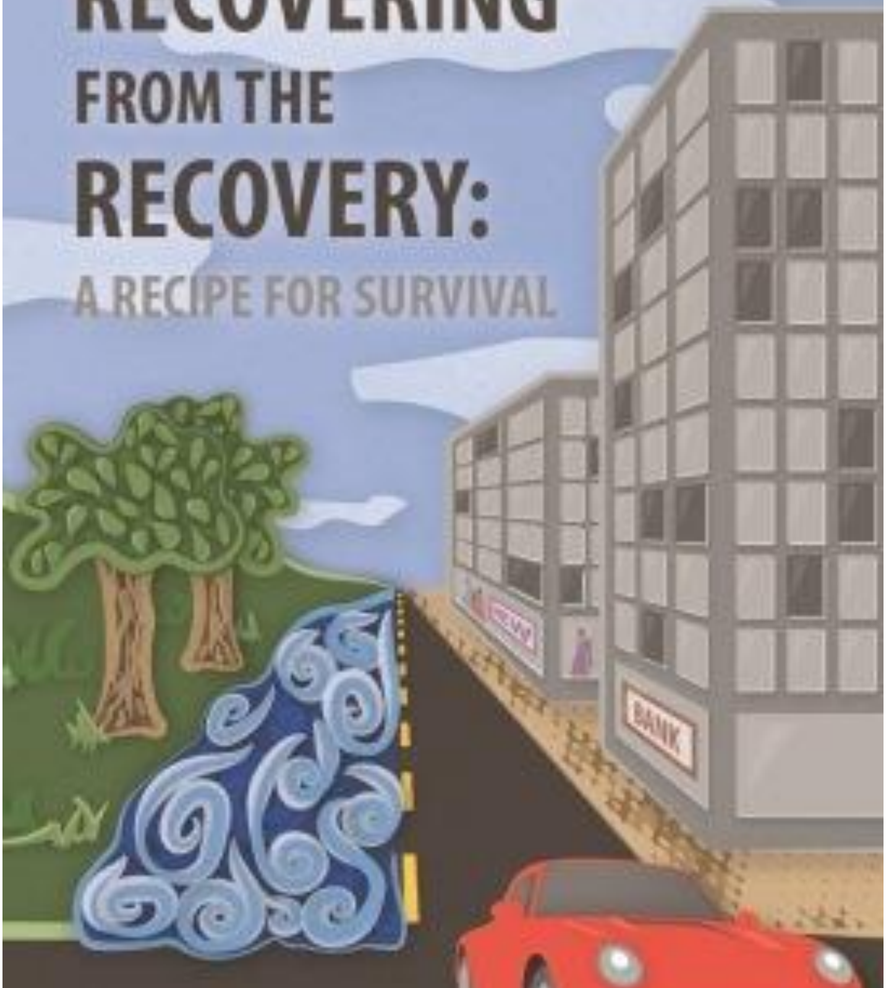
RECOVERING FROM THE RECOVERY:

A RECIPE FOR SURVIVAL



ANIL B. BHATT

Changing our behavior to avoid future crises.

Recovering
from the
Recovery:
A Recipe for Survival

By Anil B. Bhatt

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A Recipe for Survival

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Praise for
Recovery from the Recovery: A Simple Recipe

Recovering from the Recovery is much more than a book of financial advice. With cutting insight borne of his vast experience in business and accounting, Anil Bhatt writes with wisdom and compassion and draws the reader into his ethical, optimistic worldview. As a psychiatrist, I am deeply familiar with how we can let our emotions and limited perspective affect our good judgment. Few thinkers can elevate this perspective to embrace the concerns of the society and world at large. Somehow, Bhatt has managed to gently and powerfully guide us towards a global vision of responsibility, morals, and ultimately, success and satisfaction for all. Read this book, and share it with your friends and family.

Joseph Salvatore MD,
Psychiatrist, Princeton, New Jersey

Anil Bhatt brings a compassionate heart and the three decades of practitioner insights to this very readable analysis of the financial crisis.

Julia Sass Rubin,
Associate Professor, Rutgers University

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Introduction

The financial crisis of 2008 was an eye opener. In the aftermath, millions lost their jobs, homes, and nest eggs through no fault of theirs. They felt helpless because they did not have the requisite knowledge and understanding of the risks associated with home ownership and investing in financial instruments. As human history has witnessed, we normally move from one crisis to another without learning enough, leaving us unprepared to deal with the future. We manage to elude the ultimate wisdom of making this world free of human suffering. We make great strides and progress in times of peace, but have not been able to fully achieve human freedom, peace, and harmony among peoples of all races, nationalities, and religions, as evident from man-made disasters such as the financial crisis.

In order to understand and learn from such crises, we must take a holistic approach and go beyond the events themselves and delve into our daily lives to reflect on what makes us prone to these types of dangers in the first place.

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I am a public accountant blessed with a wonderful wife, two adult children, a very close family, and countless friends and colleagues. In 2006, after working as an accountant for 30 years, I decided to take a sabbatical. In the ensuing months I began some serious soul searching to figure out my next move. I wanted to serve independently with a social purpose where I would not be forced to compromise the principles I believed in deeply. Two years later, while still undecided about my future, the United States had its worst economic crisis, as well as the most intensely fought Democratic primaries of our generation. Based on my wife’s advice, I decided to rejoin the profession of accountancy, but on my own terms, as my own boss taking on all of the associated responsibilities, obligations, and risks.

It has been an interesting and challenging journey. Most of my experiences hold true for all Americans. During these challenging economic times, some people are holding multiple jobs just to keep afloat. Others have had to put their dreams of retirement on hold and instead start new careers in their 70s and 80s. New graduates are unable to find suitable jobs in their dream careers. And the sad saga continues.

There are many unanswered questions. In the last few years, I tried to find answers not only to the causes and effects of the crisis itself, but also the factors outside of the financial arena. These factors include: our way of life, our social ways and beliefs, our political and our religious preferences. As important as it is to overcome these enormous challenges for our generation and get back on track, the big question is: What do we have to offer to future generations in terms of basic human rights and decent living conditions to sustain them into the next century? Together our collective wisdom and personal sacrifices will see us through these trying times into a brighter future.

As we muddle through these tough economic times, we need to become socially conscious of our surroundings. These discussions can start either at a local coffeehouse or a church gathering, but they need to make it into our daily routine and into every aspect of our lives. Our obsession with financial and economic success distracts us from our fundamental obligation toward human freedom and the rights of those who are less fortunate.

Even though it may seem that we have graduated from being stone-age beasts to civilized human beings, in reality we only managed to build boundaries, barriers, and empires by breaking the world apart in the process. We passed along our imperfectness, biases, and indifferences to the next generation. There is this disconnect between what students are taught in school versus the real world they face upon graduation. The cycle seems to perpetuate itself throughout the generations.

The views I held before the crisis became even stronger, and I have learned there are many who share my feelings and frustrations. This book is a continuation of my coffeehouse conversations, but with a sense of urgency and a debate about finding ways to correct our errors and pave a smooth path as we build “our field of dreams” toward prosperity.

Most of the world is also facing and dealing with these same issues without much success. The financial crisis was global. It acted much like a tsunami, destroying everything in its path. Europe and the Middle East are facing fiscal and political uncertainties. A new political, economic, and social order is lurking on the horizon and making its presence felt in no uncertain terms. Are we, the people of the free world, up to that task of relinquishing the past, cleansing ourselves of the wounds, and forging ahead with renewed vigor and optimism?

Keeping in mind the timeless teachings of Christ, Buddha, and great souls such as Gandhi, one needs to dig deep into one’s mind and soul to find answers to help one succeed. Buddha’s life and teachings tell us to look beyond our troubles, and away from our material surroundings, and rather turn to nature, trees, ocean, sky, and the interaction of all natural forces to seek answers. That is where I am seeking answers to my puzzles, and that is where I hope to meet you in a common quest for justice and prosperity for all because there is a permanency in nature, not found in man-made creations.

As elected government officials, in consultation with experts, try to find solutions to the underlying economic problems and steer us toward prosperity, common citizens need to cooperate in the process of recovery and try to live their lives as sensibly as possible. As responsible citizens we have to be alert and proactive and make sure our voices are heard, not buried at the back of newspapers and magazines, in the op-ed section.

Prior to this financial crisis, we sailed merrily along praising the benefits of globalization. After the crisis, though, we have retreated, and our policies tend to be more protectionist. That is a mistake. Thomas Friedman’s book, *The World Is Flat,* is worth revisiting in that regard. He lists the forces that are responsible for flattening the world, among them the fall of Berlin Wall on November 9, 1989, which resulted in the formation of the European Union; outsourcing of functions; creating efficiencies at home and opportunities abroad for those who service them;

offshoring of operations to reduce costs by use of cheap labor; taxes and subsidized energy and lower healthcare costs in a host country; insourcing by creating value horizontally; and in-forming, which is the ability to use technology through universal access to inform oneself. He observes those opposed to outsourcing assume everything that is going to be invented has been invented, and therefore economic competition is a zero-sum game. This is not true as more skilled jobs are created elsewhere, so are cost efficiencies.

The next generation is comfortable operating in this new flat world. Unfortunately the severity of the current economic condition and the aftereffects caused by the crisis may not seem that obvious to them. Unless we narrate our struggles and our efforts to deal with the crisis and pave a clear path for the future, the next generation will never forgive us. The time has come to establish a new order. This can be achieved only by stepping outside of our comfort zones and not being overly concerned about our own material well-being. In the new future, our success will not only be measured in financial terms, but also by the social footprint we leave behind.

As concluded by the Financial Crisis Inquiry Commission (FCIC) created by Congress and the President, “the crisis was avoidable—a result of human actions, inactions, and misjudgments. The greatest tragedy would be to accept the refrain that no one could have seen this coming, and thus nothing could have been done. If we accept this notion, it will happen again.” From the study of the Commission’s report, it becomes clear our financial systems, our business practices, our lack of effective controls and oversight, and our obsession with home ownership without regard to affordability, all contributed to the meltdown. Many Americans have learned that owning a home is a luxury they cannot afford. For those young adults who believed home ownership was an “inalienable right,” it is hard to accept, but a reality they cannot afford to ignore. Tomorrow’s leaders need to set their own standards and create their own recipe for success and sustainability. We can provide some guidance as the financial disaster is still fresh and we are still learning about its underlying causes.

Even though "this time is no different than the previous times," and the financial crisis could have been averted if we had the right controls in place and working, the current crisis created an opportunity to look at it from a fresh perspective, to revamp our old systems and not return to the old norms. That would certainly be a recipe for another disaster.

We must understand what caused the crisis. Who were the players? What were the consequences of the crisis? How did the government intervene to avoid a total meltdown? It is equally important to reflect on our own behavior as well as how we interact with one another. We need to look into the causes of poverty and wars, and how religion, class warfare, and education all affect our lives. We need to understand the roles of the people, businesses, governments and their agencies, not-for-profit organizations, multilateral global organizations, and nongovernmental organizations. The discussion cannot be complete without evaluating our assets, our natural resources, as well as identifying our liabilities, how to achieve sustainability, and defining and fulfilling our moral and social obligations. For it is this holistic approach that will enable us to deal with any crisis, however huge and insurmountable it may seem.

Chapter 1
The Financial Crisis of 2008

If money is all that a man makes, then he will be poor; poor in happiness, and poor in all that makes life worth living.

Herbert N. Casson
Canadian Journalist & Author

Our 2008 summer vacation was memorable. My wife and I drove 4,200 miles coast to coast from New Jersey to Seattle, stopping along the way in Washington, D.C.; Charleston, South Carolina; West Virginia; St. Louis, Missouri; Omaha, Nebraska; Denver, Colorado; Salt Lake City, Utah; and Yellowstone National Park in Wyoming. It is impossible to capture a full perspective of the United States in only 12 to 13 days, but we were able to get a glimpse of it through our cameras that will remain etched in our memories forever. As we found out, perhaps the best way to travel in a country as vast and diverse as ours is by car; horseback would have been even better, but unfortunately we had neither the patience nor the skills for that.

The vacation was followed by a hot summer and the nail-biting primaries. Just as 2008 was about to close its doors, we were hit with one of the worst financial crises in our nation's history. Within days the Dow Jones Industrial Average, a benchmark indicator of market activity, plunged more than 700 points, approximately half of its value. This sudden and huge drop in the stock market created panic among the investors, who lost faith in the system. This was not an isolated phenomenon; it was triggered by a collapse in the housing industry.

The government immediately intervened by infusing funds to resuscitate the economy. For years to come, people and businesses will have to work very hard and make necessary sacrifices, while the government will have to implement effective national fiscal policies and trade agreements with our partners in the world to ease the global effect of the crisis as well.

The aftermath of the crisis created a deep recession evidenced by high unemployment, an economic slump, and credit squeeze, all of which further weakened manufacturing, housing, and related industries. Since these sectors are mutually dependent, the crisis in one area created a domino effect in the other, bringing about an overall fallout.

How it all started

The financial crisis did not happen in an instant. Like hot lava, it percolated for a long time. It was the result of many wrong things happening over a period of years, unchecked, undetected, and untreated. It was like a cancer spreading through our entire system.

According to the prognosis of the Financial Crisis Inquiry Commission in its report:

1. This financial crisis was avoidable.

2. Widespread failures in financial regulation and supervision proved devastating to the stability of the nation’s financial markets.

3. Dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis.

4. A combination of excessive borrowing, risky investments, and lack of transparency put the financial system on a collision course with the crisis.

5. The government was ill-prepared for the crisis, and its inconsistent response added to the uncertainty and panic in the financial markets.

6. There was a systemic breakdown in accountability and ethics.

7. The collapsing mortgage-lending standards and the mortgage securitization pipeline lit and spread the flame of contagion and crisis.

8. Over-the–counter derivatives contributed significantly to this crisis.

9. The failures of credit rating agencies were essential cogs in the wheel of financial destruction.

In some measure, we are all to blame for this colossal crisis. The Financial Crisis Inquiry Commission aptly quoted Cassius who says in Shakespeare's *Julius Caesar*, "the fault…is not in our stars, but in ourselves." When we wake up every morning we need to remind ourselves of that statement and plan our day in such a way that we do our share of good to prevent such man-made disasters from happening again.

What went wrong?

One of the key elements of the current crisis was the lending practices associated with home ownership. As has since been made public, there was a widespread practice of loans being made without adequate paperwork, with light background checks on income verifications, and without adequate disclosures, called "truth in lending." Sub-prime loans were made to many borrowers with bad credit histories of low income and low credit scores. All of this happened without adequate controls and oversight. As borrowing for homes became easier, more people bought real estate without regard to future affordability. Some were lured into taking out mortgages at low teaser rates, which would rise. The demand for housing skyrocketed as did market values. The housing bubble grew larger by the day. Everybody was riding on this bubble. The financial industry, which invested very heavily in mortgages and mortgage-backed securities, had a lot at stake in the event of a system-wide failure. That is exactly what happened when borrowers could not pay their new, higher mortgages and overnight these loans became delinquent. All those who carried these mortgages on their books, and the investors who lent billions of dollars against those mortgages, ran for cover and quickly found there was no place to hide. The exposures created shockwaves around the entire world. The financial institutions that borrowed against the mortgage-backed securities could not pay their bond calls and interest. Some of these institutions failed for lack of liquidity. The crisis was exacerbated by the widespread risk and high leverage prevalent among trading in certain complex financial instruments called derivatives, which are instruments whose values are derived from other negotiable financial instruments, such as stocks.

As the housing market started its downward slide, people who owed more than the value of their homes became delinquent. Running out of options, many had to foreclose on their properties. The financial, auto, manufacturing, and housing industries lost millions of jobs, which made matters worse, as those otherwise solvent homeowners could no longer afford their mortgages without their paychecks.

We may analyze the crisis all we want, and study closely all the factors and players who contributed to it, but the truth is, we all failed because we acted irresponsibly, selfishly, and insensibly. We swerved from our moral and social compass. Unless we clean up our act and think and behave as responsible human beings, we could end up in a big mess again. Who would bail us out then?

One of the drawbacks of a capitalistic structure is, while promoting individual growth and expansion, it also leaves many behind. It is this disconnect between those with plenty and the disadvantaged masses that serves as a fertile ground for a crisis such as this to take root. We created a selfish and unethical culture which corrupted our social and economic systems, and allowed some of the individual financial scandals to flourish. For example, the Ponzi scheme employed by Bernard Madoff, that came to surface in late 2008, as well as the Enron scandal in the late 1990s and early 2000. Madoff had been scheming for more than a decade before it became public in late 2008. At that time he disclosed the facts of his scheme to his sons, who were working with him in his security trading business. He posed as an investment advisor and broker and conned people into investing in his company. No money was ever invested in any securities. Fictitious monthly statements were sent to the clients listing trades, income, and portfolio position at the end of the period—none of it was real. The Enron scandal was a skillfully orchestrated accounting manipulation that ill-benefited the key employees and players financially. This individual greed also pervaded through our whole financial system, which suffered from lack of controls, oversight, breaches of trust, and a disregarding of rules and laws. This systemic failure affected everyone because of the interconnectedness of various segments of the economy. It broke down all economic and financial systems and institutions.

There is a lot to learn from the crisis and the profound effect it is has had on all of us. Some people may never recover. Some questions may never be answered. Frank Partnoy, a professor of law and finance at the University of San Diego, explains our role as individuals and investors, and the impact our actions can have on our own financial fortunes. In the epilogue to his book, *Infectious Greed*, Partnoy states “today there are an astonishing number of individuals buying and selling stocks. Maybe you are one of them. Maybe you contributed to the volatile and risky nature of these new markets. As you reflect on the story of the last twenty years of risk and deceit, ask yourself: did I carefully read the annual reports of the companies whose stock I bought? Did I really understand what those companies were doing, who their customers were and how they made money? Did I know how much they were involved in complex financial instruments? Did I resist the recommendations of friends, colleagues, and talking heads on television about the latest hot stock? If you answered NO, then you have one more person to blame, in addition to the accountants, bankers, lawyers, credit raters, corporate executives, directors and regulators who failed to spot the various financial schemes of recent years, YOU.” As responsible citizens, we have the choice to take the often-travelled road (with its pitfalls) or the path of the righteous.

How about the millions of people who have neither the requisite knowledge nor the experience and education to decide what’s good for them? Their actions may have unintended social and economic consequences, both for themselves and for society at large. That’s where accountants, lawyers, teachers, financial advisors, regulators, and the government step in to provide the necessary guidance. We will all have to forgo some profits and divert them for the betterment of the community.

In these rebuilding efforts we need to thank social activists already working in our communities, making personal sacrifices, providing food, clothing, education, and legal help to the poor while helping to create a positive self-image among the underprivileged or handicapped youth and adults alike. For many on the margins of destitution, life is a daily struggle. It is not a one-time event or disaster. They do not need a financial education because they do not have a spare dollar to invest. America was once thought of as a land of opportunity where everyone could make it. Today that prophecy is unrealistic for many.

What the crisis meant to Main Street

Simply speaking, for most of "Main Street America" the crisis has meant:

- Loss of job, promotion and/or a raise.
- Loss of home, or equity in the home and consequent inability to meet the home costs.
- Loss in value of retirement accounts, potentially significantly depending on allocation of investments.
- Inability to repay student loans and unaffordable tuition for higher education.
- Unexpected relocation costs for those with dim prospects of finding suitable jobs in their present location.
- Additional medical benefit costs for those displaced from their jobs.
- Indefinite delay in many plans and prospects for the future.
- Unavoidable separation from families and loved ones for economic reasons.

In addition, people faced psychological battles brought on by their financial inadequacy. Not all are strong enough to withstand these pressures; as a result many break down. There are not enough crisis centers that can help people deal with their economic, financial, and social difficulties. This is covered in detail in Chapter 4.

What the crisis meant to Wall Street

The 2008 crisis brought as much misery to Wall Street as it brought to Main Street. Here is a list:

- Post crisis, Wall Street lost hundreds of thousands of jobs. Since 2008, some of those jobs have been reinstated as the financial firms have turned the corner to embrace "profitability" again.
- The systemic failure brought down Merrill Lynch (which was acquired by Bank of America), Bear Stearns, and Lehman Brothers. AIG, an insurance giant, was bailed out by the government and Wall Street giants.
- Government, which bailed out the firms by infusing $700 billion of TARP (Troubled Asset Relief Program), among other government commitments, had an equity stake and a say in governance. (As of 2013 these funds had been repaid with interest.)
- In 2010, the government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). It is designed to put restrictions on certain trading activities of financial firms so it can lower the systemic risks to the financial system and protect the consumers. As anticipated, there is a widespread opposition to certain rules and provisions in the Act, from the financial sector.

Under the Dodd-Frank Act, the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) were given wide powers to control hedge funds and similar activities, which previously enjoyed relaxed regulation. The problems these regulatory agencies and even the Internal Revenue Service face is the lack of resources in terms of adequate manpower and budgets necessary for effective implementation. That is the very reason why this "catch me if you can" mentality has prevailed among our nation's institutions and individual private citizens for this long.

There has been a growing concern among the economic community and regulators that the Dodd-Frank Act did not adequately deal with Too-Big-To-Fail banks as shared by Neil Barofsky, in his book *Bailout*. He was the Special Inspector

General for the TARP. He further states "the 848 plus page long act in many ways is too big to succeed." One must not be surprised when something is put out by the 'Washington Machine,' for example, our Internal Revenue Code, which is thousands of pages long and keeps growing every time there is an attempt to simplify it. Maybe we need only Ten Commandments to bring us all to our senses, just as in biblical times.

It was painful for Neil Barofsky and his team, who were responsible for overseeing the TARP program, to find out that the very institutions which were entrusted with the TARP money to resuscitate the market did not hesitate to make misrepresentations, to cough out additional TARP funds. Further, it could not have been easy for them to see that AIG, an insurance giant which was bailed out by hundreds of billions of taxpayers' money, requested $168 million from those funds to be used for retention bonuses to employees in its financial product division. In 2010 alone, compensation for the top 25 Wall Street firms broke records at $135 billion. All this at a time when Main Street saw a loss of millions of jobs, no raises or bonuses for those who were lucky enough to hold onto their jobs, losses in retirement accounts, home values, and bleak prospect of home foreclosures.

In essence, we feel sorry for those who have lost their wealth and hard earned savings and livelihoods for no fault of theirs, but we do not feel sorry for those who had a free ride for way too long. Can there be equity for those who created the "inequality" in the first place?

Six years into the crisis, the nation's leading economists, pundits, and notables in academia are still skeptical about the direction in which we are headed: definitely not toward an intended path of financial and fiscal discipline. The infusion of federal funds into the financial sector and other essential industries should only be utilized for growth and providing badly needed working capital to existing and emerging businesses. They should not be diverted to investing in complex financial instruments and toxic assets. Judging from the daily newspaper reporting, the uncontained risk taking associated with trading still prevails so as sub-prime lending in auto loans and major financial institutions are continuing to pay billions of dollars in fees and penalties to settle the cases, some originated during the crisis. It makes you wonder whether these behemoth institutions have learned their lessons or will seek protection again if needed to, under the too-big-to-fail theory.

Any reform, and especially the one dealing with our financial system, cannot accomplish its goal by only focusing on the cures (with their inherent dangers and limitations) to remedy the current situation, but by finding and implementing the long term solutions that can *prevent* such man-made disasters from happening again.

Role of the Financial Crisis Inquiry Commission

The Federal Crisis Inquiry Commission (FCIC) was an independent 10-member commission consisting of private citizens with extensive experience in housing, economics, finance, market regulation, banking, and consumer protection. Six members were appointed by the Democrats in Congress, and four by Republicans. The Commission, with the assistance of its staff, reviewed millions of documents, interviewed hundreds of witnesses, and held weeks of public hearings across the country before arriving at their conclusions.

Although the Commission was refrained from making any policy recommendations, after an extensive and thorough study of documents and hearing testimonies of people who were directly affected by the crisis and those working with various institutions and agencies, it made these several substantive conclusions:

- The system was flooded with risky mortgages. There were widespread, lax lending practices, and lack of proper oversight.
- The relaxed monetary policy of the Federal Reserve and flow of sovereign funds created the housing bubble starting as early as the 1990s when the Administration initiated the measures that made home ownership affordable and the process less cumbersome. These practices would continue for nearly two decades, all the way up to the point when the housing bubble

burst.

- The investments into mortgages and mortgage-backed securities were made based on credit ratings, but the rating agencies were not adequately regulated by the Securities and Exchange Commission (SEC). Further, the rating agencies' ratings were based on flawed and outmoded models.
- The creation of Collateralized Debt Obligations (CDO) composed of the riskier tranches or strata of the underlying mortgages fueled demand for non-prime mortgage securitization (loans were converted into marketable securities) and contributed to the housing bubble. Simultaneously, instruments such as credit default swaps were created to hedge for or against mortgage defaults. Many systemically large institutions carried these assets on their books, which contributed to huge losses when these assets were deemed toxic.
- Investors were not informed, or were misled, about the poor quality of the mortgages contained in the mortgage related securities.
- The business model under which firms issuing securities paid for their ratings seriously undermined the quality and integrity of those ratings. The rating agencies placed market share and profit considerations above the quality and integrity of their rating.
- High leverage, inadequate capital, and short term funding made many financial institutions extraordinarily vulnerable to the downturn in the market in 2007. Investment banks had leverage ratios of as high as 40 to 1, meaning for every $40 of assets, there was only $1 in capital. Fannie Mae and Freddie Mac, government sponsored entities, guaranteed the majority of mortgages in this country, had even higher leverage ratios, up to 75 to 1. The financial statements of most of the financial institutions never fully reported the loss exposure on these toxic assets. Many had to restate both the earnings estimates they gave to Wall Street as well as the issued statements.
- Bear Stearns, a major firm with excessive hedge fund activity,

and AIG, an insurance giant whose financial products had significant sub-prime exposure, were affected by the collapse of the housing bubble first, creating financial pressures on their parent companies.

- The losses in sub-prime mortgage market at large firms such as Merrill Lynch, Citigroup, and AIG were due to failure in corporate governance and risk management. Executive compensation at large firms was tied into short term risk taking, putting further drain on their cash flows and their ability to sustain.
- There was a widespread belief that regulation was unduly burdensome, the financial institutions were capable of self-regulation, and that regulators should not interfere with activities reported as profitable. As it became clearer later, the overexposure to risky mortgage assets was subject to runs by creditors and depositors.
- Deregulation of Over–the-Counter (OTC) derivatives, including credit default swaps, effectively eliminated federal and state regulation of these products including capital and margin requirements. The AIG insurance company was so interconnected with many large commercial banks, investment banks, and other financial institutions through counterparty credit relationships on credit default swaps and other activities such as securities lending that its potential failure created systemic risk. AIG's existence was deemed "too big to fail," and the government committed $180 billion to its rescue. The move was believed to have stopped the bleeding, which, if untreated, would have brought a complete meltdown of the country's financial system.
- As many financial institutions failed, panic gripped the market, the credit market seized up, and the stock market plunged. As a result of the financial meltdown, many firms either failed or merged during the crisis, creating the US financial sector more concentrated than ever in the hands of a few very large systemically important institutions. As a result this concentration places greater responsibility on regulators for

effective oversight of these institutions.

As narrated by the FCIC through its interviews and hearings, we become aware of the countless homeowners who had to sell their homes in order to take care of expenses such as medical care for their loved ones, starting new businesses, and relocating to find a decent job someplace else. Some sold their homes as a short sale, which means for less than the balance of the mortgage. In Arizona, California, Florida, Michigan, and Nevada, and other places, some mortgage holders found themselves owing more than their homes were worth.

Based on the fact there is very little improvement in many areas of the economy that were badly hit by the crisis, it is obvious either we have not found all the solutions or we lack in our efforts to bring about the changes necessary for a turnaround. Our youth today need to have adequate financial knowledge to make intelligent and responsible decisions on their own. Part of the long term solution would be including the study and practice of accounting, basic economics, and ethics into our core curriculum. This interdisciplinary and holistic approach in our education system would help mold our nation's future and make us better equipped to cope with the challenges ahead. The other area of importance is the inclusion of international study in higher education, through which our youth can better understand the problems and challenges being faced around the globe. Our challenge is not only to understand the current crisis, but also to study and be aware of the many factors found common during the "Eight Centuries of Financial Folly," as aptly captured by Carmen M. Reinhart and Kenneth S. Rogoff in their 2009 book, *This Time Is Different*. Reinhart and Rogoff analyzed the prior crises using quantitative data including domestic and foreign debt, prices, exchange rates, currency debasement, inflation, and gross domestic product measures. Then they plotted the interrelationships of these factors on a time scale. Using an empirical approach, they explained the effect of these factors leading up to each crisis, including the current one. In order to fully understand a phenomenon of this nature, one must understand both the quantitative as well as non-quantitative factors.

The following are some of their observations and explanations of the current crisis and comparisons to past episodes the authors made. They concluded that the current crisis is no different than the previous crises.

- The housing price declines during the current crisis were as severe as in 1929 with average price declines over even a longer period.
- The equity price declines were also significant just as in prior crises. Although the bounce back in equity prices is on track as on previous occasions, the housing market is still lagging because the unemployment rate is still high, the new stricter regulatory standards have made the home ownership process cumbersome, and up until now there was low inflow of foreign investment.
- The data suggest a buildup in government debt has been a defining characteristic of the aftermath of banking crises evidently because of reduction in revenue, and deep recession in the ensuing period.
- The authors further observed that for banking crises, real housing prices are nearly at the top of the list of reliable indicators, surpassing the current balances and real stock prices.
- They also observed the banking crises tend to be protracted affairs, meaning they are extended and stretched by the authorities by their denial, governments suffering from reduction in revenues, and bailout costs.
- The authors further concluded financial crises seldom occur in a vacuum; they are hardly isolated episodes.

Now that we understand what caused the crisis, and the economic indicators that gave the warning signals, and we have seen what follows that crisis, our task is to understand the roles various organizations including private citizens can play in repairing the damage, and more importantly, create a strong financial and economic environment that will enable us to prevent future financial crises from happening.

Here is a simple *plan of action* that the private citizens can follow in dealing with their day to day finances:

- Build your team of experts such as accountants, attorneys, and financial advisors who you can trust and who can guide you through the intricacy of the financial and legal process of business dealings in a language you can understand.
- Self-educate in home economics and finances by reading newspapers, business weeklies, books, and the internet to become familiar with the jargon so you can communicate with your trusted advisors intelligently and efficiently.
- Use a common sense approach in dealing with financial issues, and look for parallels in life to relate them to your situation. Follow the lead of financial gurus such as Warren Buffett in this area.
- Remain proactive and get involved with the decision making in weighing options whether to buy, sell, and why? Study the companies and the industry they are in before investing in them. Have a long term perspective. Again, remember Mr. Buffet's favorite line, "You cannot expect to have a baby in one month by making nine women pregnant."
- Stay current with the policies, politics, and legislation that affect your life, and actively pursue avenues to facilitate change. Build alliances to promote change that improves communities.
- Be flexible and realistic in choosing jobs and careers because sometimes you may have to take detours to reach your destination, especially in today's tough economic environment.
- Appoint a mentor or a coach to guide you through the path of recovery. (I chose my wife because she has always displayed an unbiased and balanced approach to life and possess a rare ability to see through common problems day in and day out.)

Beware. In spite of all our individual efforts on Main Street to bring our house in order, there is always that danger lurking in the distance, a build- up of another "financial storm," because the air is not as clear yet, and the skies are not as blue as we would like, and we get this strange feeling that we are sitting on a wide *fault line* that could rupture any moment and take down everything. If only so we can stop it from happening again!