

# Index

- ABS. *See* Asset-backed security
- ABX index, during 2007–2008, 102
- definition, 402n2
- Accounting
- domestic versus international standards, 310–312
  - goodwill write-offs, 308–309
  - historical, 298–299, 317
  - off-balance sheet, 53–54
  - principles, 425n3
  - rules, 295–318
  - transparent, 307–309
  - violations, 34–36
- Adjustable rate mortgage (ARM), 10–12
- Advisers, distinction between brokers and, 136–138
- AFS. *See* Available-For-Sale
- AIG, xv, 93, 140, 213, 267, 271
- bail outs and, 77–79, 98
  - credit default swaps and, 75–77
  - potential and actual exposure of Federal Reserve and, 168
- Allied Capital, 105
- Alt-A mortgage, 14
- originators, 16
- AMBAC, 75–77
- American Bankers Association, 296
- American Express, 213
- American Recovery and Reinvestment Act of 2009 (Stimulus Plan or Act), 252, 265–266, 270–273, 292–293, 347–348, 395n33, 431n86
- American Society of Appraisers, 395n26
- American Society of Farm Managers and Rural Appraisers, 395n26
- AMLF. *See* Asset-backed commercial paper money market mutual fund liquid facility
- Andersen, Arthur, 35
- Antideficiency statutes, 22
- Antonov, Peter, xii, xiv, xv
- Appraisal Institute, 395n26
- Arbitrage, 111
- Argentina, 348
- ARM. *See* Adjustable rate mortgage
- Asset-backed commercial paper (ABCP) money market mutual fund (MMMF) liquid facility (AMLF), 162, 168
- Asset-backed security (ABS)
- Fed support, 160–161, 166, 167, 236–241
  - investing in, 92
  - ratings, 144
  - volume, 238, 377
- AT&T, 173
- Australia, 186
- Available-For-Sale (AFS), 300, 307
- classification, 302
- Bad bank, 249–250, 376–377
- Bailout Act (or Bill) of 2008, 201–204, 268–269, 270–272
- banks and, 205–233
  - increasing lending volumes and removing toxic assets, 235–262

- Bailouts. *See* Financial bail outs
- Bair, Sheila, 145, 252
- Balance sheets, off-balance sheet financing, 49–58
- Banco Santander, 221
- Bank holding company, 213
  - activities of, 130, 138
  - conversion into, 212–214
    - FDIC guarantee of borrowing, 169–175
- Bank Holding Company Act, 141–142
- Bank of America, 32, 98, 222, 267
  - acquisition of Merrill Lynch, 98, 107, 130, 222, 224–225
  - investments in, xviii
  - leveraging and, 133
- Bankruptcy, 258–259
  - Mortgage modification in, 261–262
- Banks. *See also* Boards of directors; Executive compensation
  - anticyclical measures, 147–150
  - Bailout Act of 2008 and, 205–233
  - capital for small banks, 211–212
  - capital requirements to cope with excess leverage, 149–150
  - contingent reserves in good times, 147–149, 408n65
  - credit ratings and internal risk ratings, 144–145
  - FDIC guarantee of borrowings, 169–175
  - Justice Department and, 207–208
  - leverage ratio effects, 134
  - leveraging at, 129–152
  - models of federal ownership of, 223
  - moving toxic assets to, 249–250
  - need for a consolidated regulator, 134–136
  - practical approaches to bank capital, 146–147
  - reform of capital requirements, 143–147
  - Spanish, 147–148
  - statistics of depository institutions, 182
- Barclays, 78
- Barron's*, 247
- Barroso, Jose Manuel, 320
- Base fee
  - for hedge funds, 112–113, 117
- Basel Accords, 130–131, 143–146, 342
- Basis point
  - example 192–193
- Bear raid, 106
- Bear Stearns, 118, 131, 149–150
  - equity price and S&P ratings actions, 63
  - failure of, 106–107
  - leveraging and, 129–133
- Belgium, 344
- Bernanke, Ben (Fed chairman), 12–13, 97, 157, 161, 201, 202, 224
- Boards of directors, 263–294
  - chair/CEO separation, 283–284, 424n38
  - election of, 286–288, 424n41
  - proxy access, 288–289
  - shareholders and, 285–291
  - voting standard, 424n41
- Bond rating, 62–63
- Bonuses, 90, 268–273, 277–278, 280–282
- Bordo, Michael, 335
- Born, Brookly, 80, 81
- Boston Private Bank & Trust Company, 212
- Boston Private Financial Holdings, 212
- Brazil, 8, 165, 343, 344, 349, 428n9
- Breaking the buck, 187–188
- Brendsel, Leo, 35
- Brokers
  - distinction between advisers and, 136–138
  - leveraging, 129–152
- Brookings Institution, 158, 327
- Bubble. *See* Financial bubble
- Buffett, Warren, 35–36, 77, 83, 218, 305–306
  - preferred stock terms, 219
- Bush, George W. (President), 98, 202, 210, 235, 251, 264
- BusinessWeek*, 251
- Calomiris, Charles, 145
- Canada, 159, 220, 332, 343
- Capital
  - mortgage, 41–43
    - requirements for banks, 129–132, 143–147
- Capitalism, one-way, xviii, 202, 210, 226, 235, 251
- Capital One, 213
- Capital requirements, 129–134, 143–150, 309
- Cayman Islands, 344
- Cayne, Jimmy, 164
- CDO. *See* Collateral debt obligation
- CDS. *See* Credit default swaps
- Central bank
  - independence, 166–168, 333
- CEO. *See* Chief Executive Officer
- CFO. *See* Chief Financial Officer
- CFTC. *See* Commodity Futures Trading Commission
- Chanos, Jim, 105
- Chief Executive Officer (CEO), 263, 423n26
- Chief Financial Officer (CFO), 269
- China, 8, 319, 323, 324–325, 328–330, 332, 344, 349
- Chrysler Corporation, 210, 346
- CIFG, 76
- Cisco, 183
- CIT, 214
- Citigroup, 53, 84, 88–90, 142, 222, 225–226, 267
  - federal assistance and, 226–229
- Clawback, 270, 281
- Clearinghouse, 81–82
- Coates, Professor, 217
- Code of Conduct, 345
- Collateral debt obligation (CDO), 73–75, 243, 248–249
- Colombia, 349
- Commercial paper, 153–154, 164–166
  - short-term, 52, 153
- Commercial paper funding facility (CPFF), 163, 168
- Commodity Futures Modernization Act, 81
- Commodity Futures Trading Commission (CFTC), 79–80
  - definition, 443

- Conforming loan, 253
- Congress, 243, 395n33
  - bail out laws and, 140, 167
  - establishment of insurance on bank deposits, 181
  - executive compensation and, 264–275, 422n10
  - fair market value and, 304–305
  - financial conglomerates and, 136
  - regulation of Fannie Mae and Freddie Mac, 36–38
  - tax deductions for mortgage interest and, 23–24
- Congressional Budget Office, 37, 327–334
- Conservatorship, 206
- Consolidated regulator, 134–136
- Consolidated Supervised Entities (CSE) program, 134–136
- Consumer Federation of America, 31
- Consumer Financial Protection Agency, 369–370, 395n31
- Consumer Price Index (CPI), 181–182
- Continental Illinois Bank, 227
- Contingent obligation, 53–55
- Counterparty risk, 78
- Countrywide Financial, 32, 98
- Covered bonds, 54–55
- CPFF. *See* Commercial paper funding facility
- CPI. *See* Consumer Price Index
- Credit default swaps (CDS), 174, 214
  - AIG and, 77–79
  - bond investors and, 70–82
  - clearinghouse for, 81–82
  - collateralized debt obligation, 74
  - common transaction, 70
  - errors, 94
  - federal regulations and, 79–81
  - versus insurance contracts, 72–73
  - mathematical models and, 69–96
  - models, 83–92
  - monoline insurers and, 75–77
  - notional amounts outstanding, 71
  - payouts, 79
  - risks, 73–75
  - trends, 91–92
- Credit guarantees, 52
- Credit-rating agency
  - conflicted position of, 58–65
  - rating downgrades, 60
  - ratings users, 62–63
  - reforms, 63–65
  - regulatory responses, 60–61
  - revenues, 58–59
- Credit ratings, 60–62, 144–145
- CSE. *See* Consolidated Supervised Entities program
- Current account deficit, 321–322
  
- Danish model, 56–58, 66
- Davos conference (2009), 319
- Debt security
  - amortized cost, 197
- Default
  - mortgage, 5, 17, 23, 86, 257
- Deficit Reductions Act of 1984, 422n11
- Deflation, 157–158
- Deleveraging, 122–127
- Democrats, 36
- Department of Housing and Urban Development (HUD), 16–18
  - definition, 443
  - setting affordable housing goals, 30–31
- Department of Veterans Affairs (VA), 39
- Deposits, insuring, 179–199
- Derivatives
  - OTC, 80–81
  - technology and, 90–91
  - Warren Buffett on, 35–36
- Deutsche Bank, 78
- DeWitt, Ruth, 15
- Discover Financial, 213
- Dividend
  - limits on, 217–219, 221
- Dodd, Christopher J. (Senator), 202
- Doha Round, 348–349
- Dot-com bubble, 3, 335
- Drexel Burnham Lambert, 209
- Duff & Phelps, 218
  
- Economic Stabilization Act of 2008, 98, 121
- Eichengreen, Barry, 335
- Einhorn, David, 105
- Eisman, Steve, 75, 84
- Emergency Economic Stabilization Act of 2008 (Bailout Act or Bill), 163, 266, 268, 416n7
- England, 159, 173
- Enron, 105, 270
- Escrow account, 13
- EU. *See* European Union
- Euro, 330–331
- European Union (EU), 173–174, 312, 320, 346, 349
  - dollar versus yen and Euro, 330–331
- Exceptional assistance, 222–226
- Executive compensation, 263–294
  - accountable capitalism and, 275–281
  - advisory votes and, 289–291
  - base salary and bonus, 277–278, 282
  - Boards of directors and, 281–285
  - bonuses, 269, 281
  - broad-based restrictions, 267–275
  - CEO salaries, 423n26
  - consultants, 273, 423n26
  - downside risk and, 277–278
  - Federal restrictions, 265–266
  - golden parachutes, 265–266, 423n20
  - limits, 423n15
  - performance measurement, 277
  - principles, 282
  - quantitative metrics and, 278
  - restrictions, 268–275
  - say-on-pay, 284, 289–291
  - Special Master to approve, 267, 274, 284–285

- Executive compensation (*continued*)  
 stock options and restricted stock, 278–280, 282  
 tax deduction limits, 266  
 termination, retirement, and payment deferrals,  
 280–281, 282
- Fair market value (FMV), 295–318  
 adoption of international financial reporting  
 standards, 309–314  
 changes to, 306–309  
 description, 299–302  
 historical cost accounting versus, 297–302  
 pros and cons, 302–306  
 support for, 296–297
- Fannie Mae (Federal National Mortgage Association),  
 3, 4, 5  
 balance sheet liabilities and MBS obligations, 32–34  
 charter of, 28  
 conservatorship, 98  
 definition, 443  
 failure of, 107–108  
 future of, 38–44  
 government charter, 29–30  
 history, 28–31  
 losses, 396n1  
 reorganization of functions, 40  
 share of residential mortgage debt, 29  
 transfer to coop, 44
- FAS157. *See* *Statement of Financial Accounting Standards*  
*No. 157*
- FASB. *See* Financial Accounting Standards Board
- Fat tail distribution, 85–86
- FDIC. *See* Federal Deposit Insurance Corporation
- Fed. *See* Federal Reserve Board of Governors
- Federal deficit, 327–328
- Federal Deposit Insurance Corporation (FDIC), 29–30,  
 55, 412n9  
 for bank deposits, 180–186  
 debt guarantee, xvii  
 definition, 443  
 description, 396–397n3  
 guarantee of borrowings of banks and holding  
 companies, 169–175  
 inflation adjusted increased in insured-deposit limit, 181
- Federal funds rate, 154, 156
- Federal Home Loan Mortgage Corporation (Freddie  
 Mac), 3, 4, 5–6, 27  
 definition, 443
- Federal Housing Administration (FHA), 28  
 General Accounting Office and, 20–21  
 mortgage insurance and, 25  
 no down payment loans and, 20–21
- Federal National Mortgage Association (Fannie Mae),  
 3, 4, 5, 27  
 definition, 443
- Federal Reserve Act, 163
- Federal Reserve Bank of Cleveland, 182
- Federal Reserve Bank of New York (FRBNY), 163, 334
- Federal Reserve Board of Governors (Fed), 93, 333  
 bail out of AIG and, 98  
 definition, 443  
 description, 166  
 exposure to financial bail out, 168  
 exposure to losses, 166–169  
 Federal funds rates, 156  
 LIBOR versus Fed funds rate, 154–155  
 outline of new lending programs, 161–165,  
 161–169  
 role in elevating U.S. housing prices, 9
- Federal Reserve discount window, 161
- Federal Trade Commission (FTC), 17  
 definition, 443
- FGIC, 76
- FHA. *See* Federal Housing Administration
- FICO scores, 87
- Fidelity Investments, 84, 92, 137, 142–143, 415n59
- FIFO. *See* First in, first out
- Financial Accounting Standards Board (FASB), 51, 296,  
 310, 398n9  
 accounting rules, 53–54  
 definition, 443
- Financial bailouts  
 AIG and, 77–79, 98  
 Congress and, 140  
 decisions made by President and executive branch,  
 167  
 exposure of Federal Reserve and, 168  
 Federal Reserve and, 98
- Financial bubble, 92  
 psychological and economic causes, 336–339
- Financial crisis, xi–xx, 1–6  
 accounting rules and, 295–318  
 international implications, 321–354  
 savings and spending, 324–327
- Financial Industry Regulatory Authority (FINRA), 137  
 definition, 443
- Financial institutions, short-selling and, 106–108
- Financial Services Authority (FSA), 314–316
- Financial Stability Forum, 340–341, 428n9
- FinCredit, xii
- FINRA. *See* Financial Industry Regulatory Authority
- First in, first out (FIFO), 311, 427n31
- First-time home purchasers, 395n33  
 tax credits, 20–21
- Fishbein, Allen, 31
- Fisher, Richard, 159
- Fitch, 58
- Fitch Reports, 257
- Five Investment Banks, 131. *See also* Bear Stearns;  
 Goldman Sachs; Lehman Brothers; Merrill  
 Lynch; Morgan Stanley  
 demise of, 131–138, 139  
 gross leverage ratios, 133  
 leverage ratio effects, 134

- Fixed-rate mortgage  
interest rates, 239, 260
- FMV. *See* Fair market value
- FOFs. *See* Funds of hedge funds
- Forbes, Steve, 296
- Foreign currency, 8–9, 328–331
- France, 173, 308, 314, 320, 344, 346
- Frank, Barney, 114, 342, 433n26
- FRBNY. *See* Federal Reserve Bank of New York
- Freddie Mac (Federal Home Loan Mortgage Corporation), 3, 4, 5–6. *See also* Mortgage-backed securities  
balance sheet liabilities and MBS obligations, 32–34  
charter of, 28  
conservatorship, 98  
definition, 443  
failure of, 107–108  
future of, 38–44  
government charter, 29–30  
history, 28–31  
reorganization of functions, 40  
share of residential mortgage debt, 29  
transfer to coop, 44
- FSA. *See* Financial Services Authority
- FTC. *See* Federal Trade Commission
- Fuld, Richard, 107, 123, 264
- Functional regulation, 364–366
- Funds of hedge funds (FOFs), 113–114, 126  
protection, 116–118
- G20. *See* Group of Twenty
- GAAP. *See* Generally accepted accounting principles
- GAO. *See* General Accounting Office
- GDP. *See* Gross domestic product
- Geithner, Timothy, 119, 159, 164, 211, 275, 293, 423n27
- General Accounting Office (GAO)  
definition, 443  
Federal Housing Authority and, 20–21
- General Electric Capital, 173, 300
- Generally accepted accounting principles (GAAP), 297, 309–314, 317  
by loan classification, 301  
by security classification, 301
- General Motors, 214, 346
- Genworth, 214
- German Marshall Fund, 347
- Germany, 173, 320, 331, 346
- Gingrich, Newt, 296
- Ginnie Mae (Government National Mortgage Association), 27–28, 39–41, 45, 48  
definition, 443  
promotion of government-insured mortgages, 41
- Glaser, Howard, 20
- Glass-Steagall Act, 138–143  
“lite,” 140–142  
reinstatement, 138–140, 384–385, 391  
repeal, 138  
revenue synergies, 142–143
- GMAC, 213–214
- Golden parachutes, 265–266, 270, 272–273, 275, 292, 423n20. *See also* Executive compensation; Severance
- Goldman Sachs, 78, 87, 98, 131, 212–213, 383–385  
leveraging and, 130  
preferred stock terms, 219
- Goldschmid, Harvey (SEC Commissioner), 132, 134
- Good bank, 249–250, 261, 376–377, 390
- Goodwill  
write-offs, 308–309
- Gorton, Gary, 88, 90
- Government  
American Recovery and Reinvestment Act of 2009 (Stimulus Plan or Act), 252, 265–266, 270–273, 292–293, 347–348, 395n33, 431n86  
Bailout Act (or Bill) of 2008 and, 206–210  
guarantee of banks and holding companies borrowing, 173–174  
models of federal ownership of banks, 223  
money market funds’ assets and net new cash flows, 191  
subsidization of mortgages, 39
- Government National Mortgage Association (Ginnie Mae). *See* Ginnie Mae
- Gramlich, Edward (Federal Reserve Governor), 11–12
- Gamm Leach Bileley Act of 1999, 434n47
- Grayson–Himes Pay for Performance Act of 2009, 422n10
- Great Britain, 344
- Great Depression, 28, 103
- Greenberg, Evan, 172–173, 215
- Greenberger, Michael, 80
- Greenspan, Alan (Federal Reserve Governor), 11–12, 80, 91, 335
- Gross domestic product (GDP), 158, 322–323, 327–328
- Group of 20 (G20), 343, 344, 348–352  
definition, 443
- Group of 30, 150, 193, 414n54
- Hammergren, John, 280
- Hanson, Mark, 257
- Hedge funds, 111–122  
asset concentration, 120  
assets and market positions 1990–2008, 112  
“backfill bias,” 404n39  
characteristics, 111–112  
client protection, 114–116  
compensation of hedge fund managers, 121–122  
confidential reports and, 118–121  
fund borrowing, 120  
growth of, 112–114  
illiquid assets, 120  
implicit leverage, 120  
protection of funds of hedge funds, 116–118

- Hedge funds (*continued*)  
 redemption requests, 120  
 risk assessment, 120  
 structure of, 113  
 trading counterparties, 120  
 valuation methods, 120
- Hedging, 34–35, 41, 105
- Held-For-Investment (HFI), 300–301
- Hold-For-Sale (HFS), 300–302, 306–307
- Held-To-Maturity (HTM), 300–301
- Hele, John, 346
- Herz, Robert, 296, 305
- HFI. *See* Held-For-Investment
- HFS. *See* Held-For-Sale
- H4H Program, 252–253
- Historical cost accounting, 203, 295, 298–299, 309, 312, 316, 317, 340–341
- Holland, 346
- Home equity loan, 23–24
- Homeowner's HOPE Hotline, 251
- Homestead exemptions, 23
- Hope Now Alliance, 251
- House Banking Committee, 36
- House Financial Services Committee, 37
- Housing  
 lending standards, 32  
 low-income, 31–36  
 rise and fall of U.S. housing prices, 7–25  
 stock market and, 97–99  
 U.S. home ownership rates, 30
- Housing and Economic Recovery Act of 2008, 37, 396n2
- Housing slump, 1–6
- HTM. *See* Held-To-Maturity
- HUD. *See* Department of Housing and Urban Development
- Hummel, Alan, 395n26
- IASB. *See* International Accounting Standards Board
- IBM, 105
- IFRS. *See* International financial reporting standards
- Illiquid assets, 120, 248, 300, 317, 341
- Illiquid markets, 248, 303–305
- IMF. *See* International Monetary Fund
- Incentive fee, 112–113, 117, 121–122, 126–127
- Independent Bank of Michigan, 217
- India, 343, 344, 349
- Indonesia, 348
- Indy Mac, 98, 206, 251
- Inflation, 115, 155, 176, 181, 332  
 adjusted home price index versus real S&P 500 stock price index, 2  
 Fed and, 159–161  
 investors and, 158–159  
 versus short-term rates, 155–161
- Inflation target, 159–160, 332–333, 409n14, 429n43
- ING, 346
- Institute of Certified Financial Analysts, 308
- Insurable interest, 72, 92
- Insurance, 75–76, 79, 92–93, 142, 146, 170–172, 215  
 for deposits, 179–199  
 for money market funds, 179–199  
 for mortgages, 25  
 regulation, 136, 406n13
- Insurance contracts, versus credit default swaps, 72–73
- Interest rates, 156–158  
 Federal funds rates, 156  
 high-yield mortgages and, 9–12  
 limitations of cutting rates, 156–158  
 tax deductions for mortgage interest, 23–24
- Internal Revenue Service (IRS), 220, 273  
 nonprofit status revocation and, 20
- Internal risk models, 130, 131, 134, 144–145
- International accounting principles, 297
- International Accounting Standards Board (IASB), 296, 307, 309–314  
 debt and, 426n20  
 definition, 443  
 regulatory systems, 314–316
- International Financial Reporting Standards (IFRS), 297, 309–310, 312–314
- International Monetary Fund (IMF), 332, 343  
 definition, 444  
 financing, xviii
- International Organization of Securities Commissioners (IOSCO), 345
- Internet stocks, 10, 92. *See also* Financial bubble
- Investment Advisers Act of 1940, 114, 116, 126, 137, 366, 389, 404n34
- Investment banks, 3, 98, 139, 150–151  
 demise of five large, 129–138
- Investment Company Act of 1940, 115, 404n32, 415n59
- Investment Company Institute, 196, 199
- Investor Protection Act of 2009, 423n26
- Investors, foreign, 9, 158, 160, 176, 323, 328, 331–334
- IOSCO. *See* International Organization of Securities Commissioners
- IRS. *See* Internal Revenue Service
- Isaac, William, 145
- Ivashina, Professor, 237
- Japan, 308, 328–330, 344  
 dollar versus yen and Euro, 330–331  
 housing during the 1990s, 1–3
- John Deere, 434n47
- John F Kennedy Profiles in Courage Award, 81
- Johnson, Ned, 92
- Johnson, Simon, 344
- Jones, Tom, 302
- J.P. Morgan, 63, 98, 211  
 leveraging and, 130
- Justice Department, Bailout Act of 2008 and, 207–208, 383–384, 391

- Kanjorski, Paul, 305  
 King, Mervyn, 165  
 Korea, 165  
 Kroszner, Professor, 139, 251
- Lamy, Pascal, 348  
 Lay, Ken, 105  
 Legacy loans, 244–246, 260  
 Legacy securities, 244–248, 260  
 Legislation  
   American Recovery and Reinvestment Act of 2009, 266, 270–273, 395n33, 431n86, 435  
   antideficiency laws, 22–23  
   Bank Holding Company Act, 141–142  
   Commodity Futures Modernization Act, 81  
   Deficit Reductions Act of 1984, 422n11  
   Emergency Economic Stabilization of 2008 (Bailout Act or Bill), 98, 121, 163, 201–204, 266, 268, 272, 437  
   Federal Reserve Act, 163  
   Glass-Steagall Act, 138–143, 438  
   Gramm Leach Bliley Act of 1999, 434n47  
   Grayson-Himes Pay for Performance Act of 2009, 422n10  
   homestead exemptions, 438  
   Housing and Economic Recovery Act of 2008, 37–38, 396n2  
   Investment Advisers Act of 1940, 114, 116, 126, 137  
   Investment Company Act of 1940, 115, 404n32, 415n59  
   Investor Protection Act of 2009, 423n26  
   Mortgage Reform and Anti-Predatory Lending Act, 14  
   Real Estate Settlement and Procedures Act (RESPA), 17  
   SAFE Mortgage Licensing Act, 16–18  
   Sarbanes-Oxley Act of 2002, 270, 276, 335, 441  
   Securities Act of 1933, 81, 115, 116  
   Stimulus Act of 2009, 17, 203, 221–222, 252, 292–293, 347, 348
- Lending  
   legacy loans and legacy securities program, 245–246  
   modifications for salvaging toxic assets, 250–251  
   moving toxic assets to banks, 249–250  
   securitization and, xvii, 237–242  
   short-term, 5, 47–67, 153–177
- Leverage ratio, 119, 122–134, 139, 146, 149–152
- Leveraging, 122–125  
   at brokers and banks, 129–152  
   implicit leverage, 120  
   leverage ratio effects, 134
- Levit, Arthur (SEC Chair), 80  
 Lewis, Ken, 224  
 LIBOR. *See* London interbank offered rate  
 Liechtenstein, 344  
 Lincoln National, 214
- Liquidity put, 52–53, 55  
 Liquidity risk, 87–88, 89, 94, 145  
 Lo, Andrew, 124–125  
 Loan loss reserve, 54, 147–149, 152, 340, 408n63  
 Loan modification programs  
   under Bush administration, 251–253  
   under Obama administration, 253–258, 421n41  
   percentage of loans delinquent, 256  
   qualifications, 255  
 Loan-to-value ratio, 87, 146, 152  
 Lockhart, James, 252  
 London interbank offered rate (LIBOR)  
   versus Fed funds rate, 154–155, 165, 410n24  
 Long position, 111  
 Long-Term Capital Management, 81, 118, 334  
 Low-income housing, 31–36  
   lending standards, 32  
 Ludwig, Eugene, 249  
 Lump sum payouts, 280–281
- MAC. *See* Material adverse condition clause  
 Mack, John, 107  
 Madoff, Bernie, 136–137, 344  
 Maheras, Thomas, 88–90  
 Malaysia, 348  
 Malkiel, Burton G., 117  
 Market capitalization, 58, 197, 226, 295–296, 300, 374  
 Markopolos, Harry, 136–137  
 Mark-to-market, 300–303, 308, 312  
 Mark-to-model, 303–306  
 Marumoto, Kimberly, 13  
 Material adverse condition (MAC) clause, 224  
 MBIA, 76, 77  
 MBS. *See* Mortgage-backed securities  
 MCIs. *See* Mortgage credit institutions  
 McKesson Corp., 280  
 McKinnell, Hank, 263–264  
 Mega banks, 207, 209, 231. *See also* Banks  
   acquisitions, 207, 383–384  
   breakup of, 384  
   directors of, 276, 281, 283, 285, 386–388  
   ownership of, 226, 374–375
- Merkel, Angela, 320, 346  
 Merrill Lynch, 77, 78, 107, 131, 222–226  
   acquisition by Bank of America, 98, 107  
   leveraging and, 130
- Mexico, 165  
 MFS Investment Management, 283  
 Middle East, 328–330  
 Minneapolis Federal Reserve, 237  
 Mishkin, Frederic, 159  
 MMIFF. *See* Money market investor funding facility  
 Models, 83–92  
   for credit default swaps, 83–92  
   for fair market value, 305–306

- Monaco, 344
- Monetary policy
  - of the Fed, 166, 388
- Money market funds
  - assets and net new cash flows, 191
  - examples, 65, 415n64
  - inflows versus outflows, 415n59
  - instruments, 194
  - insuring, 179–199
  - shareholders, 414n43
  - at zero yields, 192–193
- Money market investor funding facility (MMIFF), 163, 168
- Monoline insurers, credit default swaps and, 75–77
- Moody's, xii, 58, 88
- Moral hazard, 170, 380
- Moral obligation, 30, 38
- Morgan Stanley, 98, 107, 131, 271
  - leveraging and, 130
- Mortgage-backed securities (MBS), 3, 27, 49, 138
  - capital tiers, 144
  - guarantee of, 39, 41
  - risks, 73–75
    - U.S. nonagency, 48
- Mortgage credit institutions (MCIs), 56–57
- Mortgage Institute, 56
- Mortgage modification, 261–262
- Mortgage prepayment
  - risks, 34, 46
- Mortgage Reform and Anti-Predatory Lending Act, 14
- Mortgages, 395n33
  - antideficiency laws, 22–23
  - debt in the United States, 5–6
  - delinquency rates, 2000–2008, 12
  - Fannie Mae and Freddie Mac residential mortgage debt, 29
  - federal oversight, 395n31
  - first and second, 254, 421n41
  - fixed-rate, 438
  - insurance for, 25
  - lending rules, 12–14
  - low interest rates and, 9–12
  - originations by loan type, 2001 and 2006, 11
  - originators, 16
  - raising mortgage capital, 41–43
  - risks for residential, 143–144
  - securitization, xii–xiv
    - in the private sector, 47–67
    - process, 3, 50
  - stabilization of the market in tumultuous times, 43–44
  - subprime, 60, 84–85
  - subsidization through government, 39
  - U.S. home ownership rates, 30
- Mozilo, Angelo, 32
- Mudd, Daniel, 32
- Musick, Troy, 15
- Mutual funds
  - banks managing, 141
- National Association of Independent Fee Appraisers, 395n26
- National City Corporation, 220–221
- Nationalization, 226–228
- Nationwide Insurance Co., 214
- NAV. *See* Net asset value
- Negative amortization loan, 14
- Negrych, Colin, 154
- Net asset value (NAV), 187–189, 189–190, 196–197
- New Century Financial, 98
- New Century Mortgage, 15
- New York Federal Reserve Bank, 118
- New York State Insurance Department, 76, 79–80, 93
- New York Stock Exchange, 138
- New York Times*, 106, 252, 264
- New Zealand, 186
- Niemeier, Charles, 313
- Nigeria, 428n9
- NINA (no income/no assets) mortgages, 32
- 9/11, 64
- Nonagency mortgage-backed securities, 48
- Nonbank lenders, 4, 15–17
- Nonrecourse loan, 165, 239–241, 244
- Normal distribution curve, 85–86
- Norway, 428n9
- Notional amount, 71, 400n3
- Obama Administration, 38–39, 122, 158, 171, 203, 210, 221–222, 235, 251, 253, 258, 264–265, 326, 336, 340, 343, 347, 349
  - loan modification program, 253–258, 421n41
  - private-public partnerships, 236–237
- OCL. *See* Other comprehensible income
- OECD. *See* Organization for Economic Co-operation and Development
- Off-balance sheet financing, 49–58
- Office of Federal Housing Enterprise Oversight (OFHEO), 33
  - definition, 444
  - regulation of, 36–38
- Office of National Insurance, 406n13
- Office of the Comptroller of the Currency (OCC), 367–368
  - definition, 444
- Office of the Inspector General (OIG), 132
- Office of Thrift Supervision (OTS), 367–368
  - definition, 444
- OFHEO. *See* Office of Federal Housing Enterprise Oversight
- OIG. *See* Office of the Inspector General

- Oil
  - price fluctuations, 8
  - producers, 428n9
- One-way capitalism, xviii, 226–228, 376
- Oracle, 173
- Organization for Economic Co-operation and Development (OECD), 345
- Originate, definition, 440
- Originate-to-sell, 18
- OTC. *See* Over-the-counter derivatives
- Other comprehensible income (OCI), 307, 425n7
- OTS. *See* Office of Thrift Supervision
- Over-the-counter (OTC) derivatives, 80
  
- Panama, 349
- Paulson, Henry M. (Treasury Secretary), 37–38, 54, 201, 202, 203, 215–216, 224, 225, 243, 268
- PDCF. *See* Primary dealer credit facility
- People's Bank of China, 331–332
- Permanent Impairment, 298–299
- Pfizer, 263–264
- Plosser, Charles, 166
- PNC Financial Services Group, 220–221
- Policy rate, 151–154
- Pollock, Alex, 13–14
- Ponzi scheme, 137
- PIIP. *See* Public-private investment program
- Preferred stock, 216–219, 221–222
- President's Working Group on Financial Markets (PWG), 118–119
  - definition, 444
- Preston, Steve (Secretary), 17, 252
- Price discovery, 241
- Pricewaterhouse Coopers (PWC), 35
- Primary dealer credit facility (PDCF), 162
- Primary dealers, 161
- Prime mortgage, 10
- Private equity fund, 116, 230, 366
- Private sector, securitization, 47–67
- Procyclicality, 147, 150
- Project Lifeline, 251
- Proxy access, 288–289, 424n47
- Proxy statement, 288–289
- Prudential Insurance Co., 214
- Public Company Accounting Oversight Board, 313
- Public-private investment program (PIIP), 244–248
- Putin, Vladimir (Prime Minister), 319
- Putnam Prime Money Market Fund, 188–189
- Put option, 90–91
- PWC. *See* Pricewaterhouse Coopers
- PWG. *See* President's Working Group on Financial Markets
  
- Raines, Franklin, 32
- Rajan, Professor, 139
- Real Estate Settlement and Procedures Act (RESPA), 17
  - Recapitalization, 210–233
    - of insurers, 210–215
  - Receivership, definition, 441
  - Reid, Harry, 36
  - Repos (repurchase agreements), 123
    - overnight, 124
  - Republicans, 36
  - Repurchase agreements (repos), 123
    - definition, 441
    - overnight, 124
  - Resolution Trust Corporation (RTC), 227, 228, 249
    - definition, 444
  - RESPA. *See* Real Estate Settlement and Procedures Act
  - Reverse auction, 243–244
  - Risk-weighted assets, 143–144
  - RTC. *See* Resolution Trust Corporation
  - Rubin, Robert, 53, 80
  - Run on the bank, 183, 215
  - Russell 3000, 109
  - Russia, 8, 319, 344, 428n9
  
  - SAFE Mortgage Licensing Act, 16–18
  - Saha, Atanu, 117
  - Sants, Hector, 315
  - Sarbanes-Oxley Act of 2002 (SOX), 270, 276, 283, 335
  - Sarkozy, Nicolas, 308, 320
  - Saudi Arabia, 8, 428n9
  - Savings and loan associations (S&Ls), 181, 249
  - Say-on-pay, 284, 289–291
  - SBA. *See* Small Business Administration
  - Schapiro, Mary, 137
  - Scharfstein, Professor, 217, 237
  - Schwab, 137
  - Schwarzman, Stephen, 425n3
  - SDRs. *See* Special Drawing Rights (SDRs)
  - SEC. *See* Securities and Exchange Commission
  - Securities Act of 1933, 81, 115, 116
  - Securities and Exchange Commission (SEC), 3–4, 29–30, 56, 399n29
    - ban on short selling of financial stocks, 98
    - boards of directors and, 288–289
    - capital requirements, 130
    - consolidated regulation and, 135–136, 405–406n11
    - definition, 444
    - description, 396–397n3
    - FMV and, 296
    - leveraging, 132–134
    - money market regulation, 186–187
    - mortgage-backed, xiv
    - reporting requirements, 108, 403n14
    - shareholders and, 288–289
    - short selling rules, 108
  - Securitization, xii–xiv, xvi, 237–242
    - in the private sector, 47–67
    - process, 3, 50

- Self-regulatory organizations (SROs), 137, 403n14
- Senate Agriculture Committee, 80
- Senate Banking Committee, 38
- Senior executive officers (SEOs), 269
- SEOs. *See* Senior executive officers
- Severance, 267, 280, 422n12. *See also* Golden parachutes
- Shareholders
- of money market funds, 414n43
  - participation in nomination of boards of directors, 285–291
  - proxies and, 288–289, 424n47
  - voting standard, 424n41
- Short position, 111
- Short selling, 104–110, 125
- description, 104–105
  - financial institutions and, 106–108
  - positives and negatives, 105
  - SEC and, 108
  - typical, 104
  - uptick rule and, 109–110
- Short-term lending, 153–177
- Federal Reserve and, 161–169
  - versus long-term rates, 157
  - in the private sector, 47–67
  - process, 3, 50
- Sovereign wealth fund, 230–231
- Spain, 338
- Special Drawing Rights (SDRs), 332
- Special Master, 267, 274, 284–285
- Statement of Financial Accounting Standards No. 157* (FAS157), 303–304
- valuation hierarchy, 304
- Stimulus Plan or Act. *See* American Recovery and Reinvestment Act of 2009
- Stock market
- in 2008, 98
  - housing prices and, 97–99
  - leveraging, 122–125
- Stocks
- executive compensation and, 278–280
  - Internet, 92
  - options and, 278–279
    - re-pricing, 279  - preferred, 217–218
  - restricted shares, 279–280
  - summary of estimated value conclusions, 216
- Stock warrants, 216–219, 374–375
- Structured finance, 145
- Subordinated debt, 146–147
- Subprime mortgage, 10–15
- Sullivan, Martin, 90
- Sun Trust Bank, 148
- Super-directors, 284, 387
- Superior Bank of Libya, xiv
- Sweden, 159, 173–174, 227, 332, 346
- Swensen, David, 117
- SWF. *See* Sovereign wealth fund
- Systemic risk, 359–364
- System Open Market Account (SOMA), 162
- Tabarrok, Alex, 139
- TAF. *See* Term auction facility
- TALF. *See* Term asset backed securities loan facility
- Tariffs, 348–350
- TARP. *See* Troubled Asset Relief Program
- Taxes
- credits for first-time home purchasers, 21–22, 395n33
  - deductions for mortgage interest, 23–24
  - tax deduction limits, 266
- Tax haven, 121, 339, 344–345
- Taylor, John, 209
- Taylor rule, 9, 10
- Temporary Liquidity Guarantee Program, 169, 180
- Term asset backed securities loan facility (TALF), 163, 168, 239–241, 245, 423n15
- Term auction facility (TAF), 162, 168
- Term securities lending facility (TSLF), 162, 168
- Thain, John, 107
- Thrift, 180
- Thrift holding company, 172, 411n42
- Toxic assets, 235–262
- Tranches, 71–75, 88–89
- Troubled Asset Relief Program (TARP), 103, 163, 209, 211, 218, 264, 269, 291–294, 423n20
- powers of, 274
- TSLF. *See* Term securities lending facility
- Tying arrangements, 141–142
- UBS, 78
- Umbrella regulator, 370–371
- Underwater mortgage, 256–258
- United Arab Emirates, 428n9
- United Bankshares, Inc., 212
- United Kingdom, 46, 332
- United States
- debt, 321–324
  - decline in personal savings, 326
  - dollar versus yen and Euro, 330–331
  - foreign investments and, 353–354
  - home ownership rates, 30
  - percentage of underwater home owners in, 22
  - potential and actual exposure to the financial bailout, 337
  - rise and fall of housing prices, 7–25
  - savings and spending, 325–327
  - schematic of financial system, xx
  - voting share, 344
- Universal banks, 132, 140, 385
- Uptick rule, 109–110
- reinstating, 110
- U.S. Bureau of Economic Analysis, 326
- U.S. Department of Agriculture, 21
- U.S. House of Representatives Committee on Oversight and Government Reform, 423n26

- U.S. Treasury, 27–28, 173, 273–274, 423n26
  - dollar fluctuations, 9
  - insurance program for money market funds, 179–180
  - investments, xviii
- U.S. Treasury bills, 192–193
- U.S. Treasury bonds, 325–326
  
- VA. *See* Department of Veterans Affairs
- Venezuela, 428n9
- Volcker, Paul, 150
  
- Wachovia, 220
- Washington Mutual Bank, 179
- Wells Fargo, 220, 228
  
- Wen Jiabao (Chinese Premier), 158–159, 319
- White, Eugene, 139
- Whitman, Professor, 219–220
- WorldCom, 270
- World Trade Organization (WTO), 342, 347, 350
  - definition, 444
- WTO. *See* World Trade Organization
  
- XLCA, 77
  
- Yen, 330–331
- YRC Worldwide Inc., 208
  
- Zhao, Min, 110
- Zhou Xiaochuan, 331–332

