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The Victors of Finance: How Federal Connections to Corporate Wealth Weakened Reforms in the 2008 Financial Crisis

Jordan S. Donohue
Bard College

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by
Jordan S. Donohue

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Dedication:

I would like to dedicate this project to myself.

Acknowledgements:

I would like to thank Rebecca Yoshino for being an amazing role model, manager, and dear friend. Working at the farm has been the most meaningful and joy-inducing aspect of my time at Bard College, all due to Rebecca, her incredible leadership, and overwhelmingly good spirit. No one has ever been such an exemplary pillar of character and unconditional support, as Rebecca has been to me in the last few years. Rebecca welcomed me to work on the farm during lockdown and has since been someone I can count on with absolute certainty. Working at the farm has been a way to balance the mental with the practical. Further, Rebecca's acceptance of others, dedication, and straightforwardness are qualities that I value deeply. I am so happy that I get to conclude my time at Bard with another season of farming after I graduate. I look forward to every chaotic market prep, (disgusting) mushroom hunt, secret strawberry patch, diggin' holes, and many new memories this summer. The farm stand is open on Thursdays from 12-5pm in front of Kappa House, don't be late or there won't be any mushrooms left.

I would also like to thank Professor Jeannette Estruth for advising my Senior Project. Her commitment to helping me make my argument specific allowed this project to grow into something I did not anticipate and of which I am very proud. We combed through nearly every detail of this project, to create a compelling narrative of a paramount event in recent history. I so appreciate the emphasis that Professor Estruth puts on the story-telling aspect of historical writing. Looking back at my education it makes a lot of sense why I would study history, after coming from theatre: because it is story-telling that *explains* and *contextualizes* our world. What I have most appreciated in working with Professor Estruth is that through her teaching and guidance she always asserts that *how* history is told matters.

A final thank you to all the members of my boards.

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Glossary:

Many terms below are interrelated or overlapping. In the interest of greatest comprehension, this glossary is ordered by specificity, starting with the most broad term.

Secondary Mortgage Market: An industry created by the Federal government through the 1970 Federal Home Loan Mortgage Corporation. It increased liquidity in the housing market in order to provide more mortgages. Home loans and services are bought and sold in this market.

Securitization: A process of the secondary mortgage market by which groups of debts are bunched together to form a financial product that can be bought and sold. It is meant to diversify risk and create a streamlined profit that is not entirely contingent upon timely loan repayment.

Mortgage-backed security (MBS): A specific form of securitization confined to the loans issued within the housing market.

Nonprime Loans (and its derivatives): Subprime, Alt-a, and Adjustable Rate mortgages all exist within the realm of nonprime loans. These are typically characterized by starter-rate loans in which the borrower is expected to pay monthly with a determined interest rate that changes after a period of a few years. Additionally, these loans are proportionally skewed to seek out borrowers with little assets, poor or no credit, and employment insecurity.

Government Supported Enterprise (GSE): A quasi-governmental agency bound to a private corporation, utilized to increase credit availability in the housing market. The most notable examples are Fannie Mae and Freddie Mac.

Tranche: A further derivative of securitization. It is a specific segment which is classified by the degree of risk associated with the loans contained in the overall group of securities.

Collateralized Debt Obligation (CDO): Nearly identical to MBSs, but can include a variation of loans sold in groups such as; mortgages, automobiles, education, and consumer credit.

Troubled Asset Relief Program (TARP): A program developed after the 2008 crisis which attempted to aid the economic distress on a national scale. The focus areas for TARP were: the automotive industry, bank investment, AIG investment, executive compensation standards, housing, and secondary credit markets.

Home Affordable Refinance Program: A Federal program developed in response to the 2008 crisis which permitted refinancing agreements for borrowers who may not have qualified under typical standards due to low credit scores, and negatively amortized homes.

Home Affordable Modification Program: A Federal program developed in response to the 2008 crisis aimed at helping homeowners refinance their mortgages. Refinancing was meant to reduce monthly payments for borrowers and avoid foreclosure.

Prologue:

Autumn of 2008 was the end of a remarkable year, and the beginning of an impending national crisis. 2008 made history when Barack Obama was the first black man elected President.[1] Tornadoes ripped across the southeast, devastating homes and lives.[2] Lady Gaga released her hit album *The Fame*.[3] However, no events compared to the fall of the stock market and the growing financial distress of the nation. Since the final months of 2008, when investment firms like Lehman Brothers collapsed, the word bailout has not been far from the ears or mouths of American residents. After the bailout, many corporations and their leaders faced an angry population, who believed them to be the cause of the nation's financial ruin.

Though there were many powerful private financial institutions at fault in the crisis, the United States Federal government was not blameless. The origin of securitization, a process of profiting from debts, was in the Federal government. The government's involvement in mortgage securities incentivized further private profits in the finance industry and increased wealth inequality. The national economy depended on profiting from the debts of Americans who often could not have access to homeownership without acquiring debt. Further, the national economy was built on the mortgage market, created through the Federal Housing and Finance Administration. This project argues that the Federal government's financial ties with Wall Street weakened reforms in the 2008 financial crisis.

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[1] Adam Nagourney, "Obama Wins Election." *The New York Times*, November 4, 2008. https://www.nytimes.com/2008/11/05/us/politics/05campaign.html.

[2] National Weather Service, "Super Tuesday Tornado Outbreak on February 5, 2008." February 5, 2008, https://www.weather.gov/meg/Feb_5_2008.

[3] Chris Harris, "Lady Gaga Brings Her Artistic Vision of Pop Music to New Album — and a New Kids Song." *MTV News,* June 9, 2008, https://www.mtv.com/news/1589013/lady-gaga-brings-her-artistic-vision-of-pop-music-to-new-album-and-a-new-kids-song/.

The 2008 financial crisis is not a simple event to recount. Many sources of prominence, from the *New York Times* to statements from government officials, have provided inconsistent reports for the cost of the bailout. Yet, if anything is clear from the last decade of public analysis on the 2008 financial crisis, it is that *there has not been a consensus on the amount of money it cost*. This became increasingly obvious when seeking out articles reporting the costs of A.I.G.'s bailout. The figures reported across popular media sources for the total amount given by the Federal government to A.I.G., ranged from approximately $80 billion to nearly $300 billion.[4] To provide the most accurate report on the amounts, I consulted Deborah Lucas' research from MIT, "Measuring the Cost of Bailouts," which provided an explanation of why a new accounting approach was needed, and how these cost analysis inconsistencies occurred.[5] Lucas' research focuses on producing innovative methods for accurate cost measurements. Her work is intersectional in the way that it incorporates new accounting methodologies, on-going research of risk-assessment management, and consultation for further public policy.[6]

Currently, she is a member of the Federal Reserve of New York's advisory board, an editorial board member of the *Annual Review of Financial Economics*, and consultant for the Congressional Budget Office (CBO): the latter position being the most relevant for this project.[7] With the CBO, Lucas has reported "fair-value" costs for a number of institutions related to the

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[4] "AIG Program Status," U.S. Department of the Treasury. U.S. Government, December 11, 2013, https://home.treasury.gov/data/troubled-assets-relief-program/aig/status; Edmund L. Andrews, Michael J. de la Merced, et. al. "Fed's $85 Billion Loan Rescues Insurer," *The New York Times*, September 16, 2008, https://www.nytimes.com/2008/09/17/business/17insure.html; "Actions Related to AIG." *Federal Reserve Bank of New York*, June 30, 2014, https://www.newyorkfed.org/aboutthefed/aig.

[5] Deborah Lucas, "Measuring the Cost of Bailouts." *Annual Review of Financial Economics,* Volume 11, 85-108, 2019, http://dx.doi.org/10.1146/annurev-financial-110217-022532.

[6] Deborah Lucas, "Biography." *MIT, Sloan School of Management,* Cambridge, Massachusetts, https://mitsloan.mit.edu/faculty/directory/deborah-j-lucas.

[7] Deborah Lucas, "Valuing the GSEs' Government Support." *Shadow Open Market Committee,* Princeton Club, New York, New York, May 5, 2017, 2.

2008 Financial Crisis.[8] Most prominently, her research for CBO has covered the Federal subsidization of notable Government Supported Enterprises (GSEs), Fannie Mae and Freddie Mac.[9] In all aspects, Lucas' research highlights the difficulties of creating new fiscal policy from existing accounting methods that are intrinsically biased. The goal of her work has been to produce measurements that are non-partisan. She states, "Unbiased valuations (and the adoption of a budgetary treatment that reflects those true costs) are essential for transparency, objective policy evaluation, and taxpayer protection."[10] Lucas' research additionally addresses how to define "cost" and the fundamental challenges of cost analysis in a globalized economy. Further, that in the United States, the governmental support for highly leveraged financial institutions has created accounting complications. This is clearly represented by the A.I.G. cost discrepancy. Ultimately, Lucas' preferred "fair value approach" operates by analyzing the intrinsic value of assets as a whole, rather than how the value would be measured in the market. In measuring the bailout she concluded that her fair value approach, "acknowledges that taxpayers ultimately provide the insurance and hence bear its cost."[11]

Lucas reconstructed the math for the bailout cost based on the inconsistencies in value perception. First, she explained how measurements for the amount of money spent are hard to quantify when the value is constantly in flux. Many reports show *ex post* amounts, often adjusted to reflect some of the money already paid back or profits gained after the event. There are also reports that show *ex ante* amounts, which represent the amount of money given, in the moment,

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[8] Deborah Lucas, "Recent Publications." *MIT, Sloan School of Management,* Cambridge, Massachusetts, http://dlucas.scripts.mit.edu/Publications,_Recent.html.

[9] Lucas, "Valuing the GSEs' Government Support," 2.

[10] Ibid.

[11] Ibid.

from the Federal government to the bailout recipient.[12] Lucas explained how the calculations for cost vary quite dramatically, and often are misrepresented by the press and the government.[13] Overall, Lucas provided new calculations for the bailout costs, that have been estimated at fair value. As for her explanation on why new methods of cost evaluation are needed and why there has been such a discrepancy:

> …credible cost assessments may reduce political and policy discord by helping to reconcile *widely divergent perceptions about fairness*, and the size and incidence of costs and benefits…A casual perusal of the sources of the conflicting estimates suggests that metrics often are adopted because they *provide answers that comport with prior beliefs* about whether government intervention is a good thing.[14]

The costs associated are usually reported as losses to the overall national wealth, represented in the GDP. Yet, what is often not addressed is the dichotomous nature of profit, debt, and cost in this context. While the bailout was created through government intervention, in the end it was funded from taxpayer money. Considering all of these intricate elements, Lucas' estimate for the total cost of the bailout is $498 billion.[15]

The 2008 financial crisis was purportedly remedied by intervention from the Federal government, who claimed that it ultimately earned the nation money. However, misalignment in reporting applies not only to reports of cost, but also to the insistence by political leaders that the crisis was profitable. As the crisis waned in the national economy, leaders spoke proudly of the crisis' resolution, explaining how the costs had turned to profits.[16] Even so, the profits were

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[12] Deborah Lucas, "Measuring the Cost of Bailouts." *Annual Review of Financial Economics,* Volume 11, 85-108, 2019, http://dx.doi.org/10.1146/annurev-financial-110217-022532, 6.

[13] Ibid., 12.

[14] Ibid., 4, 12. (Italics mine.)

[15] Ibid., 24.

[16] Barack Obama, "State of the Union Address." January 27, 2010, *Obama White House Archives*, https://obamawhitehouse.archives.gov/the-press-office/remarks-president-state-union-address.

reserved for the those in the financial industry and the Federal government; whose interests intersected through their participation in the secondary mortgage market.

The innovation of financial products during the late twentieth century fundamentally changed the economy. In that time, the secondary mortgage market emerged with its process of securitization. The complexity of securitization has increased since its creation, but is defined as, "…debt securities backed by the pooled receivables of existing loans, leases, trade financings, bonds, or other financial assets whose credit risk generally has been delinked from the credit of the originator or seller by sale, swap, or assignment."[17] In this way, securitization made credit more readily accessible to those in need of funds, but then locked them into an innately unjust formulation of repayment, in which the borrower had *zero leverage.* The objective of securitization, beyond creating further capital availability, was that bunched mortgages sold as a singular asset would be protected from losing overall value if any of its individual mortgages defaulted.[18] Furthermore, through securitization the distance between lender and borrower grows with the complexity of each securitized financial product. By repaying, borrowers can only hope to achieve incrementally lesser debt, property ownership, and a credit score reflective of "good" financial behavior.

At the epicenter of the 2008 financial crisis was the chaos of the secondary mortgage market and its many tributaries in consumer credit. Borrowers were often unable to pay back loans; because they did not have further cash, stable salaried jobs, or the financial literacy to

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[17] Sylvain Raynes and Ann Rutledge, *The Analysis of Structured Securities: Precise Risk Measurement and Capital Allocation.* Oxford University Press, Oxford, United Kingdom, 2003, vii.

[18] Government Accountability Office, "Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations." Report to Congressional Addressees. Washington, D.C., (January 2011), 95.

make informed decisions regarding loan agreements.[19] Further, because of the intentionally complicated nature of loan agreements, many borrowers were not aware of the risks of taking on nonprime loans. As such, many residents in the United States took on debts in the early 2000s that were nonprime; which included subprime, adjustable rate, and alt-a mortgages. All of which were approximately the same format, with minute differences in how they benefited lenders. These nonprime mortgages were inherently risky. The lenders of these non-prime mortgages often sought out borrowers who were much less able to continue making payments over time as they were typically low-income, with inadequate or nonexistent credit.[20] Though, many nonprime mortgages were also to residents who were of middle-class status. Even so, subprime loans were a financial product of immense profitability and their value grew from $100 to $600 billion between 2000 and 2006.[21]

The research presented in this project will begin with an overview on the development of the secondary mortgage market and its main avenue of profit, securitization. Securitization is a process by which debts are transformed into an elite currency and the profits were withheld from the general public. The creation of securitization is credited to the the Federal government and investment banker, Lewis Ranieri.[22] Through a government charter, Government Supported Enterprises (GSEs) Fannie Mae and Freddie Mac were created, and thus securitized mortgages

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[19] "Victimizing the Borrowers: Predatory Lending's Role in the Subprime Mortgage Crisis." *Knowledge@Wharton,* February 20, 2008, https://knowledge.wharton.upenn.edu/article/victimizing-the-borrowers-predatory-lendings-role-in-the-subprime-mortgage-crisis/.

[20] Ibid.

[21] Carolyn B. Maloney and Charles E. Schumer, "GAO: Characteristics and Performance of Nonprime Mortgages." Government Accountability Office, Washington, D.C., July 28, 2009, http://www.gao.gov/new.items/d09848r.pdf, 1.

[22] Cezary Podkul, "The Regrets of Lewis Ranieri." *The Wall Street Journal*, September 6, 2018. https://www.wsj.com/articles/the-regrets-of-lewis-ranieri-1536240610.

for borrowers in the United States.[23] Lewis Ranieri brought this process further into the private sector and innovated it for increased profits.[24]

Next, this project explains how the growth of the secondary mortgage market caused the economic collapse of 2008, most notably the obliteration of investment bank Lehman Brothers. Following the stock market crash, the Federal government developed a number of programs to aid the crisis: Troubled Assets Relief Program (TARP), Home Affordable Modification Program (HAMP), and Home Affordable Refinance Program (HARP). TARP provided capital to many failing investment firms and GSEs like Fannie Mae, and Freddie Mac. While HAMP and HARP were meant to provide loan adjustments for borrowers. It was a government bailout of epic proportions and despite all the money coming in, there was a loss of millions of jobs and trillions in household wealth.[25] The bailout was unpopular with the American people, especially after many investment firms chose to funnel their Federal money toward bonuses for executives.[26] In this process resolving the crisis there were key people present; Treasury Secretary Henry Paulson, Chairman of the Federal Reserve Ben Bernanke, incoming Treasury Secretary Tim Geithner, and head of the Federal Deposit Insurance Corporation (FDIC) Sheila Bair. These elected officials were part of the Bush and Obama administrations, the two presidents in power during the crisis. All had their say in drafting relief programs, though each with a differing perspective on their relative successes. After 2008, it became more clear to American residents

[23] Natalya Vinokurova, "How Mortgage-Backed Securities Became Bonds: The Emergence, Evolution, and Acceptance of Mortgage-Backed Securities in the United States, 1960-1987." *Cambridge University Press*, *Cambridge, UK* (2018), 25.

[24] Podkul, "The Regrets of Lewis Ranieri."

[25] Christopher J. Goodman and Steven M. Mance, "Employment Loss and the 2007-9 Recession: An Overview." *Monthly Labor Review*, April 2011, 3; Robert Rich, "The Great Recession." Federal Reserve History. Accessed January 30, 2022. https://www.federalreservehistory.org/essays/great-recession-of-200709.

[26] Reed Hundt. *A Crisis Wasted: Barack Obama's Defining Decisions*. (New York, NY: RosettaBooks, 2019), 140.

that the Federal government had ample money to provide, an estimated $700 billion for TARP alone. Even so, very little came close to the hands of the people.

Following the section on the market collapse of 2008, data is provided for the scope of income and wealth lost, compared to the overall economic growth of the nation. The expansion in the United States' economy, particularly in the secondary mortgage market, paved the way for lowered interest rates, increased home sales, and more people borrowing money to gain or keep access to housing. During that period, many new homeowners received Adjustable Rate Mortgages (ARMs) which began at lower rates and then would increase after the first few years.[27] In 2007, these rates increased and sparked a chain of foreclosures in many states, most severely in Florida and California.[28] As such, many residents became newly acquainted with the brutal proceedings of foreclosure and eviction.

In an unethical financial industry built on debt, there was also rampant fraud. Beyond notable examples like the executives at A.I.G. who were found guilty of fraud and still received Federal money, there were also many lower-level workers who admitted to signing off on foreclosure and mortgage-related documents without even reading them. Thus, a complete lack of regulation lead to nearly five million evictions between 2006 and 2010.[29] Evictions were such a common experience that they were the subject of the World Press Photo in 2008, and were described as a *war coming into people's homes*.[30] Overall, debt in relation to household wealth

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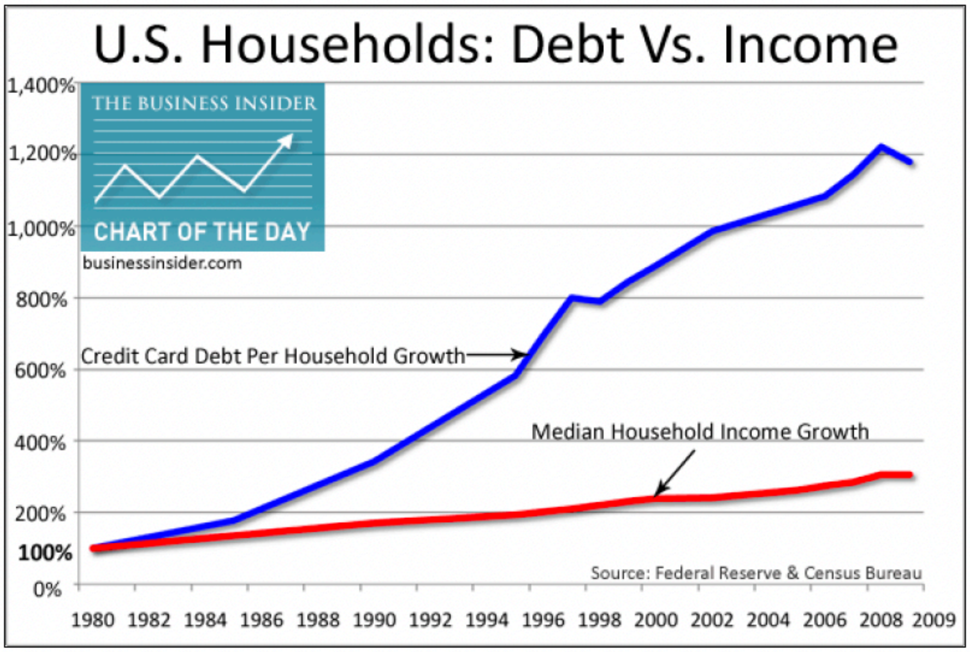
[27] Les Christie, "Mortgage Resets: Record Bill Coming Due." *CNN:Money*, August 13, 2007. https://money.cnn.com/2007/07/09/real_estate/resets_are_coming/index.htm

[28] Ted Cornwell, "'CaliFlorida' Drives Housing Woes." *National Mortgage News* 32 (17), January 28, 2008, https://search-ebscohost-com.ezprox.bard.edu/login.aspx?direct=true&db=buh&AN=28778057&site=eds-live&scope=site, 12.

[29] The Eviction Lab, "National Estimates: Eviction in America." *Princeton University*, Princeton, New Jersey, May 11, 2018, https://evictionlab.org/national-estimates/.

[30]"U.S. Foreclosure Image Is 2008 World Press Photo." Reuters. Reuters Staff, February 13, 2009. https://www.reuters.com/article/us-photography/u-s-foreclosure-image-is-2008-world-press-photo-idUSTRE51C2MU20090213.

expanded, "During the housing boom of the early 2000s, the debt-to-income ratio increased significantly, growing approximately 50 percentage points between 1990 and 2008."[31] This occurred both by way of mortgage debt and consumer credit debt. However, they must not have not too much debt comparative to their credit, in order to prove their worthiness as borrowers. As for the debt-to-income ratio, credit card debt grew significantly in relation to income growth.[32]



[33] *Strike Debt, The Debt Resistors' Operations Manual, 2012.*

Overall, the predatory nature of the secondary mortgage market predisposed people to foreclosure. By 2012, eight million residents were a month or more behind on mortgage payments and would be at risk for the repossession of their homes.[34] Market analysts predicted that as many as 9 million borrowers would face foreclosure over the course of 2012.[35] 25 percent

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[31] Carlos Garriga, Bryan Noeth, et. al., "Household Debt and the Great Recession." *Federal Reserve Bank of St. Louis Review*, Second Quarter 2017, 99(2), https://doi.org/10.20955/r.2017.183-205, 183.

[32] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual." *The Strike Debt Assembly,* September 2012, 18.

[33] Ibid.

[34] Ibid., 42.

[35] Ibid.

of African Americans and Latino/a borrowers had lost homes or were at risk of foreclosure, compared to just 12 percent for their White counterparts. In this way, it is clear that the mortgage market was specifically predatory toward people of color.[36]

The final section of this research presents Sheila Bair's perspective on the Federal response to the 2008 crisis. As chairperson of the FDIC, Bair was responsible for managing the preservation of consumer deposits in banks across the nation. The process by which the FDIC took control over local banks is described, alongside Bair's commentary on the limits of the corporation and the Federal government. Bair represents one of the only examples of a governmental leader who during and after the crisis, combed through the issue with a critical eye. In her reflection, she does not provide sweeping statements like her Federal counterparts about the overall "growth" of the economy. Rather, she pushes the idea that residents should be asking how to mitigate the growing power of large financial institutions.

Despite Bair's efforts, the plans for economic relief drafted in the final months of the Bush presidency were altered at the last moment by chief economist Larry Summers.[37] Sheila Bair describes how political infighting, sabotage, regulator oversight, and lack of preparedness from the government impeded the enactment of policies meant to help people keep their homes and assets. The programs which are described in this project are the Troubled Asset Relief Program (TARP), the Home Affordable Modification Program (HAMP), and the Home Affordable Refinance Program (HARP). Bair does not regard them as successful. Rather, these programs held corporate wealth at the forefront of the Federal agenda and did little for the 99

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[36] When data provides classifications based on income or race, my commentary utilizes the terminology given in the report. As such, there are differing terms for POC used throughout this research. [Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 42.]

[37] Larry Summers, "Executive Summary of Economic Policy Work." Memo to President Barack Obama, December 15, 2008, https://delong.typepad.com/20091215-obama-economic-policy-memo.pdf, 4.

percent's ability recover wealth lost during the crisis. In the end, this project describes how the Federal government's unsuccessful attempts at relief programming only highlighted issues of inequality, instead of guaranteeing longterm financial stability for residents *and* institutions.

Chapter I: Securities

By the mid-2000s, institutional wealth had long been safeguarded by American economic policy. The growth of the economy was tied to the housing market and its system of securitizing debts. Even so, securitization was an intricate process. In the years between 2004 and 2006 the secondary mortgage market had grown in value, with mortgage lending worth $3 trillion.[38] In that period, almost half of the mortgages created were subprime.[39] It was this sector of the financial industry which grew from the late twentieth century into the mammoth of wealth hoarding it was by the early 2000s. The secondary mortgage market was the place in which many investment firms accumulated copious wealth by way of selling American debt. Given the high profitability of securitization, there were major investment firms at the forefront of criticism. This was true for executives at A.I.G., who were charged with fraud, in addition to those at Goldman Sachs who were brought to trial for purposefully creating worthless financial products in order to profit off them.

> The fallout also included allegations that securitized instruments were flawed or even designed to incur losses. The SEC took action against Goldman Sachs in 2010, alleging that the investment bank deliberately designed a synthetic collateralized debt obligation (or CDO) based on mortgage backed products so that it would fall to the benefit of third parties.[40]

Not a single investment firm was immune to the spread of toxic assets, which caused the market to plunge. This was one of the most severe financial disasters in American history and

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[38] Martin Neil Baily, Robert E. Litan, et. al., "The Origins of the Financial Crisis." *Initiative on Business and Public Policy at Brookings:* Fixing Finance Series, Paper 2 (November 2008), 14.

[39] Ibid.

[40] Bonnie G. Buchanan, "The Way We Live Now: Financialization and Securitization." *Research in International Business and Finance* 39 (2017): 665.

spurred the Great Recession which officially began in December of 2007 and ended June 2009.[41] Financial distress was not limited to this period however, and the economic toll was a 4.3 percent decrease in GDP from 07-09, increase in unemployment to over 9 percent and a loss of household wealth of over $10 trillion.[42] This included the largest Chapter 11 bankruptcy ever filed and subsequent bailout package, the Trouble Asset Relief Program (TARP), which put further economic strain on the national economy.[43] This market crash resonated throughout the nation and the globe for years, as over time it brought to the forefront of public thought that there was a prominent issue that remained unresolved in the crisis response: extreme wealth inequality.

This particular formation of wealth inequality was built upon a system of selling assets and debts, rather than on a production of goods or services. Within a changing system of globalized economics, the process of financialization became a frontrunner for profit and through that means, securitization was formed. The period of Neoliberal growth leading up to the 2008 crisis was built on the operations of securitization and, "…results from intensified competition during periods of hegemonic transition where profit in the economy is generated through financial channels rather than productive channels."[44]

In the 1970s and 80s, the United States economy was shifting rapidly. Many people in power wanted to reform the capitalist endeavors of the nation. Thus, the Neoliberal era of deregulation was created in the United States, and allowed the financial industry to dominate the

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[41] This is the generally accepted time-frame for the Great Recession based upon the economic analysis of the United States' overall wealth, but it is not at all reflective of individual residents long-term financial turmoil. [Robert Rich, "The Great Recession." Federal Reserve History, Accessed January 30, 2022, https://www.federalreservehistory.org/essays/great-recession-of-200709.]

[42] Ibid.

[43] Jenny Anderson and Ben White, "Wall St.'s Fears on Lehman Bros. Batter Markets." *New York Times*, September 10, 2008, A1(L). *Gale General OneFile* (accessed Oct 29, 2021). https://www.nytimes.com/2008/09/10/business/10place.html; Andrew Metrick, Thomas Piontek, Rosalind Z. Wiggins. "The Lehman Brothers Bankruptcy A: Overview." New Haven, CT. Yale School of Management. 2.

[44] Buchanan, "The Way We Live Now: Financialization and Securitization," 665.

national economy. Neoliberalism was then defined by Ronald Reagan, whose deregulatory policies set the stage for the market collapse of 2007.[45] The main goals of Reaganomics were the reduction of; government spending, federal income and capital gains taxes, and government regulation. Overall, these reductions were meant to tighten the supply of money and reduce inflation.[46]

Most successfully accomplished within this set of goals was the reduction of corporate taxes and regulations, and an increased prominence of non-production based industries.[47] As previously stated, these industries were dependent on off-loading debt and codifying it as the primary revenue stream for the national economy. Reagan's Tax Reform Act of 1986 allowed corporations to gain further control of the market, due to decreased operational costs.[48] A policy report from the following year described, "Corporate taxation has been substantially affected. The corporate income tax rate has been reduced from 46% to 34%. At the same time, the investment tax credit on equipment has been eliminated…The decrease in corporate in tax reduces the user cost of capital."[49] Similarly, the Act affected the kinds of work that existed in the way that it supported, "…'idea-based' industries such as software and financial services. It lowered corporate tax rates for those companies while cutting or eliminating provisions in the tax

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[45] William A. Niskanen, "Reaganomics." *The Concise Encyclopedia of Economics*, February 5, 2018. https://www.econlib.org/library/Enc/Reaganomics.html.

[46] Olivier Jean Blanchard, William Branson, et. al., "Reaganomics." *Economic Policy*, October 1987, Volume 2, Number 5, The Conservative Revolution, 15-56.

[47] Ibid.

[48] Representative Dan Rostenkowski, "H.R.3838: Tax Reform Act of 1986." Congress.gov (99th Congress (1985-1986), accessed February 27, 2022, https://www.congress.gov/bill/99th-congress/house-bill/3838.

[49] Blanchard, Branson, et. al., "Reaganomics," 15-56.

code, such as the investment tax credit, that had primarily benefited old-line industries like utilities and railroads."[50]

As Reaganomics was becoming the dominant model, Lewis Ranieri gave his contribution to the future of the trickle-down economy. Ranieri is credited with the popularization of the secondary mortgage market.[51] His position in the investment bank Salomon Brothers was in mortgage trading and it was from this post that he further developed the process of securitizing mortgages.[52] Though Ranieri took securitization to the next level in the world of private finance, first the 1970 Federal Home Loan Mortgage Corporation (Freddie Mac) was created.[53] Its purpose was to securitize mortgages.[54] They bundled mortgages, which were then sold to investors as bonds.[55] This process of grouping hundreds of loans into bonds was called securitization and it was profitable.[56] Throughout the Reagan presidency, securitization was a primary facet of the trickle-down economy, it existed to disperse investment risk downward towards the lowest level of investors in the mortgage market, primarily local banking institutions.

Prior to the subprime crisis, the mortgage industry was one of the largest areas contributing to the United States' GDP in the late twentieth century. It held $1.5 trillion in value

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[50] Michael J. Mandel, "Reagan's Economic Legacy" *Business Week*, 2004, Issue 3888, 35-6.

[51] Podkul, "The Regrets of Lewis Ranieri."

[52] David Dayen, *Chain of Title: How Three Ordinary Americans Uncovered Wall Street's Great Foreclosure Fraud*. (New York, NY: The New Press, 2016), 21.

[53] The Congress of the United States, "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market." (Washington D. C.: Congressional Budget Office, December 2010), 4.

[54] Vinokurova, "How Mortgage-Backed Securities Became Bonds: The Emergence, Evolution, and Acceptance of Mortgage-Backed Securities in the United States, 1960-1987," 25.

[55] Podkul, "The Regrets of Lewis Ranieri."

[56] Mortgage Servicing News, "Nontraditional Loans Responsible for 85% of Profits." July 2, 2005, 1093.

in 1980, more than the stock market of the same year.[57] That value increased steadily over time, and became an avenue for rampant corruption in the world of finance and government. Finally, these policies increased the wage gap for workers, allowing those in finance and tech to earn higher wages while other laborers in production-based industries wages decreased. By 2004, "…real earnings for production and nonsupervisory workers are barely above where they were in 1981 despite the gains of the '90s boom."[58]

This shift toward prioritizing new streams of revenue in the financial industry can be mainly explained by implementation of Federal housing programs in the earlier twentieth century, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.[59] Both would be known as Government-Supported Enterprises (GSEs): "privately owned financial institutions established by the government to fulfill a public mission."[60] Created first was the Federal National Mortgage Association, commonly called Fannie Mae, established in 1938.[61] It was an amendment to the National Housing Act in President Franklin D. Roosevelt's New Deal.[62] Its purpose was, "to act as a secondary mortgage market facility that could purchase, hold, and sell FHA-insured loans. By purchasing FHA-insured loans from private lenders, Fannie Mae created liquidity in the mortgage market, providing lenders with cash to fund new home loans."[63]

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[57] Dayen, *Chain of Title,* 20.

[58] Mandel, "Reagan's Economic Legacy."

[59] Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises." *Office of the Inspector General: United States Government*, https://www.fhfaoig.gov/Content/Files/History%20of%20the%20Government%20Sponsored%20Enterprises.pdf, 1.

[60] The Congress of the United States, "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market," viii.

[61] Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises," 2.

[62] Ibid.

[63] Ibid.

In Fannie Mae's timeline are two defining events which demonstrate how private finance gained control over governmental measures meant for public good. First, was the reorganization of Fannie Mae through the Federal National Mortgage Association Charter Act of 1954.[64] This changed Fannie Mae's operations from being a solely government-run operation to being a private-public enterprise. The next restructuring occurred through the Housing and Urban Development (HUD) Act of 1968.[65] HUD established Fannie Mae as a "private shareholder-owned corporation chartered by the US Congress."[66] This act marked the moment in which Fannie Mae changed into a "for-profit, shareholder-owned company" and was required to reserve 30% of its mortgage originations to low- and middle-income households.[67]

Despite that objective, "…HUD was not given authority to collect data that would be necessary to determine compliance with the goals."[68] Finally, Fannie Mae's operations were defined by their most dangerous privilege. Fannie Mae was exempt from the Securities and Exchange Commission's (SEC's) oversight commission.[69] This exemption remained in place until it voluntarily registered with the SEC as a common stock on March 31, 2003.[70] From then

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[64] Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises," 2-3.

[65] "History." Fannie Mae, January 22, 2021, https://www.fanniemae.com/about-us/who-we-are/history.

[66] Ibid.

[67] Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises." *Office of the Inspector General: United States Government*, https://www.fhfaoig.gov/Content/Files/History%20of%20the%20Government%20Sponsored%20Enterprises.pdf, 2; Government Accountability Office, "Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises' Long-term Structures." Report to Congressional Committees. Washington, D.C., (September, 2009), https://www.gao.gov/assets/gao-09-782.pdf, 13.

[68] Government Accountability Office, "Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises' Long-term Structures." Report to Congressional Committees. Washington, D.C., (September, 2009), https://www.gao.gov/assets/gao-09-782.pdf, 14.

[69] Testimony Concerning the Application of Federal Securities Law Disclosure and Reporting Requirements to Fannie Mae, Freddie Mac and the Federal Home Loan Banks, Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, (February 10, 2004) (Alan L. Beller), (Director, Division of Corporation Finance, United States Securities and Exchange Commission), https://www.sec.gov/news/testimony/ts021004alb.htm.

[70] "Accounting Irregularity at Fannie Mae." Before the United States Senate Committee on Banking, Housing, and Urban Affairs, United States Senate, (June 15, 2006) (Christopher Cox), (Chairman, United States Securities and Exchange Commission), https://www.sec.gov/news/testimony/2006/ts061506cc.htm

on, Fannie Mae periodically provided inadequate financial reports.[71] By 2006, no reform had been made to the GSE's financial disclosure requirements.[72]

The second Federal program created to aid homeownership was Freddie Mac in 1970.[73] This was a part of the Emergency Home Finance Act chartered to, "increase liquidity for mortgages originated by savings and loans."[74] Additionally, this act allowed Fannie Mae and Freddie Mac to profit from mortgages that were *not insured* by the Federal government. The following year, the first Mortgage-Backed Security (MBS) was created by Freddie Mac.[75]

This mission of Fannie Mae and Freddie Mac was simple in its original formation. They were meant to provide capital to lend out to borrowers. By that logic, they would increase the amount of residents in the United States who owned their homes. Residents who did not have the savings for down payments, or who typically did not qualify for loans, could obtain a mortgage through these GSEs. This created a secondary mortgage market wherein banks made their money by selling mortgages: a system in which profit could be made immediately, as opposed to being made once a mortgage was repaid in full.[76] It increased homeownership, but only for a limited period of time because functionally these policies were a fallacy. Those acquiring mortgages would only truly become homeowners if they paid off their mortgages entirely. In 1982, the Alternative Mortgage Transaction Parity Act (AMTPA) was passed and:

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[71] "Accounting Irregularity at Fannie Mae," United States Senate, June 15, 2006.

[72] Ibid.

[73] The Congress of the United States, "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market," 4.

[74] The Congress of the United States. "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market." (Washington D. C.: Congressional Budget Office, December 2010), 4; Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises." *Office of the Inspector General: United States Government*, https://www.fhfaoig.gov/Content/Files/History%20of%20the%20Government%20Sponsored%20Enterprises.pdf, 3.

[75] Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises."

[76] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual." *The Strike Debt Assembly,* September 2012, 39.

> …made it legal for lenders to offer more creative mortgages, such as Adjustable-Rate Mortgages (ARMs) or those with balloon payments…. Around the same time, Congress passed several laws that enabled the creation of mortgage-backed securities—essentially, bonds that were backed by mortgages. This innovation would prove critical in providing the financing for risky mortgages, because Wall Street could package them up into securities and sell them off to investors. The motivation behind all these rule changes? Bolstering homeownership, because everyone feared there wouldn't be enough housing supply to meet the burgeoning demand. 'Alternative mortgage transactions are essential… to meet the demand expected during the 1980s.'[77]

By the early 2000s there was a significant rise in mortgage origination, but mortgages and homeownership are in fact two entirely different concepts. The premise that mortgage holders would undoubtably become homeowners was nearly impossible. The priority for lenders was to originate as many mortgages as possible, even if they knew borrowers did not have the ability to repay their loans. This was due to economic policies which incentivized increased private profit for the twenty years leading up to the 2008 financial crisis. Reagan's Tax Reform Act of 1986 decreased production costs and taxes for these very institutions.[78] The true goal was increasing the amount of mortgage originations, not homeowners. "The reality is that the bank owns the property and you're really only purchasing an opportunity to become an owners, if all goes well in thirty years."[79] In the end, the increase in loan originations through GSEs Fannie Mae and Freddie Mac was primarily funded through the securitized debts of American residents.[80]

Consequently, the impetus towards homeownership created a nation of debtors. Instead of a Federal policy aimed at increased housing affordability and access, the price of housing

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77 Janet Byrne, ed., *The Occupy Handbook.* (New York, NY: Back Bay Books, 2012), 86-7.

78 Rostenkowski, "H.R.3838: Tax Reform Act of 1986."

79 Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 41.

80 Edward DeMarco, "Put Fannie and Freddie Out of Taxpayers' Misery." *The Wall Street Journal*, August 20, 2015, https://www.wsj.com/articles/put-fannie-and-freddie-out-of-taxpayers-misery-1440112853.

increased to accommodate a long-term debt payoff structure which directly benefitted banks, rather than borrowers.[81] The Debt Resistors' Operations Manual dubs this system an "ownership society" in which potential long-term ownership was the speculative goal of Federal policy, though the objective was more skewed towards increased short-term profits for banking institutions.[82] While the period of Reaganomics laid the groundwork for this ownership society, political leaders in the 1990s were also responsible for governmental shifts that pushed the market further in the direction of debt-profitability.

During the 1990s, President Bill Clinton's program, the "National Homeownership Strategy: Partners in the American Dream" aimed to make homeownership accessible to 8 million low-income buyers.[83] Instead, it succeeded in creating more intentionally predatory financial products. The program lead the way for banks to implement financial practices that were distinctly convoluted, like ARMs. This type of mortgage allowed borrowers to make interest-only payments and often resulted in homes negatively amortizing. The negative amortization for these home loans meant that even as borrowers made monthly payments, their overall debt would increase rather than decrease, because their payments were not covering enough for the costs of interest.[84] These complicated financial processes left borrowers with the risk, and gave large banks the profits and longterm assets.

> The ability of consumers to pay off mortgages and replace them with new ones just as, say, the interest rate was about to increase in part of what kept the bubble going. It also points to the fact that, contrary to popular perception, the great machinery of the

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[81] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 40.

[82] Ibid.

[83] Ibid.

[84] Consumer Financial Protection Bureau, "What is Negative Amortization." *United States Government,* September 4, 2020, https://www.consumerfinance.gov/ask-cfpb/what-is-negative-amortization-en-103/.

> subprime lending market was not built to enable people to buy homes. Instead its main purpose was to allow people to borrow against the equity in their homes—the drive of the majority of the risky loans that would have brought down the financial sector without a government bailout.[85]

Though the GSEs created more mortgage originations, it also made debt into a powerful financial product. "When the banks decided they could make money by securitizing loans privately, they needed a way to manage the paperwork which involved selling of notes and deeds repeatedly… they figured out a way around it by cutting corners. Instead of your lender's name on the deed, you'll find MERS name instead."[86] MERS is the Mortgage Electronic Registration Systems, a technological database created in the 1990s by private financial groups in addition to Bank of America, Fannie Mae, and Freddie Mac.[87] It would record the transition of ownership between lenders and borrowers, thus providing a thorough chain of title. MERS created an even greater distance between lender and borrower, and that electronic bureaucracy lead to further imprecision in mortgage servicing.[88]

The transactions of debt were primarily carried out by GSEs themselves, which would profit off their resale in the secondary mortgage market. GSEs would make quick sales of the debt bundles, and off-load the risk to lower level parties, such as smaller local banks. "They purchase home loans from originators and package those loans into mortgage-backed securities (MBSs); those securities then can be sold to investors, along with a guarantee against losses from

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[85] Janet Byrne, ed. *The Occupy Handbook*, 85-6.

[86] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 47.

[87] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 47.

[88] Ibid.

defaults on the underlying mortgages, or held as portfolio investments financed by issuing debt of the GSEs themselves, so-called 'agency debt.'"[89]

In fact, the method by which these entities created increased capital was *not* by lending money and collecting interest, but instead through the sale of asset-backed securities, such as MBSs. The Strike Debt Assembly poses an important question in response to this process: "Since the government's entire housing program has been based on shifting the burden away from banks, why should banks negotiate a mortgage that cannot create a new economy?"[90] Further, considering the formation of Fannie Mae and Freddie Mac, the Federal government's involvement with these GSEs is imperative to understanding the 2008 financial crisis. It was the Federal government which created securitization, the financial process that became an industry standard. Fannie Mae and Freddie Mac were the main financial giants who utilized securitization to a predatory degree in the early 2000s.[91]

The secondary mortgage market was created in "the merging of two processes after the 1970s, namely the increasing dominance of the finance sector in the US economy and the increased participation of non-finance firms in the financial sector."[92] Securitization is a method through which groups of debts are lumped together and their risk is *hypothetically* diversified. The logic goes that if a bunch of mortgages are lumped into one group and sold as an asset, that asset a*s a whole* is less likely to lose value if some of the mortgages within it go unpaid.[93] As

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[89] Lucas, "The Budgetary Cost of Fannie Mae and Freddie Mac and Options for the Future Federal Role in the Secondary Mortgage Market," 1.

[90] Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 48.

[91] "Accounting Irregularity at Fannie Mae," United States Senate.

[92] Buchanan, "The Way We Live Now: Financialization and Securitization," 665-6.

[93] Government Accountability Office, "Troubled Asset Relief Program," 95.

such, this process assures the "guarantee against losses from defaults on the underlying mortgages," particularly in the case of Fannie Mae and Freddie Mac.[94]

These entities were considered stable investments because of their connection with the Federal government, and further had, "…an implicit federal guarantee stemmed from the very prominent role the two entities played in the housing market and in the broader financial markets."[95] Most importantly, GSEs provided an inarguable framework for profit, because securitization was not dependent on time, liquid assets, or labor. It relied on off-loading financial risk to lower-level investors and profiting off the re-sale of bunched debts. The secondary mortgage market thus emerged as a significant portion of the United States' GDP. Between 1980 and 2013, this portion grew at an ever-increased rate, compared to thirty years prior.[96]

Yet the concentration of wealth remained fixated in the top 1 percent of the population, reserved for those working in finance, corporate executives, and the Federal government as well. As such, "The securitization process brought about a new way for banks to accelerate mortgage lending, as well as generating more fees and income."[97] Furthermore, the increased profits were dependent upon debt-based financial transactions, which created an opportunity for new forms of predatory finance, particularly in nonprime lending. The national economy was thus built upon the practices and profits of securitization. GSEs were created as a means of assuring debts would be paid back to lenders and increasing liquidity in the housing market. Further, that the Federal government would not allow any enterprise, partly or fully linked with United States' economic

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[94] The Congress of the United States, "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market," viii.

[95] Ibid.

[96] Robin Greenwood and David Scharfstein, "The Growth of Finance." *Journal of Economic Perspectives, Volume 27, Number 2,* (Spring 2013), 3.

[97] Buchanan, "The Way We Live Now," 667.

stability, to fail.[98] It was this practice of securitization which lead the market in profitability, throughout the course of the later twentieth and early twenty-first centuries. By 2010, there was more than $9 trillion in available capital for MBSs.[99]

In a later interview with the *Wall Street Journal*, Lewis Ranieri expressed his undeniable regret for the role he had in creating the subprime mortgage crisis. He spoke about the origins of the securities industry and how its prominence in the private sector began with a bill approved by former-President Ronald Reagan in 1984.[100] Ranieri's role was to urge Congress to lessen restrictions on certain wealth holdings. This made it possible for insurance firms and banks to invest more capital in newly created mortgage securities, as it grew increasingly profitable through the late twentieth century.[101] At that time, trading assets in the housing market was considered a low-risk endeavor, and housing a stable investment. After all, the consensus was that the mortgage market in the United States was the world's largest, and was certain to increase profits at investment firms.[102] However, Ranieri explained that in the wake of 2007-8 it became apparent that, "all of the safeguards we thought we had got blown away like they were never there."[103] Further, Ranieri stated that the Securities Exchange Commission (SEC) did not hold any power to make legal decisions over the MBSs market and thus, it reflected the ethos of Reaganomics and remained unregulated.[104]

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98 Dayen, *Chain of Title,* 21.

99 Buser and McConnell, "The Origins and Evolution of the Market for Mortgage-Backed Securities," 1.

100 Podkul, "The Regrets of Lewis Ranieri."

101 Ibid.

102 Dayen, *Chain of Title,* 20.

103 Podkul, "The Regrets of Lewis Ranieri."

104 Niskanen, "Reaganomics."

Ranieri's reflections also provide context for understanding the multiple avenues that such unregulated economic activity took leading up the crisis in 2008. He described the generalized fear of Fannie Mae's status during that time: it was viewed as being at risk for eventual default.[105] That was true until the Treasury Department gave Fannie Mae "special status".[106] This support from the Treasury secured the continued existence of Fannie Mae. The Federal government would provide funding in the event that Fannie Mae defaulted on its investments.[107] Ultimately, funding for this Federal guarantee came from taxpayers.[108] In the concluding section of Ranieri's interview, he posited a crucial point about the true impact of this industry: while financial capital held by the Federal government has endured abundantly, there has been a continual loss of affordable housing.[109]

Expanding on Ranieri's point, the housing market has been and continues to be the crux of unethical economic practice in the United States, in that the national economy has depended on profiting from the sale of asset-backed securities like MBSs since the 1970s.[110] Given Ranieri's innovation in the secondary mortgage market, it is evident that when the national economy rests entirely upon MBSs, it is subject to eventual risk. "A picture that emerges very quickly from the financial crisis is the more financialized a country's mortgage [market] happens to be, the bigger the risk of a mortgage crisis… the more markets are dependent on securitization, then the more volatile the mortgage market became because they were more

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105 Podkul, "The Regrets of Lewis Ranieri."

106 Roger W. Mehle. Roger W. Mehle to Robert Mebus. Washington, D.C., November 15, 1982. https://www.wsj.com/public/resources/documents/GSE1982Treasuryletter.pdf?mod=article_inline

107 Podkul, "The Regrets of Lewis Ranieri."

108 Edward DeMarco, "Put Fannie and Freddie Out of Taxpayers' Misery."

109 Podkul, "The Regrets of Lewis Ranieri."

110 The Congress of the United States, "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market," 4.

dependent on financialized products."[111] This is especially obvious when so many MBSs were filled with incorrectly valued mortgages: the nonprime majority valued as stable quality loans.[112] However, the secondary mortgage market evolved into an even more complicated machine when Collateralized Mortgage Obligations (CMOs) came into existence in the early 2000s.[113]

CMOs were essentially the exact same process of securitizing, but with another added layer of bunching and dividing. Debts were grouped and divided based on risk-assessment. These assessments were usually categorized by how likely mortgage holders were able to pay back their debts and in what amount of time. Each individual mortgage would be placed into a bond with others, those bonds would then be grouped into even more bonds and assessed based on their risk: these were tranches. The tranches would then be further classified according to the ratings system: AAA, BBB, CCC, and so forth.[114] Within each tranche was a division based on high-risk, high-yield investors. Those with the most capital invested, executives in the senior tranche of financial firms, received profits first. Payouts were issued to senior investors, those in charge of quick-sale asset-backed securities in investment firms of high profit. Typically, those senior tranches were rated unilaterally as AAA, despite eventual discoveries that they were often filled with mortgages of differing value. The next groups, investors in the mezzanine and the equity tranches, would be paid out next and were typically the highest risk for investors.[115]

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[111] Buchanan, "The Way We Live Now: Financialization and Securitization," 669.

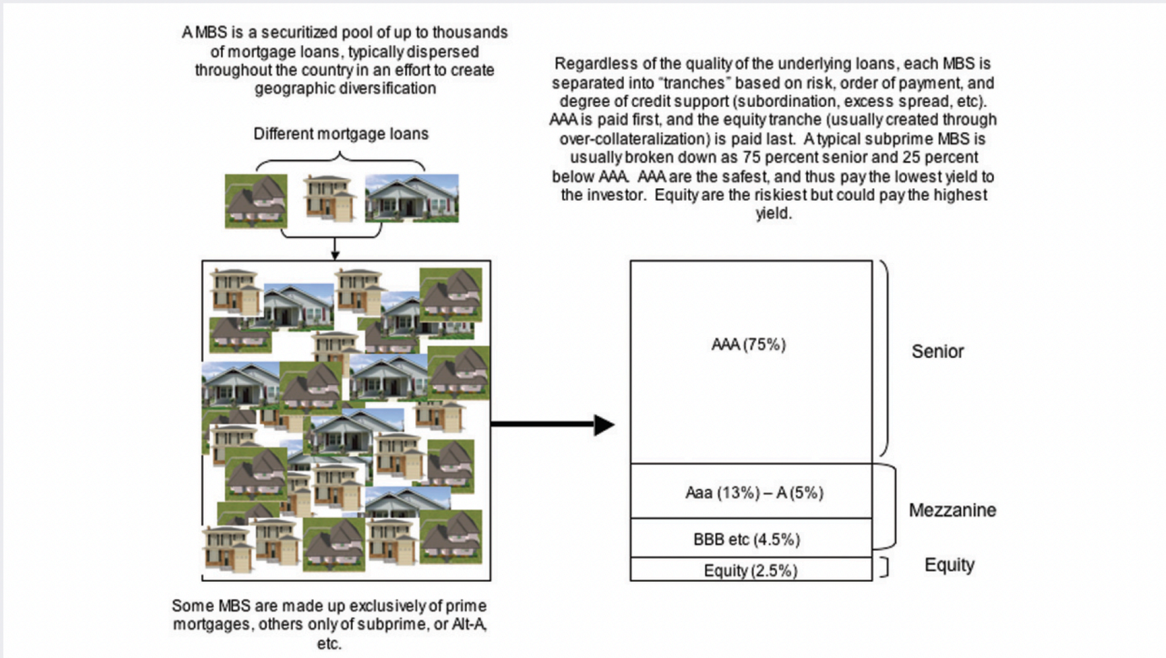
[112] Dayen, *Chain of Title*, 21.

[113] Ibid., 22.

[114] Buchanan, "The Way We Live Now," 667.

[115] David Dayen, *Chain of Title: How Three Ordinary Americans Uncovered Wall Street's Great Foreclosure Fraud*. (New York, NY: The New Press, 2016), 21; Martin Neil Baily, Robert E. Litan, et. al., "The Origins of the Financial Crisis," *Initiative on Business and Public Policy at Brookings:* Fixing Finance Series, Paper 2 (November 2008), 25.

FIGURE 4: Anatomy of a MBS



[116] *Baily, The Origins of the Financial Crisis, 2008.*

By way of this system, high-risk investments which lost value in the market meant that the losses were highest for the lowest level investors, notably local banking institutions.[117] As remarked by Sheila Bair, former head of the FDIC, the lack of regulation for off-loading investment risk was a key area which required further reform. Additionally Bair's opinion was that executives at investment firms should have been the ones to, "take losses resulting from their imprudent behavior."[118]

The goal of this stacked mortgage and bond system was to pool risk. In the event that some individuals could not pay back their mortgages, there would not be lasting impact on the

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[116] Baily, Litan, et. al., "The Origins of the Financial Crisis," 25.

[117] Charles W. Murdock, "How Incentives Drove the Subprime Crisis." *Loyola University Chicago School of Law: Social Justice 37*, Chicago, Illinois, January 2014, https://ecommons.luc.edu/social_justice/37, 7-9.

[118] Sheila Bair, *Bull by the Horns: Fighting to Save Main Street from Wall Street and Wall Street from Itself.* (New York, NY: Simon and Schuster, 2012), 323.

overall value of a tranche. It was through this tangled process of stacked debt traded for profit, that the mortgage market became so volatile. To sum it up, "These more complex securitizations converted the mortgages, a hyperlocal, idiosyncratic, individual instrument, into a bond, a defined security that investors could buy and sell with confidence."[119] Ultimately, it is clear that the financial distress of the early 2000s was created through a deregulated housing and investment market, which made its profit from the debts of millions of American residents. Thus, the 2008 financial crisis' foundation was the deregulated market of the 1980s. The next phase of financial ruin was catalyzed by shifting interest rates of the early 2000s.

As the new millennium began, national wealth continued to grow from high profits in the secondary mortgage market. The modern economy shifted away from labor-driven profits and toward a streamlined system of capital accumulation, which depended on imparting debts unto other parties. By way of this new structure, the former banking method of increasing liquid capital through the OTH (Operate-to-Hold) model was foregone for the more-profitable OTD (Operate-to-Distribute) model, in which debt is sold off as the primary method of accumulating new sources of capital.[120] The process of securitization is considered to be one of the main avenues of the trickle-down economy, through its downward-flowing risk dispersal. In its design, payouts occur from the top down and the largest investors get paid first, while those at the bottom get the final payout. Through this tiered structure, the bottom-most level of investors also face the highest chance of loss if payments are below the expected rate.[121] According to Buchanan, securities were meant to be tiered by an accurately-projected risk assessment, and in

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[119] Dayen, *Chain of Title*, 23.

[120] Buchanan, "The Way We Live Now: Financialization and Securitization," 667.

[121] Ibid.

that way, "the investment grade tranche in theory should have an extremely remote chance of default."[122] However, through the OTD model, that risk was fully placed upon the market itself, rather than the banks handling the transactions of securities. It created a greater distance between the borrower and the lender and ultimately, "…this was a debt explosion in terms of volume and geographical scope. But the debt relation was fragmented and diffuse. Securitization transformed a localized lending market into a global investment asset class."[123]

This meant that the financial holders of MBSs could offload risk to lower-level investors in the event that any group of securities lost value. However, behind this new form of capital accumulation was the reality that this wealth did not, in fact, trickle down over time. If the markets did well, the rest of the America would too. Such was the reasoning behind the fervent support of these operations. If the finance industry and the housing market succeeded, so would the American people. Evermore capital was flowing through these financial transactions and the profits were meant to eventually flow into the broader population. However, "whilst the US finance sector accounts for 29 percent (or $57.7 billion) of overall profits, it accounted for less than 20 percent to the value added in the US economy in 2010."[124]

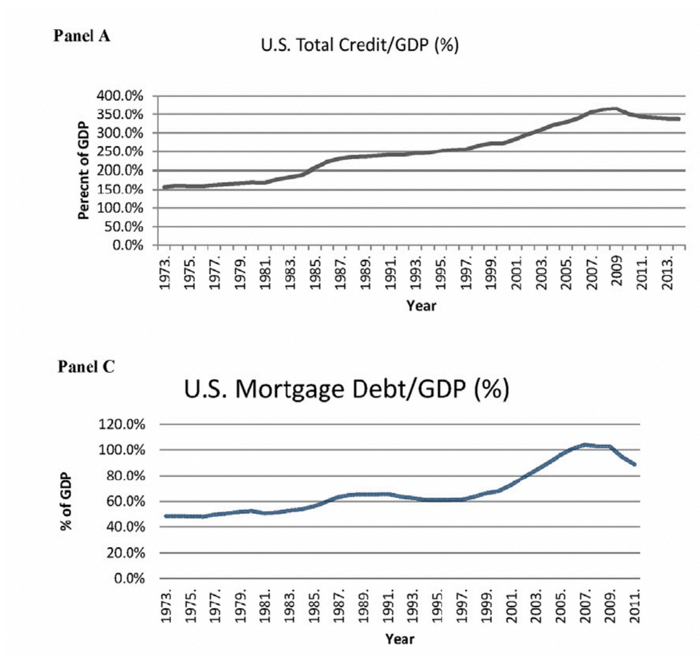
Furthermore, MBSs were the primary method of capital accumulation for the Federal government. This method was fundamentally built upon the principle that grouping debts together into securities made them more valuable for future profits in a speculative market (though, not without risk), and thus incentivized other non-governmental corporations such as investment banks to do the same. The prospective profitability of securitization caused predatory

[122] Buchanan, "The Way We Live Now: Financialization and Securitization," 667.

[123] Ibid.

[124] Ibid., 665-7.

lending to be pervasive. “The drive to make loans and sell them off as securities was motivated by both an insatiable appetite in the market for investing in securities backed by U.S mortgages as well as a desire on the part of brokers and originators to generate their own fees for packaging such loans.”[125] In many cases, this process transformed into even further complicated methods of debt bunching, risk offloading, and profit dispersal in other areas, most notably in consumer credit. Such is the practice of collateralized debt obligations and its many variations (CDO, CDO^2, CDO^3).[126] Overall, the United States’ GDP and national debt have had a positive correlation since the 1970s.[127]



[128] *Buchanan, The Way We Live Now, 2017.*

> Panel C indicates that between 1973 and 2009 mortgage debt as a percent of GDP rose especially rapidly, rising from 48.8 percent to 102.8 percent. The increase in mortgage

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[125] Raymond H. Brescia, "Subprime Communities: Reverse Redlining, the Fair Housing Act and Emerging Issues in Litigation Regarding the Subprime Mortgage Crisis." Albany Government Law Review 2, no. 1 (2009): 171.

[126] Buchanan, “The Way We Live Now: Financialization and Securitization,” 670.

[127] Ibid., 665-7.

[128] Ibid.

> debt was especially sharp between 2000 and 2007 (rising from 67.9 percent to 103.8 percent) reflecting the US housing bubble and increasing credit availability.[129]

The Federal government's creation of GSEs provided an incentive for this practice to be increasingly profitable for finance executives in the public and private sectors. GSEs like Fannie Mae and Freddie Mac were responsible for more than $3 trillion of mortgages. This was nearly 43 percent of the overall market.[130] As former chairperson of the FDIC, Sheila Bair, explained, "Securitization had created conflicting and skewed economic incentives among the owners of the mortgage-backed securities as well as the servicers who had the frontline responsibility to mitigate losses through restructuring."[131] This conflicting incentive was due to the once-removed nature of the secondary mortgage market. This market created an increased distance between borrower and lender, which made loan restructuring in the event of foreclosure more complex. The loan servicers who were primarily responsible for conducting modifications to loan-repayment agreements had the incentive to profit from the origination of new loans, not from their restructuring. Thus, servicers made higher profits through foreclosures than they would from modifying already-existing loans.[132] Considering the quasi-governmental nature of GSEs and their involvement in the MBSs industry, securitization was a financial practice which intrinsically linked unethical lending in the private market with the Federal government's own economic policy.

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[129] Buchanan, "The Way We Live Now: Financialization and Securitization," 665-7.

[130] Richard K. Green and Susan M. Watcher. "The American Mortgage in Historical and International Context." *University of Pennsylvania Law School: Institute for Law and Economics,* Research Paper Number 06-12 (Fall 2005), 99.

[131] Bair, *Bull by the Horns*, 135.

[132] Ibid.

The profits of the securities industry are dependent on a single factor; how can debt be converted to a form of prohibitive currency? Given the precedent set in the Reagan era to create a downward-flowing risk dispersal, debt became a prohibitive currency in the sense that only financial institutions are able to provide credit, but borrowers are required to go into debt to obtain credit. The profitability of this industry occurs by way of securitizing groups of debts. Debts once transformed into financial products become an elite currency, and credit, a financial imprisonment.

> Credit is a means of privatization and debt a means of socialization. So long as debt and credit are paired in the monogamous violence of the home, the pension, the government, or the university, debt can only feed credit, debt can only desire credit. And credit can only expand by means of debt. But debt is social and credit is asocial. Debt is mutual. Credit runs only one way. Debt runs in every direction, scattering, escaping, seeking refuge.[133]

As such, creditors in the financial industry exacerbated the concentrations of wealth in the hands of those who could continue to create more capital from the act of financing, rather than producing and selling any goods or services. To that end, the 2008 financial crisis was the pinnacle of both the Federal government and private investment's manipulation of the global market. Credit was more widely available in the years leading up to the event and massive groups of people took out mortgages they could not pay for to purchase homes, all while those in the securities industry continued to create new ways of profiting off the debt of the 99 percent.[134] As such, it culminated in the Great Recession, initially started by a notable decrease in national employment in the final months of 2007.[135]

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133 Fred Moten and Stefano Harney, "The Undercommons: Fugitive Planning and Black Study." *Autonomedia*, Brooklyn, New York, 2013, https://criticaltheory.berkeley.edu/wp-content/uploads/2017/10/Harney-Moten_cho04-Debt-and-Study_The-Undercommons.pdf, 61.

134 Buchanan, "The Way We Live Now: Financialization and Securitization," 665-7.

135 Neil Irwin, "NBER: U.S. In Recession That Began Last December." *The Washington Post*, December 1, 2008. https://www.washingtonpost.com/wp-dyn/content/article/2008/12/01/AR2008120101365.html.

> Over the course of 2007, the housing credit market deteriorated as delinquency rates rose and home foreclosures reached levels unseen since recordkeeping began in the late 1970s. The decline in credit quality was most pronounced among nontraditional loans such as subprime loans. These nontraditional loans, aimed at borrowers unable to qualify for more traditional loans, grew in market share as home prices rose and homeownership expanded.[136]

This steep decline in the value of credit within nonprime loans and the overall secondary mortgage market epitomized the Great Recession and ultimately trigged a loss of 8 million jobs, and approximately $19 trillion in household wealth.[137] The Federal government had to create new policies in response to this financial dissent. Yet, it was not until the fall of investment bank Lehman Brothers that the government began to develop these programs.

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[136] Goodman and Mance, "Employment Loss and 2007-09 Recession: an Overview," 4.

[137] "The Financial Crisis Response In Charts," U.S. Department of the Treasury, April 2012. https://www.treasury.gov/resource-center/data-chart-center/US-Economy/Pages/default.aspx.

Chapter II: Market Collapse

By midday on September 15, 2008, camera crews from major news outlets began to crowd outside the offices of Lehman Brothers in many cities across the globe, hoping to record the first looks of forlorn businesspeople leaving their offices well before 5pm. Footage from the Associated Press showed lines of impeccably dressed people, departing their offices, boxes and briefcases in hand in the UK, Germany, Japan, and the US.[138] Barely even mid-day, the offices of Lehman Brothers were being cleared out. From behind the camera one reporter speaks with a somewhat disheveled-looking business person standing on the street in front of the former Lehman office in London. The interviewee is not quite able to comprehend the scope of the collapse:

"Things still need to be done, business as usual as far as I know, " the interviewee stated.

"Everyone we've spoken to has said basically that everyone's job is gone," the interviewer replied.

"Well, that's not what we've been told in finance," the interviewee stated before walking away.[139]

The newsreel cuts to one shot after another of sullen-faced people walking far away from one of the most powerful investment firms in the world. The footage cuts to stacked newsstands, their bold headlines read, "Black Monday" as Lehman Brothers was left to collapse, without federal aid.[140] In the weeks leading up to Black Monday, the firm shriveled, while its employees

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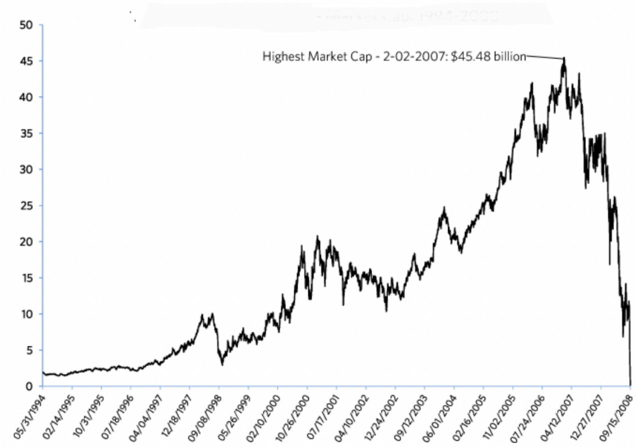
[138] AP Television (AP Archive), "Look at impact of collapse on world economy, one year on." Youtube video, July 23, 2015, https://youtu.be/09iZwOKQViQ.

[139]AP Television (AP Archive), "Interviews with staff who have been let go, boxes being moved." Youtube video, July 21, 2015, 1:19, https://youtu.be/AVIrUDEw5Gs.

[140] Ibid.

were mostly left in the dark. In an interview with the *Wall Street Journal*, Lynn Gray, a former Global Chief Administrative Officer, explained, “On Friday, September 12th, I think that most people left the office assuming that over the weekend…we would find out whether we were gonna be purchased by Bank of America or Barclays. There was no expectation that the firm was going to file for bankruptcy.”[141] On its final Friday, the stock price fell to just $3.65 a share.[142] Such a drastically low number compared to seven months prior when the firm sold at $86 a share.[143] This was a devastating 95% decrease in value, leaving their debt at a colossal $613 billion. Without any willing financial groups to buy them out, not even the Federal Government, Lehman Brothers filed a Chapter 11 bankruptcy. It was the largest of its kind in American history.[144] After the bankruptcy filing, Lehman’s stock hit the floor.

Figure 1: Lehman Brothers Holding – Market Capitalization 1994-2008 (in $billions)



Source: CRSP data.

145 *Metrick, The Lehman Brothers Bankruptcy A: Overview, 2014.*

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141 The Wall Street Journal, “Lehman Brothers’ Last Weekend.” Youtube video, September 12, 2018, 1:41, https://youtu.be/Hk_wLQDM-TI.

142 Ben White and Eric Dash, “Lehman and its Staff Await the Next Step.” *The New York Times*. September 13, 2008.

143 Geng Deng, Guohua Li and Craig McCann, “Structured Products in the Aftermath of Lehman Brothers,” Securities Litigation and Consulting Group, 2009.

144 Metrick, Piontek, Wiggins, “The Lehman Brothers Bankruptcy A: Overview,” 39.

145 Ibid., 43.

The bankruptcy and collapse of 157-year-old investment firm Lehman Brothers on September 15, 2008 appeared to be a wake-up call to the delicate nature of a global economy built on lending.[146] Yet, repetitions of the phrase "Too Big to Fail" echoed, even after its demise, and as stock values plummeted each day between September 8 and 15, of 2008.[147] A report from the *New York Times* on September 14, 2008 explained, "The stunning series of events culminated a weekend of frantic around-the-clock negotiations, as Wall Street bankers huddled in meetings at the behest of Bush administration officials to try to avoid a downward spiral in the markets stemming from a crisis of confidence." Even a former executive of Lehman Brothers said, "I've been in the business 35 years, and these are the most extraordinary events I've ever seen."[148]

The reluctance to address impending economic trouble was partly due to insistence in the media that investment firms on Wall Street were financially sound. Just over a year prior to Lehman's collapse, the *New York Times* enthusiastically published an article on their good fortune. The title read, "Profit Climbs 27% at Lehman Brothers, Led by Big Jump in Equity Trading," and reported their net income as $1.3 billion and some key traded assets rising 94%.[149] Additionally, Lehman Brother's CFO Christopher O'Meara asserted, "We continue to believe the subprime mortgage challenges are and will continue to be contained to this asset class, difficulties in the market may have passed."[150] To prevent panic, O'Meara did not want to publicly anticipate or admit to fault in the market crisis.

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[146] Anderson and White, "Wall St.'s Fears on Lehman Bros. Batter Markets."

[147] Ibid.

[148] Andrew Ross Sorkin, "Lehman Files for Bankruptcy; Merrill is Sold," *The New York Times*, September 14, 2008. https://www.nytimes.com/2008/09/15/business/15lehman.html.

[149] De la Merced, "Profit Climbs 27% at Lehman Brothers, Led by Big Jump in Equity Trading."

[150] Ibid.

By late May 2007, Moody's Analytics put a significant group of subprime deals up for review. Moody's Corporation is a massive credit rating agency and provider of financial analysis, one of the "Big Three" in this field, alongside Standard and Poor (S&P) and Fitch Ratings.[151] Moody's Analytics and their review process had significant influence on the market. So when these subprime groups' "review status" went public, it was a sign to the public that more financial distress was imminent.[152]

Despite the eventual loss of approximately 24,700 jobs at Lehman Brothers alone, the firm's financial policy for much of their last year of operation was simple: wait and see.[153] Just before the collapse, the firm's CEO, Richard S. Fuld Jr., replaced many of his high-up colleagues in hopes to save what was left of the business. On September 10, 2008, the *New York Times* reported that even as Fuld Jr. took some action, he publicly negated any liquidity crisis and the stock price continued to fall.[154] Lehman's executives had hoped to raise last-minute capital, from other sources of wealth like Barclays Investment Bank and Korea Development Bank, though they never came to fruition due to the high risk associated with the firm.[155]

The firm also sought to obtain further capital by selling off its asset management branch and acquiring larger investments from sovereign funds, and smaller investments from individual Americans. However, much of their last-chance capital raising done over the summer of 2008

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151 Christopher Alessi and Roya Wolverson, "The Credit Rating Controversy," Council on Foreign Relations, February 13, 2013, https://web.archive.org/web/20130727223220/http://www.cfr.org/united-states/credit-rating-controversy/p22328.

152 Markus K. Brunnermeier, "Deciphering the Liquidity and Credit Crunch 2007-2008," *Journal of Economic Perspectives*, Vol. 23, No. 1 - Winter 2008, 83.

153 Anderson and White, "Wall St.'s Fears on Lehman Bros. Batter Markets," *The New York Times*.

154 Ibid.

155 Ibid.

was already hitting negative value.[156] What followed was one of the most significant recessions in American history: over 8 million jobs were lost and $19 trillion lost in household wealth. Ultimately, the projected cost for recovery via the Trouble Asset Relief Program (TARP) swayed between estimates of $341 and $700 billion.[157] The bailout package, TARP, was submitted and approved by Congress on October 3, 2008. Its estimated cost was $700 billion, though the final disbursal was in the range of $400 billion.[158]

The financial destruction of those first two weeks of September 2008 continued far beyond what anyone anticipated, even those responsible, such as Richard S. Fuld, Jr. In his testimony to Congress on the Lehman Brother's bankruptcy he stated, "Today there is unprecedented turmoil in our capital markets. Nobody, including me, anticipated how the problems that started in the mortgage markets would spread to our credit markets, and our banking system, and now threaten our entire financial system and our country."[159] Shocking though Fuld Jr. was not able to use the knowledge of his own company to prevent collapse, even more so was the response of government officials whose public statements echoed the idea that the country's financial system would be able to survive the collapse of Lehman Brothers.[160]

However, it was not just Lehman Brothers at the epicenter of the financial crisis. The central investment firms who ruled the market in the early 2000s were Goldman Sachs, Morgan

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156 Anderson and White, "Wall St.'s Fears on Lehman Bros. Batter Markets."

157 "The Financial Crisis Response In Charts." U.S. Department of the Treasury.

158 There are many conflicting cost estimates for TARP. Across major media sources like the *New York Times, Forbes,* and *Reuters*, the final costs are disputed. These estimates form the media range from $300 to $500 billion, though Deborah Lucas' most updated cost for the total bailouts was $498 billion. ["Troubled Assets Relief Program (TARP)," U.S. Department of the Treasury, March 9, 2021, https://home.treasury.gov/data/troubled-assets-relief-program#All.]

159 One Hundred Tenth Congress, House of Representatives, "The Causes and Effects of the Lehman Brothers Bankruptcy: Hearing before the Committee on Oversight and Government Reform," U.S. Government Publishing Office, October 6, 2008, https://www.govinfo.gov/content/pkg/CHRG-110hhrg55766/html/CHRG-110hhrg55766.htm.

160 Ibid.

Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns. Beyond their market value, these firms also held political power; Goldman Sachs was a major financial contributor to the Obama campaign.[161] Each firm had what was widely regarded as a "balance-sheet problem."[162] The problem was that the amount of loans and risky assets, like MBSs, did not exist in harmony with the actual value of the shares sold at these firms.[163] This meant that though the bonds and assets which were traded daily by these firms had high projected valuations, they were in fact filled with worthless securities. Of these five firms, Lehman Brothers was the most catastrophic in its deterioration. The firm's balance sheet problem was called to attention in its final days, when Moody's Investors Service placed the investment company's ratings under review.[164]

Though the growing panic surrounding MBSs and the uncertain condition of the global economy continued, many leaders were reluctant to take any action, in fear that it might polarize their constituents.[165] This mirrors the sentiments held by executives at Lehman Brothers as well, in that their priority was self-serving even amidst collapse. Within the files uncovered for the Oversight Committee, it was reported that executives at one of the money management subsidiaries, Neuberger Berman, suggested that Lehman's executives forego their annual bonuses, both as a means for saving much needed capital and to display some amount of responsibility for the financial catastrophe.[166] This request was sent via email to executives at

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[161] Andrew Clark, "Bankers and Academics at Top of Donor List," *The Guardian*, New York, New York, November 7, 2008, https://www.theguardian.com/world/2008/nov/08/barackobama-wallstreet-bankers-campaign-donations-goldmansachs.

[162] Hundt, *A Crisis Wasted*,138-9.

[163] Ibid.

[164] Blaine A. Frantz ed., "Moody's Lowers Ratings of Lehman Brothers; Will Withdraw Ratings." Moodys.com, June 7, 2015. https://www.moodys.com/research/Moodys-lowers-ratings-of-Lehman-Brothers-will-withdraw-ratings--PR_166226.

[165] Hundt, *A Crisis Wasted,* 505-09.

[166] One Hundred Tenth Congress, "The Causes and Effects of the Lehman Brothers Bankruptcy."

Lehman Brothers and met with responses from George H. Walker, the cousin of then-president George W. Bush, and Richard S. Fuld Jr., who both mocked the idea of a refused bonus.[167] Further emails uncovered showed requests from four days before Lehman Brothers filed for bankruptcy. This request was to procure “special payments” of $20 million for three executives.[168] The testimony from Chairman Waxman of the Committee on Oversight and Government Reform concluded, “In other words, even as Mr. Fuld was pleading with Secretary Paulson for a full rescue, Lehman continued to squander millions on executive compensation… One internal analysis reveals that Lehman saw warning signs, but did not move early/fast enough, and lacked discipline about capital allocation.”[169]

Alongside the investment firms whose lack of action set the stage for global financial disaster, there were also political leaders involved in the crisis' remediation. These leaders were Treasury Secretary Henry Paulson, Chairman of the Federal Reserve Ben Bernanke, incoming Treasury Secretary Tim Geithner, Chairperson of the Federal Deposit Insurance Corporation Sheila Bair, and Senior Economist Larry Summers.[170] Each one was from different sectors of the government, but fundamentally all had something in common: they were not interested in across the board government rescues. The summer of 2008 was a period of missed opportunities on the part of the Federal government, as Secretary Paulson refused to pursue a government purchase of Lehman Brothers and save it from collapse.[171] Thus, the 'wait and see’ tactic used by Lehman

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[167] One Hundred Tenth Congress, “The Causes and Effects of the Lehman Brothers Bankruptcy.”

[168] Ibid.

[169] Ibid.

[170] Hundt, *A Crisis Wasted.*

[171] Ibid., 136.

Brothers was recycled in the highest ranks of American politics, leaving behind a major hole in resolving the financial crisis.

Media reports described the steady decline in trust for American financial institutions, citing an enduring downturn in employment and financial growth for the nation.[172] At the time, Treasury Secretary Henry Paulson was reluctant to address future ramifications of imbalanced government bailouts. Paulson was aware that the responses would differ from one corporation to the next. Even so, in the case of the two most prominent federally supported mortgage servicing entities, Fannie Mae and Freddie Mac, a bailout was inevitable.[173] The two GSEs received $291 billion from the Treasury through a newly-formed financial process called the Senior Preferred Stock Purchase Agreement as a part of the Housing and Economic Recovery Act of 2008 (HERA).[174]

These two mortgage companies were responsible for the majority of the available capital needed for lending to prospective homeowners. Though they were also included in the subset of corporate and semi-corporate entities deemed Too Big to Fail, they survived with government support. They were saved because of their status as GSEs. Their status had been established about forty year prior, when they were chartered as hybridized enterprises and were to be, "privately owned financial institutions established by the government to fulfill a public mission."[175] It was these GSEs which were prioritized by the Federal government and funded through the taxpayer.[176] Henry Paulson explained, "That the government guaranteed the GSEs

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[172] Sorkin, "Lehman Files for Bankruptcy; Merrill is Sold."

[173] Congress of the United States. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market," 52

[174] Lucas, "Measuring the Cost of Bailouts," 14.

[175] The Congress of the United States. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market," viii.

[176] Bair, *Bull by the Horns,* 215.

debts ‘to make sure there’s mortgage finance available in this country’ and to make sure that doubt about the GSEs did not spark a run on the big banks.”[177]

The priorities of the federal government remained solely focused on national capital, rather than wealth security for the average citizen. This disproportionately impacted the financial security of low-income and impoverished people of color.[178] In an NPR interview with these three male leaders of America’s financial institutions, Treasury Secretary Paulson stated, “You’re never going to get credit for avoiding a collapse precisely because we avoided a collapse of the economy. And people were rightfully unhappy about the huge burden that the crisis placed on Americans, many of whom, you know, were of modest means and less - [sic] least able to bear it.”[179] Though Paulson’s true meaning is hidden under his diplomatic phrasing; he was clear that the government could provide a fiscal recovery for the sectors of American life that truly mattered to financial elites, such as keeping liquidity in the stock market and secondary mortgage market. Everyone else, especially impoverished people of color, would simply have to deal with the unfolding costs of the bailout and wait for a trickle-down.

This prioritization of national enterprise under the guise of governmental assistance was, in essence, the foundational cause of longterm housing crises of the twenty-first century.
The long-lasting financial ruin that exploded across the world in 2008 was intended to be resolved through Federally-hosted meetings with high-status bankers. Together, the Federal Reserve and the Treasury made moves to assist mergers between Bear Sterns and JPMorgan

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[177] Hundt, *A Crisis Wasted*, 135-6.

[178]Sarah Burd-Sharps and Rebecca Rasch, “Impact of the US Housing Crisis on the Racial Wealth Gap across Generations: An Independent Report Commissioned by the American Civil Liberties Union,” (June 2015), https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf, 2.

[179] Steve Inskeep, “In 2008, 3 Officials Were on the Frontline of the Financial Crisis,” *Morning Edition.* NPR. April 19, 2019.

Chase.[180] Even with constant meetings and negotiations occurring, Lehman Brothers was left to crumble with no financial institutions willing to absorb their assets. Meanwhile, similar trouble continued for firms like A.I.G., whose credit rating was at risk if it, too, did not receive support from the federal government or another financial institution.[181] There was not a strong case for the rescue of A.I.G., considering that earlier in the 2000's fraud allegations were brought against multiple executives at the firm.[182] However even with its illicit past, the Federal government gave A.I.G. billions in their bailout.[183]

Between late 2008 and into early 2009, governmental decisions were made which further defined the extent to which the Federal government was involved with secondary mortgage market. One of the definitive decisions involved the Federal government's favorite GSEs, Fannie Mae and Freddie Mac. These enterprises were made secure by placing them into a conservatorship, under the supervision of the Federal government. To accomplish the goal of putting the housing and financial crisis at ease, the Federal government reformed the existing Federal Housing Enterprises Financial Safety and Soundness Act of 1992 by transforming it into the Housing and Economic Recovery Act of 2008.[184] Through this act, the Federal Housing Finance Agency would be the conservator and: "Take such action as may be: (i) necessary to put the regulated entity in a sound and solvent condition; and (ii) appropriate to carry on the business

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180 Sorkin, "Lehman Files for Bankruptcy; Merrill is Sold."

181 Ibid.

182 "Ex-AIG Exec Milton Sentenced to Four Years in Prison." Reuters. Thomson Reuters, January 27, 2009. https://www.reuters.com/article/us-generalre-milton/ex-aig-exec-milton-sentenced-to-four-years-in-prison-idUSTRE50Q6AR20090127.

183 "AIG Program Status," U.S. Department of the Treasury.

184 "History of Fannie Mae and Freddie Mac Conservatorships," Federal Housing Finance Agency, Accessed November 14, 2021. https://www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx.

of the regulated entity and preserve and conserve the assets and property of the regulated entity."[185]

The Federal government publicly made claims that backing GSEs was an expression of their commitment to financial security for all American residents. However, former acting director of the Federal Housing Finance Agency, Edward DeMarco, explained that since 2008, an overwhelming $188 billion of taxpayer money was used to guarantee the GSEs.[186] Even so, the structure of the secondary mortgage market was dependent on the continued financial viability of Fannie Mae and Freddie Mac.[187] These GSEs were responsible for guaranteeing 95 percent of the nation's mortgages by 2011.[188] Additionally, the Federal support of Fannie Mae and Freddie Mac gave the sense that from the government's perspective they were somehow exempt from unethical businesses practices.[189] Or, further, that their existence had an inarguable benefit for taxpayers.[190] These assumptions were eventually disproved in the 2010s, despite long-existing evidence that Fannie Mae had committed fraud. In 2006, the SEC released settlement reports for Fannie Mae's accounting fraud.[191] It stated that the GSE had "misstated its financial statements from at least 1998 through 2004," and was responsible for paying $400 million to the SEC.[192]

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185 "History of Fannie Mae and Freddie Mac Conservatorships," Federal Housing Finance Agency.

186 DeMarco, "Put Fannie and Freddie Out of Taxpayers' Misery."

187 Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 39.

188 Ibid.

189 Renae Merle, "How Fannie Mae, Freddie Mac Dodged a $600,000 Cap on CEO Pay." *The Washington Post*, https://www.washingtonpost.com/business/2019/04/22/how-fannie-mae-freddie-mac-dodged-cap-ceo-pay/.

190 Ibid.

191 "Accounting Irregularity at Fannie Mae," United States Senate.

192 Ibid.

Further, that the internal workings of Fannie Mae were fraudulent in their mission to increase profits:

> The significance of the corporate failings at Fannie Mae cannot be overstated. The company has said that it estimates the restatement of its financial statements for the years ended December 31, 2003, and 2002, and for the quarters ended June 30, 2004, and March 31, 2004 will result in at least an $11 billion reduction of previously reported net income. In all likelihood this will be one of the largest restatements in American corporate history…Its failure in key areas highlights the critical need for senior management to constantly assess internal controls as their business grows…Fannie Mae is a clear example that neglecting internal controls can be devastating for a company and its investors. *The Commission's complaint lays out in detail the many accounting failures that occurred at Fannie Mae from books and records violations to fraud*. The complaint also describes the corporate culture at Fannie Mae that emphasized stable earnings growth and reduced income statement volatility that was the backdrop for the fraud.[193]

This level of corruption in such a GSE is not all that surprising considering its structure. Before 2010, Fannie Mae and Freddie Mac had a pay cap of $600,000 a year for executives, as a means of ethical control.[194] However, this rule was eventually subverted through the creation of a new position: president of the GSE.[195] The newly-created position of president meant that the holder of such a position would be exempt from the pay cap and permitted to earn more than $3 million a year in the late 2010s.[196]

Overall, the Federal government stated that recovery programs were meant to limit foreclosures.[197] They dismissed the devastation of home loss for the states that had experienced a rapid rise and fall in value, like Florida, California, and Nevada.[198] Additionally, the Federal

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193 "Accounting Irregularity at Fannie Mae," United States Senate.

194 Merle, "How Fannie Mae, Freddie Mac Dodged a $600,000 Cap on CEO Pay."

195 Ibid.

196 Ibid.

197 Hundt, *A Crisis Wasted,* 44.

198 Cornwell, "'CaliFlorida' Drives Housing Woes."

government did little to address the loss of wealth security caused by growing unemployment during the crisis.[199] Federal officials did not adequately address the connection between the national mortgage crisis and the volume of homeowners unable to pay their increased interest rates. How could mortgage payments be made by people who experienced sudden unemployment?[200]

The reality was that there were over 8 million jobs lost in the early period of the crisis, but the proposals pushed through by Federal officials mainly focused on rescuing banks, not preventing foreclosures.[201] These priorities made clear that Federal government was altogether in line with Henry Paulson's rhetorical dismissal of the crisis' impact on residents who had no choice, but to acquire mortgage debt to secure homeownership. Maybe it was not obvious to Paulson, Bernanke, Geithner, and Summers that the loss of household assets, employment, savings, and the destruction of personal credit would have a longterm effect on wealth stability for many residents. Even more so, this would destroy opportunities for inheritable wealth, most significantly for non-white households.[202] A report from the American Civil Liberties Union (ACLU) demonstrated just how severe of a setback the financial crisis was for Black households, in particular.[203] They compared the data of household assets between Black and White households before and after the crisis and found that, while the racial wealth gap could have

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199 Goodman and. Mance, "Employment Loss and the 2007-9 Recession: An Overview," 3.

200 Hundt, *A Crisis Wasted*, 330.

201 Goodman and Mance, "Employment Loss and the 2007-9 Recession: An Overview," 3.

202 Burd-Sharps and Rasch, "Impact of the US Housing Crisis on the Racial Wealth Gap."

203 Ibid.

disappeared almost entirely by 2050, the gap would only continue to grow, as a direct result of the crisis.[204]

Decisions in this crucial period were made by a few men in the Federal Government: Treasury Secretary Henry Paulson, Chairman of the Federal Reserve Ben Bernanke, incoming-Treasury Secretary Tim Geithner, and Senior Economist Larry Summers. Each took drastically different stances on the crisis.[205] What these men did have in common was their long career histories in the very financial institutions they were responsible for reforming. Paulson was the former CEO of Goldman Sachs, a position in which he earned nearly $40 million a year.[206] Geithner was the former director of Policy Development and Review Department for the International Monetary Fund (IMF), an institution regarded as having a distinct imbalance of preference for the economic prowess of the United States and Europe.[207] Further, during his time at the IMF, Geithner had not paid more almost $40 thousand dollars in taxes, an issue which earned him an intense public judgment and skepticism as he was about to be confirmed for his new position as Treasury Secretary.[208] Finally, Ben Bernanke, was the governor of the Federal Reserve Board. During that time he declared his approval of deregulatory policy to the Eastern Economic Association:

> The increased depth and sophistication of financial markets, deregulation in many industries, the shift away from manufacturing toward services, and increased openness to

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[204] Burd-Sharps and Rasch, "Impact of the US Housing Crisis on the Racial Wealth Gap," 4.

[205] Hundt, *A Crisis Wasted,* 154.

[206] Jeanne Sahadi, "Henry Paulson Would Take a (Huge) Pay Cut to Run the Treasury, but a Key Tax Break Will Help Easy the Pain," *CNN:Money*, June 26, 2006, https://money.cnn.com/2006/06/26/pf/taxes/paulson/index.htm?postversion=2006062616.

[207] Michael Breen, *The Politics of IMF Lending.* (New York, NY: Palgrave Macmillan, 2013), 13-14.

[208] Brian Wingfield, "Geithner's Tax Troubles are Serious," *Forbes*, January 13, 2009, https://www.forbes.com/2009/01/13/treasury-geithner-obama-biz-beltway-cx_bw_0113geithner2.html?sh=49e6c27b4817.

> trade and international capital flows are other examples of structural changes that may have increased macroeconomic flexibility and stability.[209]

This quote from Bernanke provides background for what would become known as the "Bernanke Doctrine" in which he emphasized and instituted broad policies for the United States which increased liquidity and available funds for the government.[210] This was accomplished through purchases of foreign and domestic debts. He encouraged cultivating them into a massive asset class, which increased the size of the national economy through newly acquired Treasury debts.[211]

Given their backgrounds, it might appear like these men would have had some agreement on how to resolve the financial crisis. However, Paulson and Geithner held different opinions on the best way to combat the unfolding economic trouble.[212] Paulson was more in line with Sheila Bair's perspective, that taxpayer money should not be funneled towards saving financial institutions.[213] Whereas Geithner, the incoming Treasury Secretary, watched Paulson face public criticism for his role in placing Fannie Mae and Freddie Mac into conservatorship. This conflict unfolded as Geithner vacationed with his family, and prepared for his new position.[214] His view remained firm throughout the crisis that, "…there was no chance a crisis this huge would be

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[209] Ben S. Bernanke, "Remarks at the Meetings of the Eastern Economic Association." Washington, D.C., February 20, 2004, https://www.federalreserve.gov/boarddocs/speeches/2004/20040220/.

[210] Ben S. Bernanke, "Remarks by Governor Ben S. Bernanke Before the National Economists Club." Washington, D.C., November 21, 2002, https://www.federalreserve.gov/boardDocs/speeches/2002/20021121/default.htm; J. Patrick Raines, J. Ashley McLeod & Charles G. Leathers, "Theories of stock prices and the Greenspan---Bernanke doctrine on stock market bubbles" Journal of Post Keynesian Economics, 29:3, 393-408, 2007, DOI: 10.2753/PKE0160-3477290302.

[211] Ben S. Bernanke, "Remarks by Governor Ben S. Bernanke Before the National Economists Club."

[212] Hundt, *A Crisis Wasted,* 154.

[213] Ibid.

[214] Timothy F. Geithner, *Stress Test: Reflections on Financial Crises.* (New York, NY: Crown Publishers, 2014), 381-384.

solved without putting more public money at risk."[215] Ultimately, the decision to allow Lehman Brothers to collapse was used to set an example for the remaining financial institutions.[216] This decision came from Henry Paulson:

> … even though he had no legal authority over the Fed's lending decisions. Paulson traveled to New York on September 12 and took charge of the negotiations about Lehman that were taking place at the New York Fed. Other officials on the scene… deferred to Paulson. Chairman Bernanke remained in Washington and received periodic reports on developments in New York.[217]

Thus Geithner's later statements attested that Paulson, "…forcefully repeated his no-public-money stance… He declared that he didn't want to be known as 'Mr. Bailout.'"[218] Despite Geithner's criticism, his own position on the matter was that certain firms, like Lehman Brothers, were allowed to collapse to give the Treasury the "legislative authority to try to repair the entire system."[219] This authority was needed to pin Lehman Brothers as the central cause for the financial crisis. From that position, the Federal government could ignore the overwhelming evidence that, in fact, the GSEs Fannie Mae and Freddie Mac were the institutions most at fault in the crisis.[220] Ultimately, the accounting history which made clear that there would be a global financial collapse was ignored by executives of Lehman Brothers. Thus political tactics to save face, and blind optimism in free market economics made Bernanke, Geithner, and Paulson

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[215] Public money in this instance means money funneled from taxpayers. [Timothy F. Geithner, *Stress Test: Reflections on Financial Crises.* (New York, NY: Crown Publishers, 2014), 383.]

[216] Hundt, *A Crisis Wasted,* 154.

[217] Laurence M. Ball, The Fed and Lehman Brothers: Setting the Record Straight on a Financial Disaster, (Cambridge, UK: Cambridge University Press, 2018), 13.

[218] Hundt, *A Crisis Wasted,* 154.

[219] Ibid., 141.

[220] "Accounting Irregularity at Fannie Mae," United States Senate.

resistant to acknowledging the extent of the damage that Lehman's collapse would cause for the global economy.[221]

Further, there was long-existing support from Larry Summers, a noted economist in the Clinton and Bush administrations. Summers was yet another government official who had worked in the financial industry.[222] Additionally, Summers had a long and well-documented disposition of overt sexism.[223] In Summers personal and work histories, there were examples of unethical connections, such as his ties to infamous abuser Jeffrey Epstein.[224] During Summers' tenure as president of Harvard University, Epstein gifted the university $30 million.[225] "Their friendship began a number of years ago—before Summers became Harvard's president and even before he was the Secretary of the Treasury—and those close to Epstein say he holds the University president in very high regard."[226] Summers' background provided explicit proof that his actions and associations have been consistently unethical. In the end, his views on American finance were built upon an existing code of conduct in the economic circle, which discouraged and prevented regulatory legislation. Many major policy decisions made since the previous decade were informed by this perspective.[227]

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[221] Hundt, *A Crisis Wasted,* 142-3.

[222] Ari Levy "Summers Joins Andreessen Horowitz as a Part-Time Adviser to Entrepreneurs," *Bloomberg,* June 11, 2011, https://www.bloomberg.com/news/articles/2011-06-29/lawrence-summers-joins-andreessen-horowitz-as-an-adviser-to-venture-firm; Clea Benson, "Summers After Government Saw Wealth Surge to $17 Million," *Bloomberg,* August 8, 2013, https://www.bloomberg.com/news/articles/2013-08-02/summers-after-government-saw-wealth-surge-to-17-million.

[223] Larry Summers, "Full Transcript: President Summers' Remarks at the National Bureau of Economic Research, Jan. 14 2005," *The Harvard Crimson,* Cambridge, Massachusetts, February 18, 2005, https://www.thecrimson.com/article/2005/2/18/full-transcript-president-summers-remarks-at/

[224] Jaquelyn M. Scharnick, "Mogul Donor Gives Harvard More Than Money," *The Harvard Crimson*, May 1, 2003, https://www.thecrimson.com/article/2003/5/1/mogul-donor-gives-harvard-more-than/?page=single.

[225] Ibid.

[226] Ibid.

[227] Stephen Labaton, "Congress Passed Wide-Ranging Bill Easing Bank Laws," *The New York Times,* November 5, 1999, https://www.nytimes.com/1999/11/05/business/congress-passes-wide-ranging-bill-easing-bank-laws.html.

In the late 1990s, the Commodity Futures Trading Commission (CFTC) was working with its newly appointed female head, Brooksley Born, to institute regulatory policies which would curb the predatory financial practices in the securities markets, especially in derivatives, which were mostly unregulated at that point.[228] Over the course of the 1990s, the derivatives industry grew steadily and by 1998, it was valued at $70 trillion.[229] Born was working to prevent the passage of the Commodity Futures Modernization Act (CFMA). Born and her colleagues at the CFTC viewed this act as a governmental encouragement of unregulated markets.[230] In response, the CFTC drafted a concept release for regulatory reform. The release was, "designed to update the agency's oversight of both exchange and off-exchange markets."[231] It further explained that the last major reform efforts were made in 1993, and since then the OTC derivatives market had grown and was in dire need of reform.[232] OTC derivatives were mainly used to address investment risk and volatility in major parts of the national economy, such as interest rates and goods pricing. Participants in the derivatives market included, "…banks, other financial service providers, commercial corporations, insurance companies, pension funds, colleges and universities, and governmental entities."[233] Despite the efforts of the CFTC, the opposing legislation of the CFMA was eventually passed in 2000.[234] Born's efforts were thwarted by Summers and Alan Greenspan, among the majority Republican Congress, who were

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[228] Noam Scheiber, *The Escape Artists: How Obama's Team Fumbled the Recovery.* (New York, NY: Simon and Schuster, 2011), 183.

[229] Ibid.

[230] Ibid.

[231] Jean A. Webb, Commodity Futures Trading Commission, *Concept Release.* (Washington, D.C.: 1998), https://www.cftc.gov/sites/default/files/opa/press98/opamntn.htm.

[232] Ibid.

[233] Ibid.

[234] Scheiber, *The Escape Artists,* 184.

so committed to keeping the financial industry unregulated that they made action, "…to bar her from acting until 'more senior regulators' came up with a fix."[235]

In the end, Congress blocked the CFTC from passing any regulatory action and Born resigned.[236] This blockage was not disputed amongst government officials in the 1990s, in fact, CFMA passed by a majority vote.[237] This was due to the fundamental principles set in the Reagan era and an astounding popularity of the deregulatory approach, touted by powerful men in government like Alan Greenspan. In the wake of the Enron scandal, Greenspan stated:

> …it seems abundantly clear that private market regulation is quite effectively and efficiently achieving what have been identified as the public policy objectives of government regulation. I am aware of no evidence that the prices…have been manipulated. Participants in these markets have been savvy enough to limit their activity to contracts that are very difficult to manipulate.[238]

Additionally, in the 90s, prominent law officials, Judge Frank Easterbrook and then head of the University of Chicago Law School, Daniel Fischel stated that "[A] law against fraud is not an essential or even necessarily important ingredient of securities markets."[239] From the actions in Congress, to the statements from men in power, the consensus was clear. Instituting any new regulatory measures for the financial industry was an unwelcome part of American governance in the 1990s and early 2000s. In fact, due to the disregard regulator oversight, the rate of mortgage fraud grew from the 1990s until the peak of the crisis. "According to the Financial Crimes Enforcement Network, the number of reported cases of mortgage fraud increased every

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[235] Yves Smith, *Econned: How Unenlightened Self Interest Undermined Democracy and Corrupted Capitalism*. (New York, NY: Palgrave MacMillan, 2010), 152.

[236] Ibid.

[237] Ibid., 183, 184.

[238] Ibid., 147.

[239] Ibid., 148.

year since the late 1990s, reaching nearly 53,000 in 2007, compared with roughly 3,500 in 2000."[240]

From the late 1990s, the severity of unregulated markets grew until the boiling point in 2008. The financial crisis was a national issue in which many politicians from all over the political spectrum came together to create solutions. Yet, one person faced major opposition for her emphasis on progressive reform. As chairperson of the FDIC from June 2006 to July 2011, Sheila Bair was present for many policy decisions aimed at mitigating the crisis.[241] Despite her importance, few secondary accounts of the financial crisis include her as a major source, besides recounting her contention with other officials, like Geithner. As such, the relationship between Bair and Geithner has been described as antagonistic.[242]

Further, in the process of creating reforms, Bair had continually insisted that a council of regulators be formed. This council would balance the responsibility of regulating large financial institutions more equally, instead of allowing all regulatory function be carried out by the Federal Reserve.[243] After Bair released her proposal in early May 2009 explaining how this council would operate, Geithner called an emergency meeting of officials in which he shouted expletives, some of blatantly racist origin.[244] This is noted here to demonstrate the degree to which men, like Geithner in the Democratic Party**,** were not open to finding solutions which did not follow the previously established logic. Further, that they were opposed to progressivism on

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[240] Baily, Robert E. Litan, et. al., "The Origins of the Financial Crisis," 17.

[241] Bair. *Bull by the Horns,* 7.

[242] Scheiber. *The Escape Artists*, 176.

[243] Ibid., 177-8.

[244] Ibid.

the whole, because regulation in Wall Street would mean less money flowing upward through the national economy.

However, Geithner did try to find solutions. His original proposal to the President in the early half of 2009 was released just before Bair's plan for a regulatory council in May of that year. Geithner's proposal was intended to guarantee that all of the debts from banking institutions would be paid back in full to the Federal government.[245] This solution was initially unpopular, "The proposal quickly died amid protests that it was politically untenable because it could put taxpayers on the hook for trillions of dollars."[246] However, after he received Bair's proposal for the regulatory body, Geithner's response was simply that, "There isn't going to be any fucking council."[247] Ultimately, Geithner's plan was the one pushed toward legislative approval and did cost taxpayers trillions. This cost to taxpayers was exactly what Sheila Bair was trying prevent with her own initiatives.[248]

Since the crisis, Bair has provided the most conclusive personal account of every way in which her male counterparts in the Federal government: Paulson, Geithner, Bernanke, and Summers, undercut her expertise for political and financial gain.[249] Her experience having to collaborate with and fight against these men in politics was summed up:

> …the political process, which was and continues to be heavily influenced by monied financial interests, stopped meaningful reform efforts in their tracks… We need to reclaim our government and demand that public officials—be they in Congress, the

[245] Jo Becker and Gretchen Morgenson, "Geithner, Member and Overseer of Finance Club," *The New York Times*, April 26, 2009, https://www.nytimes.com/2009/04/27/business/27geithner.html

[246] Ibid.

[247] Scheiber, *The Escape Artists,* 178.

[248] Becker and Morgenson, "Geithner, Member and Overseer of Finance Club."

[249] Bair, *Bull by the Horns,* 7-8.

> administration, or the regulatory community—act in the public interest, even if reforms mean lost profits for financial players who write big campaign checks.[250]

The biggest financial player of all was newly-elected-President Barack Obama. During his campaign, the vast majority of his monetary contributions came from Wall Street.[251] President Obama's campaign contributions were the exact issue of, "monied financial interests."[252] The funds from his campaign were primarily from Wall Street.[253] In fact, 2008 was, "the first time since 1994 that they [Democrats] have drawn more Wall Street cash than Republicans in a presidential election year."[254] Overall, Barack Obama's campaign contributions provide clarity for how major political leaders are chosen and further, whose interest they serve while in office. The breakdown of Obama's campaign contributions in the 2008 election were as follows:

> Staff at banks, Silicon Valley technology companies and universities topped the list of contributors to Obama's record treasure chest of $640m…Goldman Sachs was linked to more donations than any other company as its employees and their families provided $847,207 to the successful Democratic candidate's fundraising machine. People associated with JP Morgan provided $581,460 and donors linked to Citigroup gave $581,216 according to figures culled from public disclosures.[255]

The most concerning amongst these contributions are those from Goldman Sachs, JP Morgan Chase, and Citigroup. All of these firms were eventually found guilty of fraud after they

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250 Bair, *Bull by the Horns,* 8.

251 Emily Kaiser, "Wall Street Puts its Money Behind Obama." *Reuters,* June 5, 2008, https://www.reuters.com/article/analysis-shares-obama/wall-street-puts-its-money-behind-obama-idUKNOA53525520080605.

252 Bair was aware of her colleagues employment history. When noting the "monied financial interests" she is cleverly hinting at the skewed interests that came about through Paulson's previous work at Goldman Sachs, Bernanke's position running the NY Federal Reserve, Geithner's work at the IMF and Obama's colossal financial contributions from Wall Street. [Sheila Bair. *Bull by the Horns.* (New York, NY: Simon and Schuster, 2012), 8.]

253 Emily Kaiser, "Wall Street Puts its Money Behind Obama."

254 Ibid.

255 Andrew Clark, "Bankers and Academics at Top of Donor List."

issued CDOs which were purposefully designed to lose value.[256] In the case of Goldman Sachs, thousands of mortgages were found to be fraudulent:

> One of the most famous examples was GSAMP Trust 2006-S3, whereby Goldman Sachs put together a package of 8274 mortgages. The average loan-to-value of the mortgages in this package was an astonishing 99.21 percent (meaning borrowers had minimal equity invested in the house) and 58 percent of the loans were “no-doc” or “low-doc” loans. Sixty eight percent of the securitized package ended up being assigned an AAA rating.[257]

Ultimately, legislation emerged from efforts of these Federal officials and their overt prioritization and connection with Wall Street. The Troubled Asset Relief Program (TARP) was drafted as a three page bill proposal, and met with political disdain across party lines. The bill did not immediately pass due to Republican resistance.[258] The entire rescue scheme crumbled after the failed vote. Yet again, stocks dropped, which sparked even more public fear and distrust in the financial system. The fate of the global economy rested upon the corrupt officials in American politics. A final decision was made to split the bill, giving the go ahead for first $350 billion to be made available immediately, and the second half in early 2009.[259] This approach proved to quell the anxieties of the Republican Party, and the bill passed on October 3, 2008. It was a $700 billion rescue package for Wall Street.[260] However, the passage of this bill merely provided relief for the market. It was a solution regarded as necessary, but not sufficient, in healing the financial disruption which had already impacted residents across the nation.

In a hearing before the October 6, 2008 Committee on Oversight and Government Reform, Chairman Henry A. Waxman explained of the bailout, "This was something no Member

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256 Buchanan, “The Way We Live Now: Financialization and Securitization,” 665, 669.

257 Ibid., 669.

258 Hundt, *A Crisis Wasted,* 162.

259 Ibid., 162-4.

260 Ibid., 164.

wanted to do. If Wall Street had been less reckless, or thorough regulators had been more tentative, the financial crisis could have been prevented. But we voted for the $700 billion rescue because the consequences of doing nothing were even worse."[261] Passing the bill for $700 billion was considered a success, despite ongoing mathematical confusion about how the amount was determined. A spokeswoman for the Treasury explained that the amount of $700 billion for TARP was mere speculation, "It's not based on any particular data point. We just wanted to choose a really large number."[262] While TARP was meant to be legislation geared towards assuring the stability of banks and preventing further economic decline, a key issue remained for Sheila Bair.

In retrospect, Bair commented that she had regrets for some of the relief programs which she helped to draft. She created the Temporary Liquidity Guarantee Program (TLGP), which assured that debts would be paid back to large investors and ultimately raised the deposit insurance limit to $250,000 from the previous $100,000.[263] Bair publicly criticized her own decisions, with the exception of protecting deposits. She explained that TARP and TLGP prioritized preserving the colossal wealth held in investment firms, rather than protecting the finances of small businesses and households. She also criticized the ethics of the Bush administration and their unwavering belief in a laissez-faire, "self-correcting market."[264] Ultimately, the private firms that were financially guaranteed by the Federal government's

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[261]One Hundred Tenth Congress, "The Causes and Effects of the Lehman Brothers Bankruptcy."

[262] Liz Moyer, "Bad News for the Bailout," *Forbes*, September 23, 2008, https://www.forbes.com/2008/09/23/bailout-paulson-congress-biz-beltway-cx_jz_bw_0923bailout.html?sh=63e0d2ba5fb3.

[263] Hundt, *A Crisis Wasted,* 164.

[264] Ibid., 139-40.

bailout used excess funds from bailouts to provide end of the year bonuses to their executives.[265] So it went that a Republican like Sheila Bair was dismissed as populist, and the Democrat's agenda of saving "American wealth" remained fixated on protecting the enormous concentration of money tied up between Wall Street and the Federal government.

The decisions to prioritize the financial industry above the needs of American residents showed that the Federal government held corporate wealth as its first priority. In fact, corporate wealth elected the president, it sent a CEO directly from Goldman Sachs to the White House to be Treasury Secretary, it created a national economy on mortgages and then destroyed itself when that wealth never trickled down. It is not that these decisions were made from a place of concern about the *amount* of money the Federal government could, or was able to, provide. A notable example was when the government chose to give billions in bailout funds to A.I.G., an investment firm that was proven to be guilty of fraud.[266] Rather, the distinction occurred in the decisions that determined the deserving recipients of wealth and bailouts: which groups did the Federal government consider *worthy* of a bailout? It was certainly not middle and lower class residents that were worthy in the eyes of the Federal government, but rather the financial industries which kept the nation at the forefront of the global economy. For the forgotten American residents, the subsequent years would be ones of eviction, foreclosure, and an overall loss of household wealth.

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[265] Hundt, *A Crisis Wasted,* 140.

[266] "AIG Program Status," U.S. Department of the Treasury. U.S. Government, December 11, 2013, https://home.treasury.gov/data/troubled-assets-relief-program/aig/status; Edmund L. Andrews, Michael J. de la Merced, et. al., "Fed's $85 Billion Loan Rescues Insurer," *The New York Times*, September 16, 2008, https://www.nytimes.com/2008/09/17/business/17insure.html; "Actions Related to AIG," *Federal Reserve Bank of New York*, June 30, 2014, https://www.newyorkfed.org/aboutthefed/aig.

Chapter III: The Bubble Bursts

The collapse of Lehman Brothers was a significant tipping point in the financial crisis. It demonstrated how an industry and its prevailing businesses could be highly regarded as Too Big to Fail, even as they existed within a narrow balance sheet of financial delicacy. Their delicacy grew through predatory lending and increased profits from the debt of the American people. Behind the crash of the stock market and its five giant investment firms, Bear Stearns, Lehman Brothers, Merrill Lynch, Goldman Sachs, and Morgan Stanley, was an inner industry: mortgage-backed securities (MBSs).[267] It was these MBSs which were responsible for both the massive economic growth and its rapid decline in the early 2000s. The market crash of 2008 made the instability of the American economy obvious. The source of this instability was the secondary mortgage market.

The immediate impact after Lehman's collapse was growing unemployment. The sudden increase in unemployment rates created panic for those close to and far from the investment industry. Even more alarming was that many people did not understand how or why the investment firms were losing value so quickly. This lack of understanding was not reserved for those without extensive financial knowledge—prevailing misunderstanding and misrepresentation of the wealth industry was present in its employees, as well as the Federal government. In that way, political leaders held firmly onto the belief that the concentrations of wealth within private finance would eventually trickle down to the broader population. In fact, what occurred was quite the opposite, a phenomena named by researchers as the "negative

[267] Darrell Duffie, "Prone to Fail: The Pre-Crisis Financial System," *Journal of Economic Perspectives, Volume 33, Number 1,* (Winter 2019), 82.

trickle-down."[268] This concept describes how deregulatory policies, and increased wealth inequality and borrowing lead to the financial ruin of 2008.[269] Overall, the negative trickle-down concept describes how:

> …the increased political power of the financial sector and top income groups and its support of neoliberal policies… primarily benefit upper income groups. This includes financial deregulation, moving away from full-employment high wage policies (Palley 2009), and *fostering a social myth that mortgage debt is low risk,* both to the borrower and the investor (Starr 2010). As income inequality led to a savings glut for high income households (Wisman 2009) and debt-financed consumption for low and middle income families (Starr 2010), rapid growth in the financial sector was needed to facilitate the transfers (Kumhof and Ranciere 2010). These all came together in the last few decades to create a 'perfect storm' of a housing bubble followed by a financial crash.[270]

Most important in this description is the myth that mortgage debt is low risk. Further, that while Americans took on more debt and increased their consumption by credit, there was a continual loss of jobs and homes. "The already-weak economy was jolted by financial market turmoil in fall 2008. The impact on employment was immediate and severe, with monthly job losses spiking to among the highest on record. At its lowest point, February 2010, U.S. employment had declined by 8.8 million from its pre-recession peak."[271]

The response from the federal government was to create the Troubled Asset Relief Program (TARP) and bailout the banks. The bank bailouts proved to be essentially meaningless to the general public as they witnessed executives at many of the prominent investment firms give themselves end of year bonuses, rather than use the funds for actual market reform.[272]

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[268] Richard P.F. Holt and Daphne T. Greenwood, "Negative Trickle-Down and the Financial Crisis of 2008," *Journal of Economic Issues*, Volume 46, Number 2, June 2012, DOI 10.2753/JEI0021-3624460211.

[269] Ibid., 363-4.

[270] Ibid., 365-6, (italics mine.)

[271] Goodman and Mance, "Employment Loss and the 2007-9 Recession: An Overview," 3.

[272] Edmund L. Andrews and Peter Baker, "A.I.G. Planning Huge Bonuses After $170 Billion Bailout." *The New York Times*, March 14, 2019, https://www.nytimes.com/2009/03/15/business/15AIG.html

Furthermore, TARP as the primary and most expensive form of government response to the 2008 financial crisis fully reinforced the idealogical standpoint of the 1980s Neoliberal regime. This made clear that trickle-down economics would remain the dominant tactic in all matters of finance for the United States. Even more so, the first priority for the Federal government was protecting money on Wall Street. Considering the firms on Wall Street were responsible funding President Obama's campaign, it is obvious why these two groups were allied in their approach to solving the crisis. The story became about how successful TARP was, because of the "growth" in the American economy as a whole.[273] However, while executives at investment firms enjoyed their year-end bonuses direct from the Federal government, many middle and lower class families lost homes, lost jobs, and further, lost any chance at building intergenerational wealth. Ultimately, the period defined by the Federal government as the "recession" ended in mid-2009, but the unemployment rate remained high well into 2012.[274]

The early 2000s were a period of immense economic growth, especially in the secondary mortgage market. Housing prices were rising, yet many people were able to become home-owners due to low interest rates. Some were able to pursue this part of the American dream because they had received adjustable rate mortgages (ARMs).[275] This meant that while they signed loan agreements at low interest rates, within a few years these rates would *adjust,* which meant *increase*.[276] A large portion of home owners in 2004-5 signed such loan agreements, which were planned to have shifting interest rates in a matter of years. It was in 2007 that the shift took

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[273] US Department of the Treasury, "The Financial Crisis Response In Charts," 4.

[274] Ibid., 18.

[275] Bloomberg News, "Low Interest Rates Help Keep Home Sales Brisk in February." *The New York Times*, March 23, 2003. https://www.nytimes.com/2003/03/26/business/low-interest-rates-help-keep-home-sales-brisk-in-february.html?searchResultPosition=1

[276] Les Christie, "Mortgage Resets: Record Bill Coming Due."

place and many people who owned homes primarily because of the lower interest rates, were then unable to pay their increased mortgage payments.[277] Combined with these market shifts and the increased unemployment over the course of 2007, fewer people were able to make timely mortgage payments.[278] These ARMs were the center-point of financial destruction, and as previously stated, they proved that mortgage debts were not actually a low-risk investment for banking institutions or the Federal government.

> As the number of subprime ARMs being underwritten was reaching a high, the quality of loans was hitting new lows. Mark Zandi, chief economist and co-founder of Moody's Economy.com stated, 'There were increasingly poor quality loans made starting in the spring of 2005, with the poorest of all made during the fall of 2006… Lenders wanted to keep the pipeline flowing, and were hopeful that prices would grow again.'[279]

This price increase did not happen. What transpired was a massive drop in property value and the disruption of mortgage payments on a national scale.[280] Though the concept of a "national" housing bubble is contested, mostly by former head of the Federal Reserve, Alan Greenspan, it is important to note that while housing markets are regional, their market value has national implications.[281] This is evident when looking at the immediate impact of the changing interest rates of ARMs. These particular mortgages with interest rates which increased in 2007 sparked some of the most devastating periods of foreclosure. Below, a graph depicts the severity

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[277] Christie, "Mortgage Resets: Record Bill Coming Due."

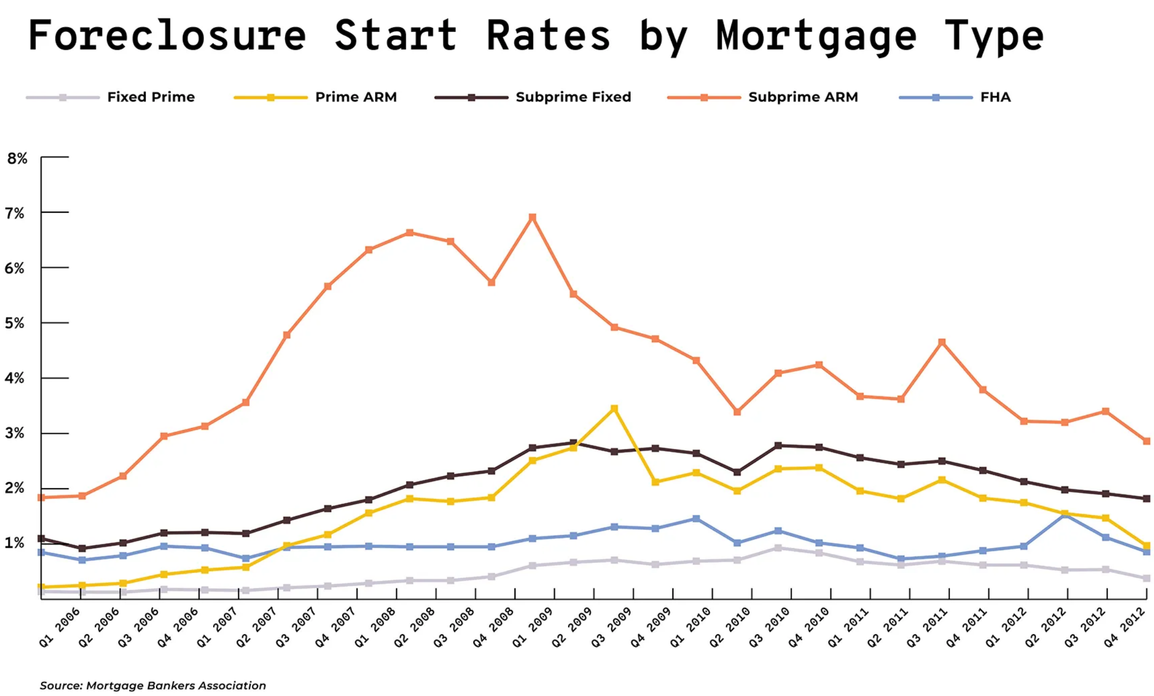
[278] Rich, "The Great Recession."

[279] Christie, "Mortgage Resets: Record Bill Coming Due."

[280] Scott Cendrowski, "The 2009 Housing Outlook." *Fortune,* 158 (12) 2008, 68–69.

[281] Edmund L. Andrews, "Greenspan Is Concerned About 'Froth' in Housing," *The New York Times,* May 21, 2005, https://www.nytimes.com/2005/05/21/business/greenspan-is-concerned-about-froth-in-housing.html

of foreclosure, broken down by type of mortgage held by the homeowner. Subprime ARMs were the largest portion of mortgage foreclosures from 2006-2012.[282]



[283] *Mortgage Bankers Association, 2010.*

In the height of the housing bubble between 2004-06, many people purchased or refinanced their homes. This was a viable option for many new mortgage holders because of the low interest rates that were available. Despite interest rates being lower than in previous decades, home prices were high in some key regions. Highest purchase costs occurred in Arizona, California, Florida and Nevada, which grew over 264 percent between 1998 and 2006.[284] It was these states that had the most significant rates of foreclosure during the crisis. Particularly, California and Florida were home to the majority of foreclosures. "MBA research shows that

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[282] Mortgage Bankers Association, "Delinquencies and Foreclosure Starts Decrease in Latest MBA National Delinquency Survey," Washington, DC: (2010), http://www.mortgagebankers.org/NewsandMedia/PressCenter/73799.htm

[283] Ibid.

[284] Dayen, *Chain of Title,* 1.

California and Florida currently account for 42% of the nation's foreclosure starts for prime, adjustable-rate mortgage loans."[285]

Further, Arizona, California, Florida, and Nevada were home to over half of all subprime mortgages issued in the year 2006.[286] As noted earlier, Florida's housing market had one of the worst bursts in the housing bubble. With its high number of short-sales and foreclosures, the state's housing crisis was so significant that it had two major periods of crisis. First, was the period when increased delinquencies occurred from those whose changed interest rates affected their ability to make payments after 2006. Thus, Florida's housing market began to collapse years before the word subprime was a part of any major news headlines.

Mark Zandi further explained that certain regional markets known for their housing boom, were also home to three quarters of the ARMs issued during the height of the housing bubble. The locations of this majority were: Arizona, California, Florida, Massachusetts, and Nevada. Zandi stated that the housing prices in those locations were falling as of autumn 2007.[287] However, even earlier reports show that by summer of 2007, there were widespread foreclosures happening across the nation. Data produced by The National Association of Realtors regarding median home prices showed this change. However, because of the increased activity in the housing market, primarily in short-sales, it was not immediately evident that there were mortgage defaults happening in regions across the nation.[288] This was because short-sales were grouped into national and regional housing sales and reports did not signify that the sales were

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[285] Cornwell, "'CaliFlorida' Drives Housing Woes," *National Mortgage News* 32 (17), January 28, 2008.

[286] Dayen, *Chain of Title,* 1.

[287] Christie, "Mortgage Resets: Record Bill Coming Due."

[288] Les Christie, "Florida Foreclosure Future Shock," *CNN:Money*, July 6, 2007, https://money.cnn.com/2007/07/05/real_estate/futureshock_Florida_housing_will_fall/index.htm?postversion=2007070612.

only possible because of the previous homeowners' inability to make mortgage payments.[289] Additionally, because home sales can close months after initial arrangements are made, shifts in the stability of the housing market can take ample time to reach public awareness.

Duane Legate, president of House Buyer Network, described his observations regarding short-sales and the stability of the national housing market. His network reached out to counties in Arizona, California, and Florida, where he had seen an increase in short-sales.[290] *CNN:Money* reported that metropolitan Phoenix held 10 of 11 top area codes for foreclosures in Arizona, a state with some of the most significant volumes of foreclosures in the nation.[291] Additionally, Legate reported that Clark County, Nevada and Riverside County, California held high rates of foreclosures and short-sales.[292] Through these figures it is clear that while the stock crash of 2008 was a tipping point for public awareness, the harm from the secondary mortgage market began much earlier.

The second iteration of housing disruption in Florida occurred after the stock market collapse in fall of 2008, when unemployment spread across the nation and further prevented people from having adequate income to pay their mortgages.[293] In that year, Florida was second in volume of foreclosures, with highly populated areas like the Tampa Bay leading the state.[294] Regarding the overall status of home ownership nationally Sheila Bair explained, "… in 2008, home prices were going down dramatically. That led to a 'rush to foreclosure' phenomenon

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[289] Christie, "Florida Foreclosure Future Shock."

[290] Ibid.

[291] Christie, "Mortgage Resets: Record Bill Coming Due."

[292] Christie, "Florida Foreclosure Future Shock."

[293] Dayen, *Chain of Title,* 2.

[294] Shannon Behnken, "Eviction Fees For Landlords Up Dramatically," *Tampa Tribune*, July 1, 2008.

where mortgage investors would try to repossess and sell properties quickly, before prices went down further. But the dumping of millions of properties on the market at one time was becoming part of the problem, as it made prices go down even faster."[295]

Across Florida where delinquencies were pervasive, residents would receive visits from notifying agents who were:

> …handing homeowners legal documents and informing them that as a result of their failure to pay their mortgage promptly, their lender would place them into foreclosure. By early 2009, one in twenty-two Florida homeowners had received some sort of filing like this, such as a notice of default, court summons, auction sale, or foreclosure judgement-nine times the historical average.[296]

While the years leading up the crisis showed just how volatile the housing market was in the United States, its on the ground impact was only increasing as mortgage delinquencies grew out of control throughout 2009. The nation was then facing the immediate consequences and subsequent needs of housing instability, as many residents became familiar with the hardships of foreclosure, eviction, displacement, and systemic neglect. In the case of oversight for secured housing; residents of rental properties, homeowners, landlords, and local banks were often unaware of regulations preventing surprise eviction or foreclosure.

Monthly payments were not a surprise to mortgage holders or renters. Residents across the nation were accustomed to delivering rent or mortgage payments on time each month. However, the changing financial situation made many uncertain of the real and immediate impact of the unfolding economic crisis. Despite the lack of clarity, there were already existing national codes in place, that were meant to assure renters and mortgage holders did not face

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[295] Bair, *Bull by the Horns,* 254.

[296] Dayen, *Chain of Title,* 2.

unfounded evictions. For example, in the event that a mortgage was not paid on a property, a delinquency warning would be issued. This is the necessary legal process. However, many banks responsible for hiring process servers to deliver such notices were not aware of the requirement, despite such a law existing for more than seventy years. The requirement to deliver notice of delinquency has been a part of national housing law since the early 1930s.[297] Within the National Housing Act of 1934, a federal statute was created to mandate delinquency notices be promptly delivered to mortgage holders. This measure was further reformed into the Housing and Urban Development Act of 1965, which included federal statute 12 USC § 1701x and its subsection:

> (B) Notification of delinquency
> Under the demonstration program, the Secretary shall require the creditor of any eligible homeowner who is delinquent… to send written notice by registered or certified mail within 5 days (excluding Saturdays, Sundays, and legal public holidays) after the occurrence of such delinquency—
> **(i)** notifying the homeowner of the delinquency and the name, address, and phone number of the counseling organization for the counseling target area; and
> **(ii)** notifying any counseling organization for the counseling target area of the delinquency and the name, address, and phone number of the delinquent homeowner.[298]

Foreclosures

Foreclosures increased rapidly, as the secondary mortgage market crumbled in the debts of its own making. It was once a massively lucrative business, and its model was to profit from the debt of people who had no other way to attain homeowner status. In fact, many legal documents that provided proof of property ownership and details of loan servicing agreements were treated as unimportant piles of paper which simply required a signature. In one such case, Erica Johnson-Seck, a representative of foreclosure and bankruptcy for OneWest Bank, gave

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[297] David Dayen. *Chain of Title: How Three Ordinary Americans Uncovered Wall Street's Great Foreclosure Fraud.* (New York, NY: The New Press, 2016), 113.

[298] *Housing and Urban Development Act, 12 USC § 1701x* (1968), https://www.law.cornell.edu/uscode/text/12/1701x.

testimony that she typically spent just thirty seconds on each of the 750 foreclosure documents she was responsible for signing in a given week.[299] Johnson-Seck additionally stated that she did not thoroughly read any of the documents, nor was an official notary present for her signature.[300]

Similarly, lawsuits were brought to Ally Financial's mortgage operations on the grounds that employee, Jeffrey Stephan, signed more than ten thousands foreclosure documents in a month, without a glance at the details. Additionally, Beth Ann Cottrell whose deposition stated that she did the same during her time at JPMorgan Chase.[301] As such, Johnson-Seck, Stephan, and Cottrell are a minuscule representation of many similar actors in the 2008 crisis: those who carried out a duty with little understanding of their work's impact. This is true from the small case of Johnson-Seck to the former-President of the United States, George W. Bush, who was quoted as saying he had no understanding of how the national financial system operated.[302]

Whilst both Lehman Brothers and A.I.G. were at the center of attention in the crumbling global economy, Ben Bernanke and Henry Paulson met in the Roosevelt Room for the President's Working Group meeting at 3:30 pm, September 16th, 2008.[303] During their meeting, Bernanke and Paulson met with President Bush to discuss A.I.G. Paulson explained:

> The president found it hard to believe that an insurance company could be so systemically important. I tried to explain that AIG was an unregulated holding company comprising many highly regulated insurance entities. Ben chimed in with a pointed description: 'It's like a hedge fund sitting on top of an insurance company.'[304]

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[299] Dayen, *Chain of Title,* 124-5.

[300] Ibid.

[301]Ariana Eunjung Cha and Brady Dennis, "Under Piles of Paperwork, A Foreclosure System in Chaos," *The Washington Post*, September 23, 2010.

[302] Hundt, *A Crisis Wasted,* 163.

[303] Henry M. Paulson, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System.* (New York, NY: Hachette Book Group, 2010), 460, 472.

[304] Paulson, *On the Brin*k, 474-5.

During the meeting, they decided that A.I.G. would get an $85 billion loan. As stated previously, this amount is widely disputed. However uncertain the actual cost was, bailout calculation and analysis expert Deborah Lucas explained that in the end the loan given to A.I.G. was never fully paid back to the Federal government.[305] As the men concluded their meeting, President Bush stated, "Someday you guys are going to have to tell me how we ended up with a system like this and what we need to do to fix it."[306]

It may seem from the intentionally complicated language of the securitized mortgage market that foreclosure is a risk only home-owners need worry about. However, hardly anyone was exempt from the havoc of foreclosure. Renters were particularly vulnerable to sudden losses of housing. As previously stated, renters were often subject to last minute notice of eviction if their landlords were delinquent. If renters did not voluntarily leave their homes, they would be forced. Evictions were rarely a peaceful event. By the end of 2008, over two million homes were in foreclosure.[307] Foreclosures and subsequent evictions were so prominent in 2008, that they were the subject of the World Press Photo of the year.[308]

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[305] Deborah Lucas, "Bailouts," *Bank Research Conference,* Arlington, Virginia, September 6-7, 2018, https://www.fdic.gov/analysis/cfr/bank-research-conference/annual-18th/pres/25-lucas.pdf.

[306] Paulson, *On the Brink*, 474-5.

[307] Lynn Adler, "Foreclosures Soar 81 Percent in 2008," *Reuters*, New York. January 15, 2009, https://www.reuters.com/article/us-usa-mortgages-foreclosures/foreclosures-soar-81-percent-in-2008-idUSTRE50E1KV20090115

[308] Anthony Suau, *World Press Photo of the Year,* March 26, 2008 in *Time, https://www.worldpressphoto.org/collection/photo-contest/2009/anthony-suau/1.*

[309] *Anthony Suau, World Press Photo 2008.*

In the decision process, the jury members for the World Press Photo of 2008 made distinct comparisons between this photo and those of "classic war." The chair of the jury stated, "Now war in its classic sense is coming into people's houses because they can't pay their mortgages."[310] This photo depicted just how the United States' financial system was at war with the residents of its own country. First, it was a war against residents because homeownership was dependent upon acquiring debt or already having good credit. Next, the decrease in household wealth on a national scale made it certain that residents would be exposed to predatory loans. Decreased household wealth and increased debt began in the 1980s and continued well into the financial crisis:

> …savings rates went from around 10% in the early 1980s to less than 4% by the late 1990s and were negative by 2005–2006 (Wisman 2009). Then deregulation of finance and relaxed monetary policies made it easier for households to borrow more and keep on

[309] Suau, *World Press Photo of the Year.*

[310] "U.S. Foreclosure Image Is 2008 World Press Photo," *Reuters.*

> spending. Household debt rose from 41% of GDP in 1960 to 45% in 1973 and 100% in 2007 (Board of Governors of the Federal Reserve 2009).[311]

It was a widespread repossession of the assets of many people across the nation, especially people of color. In fact, the increased rate of homeownership in the early 2000s was due to African-Americans and Latinos taking on subprime mortgages.[312] In this instance, what occurred was deemed "reverse redlining."[313] Lenders sought out borrowers of color to entrap them in predatory mortgage agreements. Essentially, these borrowers of color were subjected to reverse redlining due to the historical housing discrimination they faced. Further, borrowers of color had, "…a lack of viable lending alternatives and less of a familiarity with the mortgage market, which also led otherwise viable borrowers to accept unfavorable mortgage terms."[314] In 2005, twenty percent of overall mortgages were subprime, while over half of the mortgages taken out by African-American families were subprime.[315] Additionally, forty percent of Latinos had subprime mortgage originations in 2005.[316] The ACLU reported that African-Americans were 47 percent more likely to experience foreclosure, with Latinos at a likelihood of 45 percent.[317]

The Federal Reserve of St. Louis' analysis stated that for the overall division of assets, "…housing represented a relatively large share."[318] Thus, when looking at the data produced by

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[311] Holt and Greenwood, "Negative Trickle-Down and the Financial Crisis of 2008," 364.

[312] Brescia, "Subprime Communities," 166.

[313] Ibid., 167.

[314] Ibid.,172.

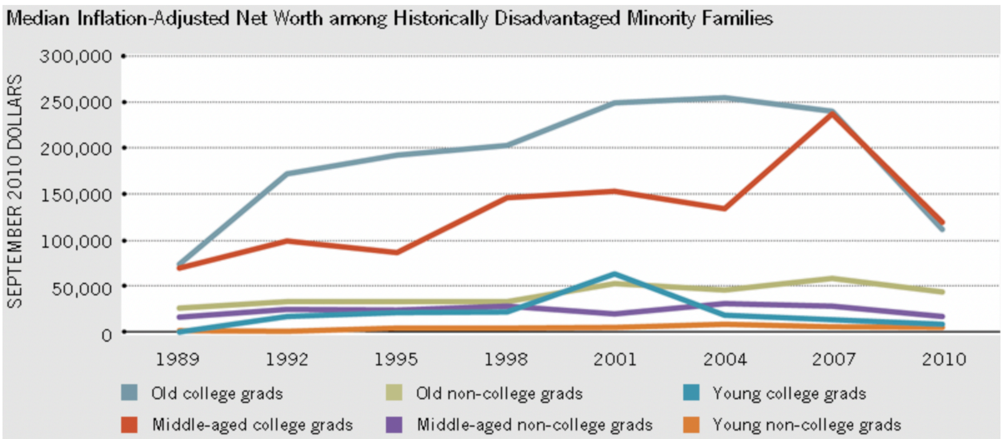
[315] Ibid., 173.

[316] Ibid.

[317] Burd-Sharps and Rasch, "Impact of the US Housing Crisis on the Racial Wealth Gap," 9.

[318] William R. Emmons and Brian J. Noeth, "Who Suffered The Most from the Crisis?" Federal Reserve Bank of St. Louis, July 1, 2012, https://www.stlouisfed.org/publications/regional-economist/july-2012/household-financial-stability--who-suffered-the-most-from-the-crisis.

their study, it is clear that loss of assets among these groups meant loss of housing and home equity in high volumes. The study reported that in the years between 2007 and 2010 the percent decrease for African-American's and Hispanic's net worth was 28.6 percent.[319] This also included the largest decline in retirement savings for African-Americans during the recession period.[320]



[321] *Federal Reserve Bank of St. Louis, 2012.*

Data alone however does not do justice for illustrating the government's failure in regulating the secondary mortgage market and how this impacted millions of people. Many who lost homes were not at fault, and the aforementioned groups of people experienced the most pronounced losses. The overwhelming wealth disparity amongst races and ethnic groups in the United States grew, while the median household wealth for White families was nineteen times greater than for Black families in 2009. By 2011, almost 75 percent of White families owned their homes, while homeownership for Black families was at 45 percent.[322]

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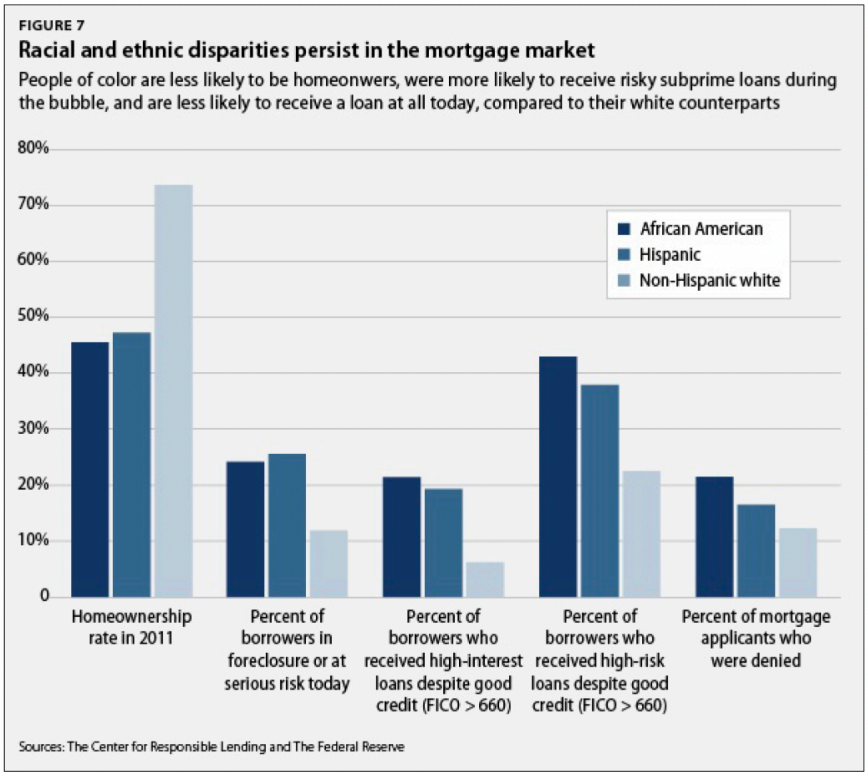
319 Emmons, "Who Suffered the Most from the Crisis?"

320 Burd-Sharps and Rasch, "Impact of the US Housing Crisis on the Racial Wealth Gap."

321 Emmons, "Who Suffered The Most from the Crisis?"

322 Strike Debt and Occupy Wall Street, "The Debt Resistors' Operations Manual," 44-5.



[323] *The Debt Resistors' Operations Manual, 2012.*

Overall, the ACLU concluded that:

> the significant disparities in declines in wealth between blacks and whites, excluding home equity… lends support to the notion that the uneven distribution of subprime loans—and not simply the disproportionate amount of wealth blacks hold in home equity compared to whites—is a key explanatory factor in the overall disparities in percentage change in total wealth between blacks and whites between 2007 and 2011.[324]

However, loss of wealth and assets was not limited however to mortgage holders. There were cases of renters who had paid rent their rent, on time and in full, but were faced with eviction. One such example was Shirley and William Hayes, an elderly couple renting in the suburbs of San Francisco.[325] Though they made their rental payments on time and had already signed a lease renewal for the upcoming year, the Hayeses were evicted. Informed by a notice on

[323] Strike Debt and Occupy Wall Street, *The Debt Resistors' Operations Manual,* 44.

[324] Burd-Sharps and Rasch, "Impact of the US Housing Crisis on the Racial Wealth Gap," 14.

[325] Melissa Block, "Renters Face Rapid Eviction as Foreclosures Soar," *All Things Considered (NPR),* March 14, 2008.

their door that their home was foreclosed on and would be sold by the bank, the Hayeses told *NPR* that they never heard the news directly from their landlord.[326] Instead, the were shuffled around by the bank and eventually directed to settle the matter with a management company, who informed them they had just thirty days to move. They were left to confront the possibility of homelessness or eviction without a returned security deposit, very little time, and no wrong-doing on their part.[327]

The Hayeses were just one example of many people who experienced the same situation or much worse.[328] There were scores of people who paid their rent, but to landlords whose homeownership status was at risk, among the millions who could not pay their mortgages throughout the crisis. The foreclosure rate increased from 3.3 percent at the end of 2008 to 3.9 percent in the first quarter of 2009.[329] Loans with at least one overdue payment were at 9.1 percent. All ratings of mortgages were in delinquency, from prime to subprime. Each increased in the years between 2005 and 2009, with subprime being the largest share.[330]

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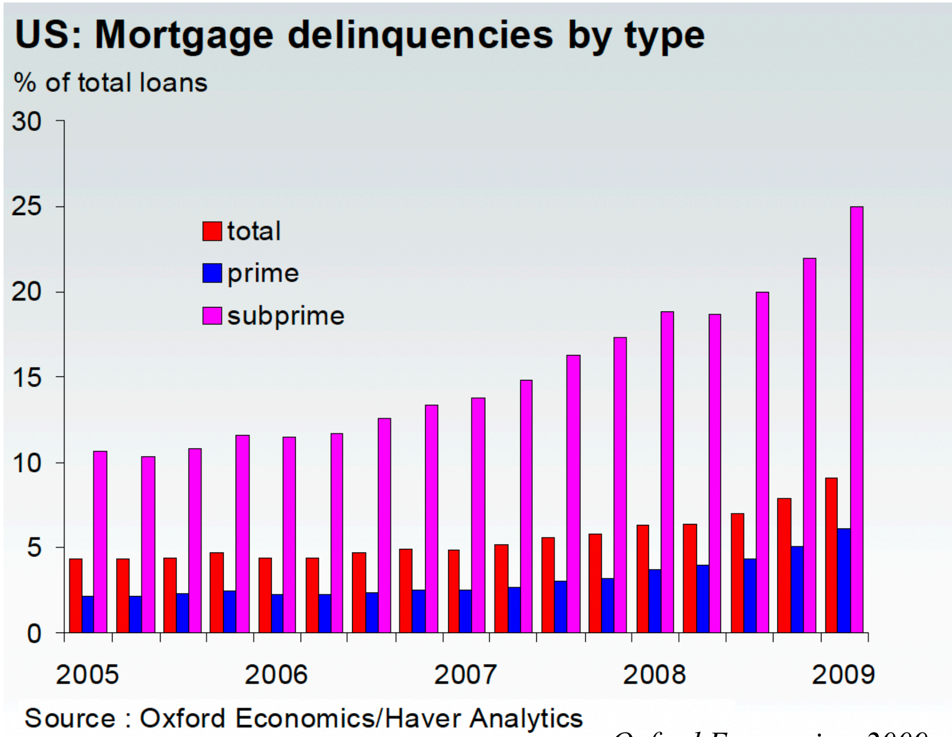
[326] Block, "Renters Face Rapid Eviction as Foreclosures Soar."

[327] Ibid.

[328] Ibid.

[329] Economic Outlook. "Why are US Home Foreclosures So High?" *Oxford Economics* (July 2009), 29.

[330] Ibid.



Oxford Economics, 2009. [331]

Countless stories of last minute evictions and foreclosures became the dominant news coverage into the 2010s.[332] Concern for the loss of housing was on the minds of every resident in the United States. Many did not have the resources to deal with newly placed notices on their doors, ordering them out of their homes. A tragic example was Addie Polk, whose home was foreclosed on by Fannie Mae in 2008.[333] A black woman of 91-years, Polk became a national symbol for the despondency felt by many as they experienced home loss. She took her own life in the moment that deputies came to remove her from her home in Akron, Ohio where she had lived for more than thirty years. The notion of war presented by the World Press Photo is also shown in the story of Addie Polk. She was an elderly woman who felt such a pronounced fear for

[331] Economic Outlook, "Why are US Home Foreclosures So High?"

[332]ABC News, "Housing Market Meltdown," Youtube. August 25, 2010, https://www.youtube.com/watch?v=PgJLkDGaCwo.

[333] Namrata Tripathi, "'The Con': How 91-Year-Old Addie Polk's Suicide Attempt in Ohio Became a Symbol of America's Home Mortgage Crisis," MEAWW, October 6, 2020, https://meaww.com/the-con-how-90-year-old-addie-polk-shot-herself-house-forclosure-became-symbol-home-mortgage-crisis.

losing her home, that in the moment police banged at her door, she took her own life. Over the course of her homeownership, Addie Polk had acquired multiple loans totaling more than $100,000 and was given a thirty-year mortgage at 89 years old. All in all, she was not able to make her payments and decided to take her own life.[334]

While Addie Polk's home was about to be revoked and her life ended, the Federal government sought to pass TARP. This legislation was meant to address growing crises in the national economy. Local congressmen, Dennis Kucinich, became aware of Polk's story while he watched the House of Representatives debate the bailout under President Bush. In a statement to the House floor he exclaimed, "This bill does nothing for the Addie Polks of the world. This bill fails to address the fact that millions of homeowners are facing foreclosure, are facing the loss of their home. This bill will take care of Wall Street, and the market may go up for a few days, but democracy is going downhill."[335] Kucinich wanted to further investigate the reasons someone like Addie Polk had a new mortgage on a paid-off home:

> What I'm interested in determining is the extent to which lenders targeted elderly people as potential customers in order to go after a class of people that they knew, actuarially, it was impossible that they were going to be around to the conclusion of the mortgage. And they had a limited ability to repay. Lenders had to know this. And they did it anyhow, because it appears they were more interested in booking higher and higher sales.[336]

Interestingly, in the case of Addie Polk, she did not have what was considered to be a subprime mortgage; it was not an ARM, nor was she in need of more money to pay off her home. Rather, she was encouraged to mortgage her home late in life, for the sole benefit of making a profit off her debt. She was just one of the millions who faced home loss in the crisis because of

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334 Tripathi, "'The Con'"

335 Peter J. Boyer, "Eviction," *The New Yorker,* November 24, 2008, https://www.newyorker.com/magazine/2008/11/24/eviction-ohio-postcard-peter-j-boyer.

336 Ibid.

the incentivized profits in the securities industry. News coverage throughout the crisis was grim as it highlighted the distress nearly everyone in the country was feeling about the security of their wealth and housing. One broadcast began, “If you are watching us from the last home you’ll ever own tonight, consider yourself lucky. Same goes for anyone ready to buy a slice of the American dream. But if you’re among the millions trying to sell, this was a very bad day.”[337] It was a very bad few years, in fact. The transitioning economic layout of 2009 and 2010 was meant to be a point of turn-around as Federal programs designed improve housing and economic conditions were implemented. Some of these programs were enacted to help homeowners and renters avoid homelessness, while others were to secure capital in small local banks, in addition to larger financial firms. Despite the money and efforts of the Federal government in that time, these programs had varied levels of success.

[337]ABC News, “Housing Market Meltdown.”

Chapter IV: FDIC and the Unresolved Issue of Inequality

In all cases, the governmental programs in the United States that intended to resolve the financial crisis were not addressing the widespread loss of housing and household wealth. After the turn of the new year, it was apparent that the United States would be enduring a long period of housing instability. 2009 would not be a year of reprieve for those living in the United States. Instead, what followed was a drawn out crisis of evictions, foreclosures, job loss, and uncertainty. Among the issues that needed to be solved by government reforms, was the takeover of smaller local banks across the nation who bore the brunt of the subprime crisis. As local banks that dealt directly with depositors and borrowers began to lose money, the FDIC brought teams to many local branches, such as the Heritage Community Bank of Glenwood.[338] One team set up their operations in secret to avoid further panic by the local community, while overnight they conducted an FDIC takeover. In an interview with 60 Minutes, FDIC chairperson Sheila Bair spoke about the rate of bank closings in the nation. Twenty-five banks were closed in the previous year, with more to come. Bair stated than since the beginning of 2009, already sixteen banks had closed.[339]

"Our loss projections are going up. We are having to increase premiums on banks, to address the loss projections going forward. It's a very distressed environment right now," Bair explained.[340] When asked how much the FDIC was prepared to pay for bank failures that could occur in the next year she stated, "We make a five year projection. That for the next five years,

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[338] 60 Minutes, "The Mortgage Meltdown," Youtube. December 14, 2008, https://www.youtube.com/watch?v=iUuROWEMjm0.

[339] Ibid.

[340] Ibid.

we project that we will lose $65 billion on bank closings."[341] All that money spent in processes like the one carried out for Heritage Community Bank, in which the FDIC had to take control of over twelve thousand deposits, totaling more than $200 million.[342]

To carry out the transfer of control from the local back to the FDIC, a team of people were brought in to review the bank's failure. Just before the new year, the FDIC and the state of Illinois delivered a cease and desist letter to Heritage Community Bank, urging them to seek further capital and end practices of risky lending.[343] Teams representing the FDIC arrived at all five branches of the bank to alert employees and executives of the imminent government takeover. These teams were known under the code name, Happy, yet the news delivered was undeniably grim. Over night, the FDIC took over the bank, its website, and all of its operations.[344] Their goals were safeguarding deposits of the bank's customers and taking stock of its total assets and liabilities.[345]

All of this action was in hopes to reopen the bank in the coming days, without any loss to customer deposits. Since its creation in the 1930s, the FDIC has never lost a penny of deposits, Bair explained.[346] She had been at the forefront of the financial crisis since its early rumblings and thus played a key role in its resolution. Bair was present in the years prior during which time many notable banks had failed, such a Washington Mutual and IndyMac. Footage from CBS News showed lines of people outside IndyMac bank, begging to be let in and for the bank to

341 60 Minutes,"The Mortgage Meltdown."

342 Ibid.

343 Ibid.

344 Ibid.

345 Ibid.

346 Ibid.

remain open just an extra hour to accommodate the hoards of people hoping to save their money from the dying bank.[347] Even so, the cost for the FDIC to recover such a prominent bank like IndyMac was over $9 billion. In the end Sheila Bair assured her interviewer that the FDIC "never goes broke" as it is backed by the Federal government, and can always borrow money from the Federal Reserve. She concluded, "We are the government. We are backed by the full faith and credit of the United States government."[348]

Considering the full scope of the financial crisis response, the FDIC provided one of the most comprehensive solutions to the crisis. It assured depositors would be able to keep their money, even if the FDIC assumed control over local banks. In the case of Heritage Community Bank, the FDIC found a buyer to take over, MB financial bank.[349] They were given $3.5 million to take over Heritage Community Bank, in addition to the management of all its customers and company operations. As for the larger banking institutions, Bair made it clear that the FDIC's ability to save failing banks were limited to local operations.[350] In that way, larger investment banks like Citigroup would be off the table for FDIC intervention due to their global financial prowess. In that case Bair explained, "It's more than a bank, it's a broker-dealer, it's off-shore operations, it's foreign deposits."[351] Nevertheless, Bair expanded that it might be necessary to do a further evaluation on the size of these larger banking institutions.

She questioned what could be done in the future to prevent further large-scale banking imbalances, which harm the smallest banks, given that they were the institutions which dealt

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[347] 60 Minutes, "The Mortgage Meltdown."

[348] Ibid.

[349] Ibid.

[350] Ibid.

[351] Ibid.

directly with individuals' deposits. Her position was that in the future, the Federal government should consider putting harder limits on the growth of banks. "Taxpayers rightfully should ask, that if institutions become so large that there is no alternative except for taxpayers to provide support, should we allow so many institutions to exceed that kind of threshold?"[352] Finally, she asserted that no bank should be so large that it posed a "systemic risk."[353] In the end, saving local banks was just one of the conflicts that needed immediate resolution in the wake of the 2008 financial crisis.

Sheila Bair provided in depth analysis of the financial crisis in her book *Bull by the Horns,* in which she described TARP's origins and efficacy. Bair stated that TARP was passed because of beliefs held by leaders, that the program would, "provide comprehensive relief to borrowers."[354] However, she explained that after TARP passed, alterations were made to reorient Federal investment toward guaranteeing the financial stability of firms on Wall Street.[355] Naturally, the public response to this change was overwhelmingly negative, especially given that TARP was mainly funded by taxpayers.[356] The program as originally proposed had changed, and the ongoing disputes amongst members of Congress only created more obstructions in resolving the ongoing financial crisis. Headed by Bair, the original proposal was meant to implement a tactic previously used to save IndyMac Bank. Described as a "systematic approach," the proposal lowered the debt-to-income ratio for borrowers to 31 percent and lessened foreclosures

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[352] 60 Minutes, "The Mortgage Meltdown."

[353] Ibid.

[354] Bair, *Bull by the Horns,* 252.

[355] Ibid., 201.

[356] Ibid., 215.

by increasing rates of refinancing for borrowers. It would have cost approximately $38 billion, but save about two million homes from foreclosure between 2009 and 2010.[357]

Despite TARP's successful approval in the fall of 2008, its objectives were changed once by Treasury and White House officials. At a fateful moment when the plans for TARP were still in flux, White House economists produced a policy report which concluded, "Eliminating even all foreclosures is unlikely to qualitatively change the amount of inventory."[358] The bright outlook for TARP slumped, as political in-fighting altered its intended programming. The systematic approach was abandoned. It would have required modified loans be in existence for six months before qualifying for redefault insurance, with the exclusion of loans from GSEs and ones of considerable default.[359] Difficulty continued while concluding the final details of the Home Affordable Mortgage Program (HAMP) and Home Affordable Refinance Program (HARP).[360] Bair noted that in the process of finalizing the relief programs, each step towards implementation was met with increased complexity.[361] Regulating agencies like the Office of the Comptroller of the Currency (OCC) and the newly-secured GSEs had their influence on pushing policy further away from the needs of individuals in the United States. Among the changes:

> …it imposed extensive documentation requirements on borrowers, requiring detailed reports on income as well as monthly bills and expenses and credit card and other debt obligations. And it would not give a borrower a permanent modification until all of those documents were in. What it was essentially requiring was that the servicers re-qualify the borrower as if a new loan were being made.[362]

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[357] Bair, *Bull by the Horns,* 238-40.

[358] Ibid., 247.

[359] Ibid., 251-2.

[360] Sheila Bair. *Bull by the Horns*. (New York, NY: Simon and Schuster, 2012), 271; "Home Affordable Refinance Program." *Federal Housing Finance Agency*. Accessed February 5, 2022. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/HARP.aspx.

[361] Bair, *Bull by the Horns,* 274.

[362] Ibid., 267.

In the process of resolving the crisis, Bair hoped to win litigations which would provide settlements for any individuals who had experienced financial setbacks from poor loan servicing. Bair remarked that during the lengthy Congressional hearings to address errors in loan servicing, the Office of the Comptroller of the Currency (OCC) prioritized the interests of major banking institutions.[363] The OCC rejected the proposal for banks to require an individual be the Single Point of Contact (SPOC) for borrowers in their loan modification process. Bair stated that having a SPOC would provide increased accountability for loan servicers, who were known for being disorganized to the degree of fraudulence. Bair provided an example of one servicer which, "…had only about forty-four staff handling nearly 60,000 active loan files, or about 1,200 files per employee…To this day, the OCC has failed to present any hard data that the servicers have significantly improved their operations with more staff, faster loan mod decisions, and fewer instances of lost paperwork and other processing errors."[364]

Bair also described a supervisory review that showed the severity of failure to properly handle foreclosures and loan remodifications in the servicing industry.[365] Furthermore, Bair disclosed that the OCC allowed banks to use their own highly-paid financial consultants to conduct reviews of loan servicers, in order to evaluate the prevalence of processing errors which had lead to wrongful foreclosures. Her view was that this process was corrupt in the most basic sense:

> …I did not think consultants could be completely trusted to conduct an independent review of foreclosure files. They relied heavily on the banks for their consulting business; why

[363] Bair, *Bull by the Horns,* 247-53.

[364] Ibid., 253.

[365] Ibid., 248.

> would they conduct a thorough review that could end up costing the banks a lot of money to compensate past victims?… My guess is that the consultants will make big profits while ultimately finding that very few borrowers, if any, were financially harmed.[366]

Mortgage refinancing was meant to provide residents affordable monthly payments. However, for the ten years leading up to the crisis, loan refinancing had been an avenue for massive profit in the financial industry. Few people in the early 2000s admitted to this fact, with some exceptions. One such exception was Josh Rosner, who entitled his research on this very issue, "A Home without Equity is Just a Rental with Debt," in which he described how mortgage refinancing actually increased the amount of debt for borrowers.[367] Overall, refinancing was a major part of the mortgage market in the 1990s and early 2000s:

> According to a joint HUD-Treasury report published in 2000, by 1999 a staggering 82 percent of subprime mortgages were refinancing, and in nearly 60 percent of those cases the borrower pulled out cash, adding… debt burden…. The vast majority of their business is in refinancing loans and making second mortgages, not helping people buy homes.[368]

Further, Bair described how the programs that were eventually developed cheated borrowers. This was done by utilizing "trial modifications," which functioned comparably to ARMs. Loans were re-started for borrowers at a lower rate while their paperwork processed, which helped many borrowers make their payments in the interim. However, borrowers were often not able to fulfill the extensive documentation required for approval, only to be immediately placed in foreclosure once the trial period ended. Overall, Bair's evaluation of the federal programs was bleak. She stated that even by the conclusion of 2010, HAMP had only

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[366] Bair, *Bull by the Horns,* 255.

[367] Joshua Rosner, "Housing In the New Millennium: A Home Without Equity Is Just a Rental With Debt." *Graham Fisher*, New York: NY, June 29, 2001, https://fcic-static.law.stanford.edu/cdn_media/fcic-docs 2001-06-29%20Rosner%20Housing%2 0in%20the%20New%2 0Millenium.pdf, 19.

[368] Byrne, *The Occupy Handbook,* 91.

successfully modified 522,000 loans, but spent $2 billion.[369] The shortcomings were numerous, but among them Bair listed: staffing insufficiencies in programs and regulatory bodies, lack of financial incentives for insurers to agree to adjust loan agreements, and oversight from regulators like the OCC.[370] Yet, all these pale in comparison to the disregard from Treasury official Tim Geithner, and senior economist Larry Summers. Sheila Bair explained that, "In retrospect, it was apparent that Larry and Tim were determined to keep me out of the design and operation of any of the programs from the very beginning."[371]

Even as Bair was instrumental to the creation of nearly all the Federal response programs, she was sidelined for political motives. While Bair fought for the continued involvement of the American public in the process of creating relief programs, Summers and Geithner pushed their policy toward austerity and corporate support. In one instance given by Bair, she described how Larry Summers was responsible for the economic transition memo given to President-elect Barack Obama.[372] In this memo, Summers stated the following goals for Financial Stabilization and Recovery:

> Our approach should be guided by clear policy goals: to decisively stabilize core financial institutions and dramatically increase support to restart the flow of credit to households and businesses and restore the healthy functioning of capital markets…. This will likely require substantial additional capital injections and dramatic expansion of programs designed to support the functioning of asset backed securitization markets.[373]

In fact, Bair was not the only woman with financial expertise whose professional evaluation of the crisis was foregone at the last moment by Larry Summers. Considering his past

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[369] Bair, *Bull by the Horns,* 269.

[370] Ibid.

[371] Ibid., 277.

[372] Ibid., 288.

[373] Summers, "Executive Summary of Economic Policy Work," 4.

efforts to prevent Brooksley Born from successfully passing legislative reform against the Commodity Futures Modernization Act, it is not surprising that he did the same to Bair and another woman, Christina Romer.

Chosen by President Obama to lead the Council of Economic Advisors (CEA), Christina Romer was yet another female expert whose crisis analysis was disregarded by Summers.[374] As the memo to the President was being drafted, Romer's calculations for relief programs stated that the lowest-end cost that would yield any financial relief, was in the $600 billion range, while the true suggested cost was closer to $1.8 trillion.[375] After sending her final numbers, $600 billion, $900 billion and a slightly adjusted $1.2 trillion to Summers, Romer was assured that the entire range of suggested costs would be included in the memo. Nevertheless, just a day prior to the memo's release, Summers informed Romer that the only figures which would appear in the memo to the new president would be the lowest-end, $600 and $800 billion.[376]

The objectives communicated through Summers' official economic plan to President-elect Obama were clear. The market came first and the people after. Further, that the Federal government was primarily concerned with austerity, despite the fact that the $800 billion would come from taxpayer money and have little-to-no effect in healing the financial crisis. In the end, the general public was not mentioned in Summers' memo, rather residents of the United States are characterized by their ability to have further access to *credit*. After the loss of millions of homes, jobs, and the destabilization of the economy, the relief programs that were created by the Federal government did little for American residents. After 2010, people in the United States

[374] Scheiber, *The Escape Artists,* 24.

[375] Ibid., 40.

[376] Ibid., 40-1.

became acutely aware of the economy's severe condition as many continued to suffer losses. However, public perception of the 2008 financial crisis differed from that of the Federal government. Where the government saw growth in the economy, the people saw an imbalance of resources and capital.

> You can't escape the need for shelter. But in America, this basic need is entangled with our fervent belief in the American Dream. When you hear the story, it sounds like the American Dream existed from the beginning of time, but it was really created in 1934 when the government decided to partner with the banks to create a housing market. Since then, we've been believers in a fantasy that has driven the 99% to take on more and more debt just to have a home to live in.[377]

This realization was one of the inciting factors for the Occupy Wall Street movement. As the Federal government continued its grandiose story of recovery, stating the successes of the bailouts, the loan remodification programs, and preservation of the peoples' deposits, residents of the United States were not assuaged. In his 2010 State of the Union Address, Obama asserted, "Experts from across the political spectrum warned that if we did not act, we might face a second depression. So we acted -– immediately and aggressively. And one year later, the worst of the storm has passed."[378] Clearly, the narrative given by Federal officials did not align with experiences of the residents in the nation who had experienced, first-hand, the crisis' many disruptions. By the beginning of 2011, wealth inequality and Wall Street's influence on American politics were conflicts that could no longer be ignored.

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[377] Strike Debt and Occupy Wall Street, *The Debt Resistors' Operations Manual*, 38.

[378] Barack Obama, State of the Union Address.

Epilogue:

By 2010, the Federal programs developed in response to the 2008 financial crisis showed that wealth inequality was not going to be addressed in the nation's new economic policies. In his 2010 State of the Union speech, President Obama spoke about how the worst of the financial crisis had passed, even after residents saw their wealth dwindle and corporations get richer.[379] Some of the people with the most influence over the formation of Federal programs had work histories which tied their interests in the government to those of Wall Street. Ben Bernanke, Tim Geithner, Henry Paulson, Larry Summers, George W. Bush, and Barack Obama all had ties to big finance, and that priority for preserving corporate wealth weakened reform efforts. These men faced opposition from Sheila Bair, among other women with financial expertise. Ultimately, these men decided the final details of the reform programs and declared that financial crisis was resolved. They had history on their side, considering that the decades leading up to 2008 were filled with economic policies which emphasized deregulation on Wall Street.[380] Further, they could justify the continued existence of the secondary mortgage market with Fannie Mae and Freddie Mac's new conservatorship.[381]

The GSEs Fannie Mae and Freddie Mac were originally proposed as programs to help increase homeownership across the nation. Instead, the GSEs made credit more widely available, even as wages were stagnant. In that way, residents in the United States could consume more, while having less ability to pay off their consumer credit debt.[382] There was a rise in the debt-to-

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[379] Barack Obama, State of the Union Address, January 27, 2010, *Obama White House Archives*, https://obamawhitehouse.archives.gov/the-press-office/remarks-president-state-union-address; Liz Moyer, "Bad News for the Bailout." Forbes, September 23, 2008. https://www.forbes.com/2008/09/23/bailout-paulson-congress-biz-beltway-cx_jz_bw_0923bailout.html?sh=63e0d2ba5fb3.

[380] Blanchard, Branson, et. al., "Reaganomics," 15-56.

[381] "History of Fannie Mae and Freddie Mac Conservatorships," *Federal Housing Finance Agency.*

[382] Carlos Garriga, Bryan Noeth, et. al., "Household Debt and the Great Recession," 183.

income ratio in the years leading up to the crisis, in addition to loss of savings in households nationally.[383] All of the priorities pushed through legislation in the 1980s and 1990s made the perfect set-up for predatory finance. In the financial industry, there was inadequate oversight, inadequate regulation, and a green light from the Federal government that gave firms on Wall Street the permission to produce bigger profits through new financial products. The increased profits through these financial products were advantageous for those involved some way or another with Wall Street. In the buildup and decline of the 2008 financial crisis, anyone connected with the finance industry profited immensely. All this occurred while the reforms passed after the crisis were funded from taxpayer money. In the end, the 2008 crisis reforms left the 99 percent of American residents behind. The 99 percent were people in the United States who had lost housing, savings, jobs, and even lives, because Federal officials prioritized the wealth and power of the financial industry.

From these events, groups of outraged people began to assemble and demand change. The most prominent of these assemblies was Occupy Wall Street (OWS). “We are the 99%,” was the official slogan of OWS.[384] This phrase gave voice to the overwhelming majority of the nation’s population, who faced systemic neglect post-crisis.[385] OWS was born from the activist magazine, *Adbusters*, which sent out a call on their website on February 2, 2011 for a march on Wall Street.[386] This article was later followed by the creation of a Twitter account and the official

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[383] Strike Debt and Occupy Wall Street, *The Debt Resistors' Operations Manual*, 18.

[384] “Facts About Occupy Wall Street,” *Occupy Solidarity Network*, October, 28, 2019, http://occupywallst.org/.

[385] Ibid.

[386] Kono Matsu, “A Million Man March on Wall Street." *Adbusters:* Vancouver, British Columbia, Canada. February 2, 2011, https://web.archive.org/web/20150402104218/https://www.adbusters.org/blogs/adbusters-blog/million-man-march-wall-street.html.

hashtag #OCCUPYWALLSTREET in the summer of 2011.[387] The use of social media, specifically Twitter, was instrumental. It allowed the rapid spread of information across the nation and the world. The protest started on September 17, 2011 and gained momentum quickly. By the first week in October, protests had appeared in cities across the nation, with more popping up internationally in the following months.[388]

OWS's revolution began online, but its physical iteration was also groundbreaking. On September 17, 2011, occupiers set up camp in Lower Manhattan's Zuccotti Park.[389] At the heart of the Financial District, this location provided the visibility that protesters were hoping for: every employee and executive of Wall Street would have to pass the occupation on their way to work. In the occupation there was a distinct effort toward collaboration. By the second week in October, there were already food systems in place for those occupying Zuccotti park. Food being one of the biggest needs for those refusing to depart the occupation, the people present organized a system which served the masses of people who arrived every day.

Through donations from local restaurants, Twitter requests, home-cooked meals from neighbors, and even anonymous UPS shipments, the protesters were fed without cost.[390] Quotes from protesters claimed that they ate better at OWS than they could at home.[391] However, food was only one aspect of the communalism cultivated during OWS. The OWS site in Zuccotti Park

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[387] "Facts About Occupy Wall Street," *Occupy Solidarity Network.*

[388] Kevin Voigt, "Beyond Wall Street: "Occupy" Protests Go Global," *CNN*, October 7, 2011, http://edition.cnn.com/2011/10/07/business/wall-street-protest-global/.

[389] Bill Chappell, "Occupy Wall Street: From a Blog Post to a Movement," *NPR*, October 20, 2011, https://www.npr.org/2011/10/20/141530025/occupy-wall-street-from-a-blog-post-to-a-movement.

[390] Jeff Gordinier, "Want to Get Fat on Wall Street? Try Protesting," *The New York Times,* October 11, 2011, https://www.nytimes.com/2011/10/12/dining/protesters-at-occupy-wall-street-eat-well.html.

[391] Ibid.

functioned through system of organization that was intentionally anti-hierarchal. Through this process, the protesters developed the General Assembly, described as:

> …A gathering of people committed to making decisions based upon a collective agreement or "consensus." There is no single leader or governing body of the General Assembly – everyone's voice is equal. Anyone is free to propose an idea or express an opinion as part of the General Assembly. Each proposal follows the same basic format – an individual shares what is being proposed, why it is being proposed, and, if there is enough agreement, how it can be carried out. The Assembly will express its opinion for each proposal through a series of hand gestures…If there is positive consensus for a proposal – meaning no outright opposition – then it is accepted and direct action begins. If there is not consensus, the responsible group or individual is asked to revise the proposal and submit again at the following General Assembly until a majority consensus is achieved.[392]

The General Assembly formed an intricate system of proposing ideas and resolving issues. OWS was not only an idea of solidarity, it was a physical manifestation of the efforts needed to maintain group cooperation. As such, the structure for addressing new ideas and issues is depicted in the following graphic.[393]

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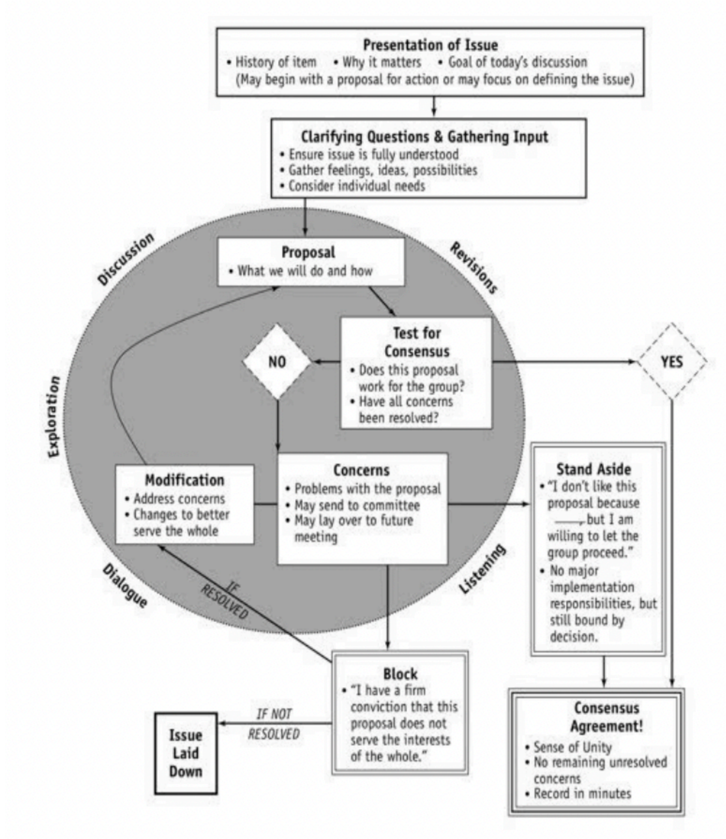
[392] General Assembly, "Structure and Process Guide to OWS," *Occupy Wall Street General Assembly*, New York, New York, November 10, 2011, https://macc.nyc/img/assemblies/OWSStructure.pdf.

[393] Ibid., 2.



[394] *General Assembly, OWS, 2011.*

From this system, the working groups of OWS created even further formations for the sharing of resources. One such resource was the compilation of literature and art, and an active dissemination of information amongst occupiers. The volume of work produced and organized by members during Occupy Wall Street was vast. One significant communal production was the People's Library, a collection over five thousand items that were lent out without fines or due-dates.[395] The purpose of OWS in addition to its communal fight against government corruption was the ongoing education of anyone who sought it out. No book was turned away, even if it was

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[394] General Assembly, "Structure and Process Guide to OWS," 2.

[395] "Catalog," Occupy Wall Street Library, The People's Library at Liberty Plaza, New York, New York, https://peopleslibrary.wordpress.com/catalog/.

not in alignment with the goals of OWS.[396] In this way, the People's Library was an example of how much American residents recognized the need for common goods and common spaces that were without cost. This concept worked in direct opposition to the financial interests of Wall Street and the Federal government, which required people to either have access to savings or a viable line of credit to attain the basic need of housing. One librarian wrote on the value of People's Library:

> Libraries (particularly public libraries) present a rather unique place in contemporary capitalist society: somewhere a person can go regardless of employment status, race, gender, class, disability status, or age, and have access to a variety of important resources without having to pay for them…Furthermore, the offerings at a library appeal to a variety of needs: access to books (for those with little disposal income, books can be expensive), access to a safe space, access to computers… the factor that sets libraries apart – vitally – is that they are public spaces. Or to use a somewhat antiquated term, libraries function as commons.[397]

OWS was unique in its reformation of the commons, but in spite of its efforts, the People's Library was eventually destroyed by the NYPD.[398] This was because OWS took place in one of Manhattan's many privately-owned public parks. Zuccotti Park was owned by Brookfield Office Properties and its private-public setting had an advantage because, unlike public parks in New York City, it was open twenty-four hours a day.[399] That was ideal for an encampment-style protest like OWS, which depended on non-stop communal effort to operate. However, the disadvantages of this private-public space were numerous. Brookfield Office

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[396] Ritchie S. King, "For Quiet Moments Between Protests, a Growing Library," T*he New York Times*, October 24, 2011, https://cityroom.blogs.nytimes.com/2011/10/24/for-quiet-moments-between-protests-a-growing-library/

[397] Zachary Loeb, "Librarian is My Occupation: A History of the People's Library of Occupy Wall Street," *Informed Agitation*, April 16, 2014, https://librarianshipwreck.wordpress.com/2014/04/16/librarian-is-my-occupation-a-history-of-the-peoples-library-of-occupy-wall-street/.

[398] Christopher Mathias, "Occupy Wall Street Library Reportedly Throw Away by NYPD," *Huffpost*, November 15, 2011, https://www.huffpost.com/entry/occupy-wall-street-library_n_1094941.

[399] Lisa W. Foderaro, "Privately Owned Park, Open to the Public, May Makes Its Own Rules," *The New York Times,* October 13, 2011, https://www.nytimes.com/2011/10/14/nyregion/zuccotti-park-is-privately-owned-but-open-to-the-public.html

Properties could enforce new rules at any moment. Such as the ban of tents, camping, and laying on any surfaces in the park.[400] Additionally, when Zuccotti Park's occupation became intolerable to Brookfield Office Properties, they had the authority, as owners, to request an NYPD-assisted clean up. At 1:00 AM on November 15, 2011, the NYPD, along with sanitation workers, tore apart the OWS encampment in Zuccotti Park, after an eight-week occupation.[401]

Mayor Michael Bloomberg, who gave the official go-ahead for the raid stated, "New York City is the city where you can come and express yourself. What was happening in Zuccotti Park was not that." Further he stated that protestors made the park, "unavailable to anyone else."[402] Barely two months after the start of OWS, an NYPD raid took place overnight on November 15, during which a majority of the materials were disposed of by police and sanitation crews.[403] Two years after the raid, a settlement was reached in a federal lawsuit for the damages done to the People's Library. New York City was required to pay $232,000 to cover the loss of books and attorney's fees.[404] A payout of only $47,000 was determined for the books. It was a small compensation for the thousands of materials lost.[405] Yet, the organizing labor required of those involved in OWS, especially in the People's Library, revealed the incredible willpower of the 99 percent.

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[400] Lisa W. Foderaro, "Privately Owned Park, Open to the Public, May Makes Its Own Rules."

[401] Andrew Katz, "Occupy Wall Street: How Protesters Made Eviction Inevitable," *The Guardian*, November 25, 2011, https://www.theguardian.com/world/blog/2011/nov/25/occupy-wall-street-eviction-inevitable.

[402] James Barron and Colin Moynihan, "City Reopens Park After Protesters Are Evicted," *The New York Times,* November 15, 2011, https://www.nytimes.com/2011/11/16/nyregion/police-begin-clearing-zuccotti-park-of-protesters.html.

[403] ALA News, "ALA Alarmed at Seizure of Occupy Wall Street Library, Loss of Irreplaceable Material." *American Library Association*, November 17, 2011, https://www.ala.org/news/press-releases/2011/11/ala-alarmed-seizure-occupy-wall-street-library-loss-irreplaceable-material

[404] Jennifer Fermino and Robert Gearty, "Occupy Wall Street Settles Lawsuit with City Over Books Destruction for $23K," *New York Daily News*, April 10, 2013, https://www.nydailynews.com/new-york/occupy-wall-street-settles-lawsuit-city-books-destruction-232k-article-1.1312565.

[405] Ibid.

The *New York Times* compiled a 77-page document with evidence of police surveillance in nearly every occupied city.[406] This document showed how protesters, both online and at the sites of occupation, were surveilled by Federal groups and local police forces.[407] Further, there is ample evidence which shows how systematic surveillance and militarized policing was the downfall of OWS.[408] One email from the Pentagon gave tips for how to gather "intel" on current and upcoming occupations, including how to source information from social media sites.[409] In October 2011, the Department of Homeland Security issued a "Special Coverage" report on OWS, describing its disruption of daily commerce, likelihood of violence, and challenges for law enforcement.[410]

Once again, the interests of corporations dominated the 99 percent. Given that Brookfield Office Properties was worth $631 million in the summer leading up to OWS, it viewed the occupation in Zuccotti Park as unattractive and expendable. Additionally, it is relevant to note that Brookfield Office Properties' worth was derived from the very market in which wealth inequality grew so significantly in years prior to the 2008 financial crisis, asset-backed securities in real estate investment.[411] The private-public nature of Zuccotti Park as the original location of OWS was a contested space that reflects similar contradictions in Federal economic policy. As

406 "Government Surveillance of the Occupy Protests," *The New York Times*, May 22, 2014, https://www.nytimes.com/interactive/2014/05/23/us/23occupy-docs.html.

407 Ibid.

408 "The FBI and Occupy: the Surveillance and Suppression of Occupy Wall Street," *Defending Rights and Dissent*, February 2, 2016, https://www.rightsanddissent.org/news/the-fbi-and-occupy-the-surveillance-and-suppression-of-occupy-wall-street/.

409 "Government Surveillance of the Occupy Protests," *The New York Times*, 9.

410 Ibid., 35.

411 "The Power 100: Commercial Real Estate's Most Powerful Players," *Commercial Observer,* April 23, 2019, https://commercialobserver.com/2019/04/the-power-100-2019/#slide1.

such, Brookfield's victory in dissolving the encampment in Zuccotti Park showed that by 2011, corporate wealth still held power over the 99 percent.

The organization of OWS was revolutionary, from its birth online to its presence in lower Manhattan and occupations across the globe. OWS showed that the fight against government corruption was a global issue.[412] These examples of communal effort on a global scale provide clarity for the overarching goals of the movement: the assertion that basic needs should be free, or at least not force people into debt imprisonment, and that the people have a right to fair governance. The result of the protests was not in enacting policy change. Rather, its resulting success was in the rebirth of the commons. OWS's new formation of the commons was in direct opposition to the basic logic of finance capital. Further, OWS's success was that it clearly demonstrated how much the 99 percent understood. They knew that the Federal government's pursuit of private profit made the anti-hierarchal structure of the protest integral. In that way, the rebirth of the commons at OWS demonstrated that the labor power of the 99 percent was capable of producing a self-sufficient and non-capitalist organization.

This structure was necessary to show the Federal government and financial industry that the existence of the commons was possible, even if only for the eight weeks OWS was present in the private-public space of Zuccotti Park. The documents remaining from OWS also provide further clarity for the dedication it took to organize this globally-recognized protest. It was momentous. Among these documents was the declaration of OWS New York, built upon the original United States Declaration of Independence. A key passage which relates to the OWS Declaration states:

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[412] Alan Taylor, "Occupy Wall Street Spreads Worldwide," *The Atlantic*, October 17, 2011, https://www.theatlantic.com/photo/2011/10/occupy-wall-street-spreads-worldwide/100171/.

> That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, --That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.[413]

The Declaration of OWS New York states:

> As one people, united, we acknowledge the reality: that the future of the human race requires the cooperation of its members; that our system must protect our rights, and upon corruption of that system, it is up to the individuals to protect their own rights, and those of their neighbors; that a democratic government derives its just power from the people, but corporations do not seek consent to extract wealth from the people and the Earth; and that no true democracy is attainable when the process is determined by economic power. We come to you at a time when corporations, which place profit over people, self-interest over justice, and oppression over equality, run our governments. We have peaceably assembled here, as is our right, to let these facts be known.[414]

The objectives of OWS were clear: fair representation in a democratic government and the right to protest in response to corruption. The words in OWS's Declaration purposefully echo the United States' original. The OWS document asserts that a government which gains power from corporations, not people, makes true democracy impossible. Further, both documents declare the right to fair governance. However, this did not provide safety for the OWS movement. Instead, the protests were met with threats and attacks from police departments across the nation, and significant surveillance from the Department of Homeland Security.[415]

After the NYPD's successful eviction of OWS from Zuccotti Park in November of 2011, President Obama provided his usual rhetoric in response. During a speech given at the Martin Luther King Memorial dedication Obama spoke, "If [King] were alive today, I believe he would

[413] United States Congress, "Declaration of Independence," July 4, 1776, https://www.archives.gov/founding-docs/declaration-transcript.

[414] General Assembly, "Structure and Process Guide to OWS," 6.

[415] "Government Surveillance of the Occupy Protests," *The New York Times*, 35.

remind us that the unemployed worker can rightly challenge the excesses of Wall Street without demonizing all who work there."[416] President Obama's statement includes common idealogical challenges to OWS. First, that in some way OWS was a protest meant for and created by the unemployed. That assertion is fundamentally incorrect. Unemployment at the time of OWS was at 9%, a high for the national labor force, yet still a small fraction of people in relation to the tens of thousands protesting.[417] It is clear from the documents produced by occupiers and from press reports during OWS that the protesters *were the 99 percent,* not just 9 percent. They were a diverse group of people, employed and unemployed. They were the evicted, librarians, borrowers, nurses, educators, students, and more.[418] OWS was meant for anyone who felt that the American government was corrupt because of its ties to Wall Street.[419]

President Obama's next mistake was the assertion that protesters' aims were to demonize the exorbitantly wealthy people employed by Wall Street, not to critique how the Federal government benefitted from that mass of privately-held wealth. In that way, he dismissed OWS's emphasis on community, basic human rights, and a just government. His statement suggested that the 99% of people who suffered the consequences of a corrupt government were also somehow responsible for a degree of civility towards it. Protesting was permissible as long as it did not disrupt the status quo, which President Obama depended on for his own employment as Chief Executive of the United States.

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416 Nia-Malika Henderson, "White House Responds to Removal of Occupy Protesters in New York," *The Washington Post*, November 16, 2011, https://www.washingtonpost.com/blogs/election-2012/post/white-house-responds-to-ows/2011/11/15/gIQAFUUtPN_blog.html.

417 Bureau of Labor Statistics, "Unemployment Rate at 9.0 Percent in October 2011," *The Economics Daily*, United States Government, November 7, 2011, https://www.bls.gov/opub/ted/2011/ted_20111107.htm?view_full.

418 Jocelyn Noveck, "Protesters Want World to Know They're Just Like Us," *The Seattle Times,* October 8, 2011, https://www.seattletimes.com/nation-world/protesters-want-world-to-know-theyre-just-like-us/.

419 General Assembly, "Structure and Process Guide to OWS."

The oppositional nature of a private-public space like Zuccotti Park bore a striking parallel to the exact circumstances depicted earlier in this research. Fannie Mae and Freddie Mac's history is analogous, in that they were private-public, Government-Supported Enterprises (GSEs). They were created in the twentieth century to increase homeownership by providing federally-supported low-interest rate mortgages, a basic public good. Instead, these GSEs created the secondary mortgage market, and incentivized the profits of asset-backed securities to a predatory degree. Further, that when Fannie Mae became a for-profit enterprise through the Housing and Urban Development Act of 1968, it also became rampant with fraud.[420] After 1970, both Fannie Mae and Freddie Mac were permitted to profit from mortgages which were not insured by the Federal government.[421] As of 2006, Fannie Mae had yet to provide thorough accounting reports or comply with any SEC regulations.[422] By 2011, the GSEs were responsible for 95 percent of the nation's mortgages.[423] This parallel is drawn here to show that while the Federal government had the intention to create a viable avenue for increased homeownership, it instead created the single most viable avenue for private profit, predatory lending, and fraud.

When basic public goods and the commons only exist in private and private-public spaces, the fundamental premise of the nation is void. How does any group of people organize when nearly every space is already owned and occupied by bigger financial players? Just as protesters were removed from their encampment in Zuccotti Park, renters and mortgage-holders

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420 "Accounting Irregularity at Fannie Mae," United States Senate.

421 The Congress of the United States. "Fannie Mae and Freddie Mac, and the Federal Role in the Secondary Mortgage Market," (Washington D. C.: Congressional Budget Office, December 2010), 4; Federal Housing Finance Agency, "A Brief History of the Housing Government-Sponsored Enterprises," *Office of the Inspector General: United States Government*, https://www.fhfaoig.gov/Content FilesHistory%20of%20the%20Government%20Sponsored%20Enterprises.pdf, 3, 13.

422 "Accounting Irregularity at Fannie Mae," United States Senate.

423 Strike Debt and Occupy Wall Street, *The Debt Resistors' Operations Manual*, 39.

were evicted from their homes. By 2011, capital was proven to be everything in the United States. Private property and ownership are expressions of power. To remove occupiers**,** Homeland Security and police departments country-wide gathered intel and ultimately evicted protesters, not in defense of the nation or the people. Rather, this eviction was in defense of the nation's capital.

The Federal government created a system of credit and debt through the secondary mortgage market which was never adequately regulated. Further, the Federal government created an economy that depended on residents' debts stockpiling the profits of the securities industry. The 99 percent lost jobs after the twenty-year-old Reagan Tax Reform Act of 1986 had sufficiently destroyed production-based work, in favor of idea-based industries. The same reform lowered corporate taxes and provided incentives for Wall Street to profit from new financial products. Yet, when the 99 percent could not pay their debts, they became trespassers. The war that came into people's homes to evict them after foreclosure was also present at their occupation in Zuccotti Park and its satellite protests.

When no reforms addressed Wall Street's influence, people occupied the epicenter of global finance to express their anger toward and distrust of the Federal government. However, OWS did not win against the surveillance state, nor did it change any Federal policy. What it did was prove that the powers of corporate wealth had reached its way into every single system of justice in America. Corporate wealth elected the president, informed the police, destroyed access to free information, evicted people from their homes, and sought to destroy the existence of a free public. OWS showed that the 99 percent knew this to be true.

Sheila Bair questioned, "…if institutions become so large that there is no alternative except for taxpayers to provide support, should we allow so many institutions to exceed that kind of threshold?"[424] Considering the financial power asserted through privatization, the answer is clear. Wall Street controls American democracy. The government and the financial industry perpetuated a fallacy of the American dream which locked people into systematic monetary imprisonment. The banking institutions that Bair questioned were financially tied with leaders in Washington. Thus, both the financial industry and the Federal government's connected interests in private profit need to be questioned. Without a transparent and concrete division between Wall Street and the government, American democracy will remain corrupt to the 99 percent and they will continue to protest. To conclude this project, included below is the list of grievances from OWS. All remain largely unaddressed.

> • They have taken our houses through an illegal foreclosure process, despite not having the original mortgage.
> • They have taken bailouts from taxpayers with impunity, and continue to give Executives exorbitant bonuses.
> • They have perpetuated inequality and discrimination in the workplace based on age, the color of one's skin, sex, gender identity and sexual orientation.
> • They have poisoned the food supply through negligence, and undermined the farming system through monopolization.
> • They have profited off of the torture, confinement, and cruel treatment of countless animals, and actively hide these practices.
> • They have continuously sought to strip employees of the right to negotiate for better pay and safer working conditions.
> • They have held students hostage with tens of thousands of dollars of debt on education, which is itself a human right.
> • They have consistently outsourced labor and used that outsourcing as leverage to cut workers' healthcare and pay.
> • They have influenced the courts to achieve the same rights as people, with none of the culpability or responsibility.
> • They have spent millions of dollars on legal teams that look for ways to get them

[424] 60 Minutes, "The Mortgage Meltdown."

out of contracts in regards to health insurance.
• They have sold our privacy as a commodity.
• They have used the military and police force to prevent freedom of the press.
• They have deliberately declined to recall faulty products endangering lives in pursuit of profit.
• They determine economic policy, despite the catastrophic failures their policies have produced and continue to produce.
• They have donated large sums of money to politicians, who are responsible for regulating them.
• They continue to block alternate forms of energy to keep us dependent on oil.
• They continue to block generic forms of medicine that could save people's lives or provide relief in order to protect investments that have already turned a substantial profit.
• They have purposely covered up oil spills, accidents, faulty bookkeeping, and inactive ingredients in pursuit of profit.
• They purposefully keep people misinformed and fearful through their control of the media.
• They have accepted private contracts to murder prisoners even when presented with serious doubts about their guilt.
• They have perpetuated colonialism at home and abroad.
• They have participated in the torture and murder of innocent civilians overseas.
• They continue to create weapons of mass destruction in order to receive government contracts.*

*These grievances are not all-inclusive.[425]

[425] General Assembly, "Structure and Process Guide to OWS," 7-8.

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