

REMARKS BY WILLIAM E. MARTIN
FINANCIAL CRISIS INQUIRY COMMISSION HEARING ON SEPTEMBER 8, 2010
LAS VEGAS, NEVADA
DRAFT

Mr. Chairman, Commissioners, Guests and other attendees,

Thank you for the opportunity to appear before your hearing today to provide my personal perspective on the causes and effects of the financial crisis on the State of Nevada.

There is very little prospect that I could possibly bring any new light to the already well discussed and argued causes of the national financial and economic crisis. Some blame is accurate, some is politically motivated and some helps carry out other agendas. While there has been great blame placed upon Wall Street, government officials and their lack of regulatory oversight, elected officials pushing aggressively for liberal lending to promote home ownership and a host of other targets, certainly there's an awful lot of causes and an awful lot of blame to be shared by all the above, and more. At the risk of over simplification, it is my view that it was all fundamentally fostered by too much liquidity in the system. Banks had deposits flowing in the doors and investors were flush, and all that liquidity needed to be profitably employed, by banks, by individuals and by investment firms. Too much money chasing too few opportunities historically leads to heightened risk taking through lessening of lending and investment standards.

In the case of Nevada, this excess liquidity seeking high returns poured into the State allowing for extremely high levels of speculative investment and tricked us into believing that almost twenty years of spectacular growth was only a predictor of even greater things, and profits, to come. I've heard as much as 26% of our housing sales in the later years of the boom were to investors, thus created artificial demand, far beyond the needs of the "end user." High levels of disregard for normal lending practices led to Freddie and Fannie issuing triple "A" rated securities, as well as private issuers also issuing very high yield securities, helped pump the fuel - - cash - - into the system and send values higher and higher. Trees really do grow to the sky it seemed. Like an egg moving through a snake, housing sales to the unqualified buyer, to the speculator and even the buyers of multiple new houses, most all hoping to "flip" the property or properties in months at great profit. Homeowners took advantage of their rapidly inflated homes to re-finance and use the proceeds for purchase of automobiles, recreational vehicles and even other homes for speculation. All the way from the mortgage loan officers, the mortgage companies, the GSE's, investment bankers and to the buyer of the mortgage backed securities, everyone was making so darn much money that some efforts to bring order to this situation in 2—1 (*?? I need to check this date*) failed because, as a Comptroller of the Currency once testified about forty years ago, "no one wanted to be the skunk at the garden party," it was just all too good, and our economy became funded by an ill-conceived housing sales scheme and inflating real estate.

It's hardly news that Nevada in general and Southern Nevada in particular, has become the epicenter for the economic disaster. Service1st Bank hardly can find credit-worthy business borrowers and lending on real estate is out of the question, undoubtedly representing one of those "fool me once" things. We have actually gone several months in a row without booking a single loan.

Our contingency line of credit with a large national bank in the amount of \$10 million was cancelled months ago. While we had and have no need for this line, unlike the State Farm Insurance motto, they certainly weren't there had we needed them.