

Title: “Chain of Blame: How Wall Street Caused the Mortgage and Credit Crisis”

Authors: Paul Muolo and Matthew Padilla

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Length: 338 pages

Reading time: 10 hours

Reading rating 8 (1 = very difficult; 10 = very easy)

Overall rating: 4 (1 = average; 4 = outstanding)

In *Yes Man*, Jim Carrey plays a loan officer who cannot say “no” to a loan. Multiply that loan officer by a million, package all those subprime loans into a bundle and securitize them, and sell them through Wall Street investment bankers to institutional investors like state pension funds, and you’ve got the raw material for *Chain of Blame*. Co-authors Paul Muolo, Executive Editor of *National Mortgage News* and Matthew Padilla, business reporter for the *Orange County Register*, teamed up to write this riveting book that chronicles the collapse of the subprime empire. Written in the style of nonfiction business classics like *Den of Thieves* and *Barbarians at the Gate*, *Chain of Blame* is an eye-popping look at the key players in the subprime debacle.

The book tells how Angelo Mozilo, the self-made mortgage man who “eats, sleeps, and lives mortgages,” co-founded Countrywide Financial in 1969. Countrywide became the number one lender in America, eventually employing over 60,000 employees and contracting with more than 85% of loan brokers. In 2006, Countrywide originated \$400 billion in mortgages, including \$44 billion in payment option adjustable rate mortgages with features such as negative amortization—dubbed the “I’ll worry about it tomorrow” option.

Lew Ranieri, former vice chairman of Solomon Brothers, is credited with the creation of the mortgage-backed security (MBS) in 1977. The MBS was one of the greatest financial inventions since the creation of stocks and bonds. Ranieri boasted that in 1984, his mortgage trading desk “made more money than all the rest of Wall Street combined.”

The original intent of the MBS was to convert conventional “A” quality loans into bonds. However, as subprime mortgages flooded the market, MBS were used to bundle these low-quality loans, securitize them as collateral debt obligations (CDOs), and sell them to pension funds and state and local governments, which had a voracious appetite for any security yielding more than a U.S. Treasury bond. Between 2004 and 2007, institutional investors bought more than \$1 trillion in CDOs. When these assets plummeted, so did U.S. retirement assets.

The authors cast blame for the collapse of the U.S. stock market on a number of events. They blame mortgage wholesalers like Countrywide that richly compensated brokers who convinced homeowners to trade off points at the closing table for higher interest rates. Once these high yield mortgages were securitized, they sold like hotcakes to institutional investors seeking high-yield bonds. When the assets dissipated, pension funds, banks, insurance companies, and local governments were left holding a near worthless portfolio.

They blame the mortgage companies who had a “do-anything-to-get-the-deal-done mentality including hosting signing parties, where loan officers would convince management to accept previously rejected loans. They blame predatory lenders who “jam loans through the system regardless of the borrower’s ability to repay.”

They blame prequalification software like *FastQual* that were touted at the rock star-like road show called *Close More University*. FastQual could review one loan in 12 seconds and \$3 billion in loans in one day. So much for due diligence! They also blamed stated income (so-called “liar”) loans and 80/20 loans that allowed a mortgagee to borrow the 20% downpayment. They also blame the change in mindset from “the American dream of paying off the house” to one of “living off the house.”

But mostly, they blame the Securities and Exchange Commission for failing to regulate MBS and the rating agencies for failing to accurately rate them.

This book is well written and fast-paced. It’s an unseemly glimpse into the underbelly of the current financial crisis that has not only affected every American, but investors worldwide.

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