Enron foe to aid in study of financial collapse

Las Vegas Sun
By J. Patrick Coolican
July 27, 2009

Seems like a long time ago, but earlier this decade, a number of companies that had been hyped as the next big thing got caught in dubious deals, misstated their true financial condition and overestimated their ability to manage debt and risk.

Sound familiar? It should, because the collapse of companies such as Enron in some ways portended the collapse of the American financial system last year.

So there may be few people more qualified to investigate the latest financial collapse than Las Vegas resident Byron Georgiou, who helped lead a team of 30 lawyers to recover $7.5 billion for investors bilked in the Enron fiasco.

Senate Majority Leader Harry Reid recently selected Georgiou and another Nevadan, Heather Murren, to serve on the 10-member Financial Crisis Inquiry Commission, which aims to investigate the financial implosion much as the 9/11 Commission reviewed all aspects of the terrorist attacks.

“It’s important for us as investigators to try to identify as carefully as possible as many areas that can be remedied so that this crisis doesn’t repeat itself in the foreseeable future,” Georgiou said in a Sun interview at a coffee shop near his office.

“So many people all over America and all over the planet have been devastated economically by this crisis,” he said. “We need to turn over every rock.”

Georgiou, who moved to Las Vegas in 2005, has a big-time resume: degrees from Stanford and Harvard Law, time as a counselor to then-California Gov. Jerry Brown, work on behalf of farmworkers.

He is also a principal in private equity funds and has entrepreneurial stakes in environmental cleanup, real estate development and golf course management. He serves on the advisory board of Harvard Law’s corporate governance program and contributes to its blog.

The new commission is modeled after the 1930s era Pecora Commission, which led to the first tough regulatory regime to preside over Wall Street. The new commission has the authority to examine 22 potential causes of the collapse.

It will have subpoena authority and an $8 million budget to tease out details from the outlines of the crash: Mortgage lenders gave loans to consumers who could not repay, which overheated the housing market and artificially inflated prices; investment banks, whose officers received compensation based on short-term results rather than long-term strength, bought the mortgages and resold them as securities; ratings agencies, paid by underwriters to rate the quality of those
mortgage investments, rated them safe when they actually were not; exotic financial instruments, called credit default swaps, left some companies exposed to billions of dollars in losses if the mortgage investments went bad, and, of course, they did go bad.

The buying and selling of those credit default swaps was unregulated, leaving investors and policymakers in the dark as to the scale of losses. Once the crisis began to unfold, investors panicked and the credit markets froze up as everyone rushed to cash.

In the end, the government had to infuse $700 billion into financial institutions to prevent a total meltdown, with another $800 billion going for a fiscal stimulus.

Other than perhaps New York City, no city has suffered the effects of the collapse more than Las Vegas. The housing boom and bust have bankrupted families and taken them from their homes; cash-strapped tourists have stopped coming here; highly leveraged casino companies have gone bankrupt or near bankrupt and laid off thousands of workers.

“As Nevadans we have a particular duty to ferret out the facts and try to avoid a repeat of this,” Georgiou said, noting the distress felt across the community.

The commission has its work cut out for it, not unlike the 9/11 Commission, as placing blame on someone else is a favorite Washington pastime. That, in turn, could threaten to politicize the commission.

Its makeup has already drawn criticism from all sides.

Progressives are alarmed by the selection of Bill Thomas, the Republican vice-chairman of the commission and former chairman of the House Ways and Means Committee. Thomas is known as brilliant but intensely partisan. During his career he received $2 million in campaign donations from finance, insurance and real estate firms.

Others have raised conflict-of-interest questions about Georgiou, pointing to the firm of which he is “of counsel,” Coughlin Stoia Geller Rudman & Robbins LLP, which has filed lawsuits against big Wall Street firms.

(Georgiou has no equity in the firm and no financial stake in those lawsuits.)

Phil Angelides, the former California state treasurer who will lead the commission, said in an interview Friday that Congress wanted real-world expertise, not “hermits.” In any case, he said, the public will have ample opportunity to scrutinize the commission’s work. “The work will be highly visible,” he said.

“If we pursue the truth regardless of our own preconceptions, we’ll have done our job, and it’s my hope that we won’t pull punches,” Angelides added.
On the politics front, Georgiou happily acknowledges he is a lifelong Democrat, and a loyal one. He gave $115,000 to Democrats last election cycle, including more than $50,000 to the Democratic Senatorial Campaign Committee.

Despite the risk of politicization, Georgiou said, “I’m hopeful that all 10 members of the commission will come to his job with a similar bent, which is to just get at the facts.”

“I don’t think partisanship has a place on this commission, and if we all do our jobs and investigate the facts, and come at it honestly and in good faith, we’ll see the facts relatively similarly. Time will tell,” he added.

The investigation could break down along ideological lines.

One member, for instance, is Peter Wallison, something of an ideological warrior. He is a fellow at the right-leaning American Enterprise Institute and has pressed the conservative argument that the true blame for the crash rests with the massive government-sponsored mortgage buyers Fannie Mae and Freddie Mac.

In an email message, Wallison wrote, “I hope and believe that the Commission will be doing a thorough study, and I am quite prepared to change my mind about the ultimate causes of the financial crisis if the evidence leads elsewhere.”

Georgiou said he expects the fact-finding process to dampen ideological fervor.

“At the end of the day, if you do a thorough investigation, the facts are not ideological,” he said.

Georgiou said he can offer the most expertise and is most curious about a few key areas. His work on behalf of investors in securities litigation gives him experience with investigating companies’ failure to properly conduct “due diligence,” the process by which underwriters determine that a security is acceptable for the marketplace. Those investigations into companies such as Enron, WorldCom and Dynegy also give him experience with accounting rules, off-balance-sheet entities and corporate governance.

Lucian Bebchuk, who runs the corporate governance program at Harvard Law School and consults with Georgiou on those issues, said he brings a rich experience and broad perspective.

The other Nevadan on the commission, Heather Murren, co-founded the Nevada Cancer Institute after retiring as a managing director with Merrill Lynch in 2002. Murren declined an interview request.

Other members of the commission appointed by Republican congressional leaders are Doug Holtz-Eakin, former director of the Congressional Budget Office; and Keith Hennessey, former National Economic Council director under President Bush.
The remaining Democratic appointees are Brooksley Born, Clinton Administration-era head of the Commodities Futures Trading Commission; John W. Thompson, retired CEO of Symantec Corp.; and Bob Graham, a former Florida senator and governor.

The commission will issue a final report in December 2010.