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The current crisis did not start on Wall Street.

 [080922_NEWS_mortgage.jpg](#) [1]

This is the way the world ends: a blast of fiery heat; an icy chill of impending recession; and a long, long purgatory of finger pointing. We're still far from seeing bottom in the financial crisis, but that last stage is already well under way, and it's clear where the blame goes. *Time's* cover story this week sets the tone for what to expect: "[How Wall Street Sold Out America](#) [2]."

It's hard to muster much enthusiasm for a Wall Street apologia. A small number of people at a few investment banks made huge amounts of money off the mortgage boom for a short time. Now the instruments that Wall Street developed to make crummy real estate loans look like plausible investments-asset-backed securities, collateralized debt obligations, CDO-squareds, credit swaps-have blown up in our faces at huge expense to Wall Street, commercial banks, and, ultimately, the taxpayers. Does Wall Street deserve blame? Yes.

But to blame everything on Wall Street elides a key point: The current crisis was not entirely, and not even mainly, of Wall Street's making. It was not Lehman Bros. or Morgan Stanley or Bear Stearns or Merrill Lynch that advertised the enticing thrills of zero-down mortgages on drive-time radio. It was Countrywide and Washington Mutual and Wells Fargo and IndyMac. It was not Wall Street that set the pace for the mortgage market's race to the bottom by steadily lowering the standards for what made an acceptable loan. It was Fannie Mae. It wasn't Wall Street that threw ever-lower interest rates on the fire of the housing market; it was Alan Greenspan and the Federal Reserve. And it was not ... oh, you get the idea: The folks telling home buyers that they could get approved *the same day* with (wink) no income checks? Again, not Wall Street.

One of the roles that Wall Street-that is, brokers and investment bankers-plays in the financial world is to stand there and take it on the chin when things go wrong, which eventually they do after any frenzy. People old enough to remember the Internet stock stampede-and you don't have to be very old at all to remember that-will recall how the Wall Street analysts and bankers who sold their clients on Internet stocks were paraded through the papers and federal court. Yet the venture capitalists, those brave builders of crash-and-burn companies, and the vast majority of the executives of companies that went public and then pretty much folded up shop got off with hardly a mention.

One secret of Wall Street is that much of its function is salesmanship. Wall Street does not create crummy

companies, or underwrite hopeless mortgages, or lead the charge on capital-destroying leveraged buyouts. It sells all of these things to investors. So when a municipality loses half its pension funds, it is not the folks who did the inane real-estate deal or the CEO who crashed a company into the ground who is closest at hand; it's the Wall Streeter who sold the bonds that made all this possible to the municipality's star-struck investment officer. Wall Street provides cover for the other failures in the market.

An interesting question about the current crisis is exactly how essential Wall Street was to making it happen. You can take a look at the "[league tables](#) [3]"—essentially, the annual score-chart-of-packagers of mortgage-backed securities for 2007. You'll find the familiar Wall Street names, though with second-tier players like Lehman Bros. and Bear Stearns a lot higher than they'd be in most other rankings. But you'll also find the Royal Bank of Scotland, mortgage megastore Countrywide, Washington Mutual, and Bank of America in the top 10. Certainly, the big financial players were all there, but the other story in those league tables is one of creeping "disintermediation," to summon up one of the buzzwords of the '90s. Even before the Great Derangement of the last days, which has eliminated the Wall Street status quo of the last 70 years, the investment banks were becoming less important to their own business. It's possible that even if (fat chance) Wall Street refused to do it, the mortgage underwriters who assembled the raw material of this crash would just have taken their show out to investors without them.

Fortune managing editor Andy Serwer and writer Allan Sloan—the latter maybe the dean of U.S. financial journalists—argue in *Time* that [Wall Street got tangled in complex investments](#) [2] that no one really understood. But the case can also be made that Wall Street understood its baroque instruments just fine, though clearly it underestimated the risks. What Wall Street may not have understood was just what a bad product the mortgage loans—which were the foundation of the boom and the driver of the crash—were.

You don't find Wall Street especially eager to own up to this: Who wants to admit that they were not, after all, the "smart money"? But all the evidence is that Wall Street saw this part a whole lot less clearly than did the mortgage brokers and commercial bankers—who were eager to go to Wall Street and palm their loans off on a greater fool. The bill of goods that Wall Streeters sold their clients had already been well-handled, and the smudged fingerprints on it belong to the bankers of "Main Street," those proverbial sheep who seem to have done a thorough job of shearing the wolf.

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Gimein [asked how Wall Street players could fail](#) at the game they themselves had set up. Michael Lewis identified [five benefits of the market meltdown](#). John Dickerson argued, [early during the crisis](#), that Barack Obama would not gain a lot of political benefit.

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