Testimony before the
Senate Committee on Banking, Housing, and Urban Affairs
by
Chairman Phil Angelides,
Financial Crisis Inquiry Commission
May 10, 2011

Chairman Johnson, Ranking Member Shelby, and members of the Committee, thank you for the invitation to discuss the report of the Financial Crisis Inquiry Commission. It was my honor to chair the panel, which officially disbanded on February 13 of this year. I want to thank my fellow Commissioners and our staff for their service to our country.

Let me begin by noting that the financial crisis has been of no small consequence to our nation. There are more than 24 million Americans who are out of work, cannot find full time work, or have given up looking for work. About four million families have lost their homes to foreclosure and millions more have slipped into the foreclosure process or are seriously behind on their mortgage payments. Nearly $9 trillion in household wealth has vanished. The budgets of the federal government and of state and local governments across the country have been battered by the economic tailspin precipitated by the financial meltdown. And, the impacts of the crisis are likely to be felt for a generation, with our nation facing no easy path to renewed economic strength.

In 2009, Congress tasked the Commission to examine "the causes of the current financial and economic crisis in the United States," and to probe the collapse of major financial institutions that failed or would have failed if not for exceptional assistance from the government. We were true to our charge and we fulfilled our mandates.

Our task was to determine what happened and how it happened so we could understand why it happened. In doing so, we sought to answer this central question: How did it come to pass that in 2008 our nation was forced to choose between two stark and painful alternatives – either risk the total collapse of our financial system and economy -- or inject trillions of taxpayer dollars into the system and into private companies -- even as millions of Americans still lost their jobs, their savings, and their homes?

In the course of the Commission's exhaustive investigation, we reviewed millions of pages of documents, interviewed more than 700 witnesses, and held 19 days of public hearings in New York, Washington, D.C., and in communities across the country. The Commission also drew from a large body of existing work developed by congressional committees, government agencies, academics and others.

The Commission's report contains six major conclusions:

First and foremost, we concluded that this financial crisis was avoidable. The crisis was the result of human action, inaction and misjudgment, not Mother Nature. Financial executives and the public stewards of our financial system ignored warnings and failed to question, understand, and manage evolving risks within a system so essential to the well-being of the American public.

Second, we found widespread failures in financial regulation that proved devastating to the stability of the nation's financial markets. Third, our report describes dramatic breakdowns in corporate governance and risk management at many systemically important financial institutions. Fourth, we detail the excessive borrowing, risky investments, and lack of transparency that combined to put our financial system on a collision course with catastrophe. Fifth, we concluded that key policy makers were ill prepared for the crisis, and that their inconsistent responses added to uncertainty and panic. And finally, we documented how breaches in accountability and ethics became widespread at all levels during the run-up to the crisis.

Our report, as well as the two dissents, can be found at our website, *www.FCIC.gov*. That website also contains approximately 2,000 documents; public testimony at our hearings; audio, transcripts and summaries of more than 300 witness interviews; and additional information to create an enduring historical record of the crisis.

In addition to the major causes we identified, the Commission determined that collapsing mortgage-lending standards, the flawed mortgage securitization pipeline, over-the-counter derivatives, and the actions of the credit rating agencies contributed significantly to the financial meltdown.

The Commission also investigated, among other things, whether the crisis was caused by excess capital availability and liquidity; the activities of Fannie Mae and Freddie Mac; and government housing policies. We concluded that excess liquidity, by itself, did not need to cause a crisis, and that Fannie Mae and Freddie Mac contributed to the crisis but were not a primary cause. We determined that government housing policies were not a significant factor in the crisis.

Conclusions aside, our report contains a valuable and accurate historical account of the events leading up to the crisis and the crisis itself. While commissioners were not unanimous on all issues or on the emphasis placed on causes of the crisis, there was notable common ground among nine of ten commissioners on a number of matters such as flaws in the mortgage securitization process, the presence of serious mortgage fraud, appallingly poor risk management at some large financial institutions, and failures of the credit rating agencies. Indeed, Mr.

Thomas, Mr. Holtz-Eakin, and Mr. Hennessey stated in their dissent that they found areas of agreement with our conclusions. As just one example, nine of ten commissioners determined that the Community Reinvestment Act was not a significant factor in the crisis.

Finally, you have asked me to comment on the Dodd-Frank financial reform law. With our inquiry and report completed and the facts in evidence, I believe that it is important speak to this matter. I believe that the law's financial reforms are strong and needed, and that the law directly and forcefully addresses issues and conclusions identified in our report.

In the wake of this crisis, it is critical that the Dodd-Frank law be fully implemented, with sufficient resources for proper oversight and enforcement, to help prevent a future crisis. It is important for regulators and prosecutors to vigorously investigate and pursue any violations of law that have occurred to ensure that justice is served and to deter future wrongdoing. And, it is essential that we focus our efforts anew on rebuilding an economy that provides good jobs for Americans and sustained value for our society – in place of an economy that in the years before the crisis was inordinately driven by financial engineering, risk, and speculation.

In conclusion, it is my hope that our report will serve as a guidepost in the years to come as policy makers and regulators endeavor to spare our country from another catastrophe of this magnitude.

Thank you. I look forward to your questions.

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