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Top Banker Says Government Caused Housing Crisis

By Paul Sperry February 15, 2013

"Under (President) Clinton, making high-risk home loans to low-income borrowers was given priority over safety and soundness from a regulatory... View Enlarged Image

Bribed by federal bailouts and threatened by lawsuits, top bankers have grudgingly gone along with the narrative that greed and deregulation caused the recession.

But one prominent CEO is breaking ranks as he leaves the embattled industry.

While running regional giant BB&T for two decades, John Allison had an insider's view of the factors behind the crisis. A burst of greed wasn't one of them, he says. Nor was deregulation.

"The financial industry was not deregulated, it was misregulated," he asserted.

In his new book, "The Financial Crisis and the Free Market Cure," Allison says at every step of the way, Washington politicians and regulators brought on the crisis and then made things worse during the panic.

Now, he warns, they're sowing the seeds of another financial crisis, thanks to new rules sold to the public as insurance against another crisis but that in fact double down on old mistakes.

Allison says problems started in the 1990s when regulators pressured banks to abandon traditional mortgage underwriting standards.

"Under Clinton, making high-risk home loans to low-income borrowers was given priority over safety and soundness from a regulatory perspective," he said.

The ex-president used the Community Reinvestment Act as an enforcement tool. When home prices fell years later, Allison points out, loss ratios on high-risk CRA loan portfolios soared.

Then in 2000, Clinton's HUD required Fannie Mae and Freddie Mac, which had dominated the prime lending market, to restructure their portfolios so at least half their loans were CRA and other subprime mortgages.

"The legitimate affordable-housing market was not big enough to equal 50% of (their) giant loan portfolios," Allison said. "To meet this political goal, Freddie and Fannie would have to consistently lower their lending standards."

And that's exactly what they did in the 2000s, dragging down standards across the entire industry. They also polluted the mortgage-backed securities market with junk posing as Treasury assets. At the same time, the Justice Department began investigating banks, including BB&T, for lending discrimination. Many stopped rejecting risky loans.

"From my experience discussing this issue with CEOs involved, they knew their companies were not guilty," said Allison, who now heads the Cato Institute. "But they also knew there would be a high price to pay for fighting the regulators."

BB&T fought back, and "they stopped all our mergers." But after the GOP took Congress, investigators dropped the case.

"They went home the next day," Allison recalled, showing the probe was "highly political."