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Description

The 2009 economic crisis has brought a home foreclosure crisis, unemployment higher than 7% and a huge government bailout plan designed to fix it. CNBC's David Faber looks at the root causes of the crisis.

Keywords

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Making Sense of the 2009 Financial Crisis
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Transcript
Making Sense of the 2009 Financial Crisis
BRIAN WILLIAMS, anchor:
As you may know, all this week we're teaming up with our friends at our financial news network CNBC to bring you a special series of reports aimed at making sense of this economic meltdown. We begin tonight with David Faber, who takes us back to the roots of what ultimately became history's biggest house of cards.
And, David, you're first, and we thought it was helpful to kind of take a look back and see how we got here.
DAVID FABER reporting:
Sure. Very important to do that, of course. The economic crisis, Brian, has many causes, but its genesis can be traced to the US housing market.
It was there that a combination of greed and lack of regulation built the foundation for a house of cards.
In the aftermath of 9/11, then-Federal Reserve Chairman Alan Greenspan feared the shock to an already weak economy could send the nation into collapse.
Mr. ALAN GREENSPAN: I was very much concerned that we were in the throes of something we had never seen before.
FABER: He oversaw a series of sharp interest rate cuts to ease borrowing.
And for many, that cheap money came in the form of new mortgages.
(Begin clips from file footage)
JOHN SEIGENTHALER reporting:
This week, 30-year fixed-rate mortgages dropped to the lowest level since 1971.
TOM BROKAW reporting:
Mortgage rates are falling.
Offscreen Voice #1: Mortgage rates...
Unidentified Woman #1: Mortgage...
Offscreen Voice #2: Mortgage...
Unidentified Woman #2: Mortgage...
Offscreen Voice #3: Mortgage...
Mr. DOUGLAS DUNCAN (Mortgage Bankers Association of America): Mortgage...
Mr. GREENSPAN: Mortgage.
Offscreen Voice #4: Mortgage, mortgage, mortgage, mortgage.

(End of excerpts)

FABER: Enter Wall Street bankers, who smelled profits. They began to buy up mortgages, bundle them together and sell investors shares in the monthly payments those mortgages produced. By 2002, the number of mortgages Wall Street bought each month was exploding.

Mr. MICHAEL FRANCIS (Former Wall Street Banker): Once we saw $100 million, we very rapidly blew right past it. And within a six-month period, we were doing $500 million.

FABER: To keep it up, Wall Street needed a constant stream of mortgages, so they encouraged lenders to ease their loan requirements.

Mr. FRANCIS: You're not verifying any assets. It's the breathe on a mirror, and if there's fog, you sort of get a loan.

(Clip from advertisement)

FABER: Companies like Quick Loan Funding became experts at offering so-called subprime mortgages. Lou Pacific ran a sales force that wasn't exactly seasoned.

Mr. LOU PACIFIC (Former Quick Loan Vice President): With the loan officers, I mean, you're taking a kid who used to sell pizzas, literally, and he's making $20,000 a month with no training.

FABER: Pizza? Pizza deliverymen?

Mr. FRANCIS: Pizza. Pizza deliverymen.

FABER: Became loan officers?

Mr. FRANCIS: Yes. Car salesmen, pizza deliveryman, kids who worked in electronic stores, they were helping people deal with the largest investment of their lifetime.

FABER: It didn't matter that many of those people were getting mortgages they couldn't afford as long as home prices kept rising. But when the demand for homes was finally satisfied, prices began to sink, and mortgage delinquencies began to rise. Investments backed by those mortgage payments collapsed, bringing banks tens of billions in losses.

The federal government has been pouring trillions of taxpayer dollars into efforts to support the financial system and rouse the economy out of recession. But despite the painful lessons we're learning, Alan Greenspan fears it's inevitable it will all happen again.

Mr. GREENSPAN: Somewhere in the future we're going to have this conversation again. It will not be for quite a period of time, but it will occur because the flaws in human nature are such that we cannot change that. It doesn't work.

FABER: Of course, right now we're still dealing with many of the significant losses yet to come at many
of our nation's banks, Brian. You heard Trish talking about that earlier.

WILLIAMS: With deference to Mr. Greenspan, I was going to say, let's deal with this one first. Thank you very much, David, for being with us.