An MBA Overview

So Why The Dodd-Frank Act?

John T. Llewellyn – *Vice President, Gov't Relations*
David Q. Worthams – *Policy Director*
Patricia Herndon – *Advocacy Director*

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What Happened?

When the crash of 2007 occurred, people immediately looked for someone to jail.

So why didn't they (bankers, insurance executives, etc) go to jail?

Because THEY were breaking no laws.

It became Congress' time to fix that.

- Problems with mortgage offers and records in an emerging system of borrowing through the cloud.
- Problems with appraisal anti-fraud management, in rapidly rising value markets.
- There were problems in credit rating of individuals.
- Performance ratings as innovations in risk assessment and management of tranches became international.
- Problems with investors seeking high quality bonds and ending up with JUNK.

Problem with Performance Expectations

- Government expected people to be successful.
- Mortgage originators gave out mortgages thinking the government would save those who couldn't pay.
- The economy was supposed to improve.
- Property values were supposed to improve.
- Improving property values would let people draw on the value of their house to manage their finances and repay later.
- People would pay the mortgages first before other bills.
- People would refinance mortgages they couldn't afford.

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So If Bankers Weren't Breaking Laws and Expectations Weren't Being Met – Why Was There A Recession?

- Sovereign Central Banking Systems Were No Longer Able To Maintain Confidence in the Value of Things.
  - Bear Sterns; Lehman Brothers; ABM Amro; Bank of Ireland; Bank of Iceland – couldn't back the value of their books
- Things Were Moving Too Fast and Regulators Cranked Up The Things They Could Control

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CAMELS?

- **C** – *Capital Adequacy*
- **A** – *Asset Quality*
- **M** – *Management Capability*
- **E** – *Earnings*
- **L** – *Liquidity* *(also called asset liability management)*
- **S** – *Sensitivity* *(sensitivity to market risk, especially interest rate risk)*

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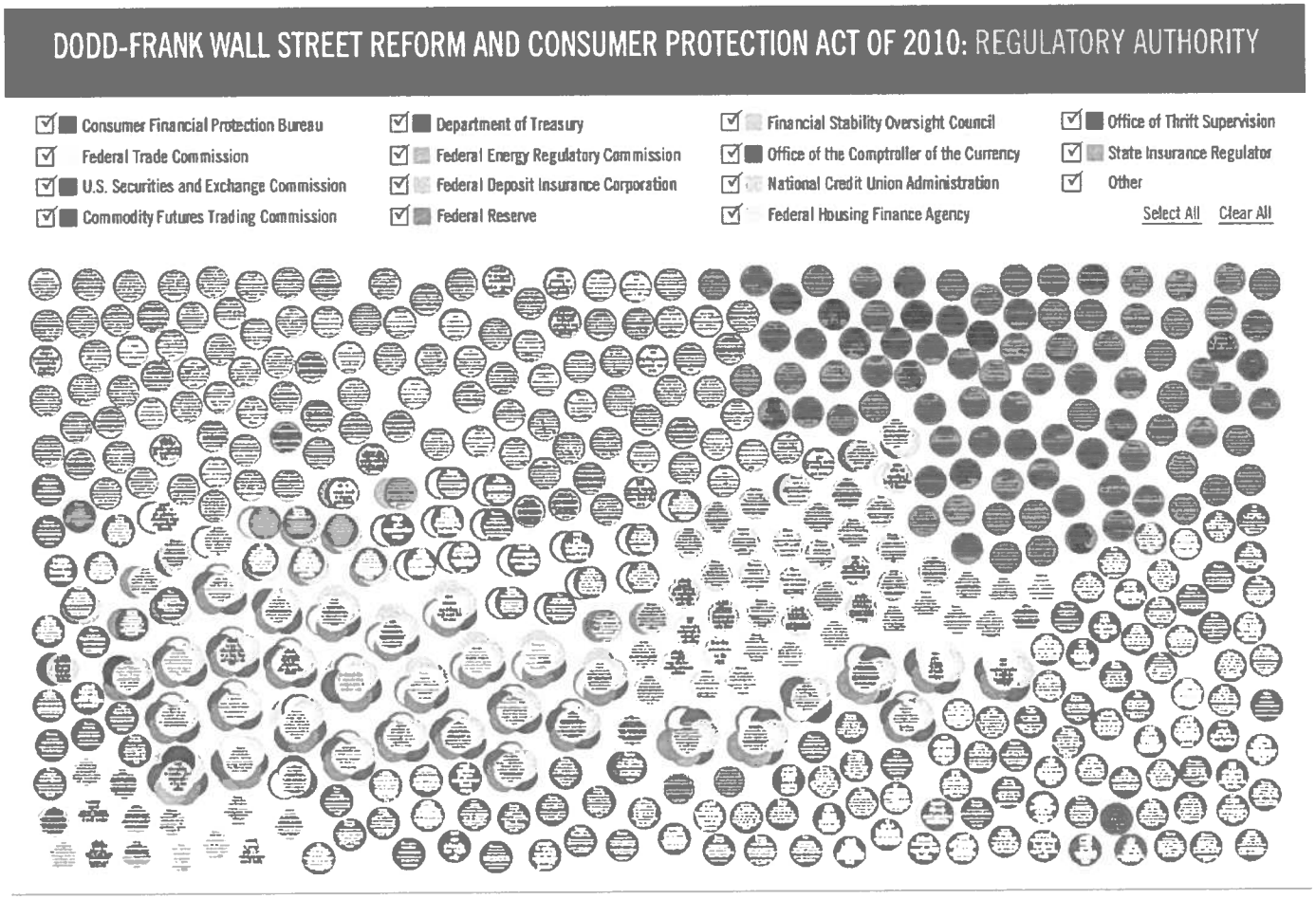
How Does DFA Slow Things Down?



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Questions

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