

New School

Jeff

Mudrick 7-28-10 9-10am

Notes by:
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Paul

Fed "no oversight of commercial banks"
"no idea of level of risk of CDOs"
Greenberg-Bear-trusted triple-A

Bear hedge - "had to determine which Trip-A was
really Trip-A"

Fed!

"a matter of abdication of oversight respons,
that I believe were ideologically based"
think

94-Proctor + Gamble - derivatives losses

(rating conflicts of interest

→ Gibson Greeting Card - see from Bankers Trust
"severe... non-market practices that go on on
W. St"

Really severe **unfair, unethical, + really non-market**
Comp. 1 **practices that go on on Wall Street.**

W. Street

Citi, JPM, BS,

were writing their own subprime

Goldman -³, Merrill - less so

"very aggressive writers of fraudulent, well
at least deceitful loans"

"when these guys say just servicing
clients, they were using money to
write crummy mortgages"

"clear on their mind that they were using
a trick to Δ mort to Trip-A tranche"

"They were making magic"

"do not understand level of deceit that may qualify as legal fraud"

Investors

"implication that they are sophisticated. I is [overstated]"

- same incentives

big investors manage \$ for small ^{savers} investors

Shadow

occ allows leverage

"now create \$, exactly what com + thrifts do"

I-banks

"shadow + comm need to be regulated in similar ways" → Fin reg aims at this after late 90s, really no distinction

"negligence of Federal Reserve"

everyone had all the tools except CDS reg

Famous

→ Greenspan refusal to look at mort writing

low rates - "not a major problem"

"pushed low w/ oversight"

↳ to reignite mort market

Check - could Fed look inside a CDO

Reg capture or just negligent

Fed Reserve

"Find it remarkable that they had no idea riskiness of CDOs"

Housing

GSE contributed not primary mover
- housing not only loans securitized

"housing bubble - architect of finance built on housing that caused recession"

Bubble + securitization
o--o--o

One extraordinary tool that did not exist was derivatives

Investors complicit

- "Too Interconnected to fail"

↳ really that all borrowed on same collateral

↳ Herd behavior (↑ capital require)

"as soon as Bear, should have realized system in danger"

Response

"Neither Wash / NY Fed had any idea of how risky securities would be"

"no idea of how leveraged system was"

Superna

Fed - love to know about credit rating + more.

W. St how much did they know about risk of "AAA"

"treasure trove of mid-level e-mails"

- more about mark-to-market
process

- easy to manipulate

↳ easy to front-run ~ little at a time

↳ prop trading - Volker Rule (?)

↳ incl. "positions for normal
trading operations"

Even ave profit can be high but

Theory varies by firm → we should expect more of
it