Inquiry Commission

To: Commissioners

From: Wendy Edelberg and Ron Borzekowski

Date: July 22, 2010

Re: Institutions for Investigation by virtue of Meeting Guidelines in FCIC Statute

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According to the FCIC statute, we are "to examine 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 during the period beginning in August 2007 through April 2009."

The following chart contains our recommended list of institutions to be studied pursuant to this part of the statute. This list does not predetermine whether institutions would have failed if not for the receipt of exceptional assistance per the above. The following page includes additional firms that could be considered to qualify under these criteria. Shaded firms have been studied or are in the process of being studied through case study investigations.

**Summary Indicators of Selected Financial Institutions**

| | Assets ($ Bil) [1] | Rank[1] | Status | Treasury Support [2] ($ Bil) |
|---|---|---|---|---|
| **Commercial Banks** | | | | |
| Citigroup | 1,884 | 1 | | 45 |
| Bank of America | 1,464 | 2 | | 45 |
| JP Morgan Chase | 1,351 | 3 | | 25 |
| Wachovia | 707 | 4 | Acquired | - |
| Wells Fargo | 482 | 5 | | 25 |
| **Investment Banks** | | | | |
| Morgan Stanley | 1,121 | 1 | Converted to BHC | 10 |
| Merrill Lynch | 841 | 2 | Acquired | - |
| Goldman Sachs | 838 | 3 | Converted to BHC | 10 |
| Lehman Brothers | 503 | 4 | Bankruptcy | - |
| Bear Stearns | 350 | 5 | Acquired | - |
| **Thrifts** | | | | |
| Washington Mutual | 345 | 1 | Failed/Acquired | - |
| **GSEs** | | | | |

| Fannie Mae | 844 | 1 | Conservatorship | 83.6 |
|---|---|---|---|---|
| Freddie Mac | 813 | 2 | Conservatorship | 61.3 |
| **Insurers** | | | | |
| AIG | 979 | - | | 69.8 |

1 Date of assets is as of 12/31/2006. Assets shown are for holding company. Rank is based upon the size of the firm within its industry sector. 2. Treasury support includes funds provided by TARP under the Capital Purchase Program, Automotive Industry Financing Program, Targeted Investment Program, and the AIG Investment Program or for the GSEs, using Senior Preferred Stock Purchase Agreements. Note that there were significant government assistance programs from entities other than the Treasury (for example FDIC's TLGP and various Federal Reserve programs).

**Other institutions that failed or received assistance from the Treasury**

The following institutions may meet the criteria in the statute either by virtue of their size, role in the financial system or their receipt of government assistance.

**Commercial Banks / Thrifts**

State Street
- No retail banking, but critical player in institutional markets
- $96 billion in assets[1] ; 13th largest domestic bank holding company[2]
- One of two tri-party repo banks; major securities custodian; large fund operation
- Received $2 billion in TARP funds

Bank of New York
- No retail banking, but critical player in institutional markets
- $88 billion in assets; 14th largest domestic bank holding company
- Major securities custodian; large fund operation; large trustee operations
- Received $3 billion in TARP funds
- Acquired Mellon Bank ($43 b), 7/1/2007; currently over $220 billion in assets

PNC Bank / National City Corp
- $102 billion in assets; 15th largest domestic bank holding company
- Received $7.6 billion from TARP; money used in acquisition of National City
- Acquired National City Corp ($140 b), 12/31/2008;

U.S. Bancorp
- $219 billion in assets; 6th largest domestic bank holding company
- Received $6.6 billion from TARP

Countrywide
- Approximately $95 billion in total thrift assets as of 3/31/2007 (after institution converted to thrift charter);
- Holding company assets of roughly $200 billion; 2nd largest thrift after Washington Mutual
- Largest mortgage originator in the US in 2007
- Acquired by Bank of America

Indy Mac
- Government assistance: placed into conservatorship
- $30 billion in assets; 8th ranked thrift
- Failed, July 2008

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[1] Date of assets is as of 12/31/2006.
[2] Does not include US holding companies owned by foreign banks.

- Largest FDIC resolution as of that date.

**Finance Companies / Credit Card Banks**

GMAC
- Very large source of funding for auto purchases; mortgages as well
- Assets of $287 billion as of 12/31/2006
- Received $16.3 billion in TARP funds

CIT Group
- Specialize in financing to small, mid size and large companies including 80% of fortune 500
- Assets of $77.5 billion at 12/31/2006
- Requested conversion to bank holding company on grounds of systemic importance
- Received $2.3b in TARP funds
- Declared bankruptcy; first major loss of TARP funds.