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## RESEARCHERS ASSESS THE ROLE OF WHITE-COLLAR CRIME IN THE MORTGAGE MELTDOWN

**TALLAHASSEE, Fla**—In *Criminology & Public Policy*'s special issue on the global economy, economic crisis, and white-collar crime, Tomson Nguyen of the University of Houston—Downtown and Henry Pontell of the University of California, Irvine document the role of inadequate regulation, indiscriminate use of alternative loan products, and lack of accountability in the subprime mortgage industry in leading to the current economic crisis. The researchers' interviews with representatives from various sectors of the U.S. mortgage market revealed conflicts of interest involving rewarding brokers for placing borrowers at higher cost loans. To counter this conflict, Nguyen and Pontell suggest a bonus system that rewards quality screening of applicants instead of how many loans brokers can secure.

Commentator William Black of the University of Missouri—Kansas City explained that, whereas traditional mortgage loan underwriting and controls had detected fraud prior to lending, the nonprime lenders created a crime-facilitative system of “don't ask; don't tell” that drove honest lenders out of the business. Having served as deputy director of the National Commission on Financial Institution Reform, Recovery, and Enforcement, Black highlights the parallels between the current mortgage meltdown and the S&L crisis of the 1980s—such as “low doc” loans generating massive financial losses. He then contrasts the S&L regulators' response with the present financial regulators: Previous regulators ordered a stop to dangerous low doc loans, while current regulators did not; instead, they issued cautions to the industry that such loans might be risky.

Also in contrast to the U.S. government's response to the financial crisis, John Braithwaite of the Australian National University points to some Asian economic regulators who refused to expose their citizens and banks to bad U.S. housing loans. Citing Nguyen and Pontell's finding that mortgage origination personnel—not borrowers—drove the current mortgage crisis, Braithwaite argues that effective prevention will require brokers, bankers, and rating agencies to be convinced that regulators would indeed escalate interventions until identified problems are solved.

Like Braithwaite who emphasized the need for risk management rather than “risk shifting, in slicing, and dicing risk so that it can be spread around through derivatives,” David Friedrichs of the University of Scranton linked such a diffusion of responsibility with a widespread acceptance of fraudulent conduct among mortgage originators. Noting how Wall Street investment banks bought the bad loans, securitized them, and then sold them to investors—thus making billions of dollars before requesting and receiving government bailouts while reporting record profits—Friedrichs stresses the need for policy to address the “top level” players in the mortgage crisis.

In line with Friedrichs's suggestion, M. Cary Collins and Peter Nigro of Bryant University extend preventative policy proposals to the ratings agencies and the housing government-sponsored enterprises, particularly Fannie Mae and Freddie Mac. For example, these commentators explain how such secondary market players exacerbated the problem by creating competition for market shares among originators and lenders by lowering their underwriting standards.

Special issue editors Neal Shover of the University of Tennessee and Peter Grabosky of the Australian National University conclude with a three-pronged approach to “forestalling the next epidemic of white-collar crime,” which includes strict prohibition of certain financial instruments—such as derivatives trading—precisely because of their potential for misuse. And while Shover and Grabosky discuss how past crises have often provided windows of opportunity for reform, they caution that it is yet to be seen whether responsive policies will be implemented and enforced to limit the harm caused by white-collar crime. Unfortunately, the Obama Administration's inaction in the face of the now oil-filled beaches of the Gulf Coast gives no hope that concerns for social justice compete with corporate America's unsubstantiated arguments that governmental regulation and intervention will destroy the stability of economic markets.

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