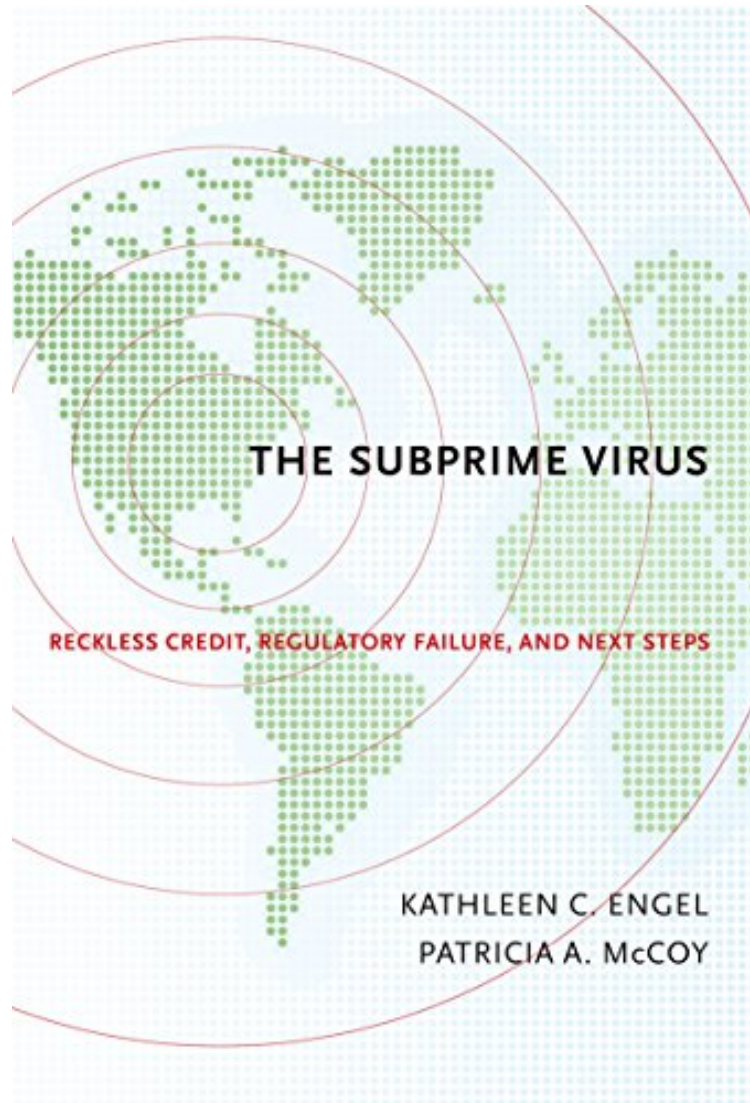


(Read now) The Subprime Virus: Reckless Credit, Regulatory Failure, and Next Steps

# The Subprime Virus: Reckless Credit, Regulatory Failure, and Next Steps

*Kathleen C. Engel, Patricia A. McCoy*

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**Kathleen C. Engel, Patricia A. McCoy : The Subprime Virus: Reckless Credit, Regulatory Failure, and Next Steps** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Subprime Virus: Reckless Credit, Regulatory Failure, and Next Steps:

8 of 8 people found the following review helpful. Dated, with little original research or analysisBy MT57I am working my way through all the books about the 2007-09 financial crisis. This one is a little unusual in that it is neither a journalistic account nor an analysis by economists. It is written by two law professors and in some ways reads like a

legal brief, that musters facts from the public record (as opposed to original reporting or research) to support an argument (here, the well-worn "greedy industry, lazy regulators" line), with no effort to present or weigh competing explanations. The first part of the book is a recitation of bad events in the history of subprime lending which the authors appear to have spent some time advocating against. It is a good source for incidents of that type if one is researching them. They catalog a large number of anecdotes. Oddly, though, they ignore certain major subprime lenders like American Home Mortgage and touch much more lightly than others have on Ameriquest (which was the subject of another book I have reviewed on, "Monster"). I could not figure out what the authors' basis was for selecting and excluding anecdotes and companies. The second part of the book is a choppy recitation of the financial events of 2007-08. As those have been written up many times before, I thought again that this was an odd thing to spend so much of the book on. Who among the buyers of this book did not know this chronology already? The third section of the book describes the competition among bank and lending regulators during the 90's and 00's. The part relative to mortgage oversight was fairly well done, although a little overstated. The paragraph where they lay the collapse of multiple large lenders at the feet of one bank supervisor was absurd, given the large structural forces in the economy driving over-extension of credit to poor credit risks. But I appreciated learning that the regulators' budgets were driven by the size and success of the lenders they oversaw, which created a perverse incentive for the regulators to help them grow, rather than keep them in check. That said, this section could easily have been folded into the first two as there was way too much repetition in it. Further, the portion of the regulatory section that addresses "Wall Street" regulation was riddled with errors. For instance, there was no run on bank deposits at Wachovia Bank N.A. as they write; the liquidity issue that group faced was the commercial paper of the holding company, Wachovia Corp. To a lay reader this may seem like a quibble, but the authors claim in this chapter to be explaining the regulatory maze to the reader and claim that the difference between a bank and its holding company was significant, so this is clearly an error in what they claim to be their area of expertise and focus. Similarly, their discussion of Basel II and of the dynamic that led to the SEC alternative net capital rule is woefully inaccurate and incomplete. They create a misleading impression that low net capital requirements were offered by the SEC to help US investment banks escape "heavy" European regulation, which is ludicrous, because European banks subject to the supposedly "heavy" regulation were - and remain - much less capitalized in fact than US counterparts. The capital adequacy standards applied to the US investment banks by the SEC came straight out of Basel II, not a bargaining process with the "Big Five". As well, the authors inexplicably choose not to discuss the incentives in Basel II and the US political system to perpetually increase mortgage lending, a point brought out very well in *Engineering the Financial Crisis*, another book I have reviewed on. There were several other errors in this section but I will spare the reader the entire list. I suspect that the authors' prior background is much more on the consumer end of the subprime mortgage virus and not on the financial intermediary side, as this section was not well done. I was finally disappointed to see that the authors made no effort to quantify the impact of subprime lending on the financial condition of the entities that failed. At the outset of the book, they gave the impression they would be showing how the one caused the other which would have been interesting, as I haven't seen it done before (not that I doubt it much, but it would have made the book more impressive). The last section of the book is an exploration of reforms, much of which is devoted to arguing for Dodd-Frank, which is why I find the book rather dated. I am not sure how I would have graded it in 2011, but at this point, it is not a book I would recommend to anyone.

9 of 9 people found the following review helpful. One Hell of a Whodunit and Why (Money, of course) By Fiscal Conservative-Social Liberal I'm only one third of the way through the book, but this eminently readable and comprehensive compilation of errors and events that got the US (and the world) into this serious financial meltdown is impressive. The accounts of the Bush and Obama administrations' efforts to quell the collapse is fascinating. You feel that you are living the history, standing at the edge of the abyss. Hardly a book that I expect from two distinguished law professors! It's readable, highly informative and fascinating. This book is neither an economic tome nor a populist screed. Any reasonably open-minded citizen will gain perspective, insight and a balanced understanding of what went wrong and why. If the "what to do about it" portion of the book is similarly powerful, it should already be a classic.

6 of 6 people found the following review helpful. Should be required reading for political science and econ majors By R. Alembik This is an engaging and informative work that manages to be sophisticated, but not pedantic. It would make a good 200- or 300-level college political science or econ text. Anyone who would debate the good or bad side of government regulation should be required to read and address the arguments and observations made in this book before engaging in any sort of debate. I was a political science major in college and am now an attorney. I've always had difficulty grasping how financial institutions are regulated... despite efforts to learn on my own. This book finally clarified what some might argue is the unclarifiable: our financial regulatory scheme. The "plot" development in the context of the meltdown reads like any good fiction. What's tragic is that it's NOT fiction. In fact, it looks more like history that's about to repeat itself... again.

The subprime crisis shook the American economy to its core. How did it happen? Where was the government? Did anyone see the crisis coming? Will the new financial reforms avoid a repeat performance? In this lively new book, Kathleen C. Engel and Patricia A. McCoy answer these questions as they tell the story behind the subprime crisis. The

authors, experts in the law and the economics of financial regulation and consumer lending, offer a sharply reasoned, but accessible account of the actions that produced the greatest economic collapse since the Great Depression. The Subprime Virus reveals how consumer abuses in a once obscure corner of the home mortgage market led to the near meltdown of the world's financial system. The authors also delve into the roles of federal banking and securities regulators, who knew of lenders' hazardous mortgages and of Wall Street's addiction to high stakes financing, but did nothing until the crisis erupted. This is the first book to offer a comprehensive description of the government's failure to act and to analyze the financial reform legislation of 2010. Blending expert analysis, vivid examples, and clear prose, Engel and McCoy offer an informed portrait of the political and financial failures that led to the crisis. Equally important, they show how we can draw lessons from the crisis to inform the building of a new, more stable, prosperous, and just financial order.

"A valuable one-stop resource.... In the recent glut of titles on the subprime-mortgage crisis, this book fills the gap between watered-down pop accounts and esoteric economic analyses."--Library Journal  
"An excellent book."--Steven Davidoff, The New York Times  
"Masterful and devastating. From the subprime neighborhoods to Wall Street and Washington, Engel and McCoy trace the fraud, incompetence, greed and negligence that wrecked the world economy, the American financial system, and the wealth of millions. This book should be on every prosecutor's must-read list."--James K. Galbraith, author of The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too  
"The critical and oft-neglected fact of the [recent economic] crisis rests in the deep connections between the worlds of consumer risk and systemic risk. These connections are both the central metaphor and the driving analytic framework for a perceptive new book by legal scholars Kathleen Engel and Patricia McCoy.... [They] have provided...the best account of the mortgage market roots of our financial collapse....it redirects attention and analysis to consumers--that is, the middle and lower classes. The authors focus some badly needed attention on the human carnage wrought by the collapse of the mortgage market itself."--Daniel Carpenter, Democracy Today  
"Many excellent books on the bubble and ensuing [financial] crisis have appeared.... It was to The Subprime Crisis, however, that the American College of Consumer Financial Services Lawyers gave its book award, most likely because of this book's unique combination of detail, coverage, and style. This may be the only book that looks at the entire business of residential lending, financial regulation, and corrective legislation."--Business Law Today  
"Like time lapse photography, Engel and McCoy demonstrate in bold relief how greed and ideology combined to enable the subprime crisis to buckle the knees of the American and global economies. Their meticulously documented and lively account of how questionable retail lending practices fed an out-of-control Wall Street money machine suggests there's plenty of blame to go around. However, the book reinforced my personal view that the regulators could have nipped this crisis in the bud, and that their bottom line message is that policymakers whose sacred trust was to protect the public interest, failed miserably in their jobs. In addition to a readily understandable story of economic contagion, The Subprime Virus is an outstanding example of how industry capture can corrupt and render ineffective our regulatory institutions."--Michael A. Stegman, Ph.D., Director of Policy and Housing, The John D. and Catherine T. MacArthur Foundation  
"Kathleen Engel and Patricia McCoy were writing about the perils of subprime lending and predicting the failure of the subprime market well before 2007. In this book, Professors Engel and McCoy explain the wide-spread regulatory failures which allowed the 'subprime virus' to grow and fester. Their policy recommendations and prescriptions for regulatory reform are lucid and common-sense solutions designed to prevent a recurrence of the reckless lending which caused the subprime virus. Government officials, academics, and anyone with an interest in preventing another subprime crisis should take heed."--Steven M. Davidoff, Professor of Law, The Ohio State University  
"Kathleen Engel and Patricia McCoy deserve tremendous credit for being amongst the first to identify the problems of subprime lending and the risks inherent in financing ever growing numbers of low quality mortgages through asset securitization. Nearly a decade ago, they were prescient in foreseeing the toxic potential of combining predatory lending with capital market financing. In this insightful new volume, McCoy and Engel retrace the battles they waged against unscrupulous lending practices and the unwillingness of regulatory authorities to heed their warnings. In so doing, they lay bare the roots of the subprime crisis and offer a host of sensible reform proposals. This time, one can only hope, public authorities will listen."--Howell E. Jackson, James S. Reid Jr. Professor of Law, Harvard Law School  
About the Author  
Kathleen Engel, the Associate Dean for Intellectual Life and Professor of Law at Suffolk University Law School, is a national authority on mortgage finance and regulation, subprime and predatory lending, and housing discrimination. Professor Engel's research on financial services markets and the laws that regulate them regularly catches the attention of the press and she presents her research in academic, banking, and policy forums throughout the country and around the world.  
Patricia A. McCoy, an expert on financial services regulation, is the Connecticut Mutual Professor of Law and Director of the Insurance Law Center at the University of Connecticut. Professor McCoy analyzes consumer protection, moral hazard, and systemic risk through the lens of law, economics, and empirical methods. Her work on the subprime market has garnered national press attention and repeated invitations to testify before Congress.