

Subprime on Steroids

Municipal Finance in Jefferson County, Alabama

American Enterprise Institute

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Subprime mortgage brokers unconcerned about the quality of their loans, subprime borrowers taking loans they knew they could not repay, sloppy underwriting by lenders, condo-flippers hoping to sell their properties before the mortgage reset, impenetrably complex securitized instruments created by financial whiz kids, poor rating agency models, shoddy risk management at banks, laziness or inattention by investors, irresponsible sales practices by securities firms, and ineffective supervision by regulators are all elements that are properly cited as contributing causes.

AEI Publication 28389, Peter J. Wallison, July 2008

“I got paid to help Bank of America come into a place where they didn’t know anybody and make sure people understood they would do a quality job. It wasn’t worth a million.” – Randy Wilhelm, who received a \$1.1 million fee.

“Neither I nor anybody in the Jefferson County Commission – or for that matter, I’m not sure that the JP Morgan people that we deal with – really understand how swaps are priced in the global financial market.” – Bill Slaughter, Jefferson County Commission Bond Counsel

“I found him to be a very bright, patient and knowledgeable municipal finance professional. I felt he cared about the long-term financial effects on the citizens of Jefferson County”

Larry Langford

“I find him to be a bright, congenial, hardworking person. He never tried to force a transaction on us that was unsuitable for Jefferson County.”

Steve Saylor

- Political Failure
- Excessive Financing Cost
- Incompetence
- Corruption
- Passive Regulators

Jeffco \$539.5 million swap –
\$14.3 million in fees

New York State \$311.7 million swap –
\$1.9 million in fees

2.65 % vs. 0.61 % More than four times
as much

County Consent Decree Cost Estimates

- 1996 – \$250 million to \$1.2 billion
- 1999 –\$1.5 billion
- 2000 –\$1.91 billion
- 2001 –\$2.4 billion
- 2003 –\$3.05 billion
- Actual \$3.2 billion

Collins claimed:

- “Pay to play” selection of consultants
- Fraudulent misrepresentation of the benefits of a complex derivatives transaction
- Mispricing of that transaction
- Fraudulent failure to disclose compensation
- Excess compensation

TOP SECRET

