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YPFS Lessons Learned Oral History Project: An Interview with Phil Angelides

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Lessons Learned Oral History Project Interview

Interviewee Name and Position	Phil Angelides ¹ Chair, Financial Crisis Inquiry Commission
Interviewer Name	Sandra Ward (Contractor) Yale Program on Financial Stability
Date of Interview	February 27, 2019
Lessons Learned No.	2019-02

Introduction:

The Yale Program on Financial Stability (YPFS) reached out to Phil Angelides via email to request an interview regarding Angelides’ role as Chair of the Financial Crisis Inquiry Commission established in the aftermath of the global financial crisis of 2007-09. The 10-member bipartisan commission, commonly known as the “Angelides Commission,” convened in September 2010 to investigate and determine the causes of the crisis². Meeting in a span of 15 months and holding 19 public hearings and interviewing more than 700 people, the commission concluded its work and published its findings in January 2011.

With a career in public service and real estate development and investment, Angelides served as two-term state treasurer for California from 1999 to 2007 and made an unsuccessful gubernatorial bid as the Democratic nominee against Republican incumbent Gov. Arnold Schwarzenegger in 2006. At the time of the interview, Angelides had reentered the private sector and was President and owner of Riverview Capital Investments, a developer of sustainable urban communities and clean energy projects.

(This transcript of a telephone interview has been edited for accuracy and clarity.)

Transcript

YPFS: How does it feel to have a commission named after you?

¹ The opinions expressed during this interview are those of Mr. Angelides, and not those any of the institutions for which the interview subject is affiliated.

² A stylized summary of the key observations and insights gleaned from this interview with Mr. Angelides is available [here](#) in the Yale Program on Financial Stability’s *Journal of Financial Crises*.

Angelides: I was extraordinarily honored to be appointed to the commission by then and now Speaker Nancy Pelosi. Looking back on this experience, it was one of the most interesting and challenging experiences of my life. To have my name attached to the commission's work is a source of pride because I believe we did the nation a great service in detailing what occurred, what happened in the run-up to the financial crisis that led the country over the economic precipice.

YPFS: You were named to the commission by Nancy Pelosi. How did that occur?

Angelides: I've known the Speaker for a number of years. We have had a strong personal friendship but also we worked together in public policy and political endeavors. I had been chairman of the California Democratic Party, a position that Speaker Pelosi had previously held. I was elected to statewide office in California. We developed a very strong relationship, in terms of public policy as well as personal friendship. When the legislation creating the commission was passed by Congress and signed into law by President Obama in May 2009, Speaker Pelosi's staff reached out to me to ask if I would have an interest in serving on the commission.

As a first step, I wanted to take a look at the statute and the mandate of the commission to fully understand what would be involved. After doing that, I told the Speaker I was very interested, and I thought it was an important contribution I could make to our country in the wake of this devastating economic collapse that had affected tens of millions of people in our country. I indicated to the Speaker that if there wasn't another obvious choice to chair the commission, someone to whom I would readily defer like a Paul Volker, I would like to be considered as chair of the commission. Speaker Pelosi and Majority Leader Harry Reid decided to appoint me as chair of the commission and I accepted their very gracious offer to serve.

YPFS: Did you ever have any second thoughts? Was it a bit daunting to think of this?

Angelides: No, in the sense that I really believed this was important work and public service has been a passion throughout my life. In the wake of the enormous devastation that the country had suffered, with many parts of the country today are still struggling in the wake of that crisis, I was honored to be called. At the time that I was asked to serve, millions of people were losing their homes, millions of people were

losing their jobs, and about \$13 trillion in household wealth had been wiped away. I saw it as obviously an important opportunity to serve. In retrospect, it turned out to be, as I said earlier, one of the most fascinating things I've ever done in my life because it was challenging in many respects. It was challenging from a substantive standpoint, to get my arms around what had occurred and what had happened in our country and to understand the full breadth of that and everything not yet understood.

It was a very significant organizational challenge because when these commissions are created, you're at a standing start. The commission has been created, money has been appropriated, but there are no offices, there's no staff, there's nothing. We were appointed in July 2009 with a deadline to produce our report by an original deadline of December 2010, so we had a very short clock. We had to get this commission up and running, and also, given the difficulty of the work, we had to persuade people of real talent to set aside their lives and to come join this commission for a year-and-a-half to do this very intense, important work. Organizationally, it was very challenging to assemble a team to do all this. In any organization like this, it will take you two to three to four months to recruit folks. Then as within any organization, it takes you a few months to find out who can fly, who can walk, and who sinks like a stone.

It's very tough to put together and mobilize a team to undertake this kind of intensive work. It was made even more so by the fact that when the legislation creating the commission left the House of Representatives, the chairman was given the authority to hire the executive director and staff as well as to issue subpoenas. By the time the bill left the Senate and was signed into law, the hiring of the executive director and the staff required concurrence of the vice chair appointed by the Republicans, so not only was I faced with the normal task of assembling a high quality team to undertake this important work in a very short timeframe, but I also had to do it in a political context where I had to find very talented people who could pass muster, not just with me and the majority members of the commission but also specifically the Vice chair.

I did not come to this position as a political naïf. I was not an academic who had lived my life apart from the real life of public policy and politics. But, I was taken aback. I'd never served in an official position in Washington and went there with the assumption that given the

gravity of what happened to our country that partisanship would be unimportant in our investigation and conclusions. I was taken aback at the ferocity of the partisanship, the ferocity of the conflict that exists in Washington. All told, when you look at it substantively, organizationally, and politically, it was an extraordinarily challenging endeavor. Did I have any second thoughts about it? No. But did I fully understand the magnitude of the task in front of me when I accepted the appointment? No.

YPFS: There was early on a setback with an executive director, was there not?

Angelides: Yes. When you form a new team, you don't know how it's all going to work. One of the real challenges of this commission was we had to get our work done, we had to get it done well, and therefore, as in building any effective organization, you need to make the changes that need to be made to undertake and successfully complete the task at hand.

One of the greatest disappointments was that given the magnitude of what had happened to the country and the importance of setting a foundation of making sure this did not happen again, at least in the foreseeable future, I believed that people would come to this commission with the aim of finding the facts and coming to conclusions, without regard to politics. It became obvious to me very early on that the Republican commissioners were not particularly interested in finding common ground with the Democratic commissioners in coming up with a unified report. At one point, I remember the vice chairman (Bill Thomas) telling me that I didn't seem to understand how Washington worked. He told me that some of the Republican members of the commission, particularly the younger ones, didn't want to be in a photograph with the Democratic members of the commission, coming to an agreement on what happened in the crisis because they would want to serve in a future Republican administration and making common cause with Democrats was not the way to get there.

It became clear to me there wasn't an interest in really finding the facts and arriving at facts-based conclusions. Also, it became obvious to me that the financial industry, Wall Street, having been the moving force in this tragedy and this debacle for this country, were not particularly interested in doing the critical self-examination about what had occurred. They made it clear they were about protecting

their position and their power versus doing a full and in-depth internal look at what went wrong and how the financial system came to the verge of total collapse.

Interestingly enough, if you look at the dissenters, not Peter Wallison, but the other three Republican commissioners (Bill Thomas, Keith Hennessey, and Douglas Holtz-Eakin), they, in many respects, came to the same conclusions as we did. They pointed out there were many areas of agreement with the majority. They concurred, for example, that Fannie Mae and Freddie Mac and government housing policies like the Community Reinvestment Act were not the primary causes of the crisis, which agreed with our majority analysis. They agreed there was convincing evidence of mortgage fraud. They agreed the credit rating agencies had been disastrous and a key contributor to the crisis. In many respects, there was substantive agreement, but they made a decision early on that they did not want to appear to be in full agreement.

That was a matter of pure politics and it was also a matter of making sure they did not rattle their political allies in the financial industry.

YPFS: Talk about the role you played on the commission, especially given these dynamics and given some of the frustrations that you must have felt early on with these attitudes.

Angelides: I can tell you point blank that when I took this position, I did not have preconceived notions. I was like any other American. I had read the papers, I had watched what had gone on. The nature of the coverage and the nature of the understanding of the crisis was not such that any of us around the country fully understood everything that had occurred within the financial system and within public policy affecting the financial system.

When it became obvious to me, and to some other commissioners, that the Republicans were not willing to follow the same process of looking at the facts and then coming to conclusions, what we then believed was fundamentally important was to produce a detailed account of what had happened over a period of decades and particularly in the years leading up the crisis. What were the forces? What were the events? What were the activities in the financial industry and the actions or inactions of regulators that led to the crisis so that we could write the definitive unbiased history of the crisis? Much of our effort was focused on, in a sense, doing the investigation,

the inquiry, the assembly of facts that would allow us to write this factual history, because at the end of the day, while people may state different conclusions, what would be irrefutable and immutable is what actually happened. That was vitally important to do because there were so many political forces: Wall Street, for example, and ideologues of different stripes who had views of what happened and wanted to conform the facts to those views. We thought it was fundamentally important to undertake an inquiry that at the end of the day could withstand any attacks on its veracity and that's turned out to be the case.

My role as the chairman was to create - along with my fellow commissioners, executive director and key staff people, such as the chief investigator and the general counsel - a work program that would get us to the final result, which was the factual account of what happened to the country in the lead up to the crisis, the forces and events that precipitated the crisis, as well as our conclusions drawn from that factual history.

We had three very specific mandates: One was to examine the causes of the crisis, the overarching obligation of the commission; second, the statute laid out 22 specific areas of inquiry, which were really a subset of that larger question of the causes - everything from the role of securitization to the role of the credit agencies to the actions or inactions of regulators; and third, we were asked to identify the reasons for the collapse of major financial institutions that failed or would have failed but for the exceptional assistance accorded them by the federal government. We had an obligation to look at what specific forces led to the collapse of individual institutions from Lehman to Bear Stearns to AIG.

While we were not set up to be a prosecutorial body, we were very specifically directed, to the extent in the course of inquiry that we determined there were potential violations of law, to refer those to the U.S. Department of Justice or the appropriate attorneys general so that those entities could do further investigation and prosecution if warranted with respect to any wrongdoing that we identified.

YPFS:

Tell us about how the work program was structured?

Angelides:

Our work program was set up to respond to our mandates. We undertook our work in two tracks because of the limited time and the almost endless scope we were faced with in looking at the crisis. We

had a very capable research team headed by Greg Feldberg. Wendy Edelberg, who was the original research director, had become executive director. The research team looked at the problem in a big picture way, at the larger arc of what had happened within the financial industry and its regulation over time.

At the same time, our investigative team looked at how the crisis developed and played out at specific financial institutions. We decided that because of our limited time we couldn't look at every institution. We couldn't look at every nook and cranny of every institution. We couldn't look at every activity that had occurred on Wall Street at large. Instead, we did a series of case studies. We looked at a set of specific financial institutions, including AIG, Bear Stearns, Citigroup, Countrywide Financial, Fannie Mae, Goldman Sachs, Lehman Brothers, Merrill Lynch, Moody's, and Wachovia. We looked very specifically at those institutions and the specific challenges that arose at those institutions.

Similarly, we looked specifically at a number of regulators, including the Federal Deposit Insurance Corp, the Federal Reserve, the Federal Reserve Bank of New York, the Department of Housing and Urban Development, which oversaw affordable housing goals, and the Office of the Comptroller of the Currency to see what actions they had taken or not taken that might have contributed to the crisis.

YPFS:

How did you make these inquiries manageable to achieve your goals given the time constraints you were under?

Angelides:

It was very challenging. We couldn't look at every part of AIG, so we focused very heavily on the derivatives book that helped bring down AIG; in particular, their counterparty relationship with Goldman Sachs, for instance. To the extent that other entities were investigating specific companies or regulatory bodies and we thought they were credible entities undertaking those examinations, rather than duplicate their work, we would use their work. I'll give you two good examples. The Permanent Subcommittee on Investigations (PSI) chaired by then Senator Levin from Michigan, did an investigation of Standard and Poor's and its practices. Given our high regard for the quality of their investigation, we said it doesn't make sense for us to look at Standard and Poor's. Let us look at the other large credit rating agency, Moody's, and use the work of the PSI with respect to Standard and Poor's.

Another good example is in the case of Lehman Brothers. While we looked at very specific practices of Lehman Brothers that helped lead to its collapse, Anton Valukas, the bankruptcy examiner for Lehman, had done a report for the bankruptcy court with a \$38 million budget, nearly four times our budget. They had done such an exhaustive examination of Lehman Brothers that we thought we would be wise to review that report and ask questions of that investigative team to incorporate into our work.

We made a lot of strategic decisions about how to best accomplish our mandate within the timeframe and resources we had. To put our resources in perspective, our budget initially was about \$8 million and we had it increased to \$9.8 million. By comparison, one lawyer at Wilmer Hale, a person named Reg Brown reportedly bragged that his clients - Merrill Lynch, Bank of America, and Countrywide -were paying his firm \$15 million to deal with our investigation.

There's a practice in the federal government of getting folks detailed from other agencies, and we took advantage of that. Mr. Feldberg from the Federal Reserve was detailed to our commission. Then Chairman Ben Bernanke was very supportive of our work all the way through. He understood the importance of it as a student of economic history, and particularly of financial crises and the Great Depression. Ms. Edelberg, our original research director and then our executive director, was also detailed to us. So, we also drew on the resources of other agencies that were willing to be helpful to us in our inquiry.

YPFS: **Let's discuss some of the infighting and subsequent dissenting opinions among the commission members.**

Angelides: There was a bit of an unvirtuous cycle. There was disruption of our work by people in the banking industry and by certain Republican commissioners. They disrupted the work and then they leaked stories that the work of the commission was chaotic and disrupted, which wasn't the case.

YPFS: **This was ongoing?**

Angelides: This was early on. We had one individual who seemed to be a very competent, talented person but it became very obvious that he didn't understand the timeframe under which we were operating. He said, 'to do this work, we need to have five years.' We said, that may be the case but that's not what the statute provides for. That person left. The

person didn't really understand the rapidity and nimbleness with which we needed to work. However, it then was reported that a very highly qualified investigator has left out of dissatisfaction with the commission. There were a lot of stories leaked that that were leaked.

YPFS: **Was there any way for you to put a stop to the leaks?**

Angelides: Constantly combating it. I spent a lot of my time as chairman of the commission trying to lay out the facts to reporters. There was also something more pernicious going on. For this oral history I want to be as forthcoming as possible. There was a constant feeding of untrue stories about me individually to reporters. I can only surmise that it either came from dissident Republican commissioners or it came from people in the financial industry.

YPFS: **What sorts of stories? This was meant to discredit you?**

Angelides: There were very deliberate efforts to undermine my credibility and my effectiveness. I'll give you two examples. As we prepared for hearings on Citigroup, we had some back and forth with Citigroup about the witnesses and the order in which the witnesses would appear. Citigroup was being difficult. We finally made a decision on the witnesses we wanted and the order in which we wanted them to appear. Gary Cohen, our general counsel, had the task of calling Citigroup's attorneys to inform them of our decision. I got a call late at night from the commission's general counsel, Gary Cohen, asking if there were something I had not told him. I said, "Like what?" He said, "Do you have any legal problems?" I said, "No, none." He had just gotten off the phone with Brad Karp, the chairman of Paul, Weiss, Rifkind, Wharton, & Garrison, a major New York law firm representing Citigroup.

According to Mr. Cohen, Mr. Karp was angry about our decision and then proceeded to tell Cohen that it was well known that I was in trouble - I was under investigation by the SEC and by the California attorney general. He said that I'd hired a lawyer, and had been subpoenaed and that I was subject to an internal investigation both at CalPERS (California Public Employees Retirement System) and CalSTRS (California State Teachers' Retirement System) relating to "pay to play."

As I told my general counsel, the allegations were false, false, false, false, false, false, 100% false. Zero veracity to all of it. Just a few days

later, two reporters from the New York Times – my recollection was that the reporters were Sewell Chan and Eric Dash - called our press office saying they had received the identical allegations from a source and were following up. The reporters pursued it for the next six to seven days and came to the conclusion there was nothing there because there was nothing there.

YPFS:

Were there any repercussions for Brad Karp and/or Paul Weiss for spreading this rumor?

Angelides:

Not at the time because I was very focused on making sure our work was about what happened to the people of America, not about some internal political battle. My inclination at the time was just to keep forging forward and do our work no matter what. What they were saying about me was inconsequential compared to what had happened to people all over this country. The same story also got fed to the Wall Street Journal. Their chief capital correspondent, John McKinnon pursued the story and came to the conclusion there was nothing there. The same story got fed to Bloomberg. This kind of stuff went on all through the year. At one point, a Bloomberg reporter said to one of our investigators, "I keep getting this stuff on Angelides, most of it is really boring, but what I really want to know is who is paying for this stuff."

I had just run for governor of California in an era when there were still a lot of print reporters. We had 60 reporters on the campaign. I had been scrubbed top to bottom. I wasn't worried about my reputation. Was it unnerving? Absolutely.

I'll give you another example from November 2010, shortly after the Republicans took control of the House. During the year, Darrell Issa, (a Republican congressman from California), had been writing letters to the commission, making demands, talking about inappropriate actions by the commission, none of which had any truth to them. I had been warned by Mr. Wallison on the commission that if I wasn't careful about how I pursued the investigations, when the Republicans took control, I would myself be subject to investigation.

Right after the November election, Reg Brown, the lawyer from Wilmer Hale I mentioned earlier, called up our chief investigator, Chris Seefer, and advised him to think about leaving the commission because things were going to get really ugly. The conversation went essentially as follows, as Seefer reported it to me: Brown - 'I don't

want to see you dragged down by this, Chris.' Seefer - 'I don't know what you're talking about.' Brown - 'They're coming after him and I don't want to see you hurt.' Seefer - 'Who is him?' Brown - 'Angelides. I'm telling you, they're coming after him and you ought to think about whether you want to hang around because it's not going to be pleasant.'

Seefer ended the conversation at that point. Lo and behold, when Darrell Issa becomes chairman of the House Committee on Oversight and Government Reform, he obtains all our emails, all our correspondence, everything, and puts investigators on us. We have to hire an attorney and for the next six months they're going through documents. They've hauled in our executive director for a six-hour interview. They were looking for something, anything that we did wrong.

As they were prepping to hold a hearing at which I would be their star witness or their star target, it turns out Elijah Cummings, Democrat from Maryland who was the ranking member of the committee, and the committee's Democratic staff reviewed the emails and documents and determined there was no evidence we did anything wrong. As it turns out, Mr. Wallison did breach the confidentiality rules of the commission as did Mr. Thomas, the vice chairman. Their hearing was canceled.

We operated under enormous pressure. Right after the report came out, Michael Lewis, who I've gotten to know a little because he's a fellow Californian, called me and I was really touched by the call. He had just read the report, and he thought it was terrific. He said, "If there was a literary prize for the best government report, it would win hands down." I said, "That's very kind of you." Then he calls me back a few days later. He said, "Phil, I just read the dissents. Now I really admire you that you were able to get this report out." But it's not me, it was our team that was able to get it out under these kind of enormous political cross currents. I think is a real tribute to them.

YPFS:

It's amazing anything ever got accomplished under the circumstances.

Angelides:

As we got near the end of our report, the Republicans did a series of motions to strike words from the report. They made a motion to strike the word Wall Street from the report. They made a motion to strike the word deregulation from the report. They made a motion to strike

the word interconnection from the report. It was very difficult, but we kept our eyes on the prize.

The last point I want to make, which is related to how we did our work, is that this commission existed at a time when a number of senior journalists were being bought out of papers across the country. We decided that we wanted our report to be understandable to the American people. We made a decision to bring on a set of senior journalists and editors to help us write this report, combining our investigative and research teams with journalists who could help tell this story in the most compelling way. We brought on a former deputy managing editor of the Washington Post to oversee the whole fact-checking process and the editing of the report. We wanted to make sure there were no errors of fact and so we required original documentation on all facts and footnotes. We had a triple check process to make sure there were no factual inaccuracies. I know this, if there had been errors, Wall Street would have pointed them out.

YPFS: **Let's jump to the conclusions of the commission. The big conclusion was that it could have been avoided.**

Angelides: Yes.

YPFS: **Talk about that conclusion and how you decided that would be the conclusion.**

Angelides: One of the narratives emanating from Wall Street and also from conservative ideological quarters was this was the perfect storm. Stuff happens. Sometimes there's just a confluence of events that leads to catastrophe. But in fact, when you look at the record, that's not what happened. This was a result of deliberate actions and deliberate inactions. It was a result of a deregulatory trend in the financial industry that had manifested itself over a couple of decades. It was a result of a decision to go with the light hand of supervision. The idea that was advanced by Wall Street is that Wall Street had developed very sophisticated risk models and so, of course, there was no incentive for an institution to blow itself up, to take wild and undue risk. Their instincts for self-preservation and their sophisticated modeling would preclude that and therefore, you didn't need the kind of regulatory oversight of the financial market you might have needed in earlier eras.

What you saw was a weakening public oversight role. There were some places where this was very evident. Probably the most striking example was the deliberate decision to deregulate over-the-counter derivatives. In 1998, Brooksley Born, then chairman of the Commodities Futures Trading Commission, raised concerns about the growing over-the-counter derivatives markets and the problems of the dark markets and the lack of transparency. Right after she proposed to examine regulating over-the-counter derivatives, Long Term Capital Management blew up, evidence that what she was talking about was a real problem.

Notwithstanding that, Wall Street, in alliance with Robert Rubin and Alan Greenspan and Arthur Levitt and Larry Summers, went to Congress and managed to constrain the Commodities Future Trading Commission from proceeding forward with a regulatory examination and then in 2000, it succeeded in passing the Commodities Future Modernization Act, which banned the regulation of over-the-counter derivatives. Over-the-counter derivatives proved to be one of the forces that led to the meltdown in 2007-09.

The crisis was a combination of both inaction and yet very deliberate policy actions. If you look back at the early 2000s, you see there was an explosion in very risky subprime lending. There was an unsustainable rise in housing prices. There were widespread reports, particularly coming into the Federal Reserve, about predatory lending practices. There was a doubling of mortgage debt in this country between 2000 and 2007. There were very clear signals. By the way, the nature of the activities at Wall Street firms had evolved significantly where trading and riskier activities were becoming much bigger portions of their revenue stream. There was a dramatic increase in the repo market, which is the overnight lending market, which of course, the minute it shuts down creates enormous liquidity problems. You had all these signals occurring at the same time as deregulatory forces and constraints on regulators' budgets were increasing.

To say it's a perfect storm is to ignore the fact that a lot of this was a matter of deliberate policy. Probably the best example of why this was not just a stuff-happens phenomenon is what had happened at the Federal Reserve. As early as the late 1990s there were community groups and others coming to the Federal Reserve complaining about predatory lending practices metastasizing across the country. In 2001,

the Federal Reserve decided to look at the issue and adopted a set of rules, but they're so weak they only affect about 1% of subprime lending. All through the 2000s, the Federal Reserve was presented with more and more evidence about the egregious lending practices that are happening throughout the country but Alan Greenspan refused to act.

Keep in mind the Federal Reserve was the one institution that had the ability to set mortgage lending standards for all financial institutions: Nationally-chartered banks, state-chartered banks, and non-bank financial institutions. Despite mounting evidence that things were going badly awry, Greenspan refused to act and said that regulation is not the answer. He said that if there were unfair predatory lending practices, then regulators had an obligation to refer those to the Department of Justice. We looked at the record. From 2000 to 2006, the Federal Reserve referred only three unfair lending cases to the Department of Justice. One for a little bank in Victorville, California, another for a little bank in Carpentersville, Illinois, and one related to the New York branch of Societe Generale. He advocated for enforcement over regulation and, yet, they weren't doing enforcement.

It wasn't until July 2007, that Ben Bernanke who has now come in as Federal Reserve Chair finally gets the Federal Reserve to adopt a rule that consumer advocates had been requesting for years, which simply said that banks cannot make loans to people who cannot afford to pay those loans back.

That's probably the prime example. During this time, the amount of evidence was dramatic. The number of suspicious activity reports filed by banks with respect to mortgage fraud from 1996 to 2005 went up 20 fold. From 2005 to 2007, it doubled. But in the face of all this, the policymakers did not do anything.

YPFS:

What were some of the most surprising revelations that came out of the hearings?

Angelides:

One of the things that's most interesting is the extent to which the people who were charged with overseeing our financial system, the Secretary of the Treasury, the Federal Reserve, all the main regulators, were constantly blindsided by what happened in the financial markets as the crisis accelerated. As an example, all through 2007, Hank Paulson and Ben Bernanke were assuring the country that

the subprime contagion would be contained and wouldn't metastasize in the financial industry. They clearly didn't have an understanding of all the mortgage securities, the CDOs, and the credit default swaps that were out there.

The decision to not regulate markets like derivatives and the failure to adapt the regulatory regime to an evolving financial system, where you now have greater involvement of shadow banks or non-bank financial institutions, hid a lot of what was happening in the marketplace from policymakers' view.

I don't think they were dissembling. I think they didn't see it because we'd constructed a financial industry that by design was not subject to intense regulatory oversight. People charged with overseeing the system didn't have visibility into the system. But that wasn't just happenstance, that was what the industry had pushed for, and that's what people had acquiesced to. In July 2007, when the two Bear Stearns hedge funds blew up, the Federal Reserve board met and determined this was a unique situation, a one-off and not something pervasive in the industry.

In March 2008, just days before Bear collapses, Christopher Cox head of the SEC was telling people the investment banks were fine, they had sufficient capital cushions. Clearly, he didn't understand the liquidity risk posed to investment banks. Lehman Brothers went under because it relied on borrowing tens of billions of dollars in the overnight market, and as doubts about its creditworthiness increased that dried up any chance of attracting short-term loans. In August 2008, just a month before Lehman collapsed, the Federal Reserve Board of New York wants to go in and take a look at Lehman's books because they want to understand Lehman's condition. Lehman had 900,000 derivative positions with other entities and the New York Fed had no understanding of how a Lehman collapse would affect all the counterparties. But then they were also afraid that the very action of conducting an examination of Lehman's books would in and of itself set off a panic.

My larger point is that signals were out there that something was badly amiss, but that was coupled with the fact that a lot of segments of the industry were either deregulated or subjected to insufficient regulation. When you combine those two factors, what led to this was inaction and deliberate policy decisions that set the stage for disaster.

YPFS: **Some of the people involved, Alan Greenspan, for instance, are somewhat iconic figures in the financial world. Did it come as a huge shock to you, the extent to which they turned a blind eye or didn't fully grasp what was happening, or just plain got it wrong?**

Angelides: Yes, it did. I'm not going to say I was Mr. Smith that went to Washington, but I was someone from California who had been involved in government, I'd been involved in finance, I'd been involved in real estate investment. But, yes, I was shocked by the level of risk that was being undertaken on Wall Street and the extent to which either the policymakers did not act or didn't have the information to act, which is one of the results of deregulation.

It was stunning to me the extent to which mortgage loans were being put in CDOs, and the extent to which bets on the mortgage market were being created. Clearly, the people in charge, Paulson and Bernanke, had no sense of the extent to which gambling had metastasized throughout the industry.

YPFS: **Given your background in finance and government, did you see any warning signs before you were on this commission? Did you see how things weren't adding up?**

Angelides: I didn't see what was behind that secret door. The people who knew what was going on behind the secret door were the people on Wall Street. Some of it was seen by regulators, but a lot of it was not seen or understood by regulators. What I did see was the following: I saw that wages were stagnant and home prices continued to rise at a record rate. I also saw that lending standards had changed dramatically. We now had no doc loans, liar loans, right?

I never understood how if you had stagnant wages, you could have such rapidly escalating home prices. How can wages stay flat and home prices continue to accelerate? At some point, there's going to be a reckoning, particularly, for all those folks who have financed on the expectation and the belief that home prices will continue to rise. I saw in 2005 and 2006 that the housing market was flattening out. That was becoming obvious. I expected there would be a downturn. I could not imagine, nor did I have the facts to understand the extent and depth of that downturn.

By the way, there's this whole notion that housing prices had never fallen. We know, when you look at the historical data, in the 1990-91

time period, they actually did fall on a national basis. I knew from personal experience here in Sacramento and other Sunbelt locations that there had been an actual, significant housing price decline during that recession. I expected a downturn, and as a matter of fact, as it turns out, when I ran for governor, I said that and I proposed a budget, which would have restored the tax on the highest earners in California to the levels they were at under Governor Wilson, Governor Deukmejian, and Governor Reagan because my expectation was had I won the governor's race in 2006 we were going to have a downturn and we needed to buffer the state's finances against that.

But, I didn't understand the extent to which the subprime loans and all the other risky variations thereof, had permeated the financial markets and had dramatically amplified the effect of the downturn.

YPFS: Were there any particular villains that stand out from these hearings? Any heroes?

Angelides: Villains and heroes, those are tough words. There was wrongdoing. I'm not qualified to say whether it's wrongdoing that rose to the level of civil penalties or criminal penalties, but clearly there were people and institutions that were engaged in misconduct. Let me give you the clearest example, and it's in our report. On page 165, it's in a section on due diligence. We obtained records from a company called Clayton Holdings. Clayton Holdings did due diligence on behalf of two dozen major Wall Street financial institutions, JP Morgan, Morgan Stanley, Merrill Lynch, and B of A, all the big ones. They were hired by those banks to evaluate the loans that they were buying from lenders like Countrywide, Ameriquest, and New Century. We obtained their internal documents, spreadsheets that laid out their review of close to a million loans between January 2006 and June 2007. It was the height, the last great rush of madness, before the collapse.

Let's say I'm Goldman Sachs, I hire Clayton because I'm buying loans from New Century, let's say I'm buying 5,000 or 10,000 loans. I want Clayton to look at those loans to see if they're what New Century says they are. Do they meet the lender's standards? Do they meet my standards as the underwriter who is buying them? The reason I'm doing that as Goldman is because I want to see what I should be paying for these, right? New Century says these loans are gold, but I want to do the due diligence to find out if they're really gold or if they're silver or if they're bronze or if they're copper, right?

What we found was Clayton would normally sample about 5% of the loans being bought. In the million loans they looked at for these 24 major institutions from January 2006 to 2007, Clayton was finding in the samples they took on average that 28% of the loans were clearly defective. They did not meet the lender's standards or they did not meet the underwriter's standards. Given that high rate of failure, you would have thought that Goldman and the banks would have said, gee, we better sample the other 95%. They didn't. They accepted 95% of loans, securitized them and sold them. Among the 5% they sampled, they kicked out about 60% of the deficient loans, but kept about 40%.

In other words, they were finding a failure rate of almost three out of 10 in 5% of the loans. They weren't sampling the other 95%. They were then bundling those loans into mortgage securities and selling them to investors throughout the world and they were making affirmative representations that these loans met the underwriter and lender standards. In my view, this was clear mortgage securities fraud. Are there villains? In my view, the people who oversaw, drove, or condoned that activity committed wrongdoing.

YPFS:

Were there consequences?

Angelides:

No - not for the executives who drove, approved, or condoned of these activities. As of 2016, the Department of Justice did prosecute 2,700 individuals throughout the country who engaged in mortgage fraud at the local level - mortgage brokers who did bad things, borrowers who lied on loans, and appraisers who jimmied up appraisals. They did go after those folks. But they took no action against the executives at institutions that essentially lied to investors about millions of loans.

Bob Graham, who was a former governor and three-term senator from Florida on our commission, recounted that in the wake of the restoration of democracy in Chile after the junta, they adopted a policy that when there was wrongdoing one should look for responsibility and accountability from people who were at the rank of colonel or above. In this crisis, the people who drove the crisis, who ran the corrupt mortgage machine, never faced any consequence. Clearly, the people who took these risks were folks who did wrong.

YPFS:

And heroes?

Angelides: In terms of heroes, there were whistle blowers within companies, there were people who went to regulators, there were people in regulatory bodies, and there were state attorneys general who aggressively tried to take on predatory lending by national banks in the early 2000s. Instead, of being on the side of the attorneys general, the federal government moved to stop the attorneys general from going after national banks. There were people trying to do the right thing, but they were overwhelmed by the larger forces.

YPFS: Let me bring up the case of whistleblower Richard Bowen, the Citibank chief underwriter in mortgage lending who had been demoted by the bank for voicing his concerns. He ultimately felt was done a disservice by the FCIC by being asked to cut his testimony. He raised credibility issues about the commission's work. Can you address that?

Angelides: First of all, for perspective. Mr. Bowen went to a number of entities such as the SEC and no one would listen to his case. It was our commission that brought Mr. Bowen to testify under oath. He was interviewed by the staff at length and he appeared before the full commission, at a public hearing, where he was free to say whatever he wanted as long it was truthful. We gave him a forum.

I was not privy to the interactions between specific staff and Mr. Bowen. I know the staff wanted witnesses to be concise and on point. They were also very strong about holding witnesses to talking about the facts they knew of, not speculation in which they wanted to engage. The fact that someone might have been asked to cut some testimony was not unusual because the staff wanted to make sure what they were testifying to was actual and factual versus speculation.

If you look at our report, Mr. Bowen's allegations about wrongdoing at Citigroup are featured prominently in the report. They're on page 19, they're on page 111, and they're on page 168. He at one point said that he was not allowed to testify about his concern that Citi may have materially misrepresented its certifications of internal controls.

Attached to his written testimony and included in the report and placed on our website is his infamous email to Robert Rubin stating that "the reason for this urgent email concerns breakdown of internal controls and resulting significant and possibly unrecognized financial losses existing within our organization."

Mr. Bowen said he wasn't allowed to testify about the breakdown in internal controls but, it's in his testimony, it's in the report. Our commission made 11 referrals to the Department of Justice that involved 14 different corporations and nine individuals. When we made those referrals, it was very clear that when we referred an institution, we weren't just referring the institution, we were referring the activities that occurred at those institutions with the full expectation that the individuals involved would be investigated. One of the 11 referrals that we made was based on Mr. Bowen's allegations of internal control violations and fraud at Citigroup. We referred the matter to the Department of Justice for further investigation and, if warranted, prosecution. I'm left nonplussed that we called him to testify, he testified under oath, we took his matters seriously, we included them in the report, and we referred his allegations to the Department of Justice and he claims he wasn't allowed to testify.

YPFS: Do you have any sense of why he soured on the process?

Angelides: I have no idea. I just know that we did our level best as commissioners to allow Mr. Bowen to tell his story and we considered it serious enough that we referred it to the Department of Justice.

YPFS: Let's jump to those referrals to the Department of Justice. What happened as a result of them?

Angelides: We made 11 separate referrals. We were not set up as a prosecutorial body. Since we had to look at the whole crisis, we obviously couldn't spend our time doing a deep dive investigation into any one particular activity, nor any one particular institution. To the extent we turned over the rock and found a potential violation, we sent those potential violations to the Department of Justice. We made 11 separate motions in which we named institutions, activities, and certain individuals.

Our expectation was that once we turned that information over to the Department of Justice, they would then marshal the resources to conduct a bottom-to-top investigation at these various institutions to find out who did what, who authorized the action, who participated in the action, who approved of the action. I cannot explain to this day why the Department of Justice did not mobilize the resources and the will to do the thorough investigations that we certainly expected and that the American people expected. We took our statutory obligation to make these referrals very seriously. We didn't do it lightly. I think it was the spring of 2016 that the National Archives released our initial

set of records and I urged them to include in that release the commission's actions on referrals because I thought it was a matter of great public interest.

But the Department of Justice never moved on this. By way of comparison, in the wake of the savings and loan crisis, there was a very vigorous enforcement action to identify and prosecute wrongdoing. Before it was all over, 1,000 senior executives at banks and thrifts either pleaded guilty or were convicted of felonies. By the way, the savings and loan crisis was a pimple in terms of its impact on this country compared to this financial crisis. In this instance, the Department of Justice did not seek or obtain either criminal or civil individual accountability from senior executives at banks. At the height of the S&L crisis, the North Texas Bank Fraud Task Force had 100 attorneys, investigators, accountants investigating S&L wrongdoing just in North Texas. As of 2012, the Department of Justice stated that they had 55 personnel engaged in the investigation of what turned out to massive mortgage securities fraud across this country. They did not pursue these investigations with any vigor.

Here's the thing I want to say that's most important. On this Clayton-related matter alone, the evidence that we turned over to DOJ resulted in I believe about 19 financial institutions paying over \$40 billion in fines and settlements, which is clear evidence they had information about loan deficiencies that they misrepresented to investors throughout the world as meeting lending and underwriting standards. When you look at the Department of Justice's statements on those settlements, what's remarkable is that they contain almost no more information than we revealed in 2011 and that they contain no references to any individual culpability. The banks engaged in misconduct but apparently, no bankers were involved. I call it the immaculate crime. It defies common sense. If you look at these settlements, Goldman says yes, we engaged in wrongdoing and we're going to pay \$5 billion but there's not one human being mentioned.

I think this is a sad chapter in the history of the Department of Justice because the failure to thoroughly investigate and then seek civil or criminal accountability for wrongdoing sends a very bad message in two respects. First of all, it sends a terrible message about deterrence. In this regard it is important to note that the settlements were paid by shareholders and that means pension funds, 401ks, mutual funds and not by the people who engaged in wrongdoing.

It's as if someone robbed a 7-Eleven of \$1,000 and they could come in the next week and settle the case for \$100 with someone else paying the bill. Do you think they might rob another 7-Eleven? Why not?

The second thing is, it really undermined people's sense of the fairness of our judicial system. If you're the most powerful people in the country, you're not going to be touched.

YPFS:

Was part of the problem, too, that these recommendations were sealed for five years? What was the point of that?

Angelides:

The easiest thing for the commission to have done when we released our report was to release the referrals because it would have included big names and it probably would have grabbed the headlines. We really felt a sense of obligation to make sure that the judicial system worked and that people were treated fairly. While we had uncovered what we believed were potential violations of law, we wanted the Justice Department to do the investigation we fully expected them to do. We weren't in the business of just creating headlines with allegations.

In retrospect, maybe tactically looking back on it, we should have forced the hand of Justice more. But at the time, we felt we were doing the right thing. We were respecting people's rights. Because we found a potential violation of law, didn't mean someone was guilty and they had a right to due process and we didn't want to negatively affect that. We thought we were proceeding in what was the most judicious and fair manner possible with the full expectation the Department of Justice would do its job.

If you go to the report, we very clearly talked about how the banks knew of the defects but did not disclose them. We said, "Prospectuses for the ultimate investors in the mortgage-backed securities, did not contain this information or information about how few loans were reviewed, raising the question of whether the disclosures were materially misleading in violation of the securities laws." When you read the settlement statements, you have companies admitting to wrongdoing in what clearly is mortgage securities fraud. The only question now is why weren't the investigations pursued and why weren't the individuals responsible for the conduct subject to sanctions or prosecution. By the way, it could have been civil or it could have been criminal.

YPFS:

Now, we have Janet Yellen (former Chair of the Federal Reserve) expressing concern about the possibility of another financial crisis simply because there remains gaping holes in the regulatory system. Are you in concurrence with that? What's your view on where things stand? Can we have another crisis of the dimensions that we saw in 2008?

Angelides:

We do from time to time and there's a rhythm here. In the response of the Great Stock Market Crash of 1929, the government under President Roosevelt put in place a comprehensive system of regulation to oversee the banks, to wring out risk, and to create a steady state financial industry, which persists and succeeds for decades.

Then the S&L industry is deregulated in the 1980s and lo and behold 10 years later there's all hell to pay. Then after the S&L crisis, there's another period of deregulation, but also coupled with a rapidly evolving financial system. It's not just that we're lightening the hand of regulation supervision, we're failing to keep up with the evolving financial system, where less of the activity takes place in the context of state and nationally chartered banks and more of the activity takes place in the shadow or non-banking financial institutions.

In 2008, we start to see these big gaps in visibility and regulation. The inability to see what's happening in these markets clearly contributes greatly to the crash of 2008 and as we mentioned earlier, policymakers are blind to it by design, with derivatives markets and the repo markets are not fully transparent.

The financial industry is rapidly evolving all the time. It is constantly coming up with new financial structures and products. Risk is constantly there, but especially when the public policy that exists to manage that risk does not keep up with the changing contours of the financial industry. I can't predict the magnitude or the whereabouts of the next big crisis, but it will come.

But here's what I think is most troublesome. In the wake of 2008, I think it's fair to say Wall Street really never learned its lesson. Normally in life, we learn from the consequences of our mistakes. In this instance, while the country as a whole suffered greatly, millions lost their homes, millions lost their jobs, communities were devastated, and many still struggle to get back on their feet, Wall Street's experience was different, it just kind of hit a bump in the road.

Wall Street firms had a bad 2008, a bad first part of 2009 but they quickly returned to profitability. Executive compensation in 2010 hit record levels on Wall Street. By 2012, the 10 biggest banks in the country now controlled close to 80% of the nation's banking assets. Wall Street really never paid a price, either a political price, a legal price, or an economic price for its wrongdoing.

They were saved by the taxpayers of the US. People always focus on TARP, the \$700 billion bailout. That was the tip of the iceberg. Greg Feldberg and his team did great work on this. In fact, there were more than 24 separate federal government programs of assistance to financial institutions totaling trillions of dollars. It was the right decision to stabilize the industry, but instead of really doing the kind of critical self-analysis you would expect in the wake of this kind of disaster, they fortified the barricades and have fought a fierce rear guard action against financial reform. They fought the Dodd-Frank bill, but there was too much momentum for change so most of it got enacted. But then when the regulations got written, they fought fiercely at the regulatory agencies. They lodged thousands of comments trying to bottle up new regulations. Then when regulations have been adopted, they've gone to court to stop them. There's no evidence that I see that Wall Street really absorbed the lessons of the last crash. Therefore, it means that we are much more likely to see the next crash sooner than we otherwise might.

YFPS: **Phil, thank you for this. It's been really an education. Is there's anything in that you want to elaborate on?**

Angelides: I would like to say one last thing which is that we were blessed to have some really talented commissioners. We were also blessed to have a very talented staff. It was really hard. People kind of left their lives for a year-and-a-half. It was very intensive work. It was drinking from a fire hose, and it was doing so in the environment of a lot of external pressure and yes, internal discord, which I think was part of the plan by those creating the discord. In the face of all that, I'm particularly proud that the team that put the report together, held it together, remembered why we were in it, and produced a report that I believe will last for the ages as the definitive account of what happened in the crisis of 2008.

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