Prepared Testimony before the
House Committee on Financial Services
2129 Rayburn House Office Building
by
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Financial Crisis Inquiry Commission
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Chairman Bachus, Ranking Member Frank, members of the Committee, thank you for the invitation to discuss the report and conclusions of the Financial Crisis Inquiry Commission. I am pleased to join my colleagues today.

The Commissionconcluded that the financial and economic crisiswas caused by widespread failures of financial regulation; breakdowns in corporate governance; a volatile mix of excessive borrowing and risk-taking; key policy makers who were ill prepared for the crisis; and systemic breaches in accountability and ethics at many levels. There were many warnings, and the Commission concluded that the crisis could have been avoided.

I will address three key areas we investigated as possible causes of the crisis.These matters include the roles of excess capital availability and liquidity; the government-sponsored entities, Fannie Mae and Freddie Mac; and government housing policies.

First, the Commission agreed that the availability of well-priced capital – both foreign and domestic – is an opportunity for economic expansion and growth if encouraged to flow in productive directions. Excess liquidity, by itself, did not need to cause a crisis. The Commission determined that low interest rates, widely available capital, and international investment were prerequisites for the creation of the credit bubble, creating increased risks that should have been recognized by market participants, policy makers, and regulators. However, with proper safeguards in place, such as prudent lending standards, excess liquidity need not have led to a crisis.

Second, the Commission investigated the role of Fannie Mae and Freddie Mac, using Fannie Mae as its in-depth case study. We concluded they contributed to the crisis, but they were not a primary cause. These government-sponsored enterprises had a deeply flawed business model as publicly traded corporations with the implicit backing of and subsidies from the federal government and with a public mission. Their $5 trillion mortgage exposure and market position were significant.

They used their political power for decades to ward off effective regulation and oversight—spending $164 million on lobbying from 1999 to 2008. As you know, through the third quarter of 2010, the Treasury Department had provided $151 billion in financial support to keep them afloat.

Still, GSE mortgage securities essentially maintained their value throughout the crisis and did not contribute to the significant losses seen at other financial institutions that were central to the financial crisis.The Commission report explains how prices of Fannie Mae mortgage-backed securities actually increased slightly in the 2007-2008 time period, while the prices of private-label mortgage-backed securities dramatically declined.

Their purchases of non-GSE mortgage-backed securities added helium to the housing balloon, but their purchases never represented a majority of the market. The GSEs participated in the expansion of subprime and other risky mortgages, but they followed rather than led Wall Street and other lenders. In 2005 and 2006, they ramped up their purchase and guarantee of risky mortgages in order to meet stock market analysts' and investors' expectations for growth. The evidence shows that they did so to regain market share, and to ensure generous compensation for executives and employees.

Using a sample of 25 million mortgages, the Commission examined the performance of the loans securitized, purchased or guaranteed by the GSEs and other institutions. Delinquency rates for Fannie and Freddie loans were substantially lower than loans securitized by other financial firms. For example, data compiled by the Commission for a subset of borrowers with similar credit scores—scores below 660—show that by the end of 2008, GSE mortgages were far less likely to be seriously delinquent than were private-label securitized mortgages: 6 percent versus 28 percent.

Third, the Commission studied government housing policies and concluded they did not cause the crisis. Based on the evidence and interviews with dozens of individuals, the report describes how the Department of Housing and Urban Development's affordable housing goals for Fannie Mae and Freddie Mac contributed only marginally to the GSEs' participation in risky mortgages. And we concluded that the Community Reinvestment Act -- enacted in 1977 to expand safe and sound lending to creditworthy borrowers in certain neighborhoods -- was not a significant factor in subprime lending or the crisis.

On the matters of Fannie Mae, Freddie Mac, and the CRA, there was considerable common ground among the Commission's conclusions and the dissentauthored by Commissioners Keith Hennessey, Douglas Holtz-Eakin and Bill Thomas.

Finally, as to the Dodd-Frank law -- I think Chairman Angelides said it best this morning. The law directly addressed concerns about our financial system posed as a result of the financial crisis and its economic aftermath. Our report included in-depth explanations of these issues. The Act's full and effective implementation is important to helping this country avert a future crisis like this one.

Thank you for your interest in the Commission'svaluablereport. I am happy to try to answer any questions you may have.

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United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Byron S. Georgiou	None. I am representing my views as a former member of the Financial Crisis Inquiry Commission.

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

The Financial Crisis Inquiry Commission was a federal commission created by Section 5 of the Fraud Enforcement and Recovery Act of 2009, Public Law 111-21, and received federal appropriations. As a former member from July 2009 to February 13, 2011, I received compensation and travel expenses as provided in the statute.

7. Signature:

Please attach a copy of this form to your written testimony.