Power Problem

The business press did everything but take on the institutions that brought down the financial system

BY DEAN STARKMAN

"The government, the financial industry and the American consumer—if they had only paid attention—would have gotten ample warning about this crisis from us, years in advance, when there was still time to evacuate and seek shelter from this storm." *—Diana Henriques,* New York Times *business reporter, speech at The George Washington University, November 8, 2008*

"But anybody who's been paying attention has seen business journalists waving the red flag for several years." *—Chris Roush, "Unheeded Warnings,"* American Journalism Review*, December/January, 2009*

"I'm kind of curious as to . . . why is it that people were shocked, given the volume of coverage." *—Nikhil Deogun, deputy managing editor,* The Wall Street Journal*, quoted in "Unheeded Warnings"*

"For in an exact sense the present crisis in western democracy is a crisis of journalism." *—Walter Lippmann,* Liberty and the News*, 1920*

These are grim times for the nation's financial media. Not only must they witness the unraveling of their own business, they must at the same time fend off charges that they failed to cover adequately their central beat—finance—during the years prior to an implosion that is forcing millions of low-income strivers into undeserved poverty and the entire world into an economic winter. The quotes above give a fair summary of the institutional response of the mainstream business press to the charge that it slept on the job while lenders and Wall Street ran amok. And while the record will show this response is not entirely wrong, one can see how casual business-press readers might have a problem with the idea that final responsibility for failing to stop escalating dangers in the financial system has somehow shifted to them.

Dang, Margaret, we blew it again.

It is understandable that the business press would want to defend its record. But it is equally understandable, I hope, that some readers might want to see some support for these claims. You know the old journalism saying, "If your mother says she loves you," etc.

For if the institutional response is correct, and all was done that could be done, then journalism has even bigger problems than Google and Craigslist. In the best case, if this response is to be believed, the financial press faces the problem of irrelevance—all that newsprint and coated paper, those millions of words, the bar graphs, stipple portraits, glossy photos of white guys, the printing presses, delivery trucks, and Yale degrees, is worth about as much as a New Century share.

Lippmann, I think, would understand the problem. Without facts, the public is powerless. With them, well, it can lick Countrywide and Goldman Sachs put together. In his book, *Liberty and the News*, Lippmann wrote: "Everywhere today men are conscious that somehow they must deal with questions more intricate than any church or school had prepared them to understand. Increasingly, they know they cannot understand them if facts are not quickly and steadily available." Without them, he says, there can be no liberty.

He was talking about a crude and corrupt press that manipulated public opinion around World War I. We're dealing with a financial press that is neither of those things, but is nonetheless a battered and buffeted institution that in the last decade saw its fortunes and status plummet as the institutions it covered ruled the earth and bent the government. The press, I believe, began to suffer from a form of Stockholm Syndrome. Now, it is in the awkward position of telling its readers they were insufficiently attentive to what it wrote.

I can think of several reasons why this is a bad approach, optics-wise. For one thing, it sounds a bit like telling customers they didn't read the documents carefully enough, just what Ameriquest used to say about its Pay-Option ARMS. Don't go there, press friends.

For another thing, readers could answer that while it is true that they may have missed warnings, they do recall hearing messages that didn't sound like warnings at all. Anyone "paying attention" might have thought that the most important thing about Washington Mutual on a given day was that its "Creative Retail Approach" had turned "the Banking World Upside Down" (*Fortune*, 3/31/03); that Lehman Brothers was "Trading Up" (*The Wall Street Journal*, 10/13/04); that Ken Lewis had become the "Banker of America" by

"Ignoring His Critics" (*Fortune*, 9/5/05); that Angelo Mozilo was merely pugnacious ("The Mortgage Maker vs. The World," *The New York Times*, 10/16/05); that Citigroup was "Cleaned Up" (!) though "Falling Behind" (*Business Week*, 10/05/06); and, additionally, that Goldman (drum roll) had "Sachs Appeal" (honk) (*Forbes*, 1/29/07).

Nothing about mortgage boiler rooms and CDO factories there, no matter how carefully you read.

Finally, if reader inattention is really the problem, then what's an appropriate policy response—mandatory exams on "Personal Journal" stories? But would the jump be included on the final? My pet idea is to pipe *Squawk Box* into people's homes 24/7, with no turning it off, à la North Korea. If we're nationalizing everything, we might as well go all the way, right?

I'd say a better approach in the wake of this disaster is to reflect on why all these "warnings" went "unheeded" and failed to penetrate the thick skulls of Pick-a-Pay Nation. Alas, the business press does not appear to be in a reflective mood. But, business press, as Jimmy Cayne might say, it's not about you. It's all about us. We citizens, like it or not, rely on journalists to provide word of rampant wrongdoing, and now we find ourselves well beyond the worst of all worst-case scenarios, caused, by general consensus, to an overwhelming degree by this most central of business-press beats: finance. We need to learn the lessons of the past eight years or so, even if the press doesn't want to go along, and re-examine, from top to bottom, all the firewalls that were supposedly designed to protect us from precisely the financial catastrophe that has just occurred. These firewalls start with risk managers, officers, directors, etc., within the financial institutions, then extend outward to accounting firms, rating agencies, regulators, and yes, journalists.

The press's role is, as always, ambiguous. On the one hand, no one at *Forbes* sold a single collateralized debt obligation to any German pension fund, so the press certainly can't be blamed for causing the crisis. On the other hand, Bloomberg News employs 2,300 business journalists, *The Wall Street Journal*, 700-plus, *The New York Times*, 110, etc., and all business-news organizations purport to cover the financial system and imply, if not claim outright, mastery over a particular beat—the one that just melted down to China to the shock of one and all. So the press isn't exactly an innocent bystander, either. It's not 100 percent responsible, and it's not zero percent. It's somewhere in the middle, closer to zero than fifty, I'd say, but it had *something* to do with it.

Right now, the business press, which firmly believes it did all it could do, is in something of a standoff with those who believe that cannot be true. The discussion so far has been conducted largely at a schoolyard level: "You missed it!" "Did not." We also see a lot of defensiveness among business journalists, as though somehow individual reporters are to blame. This is preposterous. These are institutional questions. Senior editorial leaders and news executives are in the dock here, as is an entire media subculture. Leaders had the power; they set the tone; they set the frames, not this reporter or that one.

Major news outlets so far have not trained their resources on the question, a drive-by or two by Howard Kurtz notwithstanding. The *American Journalism Review*, quoted above, did take a look and found in the business press's favor. With all due respect to our cousins in Maryland, I find AJR's approach—in effect, sticking a thumb into several years of coverage and pulling out some plums—inadequate. Of course *somebody* did *something*. And a few did a lot of things. But did the coverage even come close to reflecting the radical transformation of the mortgage industry and Wall Street in 2004, 2005, and 2006? Tellingly, "Unheeded Warnings" contains a disturbing number of examples from 2007, when warnings were about as useful as a garden hose during the Tokyo fire bombings. It also dwelled on coverage of Fannie Mae and Freddie Mac, which, odious as they were, *followed* the private sector into subprime.

In this debate, the business press has the advantage because the public cannot be sure whether in fact it did miss something. Being sure would require reading the entire record of what was printed on the topics of lending and Wall Street in several outlets over many years—hundreds and hundreds of stories. Who in their his mind would do such a thing?

Well, somebody had to.

It struck us that it is impossible to avoid trying to assess the business press's performance in the run-up to the meltdown. The business press is the sole means by which normal citizens would know of goings-on in the lending industry and on Wall Street. It is the vital connection between the public on one side and regulators and financial institutions on the other. It is the only instrument capable of catalyzing the virtuous cycle of reform that emerges when dangers and abuses come under the public gaze. If readers screwed up, so be it. But if it is the business press, readers are going to have to insist on identifying weak points, cultural problems, skewed priorities, and areas in which the business press's institutional interests might be out of alignment with those of the broader public. If members of the public must go elsewhere for warnings, they need to know that, too.

It is true that few sectors of journalism, with the possible exception of the Washington press corps, are as infected with the extreme form of know-it-all-ism as the business press, which wields the complexities of its subject area like a cudgel against *non-cognoscenti*. But readers should not shrink from

The List

For a spreadsheet listing the 650 stories on lending and Wall Street published between January 1, 2000 and June 30, 2007 that CJR rated as significant—for one reason or another—and for our methodology, please go to www.cjr.org/the_audit/power_problem_spreadsheet.php.

asking relevant questions merely because they don't know the precise mechanics of a credit default swap and don't read *Fortune* as closely as they might, say, the Torah.

The fact is, you don't need to be a media critic or a quant to assess whether proper warnings were provided. What's more, I suspect most rank-and-file reporters would welcome scrutiny, as long as it's fair. And so we undertook a project with a simple goal: to assess whether the business press, as it claims, provided the public with fair warning of looming dangers during the years when it could have made a difference.

I'm going to provide a sneak preview of our findings: the answer is no. The record shows that the press published its hardest-hitting investigations of lenders and Wall Street between 2000–2003, for reasons I will attempt to explain below, then lapsed into useful-but-not-sufficient consumer- and investor-oriented stories during the critical years of 2004–2006. Missing are investigative stories that confront directly powerful institutions about basic business practices while those institutions were still powerful. This is not a detail. This is the watchdog that didn't bark.

To the contrary, the record is clogged with feature stories about banks ("Countrywide Writes Mortgages for the Masses," WSJ, 12/21/04) and Wall Street firms ("Distinct Culture at Bear Stearns Helps It Surmount a Grim Market," *The New York Times*, 3/28/03) that covered the central players in this drama but wrote about anything *but* abusive lending and how it was funded. Far from warnings, the message here was: "All clear."

Finally, the press scrambled in late 2006 and especially early 2007 as the consequences of the institutionalized corruption of the financial system became apparent to one and all.

So the idea that the press did all it could, and the public just missed it, is not just untenable. It is also untrue.

We went into the project with the working hunch that something was wrong. This stems from our belief in journalism itself. As journalists, we have to believe that what we do is not entirely ineffectual and that it has some impact on the outcome of events. Otherwise, why bother? Given that the system failure here is absolute, whatever journalism did do, as a matter of logic, was insufficient.

But a second idea going in was that this "debate" about business press performance is not really a matter of opinion at all. Either the work is there, or it isn't. Facts have a way of obliterating assumptions.

Our approach was fairly straightforward. We picked a date range of January 1, 2000 through June 30, 2007, with the idea that the early date would capture the entire housing bubble and the later date marked the period right after two Bear Stearns hedge funds collapsed very publicly and all warnings were moot.

We then came up with a common-sense list of the nine most influential business press outlets: *The Wall Street Journal*, *The New York Times*, the *Los Angeles Times*, *The Washington Post*, Bloomberg News, *Financial Times*, *Fortune*, *Business Week*, and *Forbes*. CNBC and other television outlets were excluded both for practical and substantive reasons. With the help of some colleagues, we searched the Factiva database for the names of important institutions—Bear Stearns, Countrywide, etc.—and matched them with search terms that seemed appropriate, such as "predatory lending," "mortgage lending," "securitization," "collateralized debt obligations," and the like.

We then asked the news outlets themselves to volunteer their best work during this period. Some institutions were more diligent than others, so, on that score, *The New York Times* might tend to be overrepresented, while *The Washington Post*, which declined to participate, might get shorted. Similarly, Bloomberg, the *FT*, and the *Los Angeles Times* posed technical challenges. But, while we won't hesitate to differentiate between the relative performance of different outlets (and reporters, for that matter), the goal was to assess institutional performance, not who "won." Nobody won.

The articles are in a spreadsheet, which can be found at www.cjr.org/the_audit/power_problem_spreadsheet.php. I was a staff writer at the *Journal* from 1996 through 2004, covering commercial real estate during the relevant period, and on contract at *The Washington Post* for 2005, covering white-collar crime; nothing of mine is on the list or deserves to be there. As of this writing the sheet contains 730 entries, but it remains open and we plan to add stories indefinitely as we come across them. Feel free to send your entry to editors@cjr.org. The database is meant to be used as a companion to this story. I hope it will be a reference for further research and that readers will use it to argue for or against CJR's conclusions.

The list, then, was designed to capture all significant warning stories, not just some of them. And while 730 may seem like a lot of relevant stories, keep in mind the *Journal* alone published 220,000 stories during this period, so in a sense these were corks bobbing on a news Niagara. The list also includes as guideposts bits of context that we felt would give readers some sense of what was happening on the finance beat at the time (e.g. "Fed Assesses Citigroup Unit $70 Million in Loan Abuse," NYT, 5/28/04). Sprinkled throughout are some of those rah-rah stories ("Mortgage Slump? Bring It On; Countrywide plans to grab more of the market as the industry consolidates," *BW*, 12/15/03), and a tiny fraction of the run-of-the-mill stories about important, and guilty, institutions that in retrospect were so far from the salient point that one wishes we could have the space and the reporters' time back ("Power Banking: Morgan Stanley Trades Energy Old-Fashioned Way: In Barrels…" WSJ, 3/2/05).

Let's get to it.

The most striking thing about the list for me is that the best work during the entire period—stories that hit hard at abusive practices and established the critical link between bucket shops and their Wall Street funders and bundlers—was done early, from 2000 to 2003. *Business Week*'s Dean Foust, et al, explored Wall Street's foray into the hard-money lending business, including subprime mortgages and payday lending ("Easy Money: Subprime lenders make a killing catering to poorer Americans. Now Wall Street is getting in on the act," 4/24/00). A handy chart at the bottom

The last chairman Dick Fuld, ex-CEO of the late Lehman Brothers

KAREN BLEIER / AFP / GETTY IMAGES

of the story ranks subprime securitization leaders: Lehman was number one. Citigroup's 2000 acquisition of Associates First Capital, a notoriously corrupt outfit (it employed a "designated forger," ABC's *Prime Time Live* reported in 1997) spurred *The New York Times* to publish "Along With a Lender, Is Citigroup Buying Trouble?" in October of that year. This fine 3,258-word story documented Associates' execrable practices fairly well (though it couldn't beat the anecdote from a 4/23/97 *Journal* story that described how an illiterate quarry worker who owed $1,250 for—get this, *meat*—discovered that this loan had been sold to Associates, which convinced the quarry worker to refinance ten times in four years until he owed $45,000, more than half of it in fees, with payments that took more than 70 percent of his income. He had signed each note with an "X"). The *Times* duly noted Citi's promise to clean up its new acquisition by, among other things, holding upfront fees to a mere nine (!) points.

BUSINESS JOURNALISM DURING THIS PERIOD COMES CLOSE to reaching the holy grail—the critical Wall Street/subprime connection—when *The New York Times*'s Diana Henriques, in a joint project with Lowell Bergman and ABC News (including, though he doesn't have a byline, the underappreciated Brian Ross), published "Mortgaged Lives: Profiting From Fine Print With Wall Street's Help" (3/15/00), linking another now forgotten but once powerful and rapacious subprime lender, First Alliance Corp., with Lehman Brothers and other Wall Street firms engaging in precisely the kind of practices that brought down the financial system. The story captures the boiler-room culture that was then overrunning traditional mortgage underwriting, here with a quote from a twenty-seven-page sales manual:

> "Establish a common bond," the loan officers were taught. "Find this early in the conversation to make the customer lower his guard." The script listed good bond-building topics (family, jobs, children, and pets) and emphasized, "It's really important to get them laughing."

The piece goes on to describe the Wall Street connection in some detail: "No Wall Street investment bank had a bigger share of that reviving 1999 [subprime] market than Lehman Brothers, Wall Street's fourth-largest brokerage house."

This story and others were based on groundbreaking litigation in California that, importantly, would hold a Wall Street firm responsible for the practices of its lender-clients. Had that principle stood up (an Orange County jury found for the borrowers in 2003 but the award against Lehman, $5 million, was small), there would have been no mortgage crisis. The *Los Angeles Times*, led by E. Scott Reckard, also dogged the litigation, recognizing the journalism opportunity for what it was.

John Hechinger of *The Wall Street Journal* also wrote fine warning stories, including one about how brand-name lenders were convincing the poor to refinance zero-percent loans from the government and Habitat for Humanity (!?) with rates that reset to the mid-teens and higher ("Best Interests: How Big Lenders Sell a Pricier Refinancing to Poor Homeowners—People Give Up Low Rates to Pay Off Other Debts…" 12/7/01). The dishonor roll is here:

> Some of the nation's biggest subprime lenders have refinanced zero-interest and low-interest loans from Habitat, including Countrywide, units of Citigroup Inc., Household International Inc., Ameriquest Mortgage Co. and a unit of tax giant H&R Block Inc.

Meanwhile, the *Journal*'s Jess Bravin and Paul Beckett painted a devastating portrait of a compromised Comptroller of the Currency ("Friendly Watchdog: Federal Regulator Often Helps Banks Fighting Consumers—Dependent on Lenders' Fees, OCC Takes Their Side Against Local, State Laws" 1/28/02). And *Forbes* did a beat-down on Household ("Home Wrecker," 9/2/02).

WHAT IS IMPORTANT TO REMEMBER ABOUT THE PERIOD around the turn of the decade—and this is not a knock on the press—is that predatory lending was high on the public's agenda, mostly in response to marauding behavior of old-line subprime lenders like Associates, First Alliance, Conseco Finance, Household, etc., who at the time were being joined by the new generation of subprimates—Ameriquest, New Century, et al. From the mid-nineties to the early '00s, foreclosures began to jump in urban areas around the country, rising half again in Chicago's Cook County, doubling in Detroit's Wayne County, Newark's Essex County, and Pittsburgh's Allegheny County, tripling in Cleveland's Cuyahoga County, according to *American Nightmare: Predatory Lending and the Foreclosure of the American Dream*, a muckraking book by Richard Lord published in 2005, based on his reporting in the *Pittsburgh City Paper* on this early subprime boomlet.

Between 1999 and 2004, more than half the states, both red (North Carolina, 1999; South Carolina, 2004) and blue (California, 2001; New York, 2003), passed anti-predatory-lending laws. Georgia touched off a firestorm in 2002

when it sought to hold Wall Street bundlers and holders of mortgage-backed securities responsible for mortgages that were fraudulently conceived. Would that such a measure had survived. We forget now, but beginning in 2004 Michigan and forty-nine other states battled the U.S. Comptroller of the Currency and the banking industry (and *The Wall Street Journal*'s editorial page) for the right to examine the books of Wachovia's mortgage unit, a fight the Supreme Court decided in Wachovia's favor in 2007—about a year before it cratered. Iowa Attorney General Tom Miller and Roy Cooper, his counterpart in North Carolina, made predatory lending the centerpiece of their tenures (see: "They Warned Us About the Mortgage Crisis," *BW*, 10/9/08) while in New York Eliot Spitzer gave grandstanding a good name in trying to bring attention to the issue ("Spitzer's Ghost," CJR.org, 10/14/08).

This isn't about identifying which journalist or economist was "prescient," the business-press parlor game du jour. What's important is that forthright press coverage and uncompromised regulation combined to create a virtuous cycle of reform.

Citigroup, remember, was forced to sign a $240 million settlement with the Federal Trade Commission covering two million customers. This is marketing deception on a mass scale, revealed and policed. A coalition of states forced an even bigger settlement, for $484 million, on Household. This was in 2002. It wasn't perfect, but it was working.

Alas, any fair reading of the record will show the business press subsequently lost its taste for predatory-lending investigations and developed a case of collective amnesia about Wall Street's connection to subprime, rediscovering it only after the fact.

There are a number of explanations (though no excuses) for this. First and foremost, was the abdication of regulatory responsibility at the federal level. Uncompromised regulation and great journalism go hand-in-hand. But when such regulation disappears, journalistic responsibilities only increase. What is important to understand first is that this press failure did occur. Readers needn't be bullied into believing they missed relevant independent press investigations of Countrywide, New Century, IndyMac, Citigroup, Bear Stearns, Lehman Brothers, or Merrill Lynch. Check the sheet; they aren't there.

What makes this development especially maddening is that subprime lending and Wall Street's CDO production at this point were only just getting started. Subprime mortgages in 2002 were $200 billion, 6.9 percent of all mortgages. By 2006 they were $600 billion and 20 percent of the market. Add poorly documented "Alt-A" mortgages and the 2006 figures rise to $958 billion and 32 percent. CDO production went from next to nothing in 2000 to half a trillion in 2006.

Behind those numbers were the boiler rooms, underwritten by the Wall Street masters of the universe depicted on business magazine covers. Yes, we must beware of hindsight-ism. But let us acknowledge that today, at least, we know that the lending industry from 2004 through 2006 was not just pushing it. It had become unhinged—institutionally corrupt, rotten, like a fish, from the head. I argued last fall ("Boiler Room," *Columbia Journalism Review*, September/October 2008) that post-crash reporting has given short shrift to the breathtaking corruption that overran the mortgage business—document tampering, forgery, verbal and written misrepresentations, changing of terms at closing, nondisclosure of fees, rates, and penalties, and a boiler-room culture reminiscent of the notorious small-stock swindles of the nineties.

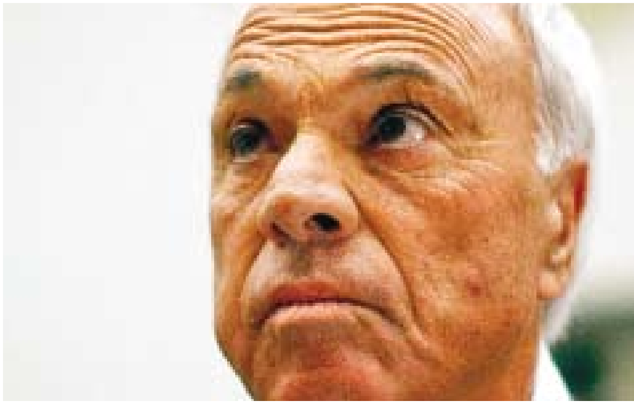
Now the muck is finally bubbling to the surface as the Justice Department and several states gear up to prosecute "dozens" of leaders ("Financial Fraud is Focus of Attack by Prosecutors," NYT, 3/12/09) and journalists latch onto the story in all its lurid glory. *Business Week*'s excellent Mara Der Hovanesian reports, for instance, that Wall Street demand for mortgages became so frenzied that female wholesale buyers were "expected" to trade sex for them with male retail brokers, according to "dozens" of brokers and wholesale buyers ("Sex, Lies, and Mortgage Deals," 11/13/08). But:

> The abuses went far beyond sexual dalliances. Court documents and interviews with scores of industry players suggest that wholesalers also offered bribes to fellow employees, fabricated documents, and coached brokers on how to break the rules. And they weren't alone. Brokers, who work directly with borrowers, altered and shredded documents. Underwriters, the bank employees who actually approve mortgage loans, also skirted boundaries, demanding secret payments from wholesalers to green-light loans they knew to be fraudulent. Some employees who reported misdeeds were harassed or fired. Federal and state prosecutors are picking through the industry's wreckage in search of criminal activity.

There's a Coen brothers movie in this. Yet sadly, as corruption heated up, business-news coverage generally downshifted into what I call service and consumer pieces: warning about the bubble and pointing to patently defective types of mortgage products. Indeed, business-news outlets, to their credit, seemed to fall over themselves to be first (bubble talk appears, surprisingly, as early as the fall of 2001) and/or loudest about calling the end of the bubble: "Is a Housing Bubble About to Burst…?" (*BW*, 7/14/04), for example, or "Boom vs. Bust: The housing-price run-up can't last…" (WSJ, 6/14/04).

I don't mean to disparage bubble stories: these were real warnings. *Fortune* might well win the prize, if there were one, for bubble-bursting with "Is the Housing Boom Over?"—4,539 words by Shawn Tully, in September 2004; a year later, in October 2005, Tully answered himself with another five-thousand-plus words, "'I'm Tom Barrack* and I'm getting out,'" about a real-estate investor. Meanwhile, the press was also warning consumers not to agree to a mortgage product containing terms that no well-regulated system would allow. "The Ever More Graspable, And Risky, American Dream" (NYT, 6/24/04). "ARMed and Dangerous? Adjustable-rate mortgages are pulling in new home buyers—but the risks are high" (*BW*, 4/12/04).

Indeed, the *Journal* kept after the issue and essentially called these mortgages bad on their face: "For These Mort-



Mortgage master Angelo Mozilo of Countrywide Financial

MARK WILSON / GETTY IMAGES

gages, Downside Comes Later," 10/5/04; "The Prepayment Trap: Lenders Put Penalties On Popular Mortgages," 3/10/05; "Mortgage Lenders Loosen Standards," 7/27/05.

It should be said these usually ran on D1, not A1, and so gave the impression of low-priority bleats from the back of the paper. Even so, there they were, and, so, yes, regulators and lawmakers did have information they could have used had they wanted to. So shame on them. These are valuable stories. But to get the public involved you need more. You need stories of institutionalized corruption. There's no way around it.

I would suggest that in approaching the mortgage story as a consumer or investment story, the business press was trying to fight the Battle of Tarawa with a Swiss Army Knife. What was missing—and needed—were more stories like the one that ran on February 4, 2005 in the *Los Angeles Times* by Mike Hudson and Scott Reckard: "Workers Say Lender Ran 'Boiler Rooms.' "

This, CJR reader, was the real thing, a 3,220-word investigation that kicks in the door. It uses court documents and interviews with ex-employees and customers, nothing fancy, to expose Ameriquest, which at the time was one of the nation's leading lenders, "Proud Sponsor of the American Dream" and the 2005 Super Bowl halftime show, and owned by the politically well-connected Roland Arnall, soon to be named U.S. ambassador to the Netherlands:

> Slugging down Red Bull caffeine drinks, sales agents would work the phones hour after hour, he said, trying to turn cold calls into lucrative "sub-prime" mortgages—high-cost loans made to people with spotty credit. The demands were relentless: One manager prowled the aisles between desks like "a little Hitler," Bomchill said, hounding agents to make more calls and push more loans, bragging that he hired and fired people so fast that one worker would be cleaning out his desk as his replacement came through the door.

The *Los Angeles Times*, it's worth pointing out, also probed Ameriquest's attempts to co-opt critics ("Ameriquest's Ties to Watchdog Group Are Tested," 5/22/05), chronicled possible forgery at the lender ("Doubt is Cast on Loan Papers," 3/28/05), and, crucially, explained how at least 20 percent of all subprime loans were going to prime borrowers, what I call the boiler-room effect ("More Homeowners With Good Credit Getting Stuck With Higher-Rate Loans," 10/24/05). It turns out that the number actually reached more than 50 percent, *The Wall Street Journal* found in December 2007. These all ran at over two thousand words on A1 and helped catalyze a multistate investigation that forced Ameriquest into an embarrassing $325 million settlement the next year.

Clearly, then, such reporting was gettable.

Two years later, the *Journal* published an Ameriquest story ("Lender Lobbying Blitz Abetted Mortgage Mess," 12/31/07), but by then, the lender was closed.

So let's be clear: stories like the *Los Angeles Times*'s Ameriquest probes are the exceptions that prove the rule. And while handwringing about the bubble and pointing out defective mortgage products is hard, muckraking about specific, powerful institutions is harder, more useful, and more fun to read:

> Lisa Taylor, a former loan agent at Ameriquest's customer-retention office in Sacramento, said she witnessed documents being altered when she walked in on co-workers using a brightly lighted Coke machine as a tracing board, copying borrowers' signatures on an unsigned piece of paper.

Great, right? If the muckraking story—a straight investigation aimed at the heart of the business model of an industry leader—was scarce in mortgage lending, it was rarer still on Wall Street's end of the mortgage machine. As far as I can tell it was the unicorn of business coverage.

One looks in vain for stories about Wall Street's ties to the subprime industry, even though the Lehman-First Alliance case had outlined it in detail and nearly all the major investment banks would, by the middle of the decade, go on actually to buy their own retail subprime operations (who remembers Bear Stearns Residential?). What was happening was a vast change, a paradigm shift. Citizens did not see it coming. Now we know why.

And a word about head-on investigations of powerful institutions: they're not optional. There is no substitute. The public needed warnings that the Wall Street-backed lending industry was running amok. It didn't get them. Remember Lippmann: no facts, no democracy.

It is disingenuous, I believe, to suggest, as many financial journalists do, that they are unfairly expected to have been soothsayers in the economic crisis (e.g. "Financial Journalism and Its Critics," Robert Teitelman, TheDeal.com, 3/6/09: "Why, among all other journalists, are financial reporters expected to accurately predict the future?"). Rather, the expectation is merely that financial outlets do their best to report on *what is happening now*, including, one would hope, confronting powerful institutions directly about basic business practices. This is not complicated.

Of course, anyone would applaud the astute and highly skilled journalists who looked at brewing systemic problems, as did Bloomberg's David Evans ("Credit Swaps, Some 'Toxic,' May Soar to $4.8 Trillion," 6/26/03); *Business Week*'s

Der Hovanesian ("Taking Risk To Extremes; Will derivatives cause a major blowup in the world's credit markets?" 5/23/05); the *Journal*'s Mark Whitehouse ("Slices of Risk: How a Formula Ignited Market That Burned Some Big Investors," 9/12/05; "Risk Management: As Home Owners Face Strains, Market Bets on Loan Defaults," 10/31/06), and Gillian Tett, John Plender, and others at the *Financial Times* (numerous stories). But even these virtuoso efforts are still not the same as confronting a Wall Street firm head-on for its role in underwriting mortgage boiler rooms across the country.

A good place to start would have been Citigroup, apparently, since Hudson—he of the Ameriquest stories—did it in his spare time. Freelancing while working full time for *The Roanoke Times*, he pulled the cover back on Citigroup's huge subprime operation in 2003 (!?) and won a Polk Award in the process ("Banking on Misery: Citigroup, Wall Street and the Fleecing of the South," *Southern Exposure*, summer 2003). He mentions the mortgage aftermarket only in passing, but that's where the national press can take over for ground-level reporting. If only.

No reader, not even one really applying herself, would have found adequate warnings about the Wall Street/subprime nexus. She would instead have found plenty of coverage focused on the earnings horserace ("Putting the Muscle Back in the Bull; Stan O'Neal may be the toughest—some say the most ruthless—CEO in America. Merrill Lynch couldn't be luckier to have him," *Fortune*, 4/5/04), personalities ("Rewiring Chuck Prince; Citi's chief hasn't just stepped out of Sandy Weill's shadow—he's stepped out of his own as he strives to make himself into a leader with vision," *BW*, 2/20/06), and situated comfortably within frames set by the industry itself ("Joining the Club—Inside Goldman's Secret Rite: The Race to Become Partner," WSJ, 10/13/06). I find Lehman and Citi coverage to have been especially poor, again, given what was known by 2003 ("Lehman's New Street Smarts; Under CEO Fuld, the bond house has become a dealmaking power," *BW*, 1/19/04; "The Unlikely Revolutionary: Critics are sniping and the stock is lagging, but Citigroup's Chuck Prince keeps charging ahead, blowing up business practices put in place by his famed mentor, Sandy Weill," *Fortune*, 3/6/06).

Only after the crackup had already begun is Wall Street's role in subprime again laid bare ("Debt Bomb—Lending a Hand: How Wall Street Stoked The Mortgage Meltdown…," WSJ, 6/27/07):

> Lehman's deep involvement in the business has also made the firm a target of criticism. In more than 15 lawsuits and in interviews, borrowers and former employees have claimed that the investment bank's in-house lending outlets used improper tactics during the recent mortgage boom to put borrowers into loans they couldn't afford. Twenty-five former employees said in interviews that front-line workers and managers exaggerated borrowers' creditworthiness by falsifying tax forms, pay stubs and other information, or by ignoring inaccurate data submitted by independent mortgage brokers. In some instances, several ex-employees said, brokers or in-house employees altered documents with the help of scissors, tape and Wite-Out.

Suddenly, the story—the one that counts—was gettable again. It referred, after all, to documents available for years. There is really no excuse.

The author of this *Journal* piece, by the way, was Hudson. He left the paper later that year and is writing a book about subprime.

It is true that Bush-era deregulation and the media's financial travails hampered investigative journalism (of course, the *Pittsburgh City Paper* could manage it, but never mind). But the business press also disarmed unilaterally. CJR's study, I believe, provides strong support for the idea that sometime after 2003, as federal regulation folded like a cheap suitcase, the business press institutionally lost whatever taste it had for head-on investigations of core practices of powerful institutions.

Too bad that's precisely what was needed.

IN LIGHT OF THIS GENERAL SYSTEM FAILURE, WHAT ARE the lessons for the general reader and the business press itself?

First, the public should be aware—warned, so to be speak—that its interests and those of the business press may not be in perfect alignment. The business press exists within the Wall Street and corporate subculture and understandably must adopt its idioms and customs, the better to translate them for the rest of us. Still, it relies on those institutions for its stories. Burning a bridge is hard. It is far easier for news bureaucracies to accept ever-narrowing frames of discourse, frames forcefully pushed by industry, even if those frames marginalize and eventually exclude the business press's own great investigative traditions.

Second, there's a difference between reporting from an investor's perspective and from a citizen's. The business press is better at the former than the latter, and the gap has only been growing. I would only caution that what's good for investors in the short and medium terms may not be good for anyone over the long haul.

Third, remember the nexus between uncompromised regulation and great journalism.

Fourth, lament the decline of the great business sections of general-circulation dailies, specifically those of the *Los Angeles Times* and *The Washington Post*.

Fifth, seek alternatives. Read *Mother Jones*, or something, once in a while.

Sixth, never, ever underestimate the importance of editorial leadership and news ownership, for in them rests the power to push back against structural conflicts and cultural taboos fostered by industry, to clear a space for business journalism to do the job it is clearly capable of, the one job that really needed doing. **CJR**

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