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Gretchen Morgenson, New York Times business reporter and author

By Jane Schneider

For its November 21st meeting, the Economics Club of Memphis welcomed New York Times reporter Gretchen Morgenson, who spoke to an enthusiastic audience at the Tower Room about her current bestseller, *Reckless Endangerment – How Outsized Ambition, Greed, and Corruption Led to Economic Armageddon*.

Morgenson, a Pulitzer Prize-winning business reporter and columnist at the New York Times, teamed up with researcher Joshua Rosner, an expert on housing finance, to follow the trail of the nation's financial meltdown. The authors were interested in tracing the roots of the home mortgage crisis back to the mid-1990s, when mortgage-finance giant Fannie Mae began to gain its power. But they also wanted to connect the dots to determine who exactly the players were behind the debacle — both in Washington and on Wall Street — many of whom pocketed millions of dollars at taxpayer expense as the housing bubble grew and eventually burst.

“Other books had taken the position that since it was everybody's fault, it was nobody's fault, which we found unsatisfying, given the significance of this crisis,” said Morgenson. “This wasn't an act of God or a tsunami. This was an act of human beings, some of them with good intentions, but some of them with agendas that were decidedly personal and finance driven.”

In late 2008, with the economy still reeling, the two began shopping their book idea to publishers, and though they received a warm welcome, they were met with skepticism. Their approach had merit, agreed publishers, but the general consensus was that an analysis of the housing market's financial meltdown would be yesterday's news by the time it hit booksellers in 2011. By then, “the economy would be roaring, and no one would care what the origins of the financial crisis were,” said Morgenson. No one anticipated the lingering recession and thus, their book found an eager audience.

Reckless Endangerment zipped up the New York Times bestseller list where it peaked at Number 11 and stayed for more than three months, much to the amazement of even Morgenson, who acknowledged that reading their book was “much more like eating broccoli than ice cream.”

Their goals, she said, were two-fold: to describe the credit crisis in detail, and to start a dialogue about the nation's housing finance policy and how it should proceed. “I think we achieved one of those goals. But given Washington's inability to face a crisis head-on and confront problems, I think our expectations might be a little bit too high.”

Those most crippled by the mortgage crisis wound up being the very people President Bill Clinton had originally sought to lift up through home ownership: first-time home

buyers, minorities, and immigrants, many of whom were left in foreclosure or bankruptcy due to unscrupulous lending practices. “The loans made money for lenders but put borrowers onto the road to financial ruin,” said Morgenson.

And the laws that were supposed to protect taxpayers actually had the opposite effect. Changes following a Congressional act in the mid-1900s assured that Fannie Mae's new regulator would be weak and its capital requirements would be accommodating rather than restrictive. This enabled the lender to become a hugely profitable corporation and a major opponent of government oversight. While protecting their public subsidies, Fannie Mae executives continued to write loans and claim to be doing “good housing deeds” across the country while greatly enriching themselves and their enablers from Wall Street: Countrywide Financial, Goldman Sachs, and others.

“It became a political machine that was determined, at all costs, that their government subsidy was never touched,” said Morgenson. “It morphed into this political machine that took no prisoners.”

How was Fannie Mae able to so aggressively grow its profits? By reducing mortgage underwriting standards, by automating the loan process, and by eliminating down payment requirements, said Morgenson. Freddie Mac and Fannie Mae led the way and others quickly followed suit.

As the picture of the home mortgage crisis slowly came into focus, Morgenson said three paradoxes soon became apparent.

Paradox #1: The law that Congress came up with to protect tax payers ultimately failed. The thinking was that these changes in home finance would “never cost the taxpayer a dime.” Instead, it was the taxpayer that was left holding the bag.

Paradox #2: That President Bill Clinton's aggressive push to increase homeownership from 64 percent to 70 percent wound up opening the door to predatory lending practices. It was Clinton, with Fannie Mae by his side, who launched the National Partners in Home Ownership, a public/private partnership designed to prod the housing industry to do what they could to gin up home ownership. In order to reach such a lofty goal, Clinton encouraged lenders to help the many Americans left out of home ownership in the past, which “opened the doors to toxic loans and put homeowners into homes they couldn't afford,” noted Morgenson.

Paradox #3: The very people government set out to help were hurt most in the foreclosure crisis. Washington believed expanding home ownership would help to stabilize neighborhoods but in fact, it left many in financial ruin. Furthermore, the federal government looked the other way as the homeownership push “wreaked havoc on our economy and our society.”

Morgenson considers this to be the most concerning of the three paradoxes. In fact, none of the economic crises she has covered in her lengthy reporting career, “felt as momentous and mystifying as the years leading up to this crisis ... nothing really came close to the huge impact of this economic storm that we're really still enduring ... More disturbing was that it was actions taken by those at the height of power in both the public and the private sector, people who continue, even now, to hold sway in the corridors of Washington and Wall Street.” Under the guise of home ownership, Fannie Mae generated enormous personal wealth for its executives while funneling huge campaign contributions to its supporters. Very few investigations have resulted and those involved still continue to hold positions of power.