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Lessons Learned: Greg Feldberg

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Greg Feldberg

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Greg Feldberg was a senior supervisory financial analyst at the Board of Governors of the Federal Reserve experienced in regulating large banks when he was recruited to the Financial Crisis Inquiry Commission (FCIC) where he worked from 2010-11, becoming its Director of Research. The FCIC was a bipartisan commission charged with investigating the causes of the global financial crisis of 2007-09. Feldberg shared thoughts about some of the challenges faced by the commission and why its report is important. This "Lessons Learned" is based on an interview with Mr. Feldberg.

There is always a time constraint and a resource constraint that has to be addressed upfront or nothing will get done.

Feldberg was hired on the research staff of the FCIC in January 2010, six months into its mandated 18-month period and right as it was scheduled to begin public hearings. Although the infrastructure had been set up, little had been accomplished in the way of substance. He immediately began to help the Director of Research identify the expertise needed and aggressively recruit people to the research team.

At least nine or ten were like him, Feldberg says, detailees from federal agencies that paid their salaries while they worked on the Commission (Feldberg was a detailee from the Federal Reserve). He said, "[o]ne of the first things I did upon getting there as a Fed detailee was to call up the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and other regulatory agencies and ask if they had any detailees to send over."

Recruiting detailees helped streamline the process of securing the needed expertise but didn't cure all the manpower challenges. "We could have always used more folks to help," says Feldberg. "Even though we had access to anybody in the academic or financial community to share their wisdom with us in interviews, just getting people with real background and expertise on the issues on staff was extremely valuable." A similar tactic was used to secure investigators, Feldberg said, "The investigation teams were lawyers and people from investigative agencies like the SEC and even the U.S. Postal Service and FBI."

Subpoena power was a powerful tool that gave the commission a once-in-a lifetime-opportunity to gather data and document information about the crisis.

In May, Feldberg was elevated to the position of Director of Research, where he was responsible for a research team composed of economists, financial analysts, people from financial agencies, and people from the private sector. He viewed the commission's role as documenting the history of the crisis, not just the things that had been reported, but the hidden details that no company wanted known. Feldberg describes how he viewed his role and how the commission went about its work:

> For every hearing, we had an investigative team assigned to investigate the company whose CEO would be speaking, and we had the research team lay out the issues that would be discussed at the hearing and provide information. The investigative team was producing two investigative reports that were confidential prior to each hearing and would help the commissioners know what to ask. And the research team was producing two public reports. When I started, I was part of this frantic effort to generate two research reports a month on complex financial issues.

When he assumed the Research Director role Feldberg saw a unique opportunity to enhance the reports:

> The first thing I really focused on . . . was to back up our research efforts with a bunch of data projects. I thought we could take advantage of our subpoena power to collect data that nobody else was ever going to collect from the financial institutions that were involved.

Feldberg believed that providing the supporting data was the only way to ensure that the commission and the public really understand what had caused the crisis.

However, given the limited time and resources, Feldberg emphasized that "[w]e had to pick our targets to some extent because we couldn't do a deep dive on every single company." We had to "focus the hearings on the topics we thought were important," Feldberg said. Given these constraints he explained, decisions were made to examine an industry by proxy, such as investigating Moody's to examine rating-agency activities.

The Commission obtained information from important participants in areas of the financial industry that were largely unregulated and for which financial regulators had limited information about prior to the crisis. An example cited by Feldberg is a survey of hedge funds:

> [W]e managed to collect detailed information from hedge fund advisors that controlled more than a trillion dollars of assets in more than half the hedge fund industry. We collected data on market risk from market participants in the short-term funding markets, an area that was subject to run-risk that hadn't been understood before the crisis. The survey covered the dealers, insurance companies, mutual funds, money market funds, and any and everybody involved in that.

Another commission project that Feldberg is particularly proud of is a meticulous "in-depth profile of one mortgage-backed security where we relentlessly subpoenaed every company that was involved." The result was *The Story of a Mortgage Security: Inside CMLTI 2006-NC2*, a step-by-step history from June 9, 2006, through September 2010 that "show[ed] what was going wrong at every stage from the origination of the loan all the way through to the mortgage-backed security and how it [got] divided up for investors into collateralized debt obligations or CDOs." In the final report, Feldberg relates, *The Story of a Mortgage Security* was repeatedly referred to as a concrete example of changes in underwriting standards that contributed greatly to the crisis.

Seeking out and reporting on what was *unknown* when the project started was one of the commission's most critical tasks.

According to Feldberg, telling the whole story of the crisis also meant debunking misinformation that existed. He illustrated by commenting on the predominant understanding of the crisis as it unfolded:

> [T]here was the housing bubble, which was fueled by funding from the GSEs (Freddie Mac and Fannie Mae). A lot of countries around the world had housing bubbles, driven largely by macro forces. The housing bubble was in full force in '03, '04, and '05. It peaked in late '05 and early '06. If all you had was a housing bubble financed by the GSEs, you wouldn't have had the financial crisis.

Feldberg discussed how much of the commission's work was focused on going beyond the housing bubble and crisis to ferret out and identity the other factors that made this crisis different and so severe. That involved, among other things, focusing on the increase in demand for risk transfer products, the collateralized debt obligations (CDOs) and credit default swaps (CDSs), that became so popular starting in '05, and through '07, and the reasons why and how this second "weird structured finance bubble in which housing assets and mortgages were bundled into CDOs and CDSs and ABCP" occurred.

The *Story of a Mortgage Security* report, Feldberg said, delved into this in a detailed way and laid bare processes that previously had not been public. In its final report, the commission criticized government agencies, including the Fed, for poor supervisory oversight in the run-up to the crisis.

When asked about potential conflicts of interests among the staff, Feldberg replied, "I like to think we were hired for our expertise and our ability to dive into these issues, and that the commission never thought that those of us that came from agencies were there to represent or defend our agencies." The commitment to report fully and accurately, he concludes, resulted in a fairer and more credible report.

Gathering information is one challenge, writing the report presents another.

When asked how he settled on the structure of the commission's report, Feldberg described it as trial and error. The challenge, he said, was to synthesize all the information that they had collected into a report that would be readable for policymakers, financial professionals, and the public. He elaborated on how the process evolved:

> [The first idea was] to have one journalist write the whole thing, but that was just too much. Then we shifted to having more experienced writers pair up with a couple of junior folks to write large swaths of it, but that turned out to be too unwieldy. Then we hired four journalists to take different sections of the report. That idea really stuck in the sense that one journalist wrote the first part pretty much on her own using the resources we had. Another journalist wrote the final chapter, which focused on the aftermath of the financial crisis.

The structure of the bulk of the report—the second through fourth parts—wasn't settled on until September. Feldberg recalls:

> I was sitting in my office reading through some of the interviews and other materials that we had, trying to figure out what happened to the investment banks after the Lehman failure, and I started writing a section on Morgan Stanley. I wrote a thousand words and it got across what happened to Morgan Stanley and I decided we should write the whole report in one- to two-thousand-word pieces. I divided the whole story into little pieces and assigned them out, and that's the way it ended up being organized.

The most important value of the report is telling the story as completely and as accurately as possible.

Feldberg stresses that he and other staffers were charged with telling the whole story of the crisis with its many nuanced details, as much as possible. "Our goal was to write the definitive account of the crisis and why it happened, one that would stand the test of time."

He feels that they succeeded by several measures. One measure of that success is that "[t]he report is widely cited. It's widely considered to be the definitive account of the crisis." Another is that it debunks some falsely held beliefs. For example, it describes how the crisis was caused by two bubbles, a housing bubble (which by itself probably would not have led to the massive crisis that occurred) and then a structured finance bubble, which by 2006 "was driving the mortgage market, an example of the cart driving the horse. There was so much money available for mortgages that the demand helped drive down underwriting standards."

According to Feldberg, focusing on just the housing bubble and underwriting standards would not have been sufficient. It was the combination of the two bubbles that lead to the crisis. Many people saw the housing bubble coming ahead of time, but few if any saw the structured financing bubble developing. "Nobody saw the collapse of the short-term wholesale deposit funding market that happened in 2007 coming," Feldberg explains. "The way that risks had been packaged into exotic CDO (collateralized debt obligations) and CDS (credit default swaps) products was not something that people were talking about in '05 and '06."

To that end, Feldberg believes that the report clearly identifies these practices and products, and others that contributed to the crisis. He specifically sees the value of the commission's work and the report as providing a narrative of those factors that made this crisis different from other crises, and supporting those conclusions with facts. He emphasized, "The data projects we did supported in new and innovative ways what we had been learning in the course of our work."

When asked about the criticism the report received because the commissioners did not reach a consensus, Feldberg pointed out that the commissioners disagreed in their conclusions for various reasons:

> [The Republicans] didn't want to hold any specific type of product, or specific type of market, responsible. Similarly, they didn't want to say there was anything wrong with existing regulations, because they didn't want their words to be used to satisfy any regulatory agenda at all.

On the other hand, Feldberg says, the Democrats were "trying to provide the basis for legislation."

Feldberg further comments that the staff had little control over the commissioners' conclusions, but he remains confident that the staff succeeded in its role to "do the report and do the analysis."

When asked what his dissent would be, Feldberg responded,

> I supported the majority conclusions. They were generally in the right direction, but I found them very high-level. I found a lot of them to be the kind of things you could have said about any financial crisis. There was poor supervision and risk management all around. And people indulged in short-term thinking. If I were to write a dissent, it would focus much more on making sure that people understood what was special and different about this crisis, such as the design of financial products and how the system was allocating risks in really screwed-up ways. I didn't feel as if the majority or the dissenters did that in the way I would have done it.

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