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Economic crisis is not fault of 'big, bad Wall Street' but everybody involved, say panelists

By Brandon Chiazza

Steve Gorgos/University Photography

Cornell alumni Tim Guba, *Caryn Zweig*, Lewis Wirshba and Jim Byrnes, all in the finance industry, discuss the mortgage crisis in a panel, Sept. 25, in Call Auditorium.

"This is one of the greatest financial crises our country has ever seen, and it really has been created by the mortgage housing crisis for fundamental reasons," said Timothy Guba '80, senior vice president of Keefe, Bruyette and Woods Inc., a financial services firm that concentrates on banking and insurance companies, Sept. 25.

Guba was on campus to help kick off the Applied Economics and Management (AEM) Current Event series in Call Auditorium, where about 350 AEM students and faculty came to hear about the mortgage crisis.

The American economy has relied on credit as the most provocative common resource for consumer spending, the panelists explained. But without credit, spending drops and the economy suffers. Before the crisis, however, and with the proliferation of subprime mortgages, people who didn't have the ability to pay mortgages off were able to take out mortgages. In 2003, 62 percent of mortgages were subprime mortgages, said Guba, so people were able to borrow more money. Consequently, this caused a boom in the housing market.

"We had a prolonged period of low interest rates. Easy money? Might as well borrow," said Guba. "People were allowed to get mortgages who probably didn't deserve mortgages."

Caryn J. Zweig '88, chief operating officer of *Abner, Herrman and Brock Inc.*, an asset management firm, said that at the same time, the earnings scores and predicted incomes of these mortgage companies increased.

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"This ultimately attracted investors because [investors] thought they had a vision of where these companies where going," said *Zweig*. "As a result ... we saw huge increases in [the companies'] market capitalization, in their valuations and in their earnings. These companies could do no wrong, and we saw the stock prices continuing to rise, ultimately benefitting investors."

In 2007, however, it was apparent these packaged securities were being rated inaccurately and that bankers, owners of these securities and even analysts didn't know what they were worth, said *Zweig*. Thus, the market was not able to price them properly, which caused "a sort of sudden panic," she said. Then investors started to back out at the same time mortgages started to seize, she added.

The panelists agreed that there wasn't one single source of blame, but as long as everyone was making money, the potential pitfalls were ignored. That meant overlooking the ability of borrowers to pay back hefty mortgages, rating securities higher that they actually were worth and a surfeit of misjudgments from top executives.
"It's not particularly big, bad Wall Street, it's not the government, it's everybody who's at fault," said Guba.

Panelist Lewis H. Wirshba '78, managing director of Credit Suisse, said that people just don't want to lend money anymore and that "it comes back to a question of confidence."
As for the future, "Everything points to a 'not very rosey' outlook on our economy and the world economy," said James Byrnes '63, MBA '64, chairman of the local Tompkins Financial Corp.

The panel was the first of six AEM Current Event Series this semester. For more information see http://aem.cornell.edu/undergrad/ce.htm.

Brandon Chiazza '09 is a writer intern for the Cornell Chronicle.

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