A. CATTANI & SON

5100 California Avenue, Suite 234
Bakersfield CA 93309
(661) 716-6266 Office
(661) 716-5364 Fax

Hon. Bill Thomas,

In my opinion, the current crisis was caused quite simply by too much debt. Every crisis that I have observed had the same root cause, the S&L crisis, Asian debt crisis, Latin debt crisis and Russian debt crisis.

One of my Croation grandparents told me as a child that "debt is a benevolent servant but an evil master". We do not seem to be able to understand that. Every article I read about The Federal Reserve focuses on its interest rate setting power as it relates to borrowings, never as it relates to savings. The banking system has been compared to the circulatory system of capitalism – its veins, arteries and heart. It regulates Capital formation by paying depositors to rent money to banks and capital development by charging borrowers a higher rate. But our country has become debt obsessed, even now trying to force banks to lend more as the way to cure our problems!

If we had maintained the lending standards that I learned in graduate school (20% down payments for houses, NO home equity loans,10% cap rates for commercial property) we would have experienced neither the S&L crisis nor the current one. Would we have built fewer houses? I am not entirely sure. You build what you can afford.

The impact on our community of the recent crisis has been profound. There are tracts of abandoned real estate projects on all four sides of Bakersfield and in each small town in the county and abandoned houses in almost every neighborhood. There are empty strip malls in every commercial area. The largest locally owned bank went under, unemployment is high and equally as important, people are frightened rather than optimistic about their future. Restaurants are empty; schools are short of funding and laying off young teachers who worked hard to earn their degrees who are now waiting tables. These people have the feeling that the system failed them.

All of this because of too much debt. Who was responsible for the pronounced easing in lending standards that culminated in my taco truck driver buying a $475,000 house with nothing down? I am not sure but I have given it a great deal of thought. In the old days of finance, banks were open from 10-3, could not pay interest on checking accounts, could not be owners of investment banks, and would keep all the loans they made; S&Ls loaned on houses; insurance companies loaned on long term commercial properties. The system worked well. Today the S&Ls are gone, anyone can own an investment bank, and anyone can take money market deposits. Lenders make loans to sell, not based on soundness, but rather on salability. The system did not work.

This evolution has taken place over the past 25 years. The Worst of the Worst was Wall Street and their MBS, CMBS and CDO products. Their sidekicks in crime were mortgage brokers and loose appraisers. However, Wall Street's avaricious appetite for more volume no questions asked only opened the door to the henhouse for these foxes. They were bit actors on the grand stage. So who to blame? Probably the blame should be allocated to the basic change in the financial system, Wall Street for craftily figuring out how to abuse the new system and the bit players for being accessories to the fact. My feeling is that the roots of this crisis go far deeper than what we see on the surface. We need to get back to the basic lending practices and the debt restraint that we had in the 1950s, 60s and 70s if we are to restore financial soundness.