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Recession Britain

The real story behind the economic slump

Twenty-five people at the heart of the meltdown

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The worst economic turmoil since the Great Depression is not a natural phenomenon but a man-made disaster in which we all played a part. In the second part of a week-long series looking behind the slump, Guardian City editor Julia Finch picks out the individuals who have led us into the current crisis

[Poll: Who led us down the Road to Ruin?](#)

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Former Federal Reserve chairman Alan Greenspan, who backed sub-prime lending.
Photograph: Mark Wilson/Getty Images

Alan Greenspan, chairman of US Federal Reserve 1987- 2006

Only a couple of years ago the long-serving chairman of the Fed, a committed free marketer who had steered the US economy through crises ranging from the 1987 stockmarket collapse through to the aftermath of the 9/11 attacks, was lauded with star status, named the "oracle" and "the maestro". Now he is viewed as one of those most culpable for the crisis. He is blamed for allowing the housing bubble to develop as a result of his low interest rates and lack of regulation in mortgage lending. He backed sub-prime lending and urged homebuyers to swap fixed-rate mortgages for variable rate deals, which left borrowers unable to pay when interest rates rose.

For many years, Greenspan also defended the booming derivatives business, which barely existed when he took over the Fed, but which mushroomed from \$100tn in 2002 to more than \$500tn five years later.

Billionaires George Soros and Warren Buffett might have been extremely worried about these complex products - Soros avoided them because he didn't "really understand how they work" and Buffett famously described them as "financial weapons of mass destruction" - but Greenspan did all he could to protect the market from what he believed was unnecessary regulation. In 2003 he told the Senate banking committee: "Derivatives have been an extraordinarily useful vehicle to transfer risk from those who shouldn't be taking it to those who are willing to and are capable of doing so".

In recent months, however, he has admitted at least some of his long-held beliefs have turned out to be incorrect - not least that free markets would handle the risks involved, that too much regulation would damage Wall Street and that, ultimately, banks would

always put the protection of their shareholders first.

He has described the current financial crisis as "the type ... that comes along only once in a century" and last autumn said the fact that the banks had played fast and loose with shareholders' equity had left him "in a state of shocked disbelief".

Mervyn King, governor of the Bank of England



When Mervyn King settled his feet under the desk in his Threadneedle Street office, the UK economy was motoring along just nicely: GDP was growing at 3% and inflation was just 1.3%. Chairing his first meeting of the Bank's monetary policy committee (MPC), interest rates were cut to a post-war low of 3.5%. His ambition was that monetary policy decision-making should become "boring".

How we would all like it to become boring now. When the crunch first took hold, the Aston Villa-supporting governor insisted it was not about to become an international crisis. In the first weeks of the crunch he refused to pump cash into the financial system and insisted that "moral hazard" meant that some banks should not be bailed out. The Treasury select committee has said King should have been "more pro-active".

King's MPC should have realised there was a housing bubble developing and taken action to damp it down and, more recently, the committee should have seen the recession coming and cut interest rates far faster than it did.

Politicians

Bill Clinton, former US president



Clinton shares at least some of the blame for the current financial chaos. He beefed up the 1977 Community Reinvestment Act to force mortgage lenders to relax their rules to allow more socially disadvantaged borrowers to qualify for home loans.

In 1999 Clinton repealed the Glass-Steagall Act, which ensured a complete separation between commercial banks, which accept deposits, and investment banks, which invest and take risks. The move prompted the era of the superbank and primed the sub-prime pump. The year before the repeal sub-prime loans were just 5% of all mortgage lending. By the time the credit crunch blew up it was approaching 30%.

Gordon Brown, prime minister



The British prime minister seems to have been completely dazzled by the movers and shakers in the Square Mile, putting the City's interests ahead of other parts of the economy, such as manufacturers. He backed "light touch" regulation and a low-tax regime for the thousands of non-domiciled foreign bankers working in London and for the private equity business.

George W Bush, former US president



Clinton might have started the sub-prime ball rolling, but the Bush administration certainly did little to put the brakes on the vast amount of mortgage cash being lent to "Ninja" (No income, no job applicants) borrowers who could not afford them. Neither did he rein back Wall Street with regulation (although the government did pass the Sarbanes-Oxley Act in the wake of the Enron scandal).

Senator Phil Gramm



Former US senator from Texas, free market advocate with a PhD in economics who fought long and hard for financial deregulation. His work, encouraged by Clinton's administration, allowed the explosive growth of derivatives, including credit swaps.

In 2001, he told a Senate debate: "Some people look at sub-prime lending and see evil. I look at sub-prime lending and I see the American dream in action."

According to the New York Times, federal records show that from 1989 to 2002 he was the top recipient of campaign contributions from commercial banks and in the top five for donations from Wall Street. At an April 2000 Senate hearing after a visit to New York, he said: "When I am on Wall Street and I realise that that's the very nerve centre of American capitalism and I realise what capitalism has done for the working people of America, to me that's a holy place."

He eventually left Capitol Hill to work for UBS as an investment banker.

Wall Street/Bankers

Abby Cohen, Goldman Sachs chief US strategist



The "perpetual bull". Once rated one of the most powerful women in the US. But so wrong, so often. She failed to see previous share price crashes and was famous for her upwards forecasts. Replaced last March.

Kathleen Corbet, former CEO, Standard & Poor's



The credit-rating agencies were widely attacked for failing to warn of the risks posed by mortgage-backed securities. Kathleen Corbet ran the largest of the big three agencies, Standard & Poor's, and quit in August 2007, amid a hail of criticism. The agencies have been accused of acting as cheerleaders, assigning the top AAA rating to collateralised debt obligations, the often incomprehensible mortgage-backed securities that turned toxic. The industry argues it did its best with the information available.

Corbet said her decision to leave the agency had been "long planned" and denied that she had been put under any pressure to quit. She kept a relatively low profile and had been hired to run S&P in 2004 from the investment firm Alliance Capital Management.

Investigations by the Securities and Exchange Commission and the New York attorney general among others have focused on whether the agencies are compromised by earning fees from the banks that issue the debt they rate. The reputation of the industry was savaged by a blistering report by the SEC that contained dozens of internal emails that suggested they had betrayed investors' trust. "Let's hope we are all wealthy and retired by the time this house of cards falters," one unnamed S&P analyst wrote. In another, an S&P employee wrote:

"It could be structured by cows and we would rate it."

"Hank" Greenberg, AIG insurance group



Now aged 83, Hank - AKA Maurice - was the boss of AIG. He built the business into the world's biggest insurer. AIG had a vast business in credit default swaps and therefore a huge exposure to a residential mortgage crisis. When AIG's own credit-rating was cut, it faced a liquidity crisis and needed an \$85bn (£47bn then) bail out from the US government to avoid collapse and avert the crisis its collapse would have caused. It later needed many more billions from the US treasury and the Fed, but that did not stop senior AIG executives taking themselves off for a few lavish trips, including a \$444,000

golf and spa retreat in California and an \$86,000 hunting expedition to England. "Have you heard of anything more outrageous?" said Elijah Cummings, a Democratic congressman from Maryland. "They were getting their manicures, their facials, pedicures, massages while the American people were footing the bill."

Andy Hornby, former HBOS boss



So highly respected, so admired and so clever - top of his 800-strong class at Harvard - but it was his strategy, adopted from the Bank of Scotland when it merged with Halifax, that got HBOS in the trouble it is now. Who would have thought that the mighty Halifax could be brought to its knees and teeter on the verge of nationalisation?

Sir Fred Goodwin, former RBS boss



Once one of Gordon Brown's favourite businessmen, now the prime minister says he is "angry" with the man dubbed "Fred the Shred" for his strategy at Royal Bank of Scotland, which has left the bank staring at a £28bn loss and 70% owned by the government. The losses will reflect vast lending to businesses that cannot repay and write-downs on acquisitions masterminded by Goodwin stretching back years.

Steve Crawshaw, former B&B boss



Once upon a time Bradford & Bingley was a rather boring building society, which used two men in bowler hats to signify their sensible and trustworthy approach. In 2004 the affable Crawshaw took over. He closed down B&B businesses, cut staff numbers by half and turned the B&B into a specialist in buy-to-let loans and self-certified mortgages - also called "liar loans" because applicants did not have to prove a regular income. The business broke down when the wholesale money market collapsed and B&B's borrowers fell quickly into debt. Crawshaw denied a rights issue was on its way weeks before he asked shareholders for £300m. Eventually, B&B had to be nationalised. Crawshaw, however, had left the bridge a few weeks earlier as a result of heart problems. He has a £1.8m pension pot.

Adam Applegarth, former Northern Rock boss



Applegarth had such big ambitions. But the business model just collapsed when the credit crunch hit. Luckily for Applegarth, he walked away with a wheelbarrow of cash to ease the pain of his failure, and spent the summer playing cricket.

Dick Fuld, Lehman Brothers chief executive



The credit crunch had been rumbling on for more than a year but Lehman Brothers' collapse in September was to have a catastrophic impact on confidence. Richard Fuld, chief executive, later told Congress he was bewildered the US government had not saved the bank when it had helped secure Bear Stearns and the insurer AIG. He also blamed short-sellers. Bitter workers at Lehman pointed the finger at Fuld.

A former bond trader known as "the Gorilla", Fuld had been with Lehman for decades and steered it through tough times. But just before the bank went bust he had failed to secure a deal to sell a large stake to the Korea Development Bank and most likely prevent its collapse. Fuld encouraged risk-taking and Lehman was still investing heavily in property at the top of the market. Facing a grilling on Capitol Hill, he was asked whether it was fair that he earned \$500m over eight years. He demurred; the figure, he said, was closer to \$300m.

Ralph Cioffi and Matthew Tannin



Cioffi (pictured) and Tannin were Bear Stearns bankers recently indicted for fraud over the collapse of two hedge funds last year, which was one of the triggers of the credit crunch. They are accused of lying to investors about the amount of money they were putting into sub-prime, and of quietly withdrawing their own funds when times got tough.

Lewis Ranieri



The "godfather" of mortgage finance, who pioneered mortgage-backed bonds in the 1980s and immortalised in Liar's Poker. Famous for saying that "mortgages are math", Ranieri created collateralised pools of mortgages. In 2004 Business Week ranked him alongside names such as Bill Gates and Steve Jobs as one of the greatest innovators of

the past 75 years.

Ranieri did warn in 2006 of the risks from the breakneck growth of mortgage securitisation. Nevertheless, his Texas-based Franklin Bank Corp went bust in November due to the credit crunch.

Joseph Cassano, AIG Financial Products



Cassano ran the AIG team that sold credit default swaps in London, and in effect bankrupted the world's biggest insurance company, forcing the US government to stump up billions in aid. Cassano, who lives in a townhouse near Harrods in Knightsbridge, earned 30 cents for every dollar of profit his financial products generated - or about £280m. He was fired after the division lost \$11bn, but stayed on as a \$1m-a-month consultant. "It seems he single-handedly brought AIG to its knees," said John Sarbanes, a Democratic congressman.

Chuck Prince, former Citi boss



A lawyer by training, Prince had built Citi into the biggest bank in the world, with a sprawling structure that covered investment banking, high-street banking and wealthy management for the richest clients. When profits went into reverse in 2007, he insisted it was just a hiccup, but he was forced out after multibillion-dollar losses on sub-prime business started to surface. He received about \$140m to ease his pain.

Angelo Mozilo, Countrywide Financial



Known as "the orange one" for his luminous tan, Mozilo was the chairman and chief executive of the biggest American sub-prime mortgage lender, which was saved from bankruptcy by Bank of America. BoA recently paid billions to settle investigations by various attorney generals for Countrywide's mis-selling of risky loans to thousands who could not afford them. The company ran a "VIP programme" that provided loans on favourable terms to influential figures including Christopher Dodd, chairman of the Senate banking committee, the heads of the federal-backed mortgage lenders Fannie Mae and Freddie Mac, and former assistant secretary of state Richard Holbrooke.

Stan O'Neal, former boss of Merrill Lynch



O'Neal became one of the highest-profile casualties of the credit crunch when he lost the confidence of the bank's board in late 2007. When he was appointed to the top job four years earlier, O'Neal, the first African-American to run a Wall Street firm, had pledged to shed the bank's conservative image. Shortly before he quit, the bank admitted to nearly \$8bn of exposure to bad debts, as bets in the property and credit markets turned sour. Merrill was forced into the arms of Bank of America less than a year later.

Jimmy Cayne, former Bear Stearns boss



The chairman of the Wall Street firm Bear Stearns famously continued to play in a bridge tournament in Detroit even as the firm fell into crisis. Confidence in the bank evaporated after the collapse of two of its hedge funds and massive write-downs from losses related to the home loans industry. It was bought for a knock down price by JP Morgan Chase in March. Cayne sold his stake in the firm after the JP Morgan bid emerged, making \$60m. Such was the anger directed towards Cayne that the US media reported that he had been forced to hire a bodyguard. A one-time scrap-iron salesman, Cayne joined Bear Stearns in 1969 and became one of the firm's top brokers, taking over as chief executive in 1993.

Others

Christopher Dodd, chairman, Senate banking committee (Democrat)



Consistently resisted efforts to tighten regulation on the mortgage finance firms Fannie Mae and Freddie Mac. He pushed to broaden their role to dodgier mortgages in an effort to help home ownership for the poor. Received \$165,000 in donations from Fannie and Freddie from 1989 to 2008, more than anyone else in Congress.

Geir Haarde, Icelandic prime minister



He announced on Friday that he would step down and call an early election in May, after violent anti-government protests fuelled by his handling of the financial crisis. Last October Iceland's three biggest commercial banks collapsed under billions of dollars of

debts. The country was forced to borrow \$2.1bn from the International Monetary Fund and take loans from several European countries. Announcing his resignation, Haarde said he had throat cancer.

The American public

There's no escaping the fact: politicians might have teed up the financial system and failed to police it properly and Wall Street's greedy bankers might have got carried away with the riches they could generate, but if millions of Americans had just realised they were borrowing more than they could repay then we would not be in this mess. The British public got just as carried away. We are the credit junkies of Europe and many of our problems could easily have been avoided if we had been more sensible and just said no.

John Tiner, FSA chief executive, 2003-07



No one can fault 51-year-old Tiner's timing: the financial services expert took over as the City's chief regulator in 2003, just as the bear market which followed the dotcom crash came to an end, and stepped down from the Financial Services Authority in July 2007 - just a few weeks before the credit crunch took hold.

He presided over the FSA when the so-called "light touch" regulation was put in place. It was Tiner who agreed that banks could make up their own minds about how much capital they needed to hoard to cover their risks. And it was on his watch that Northern Rock got so carried away with the wholesale money markets and 130% mortgages. When the FSA finally got around to investigating its own part in the Rock's downfall, it was a catalogue of errors and omissions. In short, the FSA had been asleep at the wheel while Northern Rock racked up ever bigger risks.

An accountant by training, with a penchant for Porsches and proud owner of the personalised number plate T1NER, the former FSA boss has since been recruited by the financial entrepreneur Clive Cowdery to run a newly floated business that aims to buy up financial businesses laid low by the credit crunch. Tiner will be chief executive but, unusually, will not be on the board, so his pay and bonuses will not be made public.

... and six more who saw it coming

Andrew Lahde

A hedge fund boss who quit the industry in October thanking "stupid" traders and "idiots" for making him rich. He made millions by betting against sub-prime.

John Paulson, hedge fund boss

He has been described as the "world's biggest winner" from the credit crunch, earning \$3.7bn (£1.9bn) in 2007 by "shorting" the US mortgage market - betting that the housing bubble was about to burst. In an apparent response to criticism that he was profiting from misery, Paulson gave \$15m to a charity aiding people fighting foreclosure.

Professor Nouriel Roubini

Described by the New York Times as Dr Doom, the economist from New York University was warning that financial crisis was on the way in 2006, when he told economists at the IMF that the US would face a once-in-a-lifetime housing bust, oil shock and a deep recession.

He remains a pessimist. He predicted last week that losses in the US financial system could hit \$3.6tn before the credit crunch ends - which, he said, means the entire US banking system is in effect bankrupt. After last year's bail-outs and nationalisations, he famously described George Bush, Henry Paulson and Ben Bernanke as "a troika of Bolsheviks who turned the USA into the United Socialist State Republic of America".

Warren Buffett, billionaire investor

Dubbed the Sage of Omaha, Buffett had long warned about the dangers of dodgy derivatives that no one understood and said often that Wall Street's finest were grossly overpaid. In his annual letter to shareholders in 2003, he compared complex derivative contracts to hell: "Easy to enter and almost impossible to exit." On an optimistic note, Buffett wrote in October that he had begun buying shares on the US stockmarket again, suggesting the worst of the credit crunch might be over. Now is a great time to "buy a slice of America's future at a marked-down price", he said.

George Soros, speculator

The billionaire financier, philanthropist and backer of the Democrats told an audience in Singapore in January 2006 that stockmarkets were at their peak, and that the US and global economies should brace themselves for a recession and a possible "hard landing". He also warned of "a gigantic real estate bubble" inflated by reckless lenders, encouraging homeowners to remortgage and offering interest-only deals. Earlier this year Soros described a 25-year "super bubble" that is bursting, blaming unfathomable financial instruments, deregulation and globalisation. He has since characterised the financial crisis as the worst since the Great Depression.

Stephen Eismann, hedge fund manager

An analyst and fund manager who tracked the sub-prime market from the early 1990s. "You have to understand," he says, "I did sub-prime first. I lived with the worst first. These guys lied to infinity. What I learned from that experience was that Wall Street didn't give a shit what it sold."

Meredith Whitney, Oppenheimer Securities

On 31 October 2007 the analyst forecast that Citigroup had to slash its dividend or face

bankruptcy. A day later \$370bn had been wiped off financial stocks on Wall Street. Within days the boss of Citigroup was out and the dividend had been slashed.

- Tomorrow in part three of the Road to Ruin series - The Barons of Bankruptcy - how going bust can be a profitable business

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