United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

PATRICIA LINDSAY

Wednesday, March 24, 2010

11:52 a.m. to 1:11 p.m. EST

***** Confidential *****

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MR. CUNICELLI: Okay, I'm going to do a little thing we call a preamble.

MS. LINDSAY: Okay.

MR. CUNICELLI: This is Victor Cunicelli of the Financial Crisis Inquiry Commission. Today's date is March 24, 2010. The time is approximately 11:52 a.m. Eastern Standard.

I'm accompanied by Tom Borgers of the FCIC and Ms. Patricia Lindsay, L-I-N-D-S-A-Y. We are at the offices of the FCIC for the interview of Ms. Lindsay.

The interview will be recorded with the consent of Ms. Lindsay.

Ms. Lindsay, could I get your verbal consent for the record?

MS. LINDSAY: Yes. Yes, I'm agreeing to be recorded.

MR. CUNICELLI: Thank you.

Will everyone please state your full name and affiliation for the record, and please spell your last name for the transcriptionist?

Tom?

MR. BORGERS: Tom Borgers, that's B-, as in

boy, -O-R-G-E-R-S.

MR. CUNICELLI: And I spelled your name, Ms. Lindsay, L-I-N-D-S-A-Y. I didn't spell my own. It's C-U-N-I-C-E-L-L-I.

Okay in the way of background, Ms. Lindsay, the FCIC was established by statute and signed into law by the President. It is bipartisan, and consists of ten commissioners. It is charged with examining the causes of the financial crisis and collapse or near-collapse of major domestic and financial institutions. The Commission is charged with composing a report of findings to the President and Congress by 15 December 2010.

The Commission may compel attendance and testimony of witnesses and production of records. I can provide a copy of the statute by which the Commission was formed, if you so desire.

And I can get you a copy of that, Ms. Lindsay. It's public -- it's the FIEA law, Public Law 111-21, May 20, 2009, if you so desire.

MS. LINDSAY: Okay, that would be great.

MR. CUNICELLI: Okay, then I will -- I'll make a note and get that to you.

Okay, that out of the way, I'd like to get -- if you could, could you give me a brief bio? Why don't

you start with your college education, and then just give us a quick sketch of your work history.

MS. LINDSAY: Okay, I have my associate in arts in general studies from Southwestern College in San Diego County. I have my bachelor of arts in physical education, health and human services, through the California State University in Long Beach.

I grew up in the hard-money lending industry with private lending. My father was a hard-money lender, so I started servicing loans about 1979, when I was a teenager, to help my father with his loans.

I've held various, you know, positions throughout my, you know, college education and throughout my college career.

Started working as a loan officer, got my real-estate license in, I believe, 1996. And then I took a job as an account executive at Beneficial Mortgage in December of 1996.

From there, I accepted a position at New Century Mortgage in June of 1997, where I was hired as a wholesale underwriter.

And I remained at New Century Mortgage until December of 2007, holding various positions throughout the company. My final position was vice president of risk management.

MR. CUNICELLI: Okay, great.

Just one follow-up question regarding your time at New Century.

You were -- did you have any breaks in service during those ten years with New Century?

MS. LINDSAY: I didn't have a break, but there was a time that, in September of 1998, that I became dismayed with one of my supervisors. And I actually had resigned -- had taken another position as an underwriter at a different company.

And I actually didn't leave. The chief credit officer found out what had happened and approached me and created a position, or a position that they were talking about creating and brought me in as the corporate risk manager for the company.

MR. CUNICELLI: Okay. Okay, great.

I'll tell you what: Why don't we talk about -- for the record, New Century offered subprime, Alt-A, and prime loans?

MS. LINDSAY: Yes. And we also had a small commercial division for a short time.

MR. CUNICELLI: Okay.

MS. LINDSAY: But the bulk of our business was subprime, and the majority of our business came in the wholesale division, which was originated by brokers and

submitted to New Century to fund.

MR. BORGERS: Okay. Approximately how much was subprime? Was it more than 60 percent?

MS. LINDSAY: Yes, definitely. I would say it was probably -- at various times throughout our history, it was -- you know, it was probably 95 percent of our business.

And that may have changed as we acquired different channels, but it was a huge percentage of our business, for the bulk of our tenure.

MR. BORGERS: And also you were acquiring these mortgages from independent brokers?

MS. LINDSAY: They would submit -- so the way that wholesale would work is, independent brokers in the country would have to become approved with New Century to do business. They would have to be properly licensed in the state in which the property was located. They would have to sign a broker agreement, and we would do a brief -- we would do a mark check on some of them. And then would become approved if there were no problems. And then would submit their loans to New Century.

And they were also free to submit their loans to other lenders, some of our peers or competitors, in order to get the best -- theoretically, in order to get the best break for their client.

MR. BORGERS: You know, a quick question on the number of brokers.

Do you have any idea, was it more than 25,000?

MS. LINDSAY: Yes, throughout -- we had -- I mean, we had approximately -- and they weren't all active at the same time, but we had approved in our system approximately 50,000 brokers. And some would fall off, but they weren't all approved at the same time. I don't know what the number was of having actual approved for submitting loans at one time.

MR. BORGERS: Now, one other quick question on that front. Did you have the ability to review the performance of the broker? To your knowledge, was that something that New Century was doing, was looking at the performance of these brokers?

MS. LINDSAY: Yes. That was one of the things that they were looking at, is if we had any problems with a broker -- for example, if we had purchase requests or if we had phone calls from a borrower or found out that there was fraud in the file, we would go review the broker's pipeline. And then if we -- the broker was the cause of the problem or if it wasn't isolated, we would put them on watch, meaning, that all of their loans had to be reviewed by a risk manager prior to funding their loans.

If we found no more problems with them, we found that it was isolated, then we continued doing business.

If we found a pattern or a practice of bad loans, fraud loans, they could be terminated.

MR. CUNICELLI: Okay. Ms. Lindsay, just so we're clear today, it seems like the overwhelming majority of New Century's business was in subprime. But when Mr. Borgers and myself ask you questions today, we are chiefly interested with subprime.

MS. LINDSAY: Okay.

MR. CUNICELLI: So you can make an assumption that when we ask a question, we are honing in on subprime loans that New Century would have issued, and not any other Alt-A or prime lines. And if you're going to speak to those, please let us know. Otherwise, we will assume that you are speaking about subprime lines.

MS. LINDSAY: Okay, they -- our brokers who were approved in our subprime position also were able to do Alt-A. And there was no -- there was no lines to be drawn, so to speak. So basically, a broker who was submitting a subprime loan, if his credit quality was a little better, he was able to get the Alt A pricing.

As where our prime division was completely a whole, separate division, they had their separate lines.

So when I'm talking about subprime, it's real hard to kind of separate that out from some of the Alt-A. I don't know the numbers offhand. But they kind of went hand in hand.

MR. CUNICELLI: Okay, excellent.

You were a risk manager -- excuse me, you were the vice president for corporate risk at New Century.

MS. LINDSAY: Yes.

MR. CUNICELLI: When did you start that position?

MS. LINDSAY: I held that position for approximately four years. I was promoted in January, either '03 or '04. I can't remember offhand.

MR. CUNICELLI: Okay, and you left in December '07?

MS. LINDSAY: Yes, yes.

MR. CUNICELLI: So if you had it four years -- I guess it was roughly the beginning of '03 to end '07?

MS. LINDSAY: Yes, I would say that that's fair.

MR. CUNICELLI: Okay. Could you tell us a little bit about what a vice president for corporate risk would do for a company such as New Century?

MS. LINDSAY: My charter was primarily the fraud detection and prevention for the company. So we

would look at ways to mitigate fraud and losses related to fraud.

So I was implementing tools, taking our bad loans on the back, and worry that the request to repurchase or were not performing sent over to us from various entities to see how we could prevent them from happening again. Basically, learning from our mistakes, we could implement tools or procedures and prevent that from happening again.

One -- helped kind of various -- had various duties throughout my years there. One of them while I was vice president of risk management was also we'd be filling requests to repurchase. So far, investors or an insurance company like MGIC would request repurchase or deny coverage on a loan, either myself or one of my employees review the request to see if it was a valid request.

MR. BORGERS: Okay. And what year was that for the repurchase? Were you responsible for the repurchase?

MS. LINDSAY: I was responsible for that until approximately the end of 2006. At that point, they had developed a separate department that was overseen by the chief credit officer specific to dealing with repurchase requests.

MR. BORGERS: Okay. So basically, it was from 2003 to the end of 2006 for the repurchase?

MS. LINDSAY: Yes. And I also -- I had dealt with it pretty much my entire career at New Century from the time I became a corporate risk manager, in September of '98. Whenever there was any suspected fraud or problems, I would be sent the repurchase request.

There weren't a lot of them back then.

The repurchase requests that were specific to first payment defaults or breach of our representations and warranties would go directly to our secondary marketing department. So I never saw it. I only dealt with the ones that were suspected fraud.

MR. BORGERS: Okay, so the first payment defaults you did not see?

MS. LINDSAY: Correct.

MR. BORGERS: For the entire time?

MS. LINDSAY: For the rest of the time, yeah.

And then I don't remember at what point, there was a point where we wanted to start looking at some of the first payment defaults to see if there was fraud in them, you know, and see what caused the first payment default. Is it because of, you know, some type of false information that was created and then, you know, you had various measures of trying to prevent the fraud, as I

spoke about earlier.

For example, if we had an overinflated appraisal, we would no longer accept the appraiser's work. If we had a victim of identity theft, we would put their Social Security number on our stop list so we would no longer revictimize them and help clean up their credit or, you know, stop reporting on their credit.

MR. CUNICELLI: Ms. Lindsay, New Century was the third largest prime lender between 2005 and 2007 in the United States.

What would you say was New Century's key to arriving at such a dominant place in the market?

MS. LINDSAY: We were automating a lot of our stuff. We were trying to automate as much as possible to get loans through faster. And we had, as I mentioned earlier, a very large broker network that were submitting loans to New Century.

We had -- you know, our pricing was generally more favorable. We could close loans quicker than some of our competitors, and the brokers would want to submit their loans to us because of that.

MR. CUNICELLI: Okay, and you were with New Century for ten years, '97 through 2007.

Did you see changes in the a marketplace, particularly? I guess, in the mid-2000 range as New

Century grew, did you see a changing in underwriting standards?

MS. LINDSAY: Yes, we were always changing our products, our guidelines, was involved in some of the policies and procedures and guidelines specific to fraud on that end.

They were pretty consistent until I would say -- and I don't have the guidelines in front of me so I don't remember when they started changing; but it just seemed somewhere towards the end, it just got really lax. We started -- I think it might have been '04, when we started doing the 80/20s. And then that product became very, very popular.

And I have a couple of theories on that, why it became so popular. But that was one of our big product changes.

And then we would also do an interest-only product so then your payment was very low to start off with for two years. That was one of our more popular products. It was called a 2/28, fixed for two years, and then it would turn to an adjustable-rate mortgage after the two years.

MR. BORGERS: Ms. Lindsay, the 80/20, are you talking about the piggyback loans?

MS. LINDSAY: Yes, yes. So, you would have a

first mortgage that would be an 80 percent loan to value; we would have a second mortgage that was at 20 percent loan to value, and then we had different investors who would purchase each of those products.

MR. BORGERS: And did you know whether or not the person buying the first 80 would also buy the second 20?

MS. LINDSAY: I don't recall offhand if it was or not. I'm not remembering them.

But they would definitely be pooled differently and sold differently.

MR. CUNICELLI: Okay, so just to recap that, you say that underwriting was fairly consistent from '97 until, roughly, about 2004, at which time this 80/20 product and this interest-only 2/28 product were phased in.

As a risk manager, were you concerned at this change in underwriting?

MS. LINDSAY: Yes. Just from my -- there was not -- there was -- when I started noticing, we would have, for example, a couple of fraud loans come back or repurchase requests. When they started trickling in, I would bring that to the attention of executive management. We would talk about it.

They would go pull statistics and ask, you

know, “Is this a big problem or not?” Well, it wasn’t a big problem. But it seemed like every loan that I saw, which I only saw the bad loans, were 8/20s. And the reason is because that was the place where people want to commit fraud because they had no stake in the game. They had no -- they could get 100 percent financing on a property, and they could easily walk away. So they didn’t have to bring any money to get involved in this.

MR. CUNICELLI: Okay.

MS. LINDSAY: But by -- I mean, when we’re doing, you know, 25,000-plus loans a month, depending on the year, when you have four loans come in in one month, that’s such a small percentage, that it didn’t resonate with anybody that this is going to be a problem.

MR. BORGERS: I just have to stop you there, Ms. Lindsay, for a second.

Even though there were only a few loans coming in, those few loans were just fraud related.

Any loans that were coming in for first payment defaults you wouldn’t know about --

MS. LINDSAY: Correct.

MR. BORGERS: -- that were coming for the 80/20s?

MS. LINDSAY: That’s correct. I didn’t have that information.

MR. BORGERS: So the 80/20s could have had -- do you have any idea how many early payment defaults were coming in? Did you ever see a report that could help you identify the level of repurchases for early payment to full in the secondary market?

MS. LINDSAY: I had seen reports, and I know that they progressively grew. And that is one of the reasons that we had to create a specific desk for repurchase requests, because they would deal with all of the repurchase requests in one area. So they would deal with first-payment defaults if any other breach.

I did see some of the reports, and I know that that number grew significantly towards the end. And I don't know at which point that number actually grew. But I know back in early 2000 we had very few repurchase requests.

MR. CUNICELLI: Okay. Go ahead.

MR. BORGERS: Yes, so could you give us a rough idea of how many repurchases were because of early payment defaults on the secondary side? Was it like 2 percent, 3 percent, 4 percent, 5 percent?

MS. LINDSAY: I honestly don't know. I wouldn't be the best person to answer that.

MR. CUNICELLI: Okay.

MR. BORGERS: Did you ever see anything on

that side?

MS. LINDSAY: You know, I'm sure I did see some of the reports, and it's just not sticking with me because that wasn't my focus, other than how can we use those first-payment defaults to prevent on the frontend, and how many of those are fraudulent. So I may have extracted some of those numbers or done some spot audits or something. But I just don't remember the numbers offhand.

MR. BORGERS: But as a professional in the mortgage subprime industry, if you saw -- what level would you be very concerned about for early payment default level? If you were selling a pool of $300 million worth of loans to X-purchaser, if that pool -- early payment defaults went to 5, 8, 10 percent, would that be significant, in your eyes?

MS. LINDSAY: I would think it would be significant. But, once again, I wasn't the person who was dealing with those numbers. It was secondary marketing that was looking at those and making those decisions.

But, yes, I -- so I don't really -- I wouldn't really know what number would be -- I just know that the number was more significant than it was in the early 2000s.

MR. CUNICELLI: Okay. Ms. Lindsay, getting back to the size of New Century and it growing, did New Century have warehouse line relationship with various financial institutions?

MS. LINDSAY: Yes, we had several warehouse lines with several different financial institutions. That's how we were funding our loans.

MR. CUNICELLI: Okay, did you -- who were some of the bigger warehouse lines that you had?

MS. LINDSAY: We had -- let's see, who did we have?

We had Morgan Stanley was one of them; we had -- Morgan Stanley is the only one that's coming to mind.

I'm thinking of some of our investors, but I'm not sure if we had warehouse lines with them. Deutsche Bank was our custodian. I can't remember if we had a line with them or not.

MR. CUNICELLI: How about Citicorp?

MS. LINDSAY: I believe Citicorp was one of them, yes.

MR. CUNICELLI: Okay. And how did the -- how did the warehouse lines, as somebody who is not a banker, maybe you could explain to me -- or a mortgage broker, how do the warehouse lines facilitate your or

New Century writing loans?

MS. LINDSAY: We would use it -- I guess kind of in laymen's terms -- kind of like a credit card, except for the fact that when funds were -- when the funds were wired, they would go to the warehouse lender directly, so they would have a custodian for the documents and they -- So they would have -- make sure that they needed -- so rather than a credit card where we would make the payments, you know, after the fact, the warehouse lender would have involvement in that piece of it.

And that's probably not explaining it very well, is it?

MR. CUNICELLI: So would New Century have been able to write the volume of loans they were writing without these warehouse lines.

MS. LINDSAY: No, we couldn't have made any loans without the warehouse lines.

MR. CUNICELLI: Okay. So --

MS. LINDSAY: As a matter of fact at the end, when our warehouse lenders shut us down, business stopped.

MR. CUNICELLI: Okay. And I guess these are, you know, pretty big Wall Street banks: Morgan Stanley, Citicorp. So they're providing the warehouse lines.

Did that make originators like New Century possible, in your eyes?

MS. LINDSAY: Yes, absolutely. That's -- we had to have an investor -- and then we had to have a vehicle. So in other words, yes, we would have to have those -- the funds in order to fund the loans up-front, and then we would have to have a vehicle to get the loans off of those warehouse lines within a certain period of time. So we had to have an outlet to sell them to, which we did.

MR. CUNICELLI: And the outlet, you're selling -- are you selling a large portion of these loans back to that -- to like a Wall Street channel? To a Morgan Stanley or --

MS. LINDSAY: Yes. 100 percent of our loans were sold or securitized. So we had -- and, once again, I probably wouldn't be the best person to explain because I just have a very rudimentary knowledge of how securities work; but we would do whole-loan sales to a Wall Street investor, where they would pay us a percentage or a premium for the pool of loans that they -- you know, $100 million, $300 million pool; and then they would put them into securities. But our investor would be, let's say, Morgan Stanley, and then they would put them into securities.

MR. CUNICELLI: Okay.

MS. LINDSAY: And at one time we had, we became a real estate investment trust where we securitized our own loans with the help of Wall Street investors again.

MR. CUNICELLI: Okay. And would you have sourced loans back to Citi as well?

MS. LINDSAY: I believe they were one of our Wall Street investors. I don't know the volume.

Morgan Stanley was one of the ones that I dealt with quite often. CBASS, First Boston, XSIS --

MR. BORGERS: On your own securitization, what was that called?

MS. LINDSAY: Who are investment banker was on it, or who -- we became a real estate investment trust, a REIT.

MR. BORGERS: Right. And what was that called? Do you remember the exact -- I know it's New Century something, but --

MS. LINDSAY: I think it -- it may have been New Century Real Estate Investment Trust.

MR. BORGERS: Okay.

MS. LINDSAY: Yes, I don't know. We had different names for everything.

But most of our loans that were securitized or

sold on the Wall Street had the "NC" after them, and that's how you can identify in securities. For example, when I'm looking at a loan or we're repurchasing a house or paying off a loan, we can see who initiated that loan based on the initials on it.

New Century always had an "NC." They would have, like, the year and then it would have the mortgage-backed security in the system goes after it, and then it would -- for example, a BNC, like for BNC Mortgage. So you could kind of see who originated the loans and were put into those securities based on some of that information.

MR. CUNICELLI: Okay, Ms. Lindsay, with the Wall Street firms giving New Century these warehouse lines, was there a shared risk between New Century and these companies or was most of the risk with New Century?

MS. LINDSAY: To my knowledge, all of the risk was to the originator.

So we had representations and warranties that were several inches thick that state various things. For example, the first payment default clause, a first-payment default could be classified within the first 45 days or 90 days or whatever was designated.

There would be, you know, fraud information.

So if there was any fraud in the file -- I'm kind of simplifying it -- but if there was any fraud in the file, then we would be expected to repurchase.

There were various things so that if anything went wrong with the loans, New Century was expected to repurchase them. Or if there was a loss incurred because of that, we would be expected to indemnify them.

Now, as far as I know, the brokers -- the Morgan Stanleys or -- and I don't want to keep pointing the finger at them, they're just the only name I can think of off the top of my head -- but they would arrange these loans, put them into securities. And as far as I know, they were just a pass-through. They had no repurchase, no liability at all, as far as I know.

MR. CUNICELLI: Okay. In dealing with you and others in the mortgage banking industry, I hear a lot of mortgage banking terms, such as "front-end" and "back-end functions" and whatnot.

MS. LINDSAY: Yes.

MR. CUNICELLI: When you say "front-end" or "back-end," to what -- what type of work are we talking about would be front-end and what type of back-end?

MS. LINDSAY: "Front-end" would be during the process of origination. So all front-end would be the

underwriting, the submission of the loan, all the way until the loan is funded and recorded.

Once the loan is closed, so to speak, and boarded on the servicing platform, it becomes the back-end.

So now we have the loan that's performing because it has closed, the monies have all disbursed.

MR. CUNICELLI: Okay, well, then let me ask you based on that, were front-end and back-end functions of equal import at New Century? Were they compensated equally, and were employees in corresponding front-, back-end functions given equal levels of authority?

MS. LINDSAY: It was -- the front-end, the originators, the loan officers, account executives, basically the salespeople were the reason our loans came in. So they were compensated accordingly. They were compensated very well.

The underwriters who would basically put conditions on the file to see if the loan qualified, to see if the borrower qualified, a lot of times they were given a hard time if they didn't approve something. So they took a lot -- and the same thing with the appraisers. If the appraisers cut a value, they were not very well favored by a lot of the salespeople.

MR. CUNICELLI: Okay.

MS. LINDSAY: The back-end was a lot easier because then we had proof that, for example, a loan was bad. And it was a lot easier to be on the back-end and show the facts and say, "Look, this went bad because of this." It was more tangible.

But front-end was more intangible because unless we had fraud. For example, if we had proven fraud, it was easy. You would just close it down and nobody would argue with that.

If it was something that was considered a business decision, the underwriters and other people who were looking at these loans would really be given a hard time.

MR. CUNICELLI: Okay, I guess the second part of that question was the authority, you know, the sales.

I guess you're kind of using sales for front-end.

MS. LINDSAY: Yes, yes, sales was front-end, correct.

MR. CUNICELLI: Right. Were salespeople given basically higher levels than people in corresponding assignments on the back-end, such as underwriting or risk?

MS. LINDSAY: Higher levels pay scales or higher --

MR. CUNICELLI: Higher -- titles, higher authority, plus higher pay?

MS. LINDSAY: They were commission-driven, the salespeople. And I don't know exactly how the structure worked as far as their managers and up.

But, for example, a front-line salesperson who would be open with the broker -- and I'm talking more about wholesale than I am retail because that was the bulk of our business. But so the AEs would go out and they would get the business. But they had no authority to sign off on anything. So they would hand the file off to an underwriter, and then the underwriter was basically -- we had different compensation structures. They were basically salaried employees. And at different times, they would get -- they may get a bonus per file or there were different structures throughout. But basically, the AEs, salespeople, and in the sales chain of command, they would make a lot of -- a lot more money than, let's say, an underwriter or funder.

MR. CUNICELLI: Just to follow-up, you said "AE." Is that "account executive"?

MS. LINDSAY: Yes.

MR. CUNICELLI: Okay, and AEs, these account executives, so they would have a salary portion of their income, and they would have an incentive portion?

MS. LINDSAY: It was basically incentive.

And I'm not sure -- I know -- I don't know if they had a small base salary or not. I know some did, but I wasn't really involved in that piece. But I do know that they were -- the bulk of their income was commission.

MR. CUNICELLI: Okay, they were commission-based?

And so they could -- their incentive income could be affected by their individual performance?

MS. LINDSAY: It was directly impacted by their individual performance.

MR. CUNICELLI: And so more sales of loans, more income?

MS. LINDSAY: Yes.

MR. CUNICELLI: And you, for instance, or people on the back-end, risk underwriting that's -- or excuse me, risk appraisal.

Were you able to affect your set -- your bonus structure on an individual basis?

MS. LINDSAY: Yes, I couldn't really speak for the appraisers because they -- it may have had a different structure, and I don't know what their pay structure was.

But, for example, the risk managers, we were

paid -- and a lot of the executives in the company were paid a salary plus bonus. And the bonus was based on the performance of the company.

MR. CUNICELLI: Okay, so that was basically a group-based incentive, based on the company's performance?

MS. LINDSAY: Correct. I could not influence my income based on what I did.

MR. CUNICELLI: Did you ever attempt to get individual incentive measures put on your pay?

MS. LINDSAY: I did. I had actually asked at one point, when I was the only corporate risk manager, I asked, "Can I get compensated for all the fraud loans I stopped?" And they said, no, that that wouldn't work.

MR. BORGERS: Okay. So just to give us a little comparison between the front-end account executive, I think you told us in a prior discussion that you've heard that some account executives were getting a million dollars or more?

MS. LINDSAY: A year? Absolutely, yes. Some of them were getting several hundred thousand dollars a month. The wholesale account executives.

MR. BORGERS: Okay.

MS. LINDSAY: Because they would go out, and they would have their brokers. And depending on how big

the brokers were and how many people they had within their companies, they could make a lot of money.

MR. CUNICELLI: Could you clarify something for me? Could --

MS. LINDSAY: Yes.

MR. CUNICELLI: Could I have been hired, for example, as an account executive with little banking background, and in a year, have been earning that sort of income on commission?

MS. LINDSAY: Yes.

MR. CUNICELLI: And so you had maybe -- did the account executives tend to have less experience than the back-end people?

MS. LINDSAY: Yes. And in all fairness, I mean, their sales -- they were there to get sales. And they did not have the authority to underwrite the file or to make decisions. Although if they were a high-producing AE, then they seemed to have little more power because then they would scream if they didn't get some of their loans through.

MR. CUNICELLI: Well, now, you bring up "screaming." Was there a tense relationship at times between sales and some of the back-end personnel when, say, an appraisal didn't appraise or risk questioned a loan?

MS. LINDSAY: Absolutely. They would look at it as basically affecting their income or killing their sales or making their brokers angry, were their brokers to take all their business up through *[inaudible]*. So they held a lot of power in that respect because they were -- they were driving the company. Our sales were what was made our company successful.

MR. CUNICELLI: Did sales have a term that they referred to back-office people? Kind of a dismissive term?

MS. LINDSAY: I had heard a couple of terms, so…

I was called a "loan Nazi."

MR. CUNICELLI: "Loan Nazi"?

MS. LINDSAY: Yes.

MR. CUNICELLI: Okay, you were called that by, I guess, somebody front-end, somebody sales?

MS. LINDSAY: Yes, by a salesperson.

MR. CUNICELLI: How ugly could this get? I mean, did it escalate? Did sometimes sales managers overrule or override risk or appraisal decisions?

MS. LINDSAY: Yes. Some of the sales managers did have that authority to make a business decision. As long as it was not confirmed fraud, they could override it.

And I would like to say that those people, as far as I know, there weren't a lot of them. I'd like to say that most of the people at New Century were good, hard-working, honest people. I would like to think that the few that I knew about, the sales managers who would make poor business decisions were far and few between.

MR. CUNICELLI: Okay, okay. Was -- I mean, so I guess there seems to be a problem if somebody in sales could overrule a decision from another department.

Was there a balance in the corporation towards sales, so that if risk or appraisal had made a decision, that sales was kind of equipped to overrule or override?

MS. LINDSAY: Yes, some of our sales managers in the sales side up to the -- and I don't remember offhand what their titles were -- but some of the senior people on the sales side had the authority to basically override anything, except for fraud. Like I said, everything was considered a business decision unless it was confirmed fraud.

MR. CUNICELLI: Okay, and it had to be provable fraud? It couldn't be, you know --

MS. LINDSAY: Correct.

MR. CUNICELLI: -- you had a maintenance mechanic who was allegedly making $200,000 a year. That's not provable?

MS. LINDSAY: Correct, yes. Unless he came in with full documentation with two years' tax returns. And if we were to execute the Form 4506 which goes to the IRS and prove that the stuff he submitted was fraudulent, that would be confirmed fraud.

If he stated the income, then it was not provable, and that could be -- it would be considered a business decision.

MR. CUNICELLI: You were an executive in New Century, a tenured individual. You had ten years with the company.

In your last year there, if you're comfortable, what was your base salary?

MS. LINDSAY: It was in the low six figures.

MR. CUNICELLI: Okay, and your bonus, what would your bonus have been, a percentage of that?

MS. LINDSAY: My bonus would have been -- so I had my base salary and my bonuses were about 50 percent.

MR. CUNICELLI: Okay.

MS. LINDSAY: Almost. 40 percent, maybe.

MR. CUNICELLI: Okay.

MS. LINDSAY: So another 40 percent on top of the base.

MR. CUNICELLI: Okay, so --

MS. LINDSAY: And that's based on how much my

last couple of quarters went at the company.

MR. CUNICELLI: Right.

And was that the highest year of salary for you?

MS. LINDSAY: Yes, the last -- yes, the last couple of years were, '05-06.

MR. CUNICELLI: Okay.

MR. BORGERS: Just getting back to the salespeople and how the sales or revenue people were the driving force. Do you have any knowledge of if -- how often they asked for exceptions on the underwriting side or appraisal side?

MS. LINDSAY: You know, I don't, because I was more -- I was very, very busy in my department, so I didn't see a lot of that. Every once in a while, I would get a complaint, from one of the local risk managers who was seated within the department, where a sales manager -- a sales manager would, you know, kind of talk them into changing something or tell them that they were wrong; that they were going to override, anyway. So I would get a few frustrated calls from some of the local risk managers who had to deal with it on a daily basis.

But that was the only time I really heard about that. Because I was not on the front line, I

rarely had to deal with that. And if it was escalated to me, I would call the sales manager, and I would, you know, talk to them.

I actually went up and did some training with a couple of different sales managers in a couple of different divisions to show them why these were bad loans, why we can't do these kind of loans. This is how you make a good business decision.

They didn't seem to be able to make good business decisions. So I would kind of educate them and talk to them. There were two specific ones in two different regions that I went and actually met with and kind of tried to bridge the gap to say, "Look, we're all in this together. This is what we need to do in order to stay in business."

MR. CUNICELLI: You know, it seemed like at some point, I think you mentioned earlier about 2004 things started to really escalate. The underwriting seemed to change and lax -- and got more lax.

I guess could a lot of this be brought back to about that time, that it became a volume business and then --

MS. LINDSAY: Yes. I would say as soon as it became a volume business -- you know, the senior management and the executive management, they would talk

about if this is a loan that will pay or is it a loan we can sell. It seemed that we're going towards if we could sell it -- even though -- executive management would follow the charts and follow our reports and, you know, see how loans were performing. They wanted to make sure the loans were performing.

The problem with that is, we didn't get the information on a majority of our loans because we didn't have that information. They were sold and moved on. So we didn't know about that until down the road.

So it became -- we didn't know how a lot of these loans were performing. So it became a question of salability. You know, are they paying or can we sell them? Well, you know, we're selling them because we don't know if they're paying.

MR. CUNICELLI: Okay. And let me ask you, you have a long history in the banking industry. And I think you told Mr. Borgers and myself about the three C's of lending.

MS. LINDSAY: Yes.

MR. CUNICELLI: Could you run over that for me?

MS. LINDSAY: Yes, we would have -- we would look at basically credit, collateral, and capacity. And then back in the old days, in the seventies, we would

also look at the fourth C, which would be character. Well, you kind of eliminate the character because we're not face-to-face with these people to try to determine the type of character they are. So we look at their credit to try to help determine their character.

So the credit is -- and since we're subprime, we knew they were not great credit risks, so we compensated by charging slightly higher interest rates.

We would look at their credit.

We would look at the capacity. Do they have the ability to repay the loan. And the capacity would be how long were they on the job, what kind of income do they make.

And then the third would be the collateral, which is the policy that we loaned on. Is the value there? Do we have a good piece of property? Does it meet our guidelines, basically.

MR. CUNICELLI: I guess maybe we should ask then my next question, pre-2004 and post-2004.

Pre-2004, you know, was there a balance in the three C's at New Century?

MS. LINDSAY: Yes, from what I'm remembering, we didn't do any 100 percent financing, that I can remember. I think our highest loan to value was 95 percent.

We -- you know, we did have some stated income loans, but that wasn't the biggest majority of our loans.

Now -- so we had layered risk. Basically, we -- so we don't have any of these components as we kind of go on.

We're expanding our market. So it appears to me that, you know, Wall Street was very hungry for our product. We had our loans sold three months in advance, before they were even made, at one point. And so they were always trying -- and I don't know who created the product. I don't know if it was Wall Street. But basically, I know that, you know, we needed to create more product to get more volume.

And during that time, we -- it changed somewhere along the way to interest-only. Now, we have -- so now the payments are low. So the capacity is there, but then we -- prices -- housing prices started going up, we started seeing more and more stated income loans because people's true income probably didn't qualify.

So we just -- we had these -- so now we have 100 percent financing, we have people with better credit scores overall, but they didn't have a depth of history, so we would look at the FICO scores or the credit scores

to see their ability to repay, which most of them hadn't been homeowners before, so they really didn't show any capacity to repay.

Then we had the interest-only, so their payments are lower. And it just – it seemed that we kept adding the risk on.

MR. BORGERS: I just have a question about just a little clarity here. You said that New Century never did more than 95 percent. But, however, they did have the 80/20's, which is --

MS. LINDSAY: That was later, that was later, yes.

MR. BORGERS: Oh, okay.

MR. LINDSAY: We didn't have 100 percent financing. And I don't remember when that changed.

It was early 2003'ish or 2004. I don't know when the 80/20's were created. But we -- we would always require that there was some type of a down payment. And like I said, we have some 90 percent loan-to-values. But we didn't have -- the products became more aggressive.

MR. CUNICELLI: Right. Yes, and I asked that pre- and post-2004, you were giving me pre-?

MS. LINDSAY: Yes.

MR. CUNICELLI: And I think you said that

post-2004, you guys, New Century basically started layering risk?

And when you say you "layered risk," you mean you're adding to maybe a low credit score or FICO score the added risk of questionable capacity and --

MS. LINDSAY: Right.

MR. CUNICELLI: -- and questionable collateral?

MS. LINDSAY: Right. And I say it's questionable collateral because values of homes, especially in some of the hotter areas, like California, Florida, Arizona, Las Vegas, Nevada, were increasing in crazy numbers. So you have a good piece of property, but now it's increasing 10, 15, 20 percent a month, in some cases. Now, your collateral is kind of -- so now not only do you have somebody who has no -- no stake in the game, they have no money into it; they can't prove their income, so they may or may not make that money.

They do sign this under penalty of perjury that it's true and correct. You know, some lie. Some don't even pay attention to it or notice it.

And then you have the interest-only. So you start with the low teaser rate, so you can make the payment for the first few years.

So as time goes on, you have these people who

are struggling to make their interest-only payment, they have no equity in their property, and then values start going down.

And so now the interest rate pops up because they're no longer on their two-year fixed. They're now either fully amortized or they have to start making principal payments, too. And then they find out that their values have gone down and they have no equity and no stake in the game, and so then they walk away.

MR. CUNICELLI: Okay, okay. You -- I think you told us a little earlier in response to a question about repo, that for a long time, you handled repo other than early-pay defaults. But I guess when, like two thousand -- the end of 2006 the volume got too big, so --

MS. LINDSAY: Yes, I would say it probably started before that. The volume, I think, started creeping up and they started noticing the problem, or at least I started hearing about it maybe the end of '05, the beginning of '06, when they were talking about creating repurchase desk, and who would run it and who were the best fit for that department.

I had actually talked about possibly being the person to run it at one point, and I felt that it was more than I could take on because of my fraud piece I

was doing.

MR. CUNICELLI: Okay. So it basically -- the number of repos that were coming back to you kind of swamped you and necessitated another position being created?

MS. LINDSAY: Yes.

MR. CUNICELLI: Okay.

MR. BORGERS: Can you give us any rough estimate about what numbers are we talking about? Two loans? A thousand loans?

MS. LINDSAY: Yes, more like maybe two pages of loans. And I don't want to put a number out because I honestly don't know.

Yes, it was more than two loans. It was probably like two pages of loans, plus.

MR. BORGERS: And two pages of loans to daily or…

MS. LINDSAY: Not daily. Probably -- I would say that, you know, it started off per month, and then it probably increased per week.

MR. BORGERS: So you're going from a handful -- let's say, ten or 15 loans prior to 2005, to then it's growing to what's on a page 50, 100?

MS. LINDSAY: Probably 50.

MR. BORGERS: I'm sorry.

MS. LINDSAY: Yes, probably 50 to a page, maybe.

MR. BORGERS: And then it was getting even beyond that, and then your group couldn't handle it anymore.

And did you have -- do you have any idea how far that was growing?

MS. LINDSAY: You know, I don't.

I've done reports, and I just -- I honestly looked through the reports, and we would pull the statistics and put them in the reports. And I don't remember any of those numbers offhand. You know, I would have to see the report to refresh my memory. And I left everything at the bank.

MR. CUNICELLI: Ms. Lindsay, what was the process that you went through to repo those loans, just real briefly?

MS. LINDSAY: For repurchases?

MR. CUNICELLI: Yes.

MS. LINDSAY: We get investor requests. So the investor, usually the Wall Street investor would hand us a list of loans and what the repurchase price was.

Basically, we'd have to, you know, pay the principal, the interest. And they had paid the premium

for it like 1 or 2 percent, or whatever it was, we would have to repay that. And then we had a certain amount of time in which we're supposed to do that. And then we would -- it goes through the -- you know, we would wire them the funds and then we would forward the loans to whoever -- you know, if we were going to service them, we would forward the loans back on our servicing platform.

And then a lot of times, I know that those loans were put in what's called "scratch-and-dent pools," meaning, that they were non-performing loans. So rather than us taking those back on to our warehouse lines, we would resell them. So we would pay our loss almost immediately and not get them back on our books.

MR. CUNICELLI: Okay. And a question for you: Were you asked -- as these volumes of repos started to come in, were you asked by management to do anything different with the repo loans in the way of timeliness?

MS. LINDSAY: At the end, the end of '06, the beginning of '07, we were told to just notify the investors of fraud loans. As with before, we would automatically put them on our purchase list.

Apparently, money got very tight at the end. Executive management, obviously, knew we had a bigger problem than I knew about. And we were told just to

notify the investors of fraud, and then let them come back.

As where before, it was an automatic process. We would automatically buy those loans back so we could deal with them. And then that changed at the end of '06, the beginning of '07.

MR. CUNICELLI: Okay, here --

MS. LINDSAY: And then also we found -- and then also we found -- one of the things that I noticed, too -- and I can't remember the time, I'm guessing it was the end of '06, maybe even the middle of '06 -- getting some of the loans repurchased was very -- was a very slow process. We would ask, "When is this loan going to be bought back?" And sometimes they were bought back quickly; other times they weren't.

And I don't know if that was a hang-up with New Century or if it was the investment banks.

I do know that early on, when I was the only one with repurchases in early 2000, I had -- we had a fraud loan, and I had called the investment banker and said, "Look, we have this identity-theft loan. We need to buy it back."

And he said, "Are you kidding? You want me to take one loan out of this $100 million pool and sell it back to you?" He goes, "Do you know how hard that is to

do?" And that was my first real realization that this was not our old lending standards from, you know, 20 years ago.

MR. BORGERS: I have something in your area.

Now, your area over – started from 2003 or so, was really fraud as opposed to early payment defaults, and you might classify that early payment defaults is gross negligence or negligence.

But tell us how, specifically, your area grew as fraud was concerned. You know, give us, you know, not specific numbers, unless you have it, you know, in your computer or whatever. But how did your area grow from 2004, '05, '06, and '07, as far as the numbers are concerned? You know, be as specific as you can.

MS. LINDSAY: I had -- well, I grew my staff. I'm trying to think how many staff I had at one point. I had -- I had -- let's see, one, two, three, four, five, six, seven, eight -- I think ten employees pretty much at one time, as where that had grown from just having, I think, two employees.

So throughout the years -- and I don't know when that all started growing -- but -- and I honestly don't -- I just know that all of a sudden we realized my staff couldn't keep up with all of the allegations of fraud. We would have -- it seemed like fraud was coming

out from everywhere. We would have borrowers calling in who were victims of identity theft. We would have just -- we would have our servicing department who would send us over loans because we were servicing the loans, and they would find fraud. So they would refer those over to us, and it just -- and it really grew. And I don't know the number. I apologize for that.

MR. BORGERS: This is real important that we have to identify, get some idea of what -- so your staff grew to about ten.

MR. CUNICELLI: And those are direct reports to you, but you had --

MS. LINDSAY: Yes.

MR. CUNICELLI: -- staff in the field?

MS. LINDSAY: Yes. And at one point, I had the production risk manager rolling up to me. She had three managers who those three managers had about 65 employees throughout the country who were in the front lines.

MR. BORGERS: And those risk people, they reported to you, too?

MS. LINDSAY: For a short time, yes.

MR. BORGERS: How -- what window of time?

MS. LINDSAY: That was the end of '06, for about -- probably about three months. And then we

reorganized again.

MR. BORGERS: I just want to drill down. Trying to trigger your memory. As I'm an old-time reviewer, it's difficult for me to focus on numbers.

But we try -- you know, if we can back into the numbers on how the number of loans that your group was reviewing on the fraud side, so that we can get some rough idea of how serious the mortgage fraud was growing at New Century.

MS. LINDSAY: Right.

MR. CUNICELLI: And if we could just kind of trigger your memory here about rough numbers of how that was growing into many millions of dollars. Or was it $50 million? $100 million?

MS. LINDSAY: Yeah, it was probably the low -- I'm trying to remember because we did do several reports. $10 million, maybe.

I'm trying to think how we -- I'm trying to think back to when we were actually doing the reports and we did all our charts and our graphs.

Yes, I remember, for example, that the largest -- you know, the bulk of our pie chart, the bulk of them were 80/20's. That was the biggest group that came in.

And I'm remembering around $10 million in

volume as time had gone on, maybe '05, '06 numbers.

MR. CUNICELLI: Ms. Lindsay, do you still have access to data from your time at New Century or --

MS. LINDSAY: I don't, no. The trust has that, Century Trust.

MR. BORGERS: Okay, the trust of the bankruptcy trustee?

MS. LINDSAY: The bankruptcy, yes, correct.

MR. BORGERS: Okay.

MS. LINDSAY: They have all of that.

When I left New Century, I purposely left everything there. I just -- you know, just left everything and was done, so…

MR. BORGERS: So was that $10 million a month?

MS. LINDSAY: Yes, that's probably about right.

MR. BORGERS: So roughly --

MS. LINDSAY: You know what? You know what? You know what? I think we were doing our quarterly report. So that was probably actually quarterly.

MR. BORGERS: So $10 million a month -- or a quarter. So let's say the average home is $200,000.

MS. LINDSAY: Uh-huh.

MR. BORGERS: So we're only talking about a handful of loans, right?

MS. LINDSAY: It was a really -- that was the problem, is when we would talk about these -- the fraud loans, they'd say, "Well, what percentage?" And the percentage, based on our volume, was minuscule, was -- and I don't even know if I can quantify it by saying one-tenth of 1 percent. I don't even know if that was it. It was a very miniscule amount compared to the number of loans we were funding every month.

MR. BORGERS: I'm --

MR. LINDSAY: But you have to remember that these are the ones that were starting to come to our attention. And there were a lot of that didn't come back to us, that the Wall Street investors either didn't realize they were fraud or were observing the losses and never bothered coming back to us. Or -- you know, and so it was just a matter of time as we were growing.

MR. BORGERS: Now, I --

MS. LINDSAY: And some of them, not immediate. I mean, you would get some from a couple of years prior. So those would start creeping back in as they were going back in to doing due diligence and realizing, "Hey, can we recapture some of our losses on these? Well, look, there's fraud from 2004. Let's go back to New Century and they can indemnify us now."

MR. BORGERS: I think coming to understand

this -- and, you know, I was a mortgage banker many, many, many, many years ago --

MS. LINDSAY: Uh-huh.

MR. BORGERS: -- I think it just hit me on how we can look at this and get a little bit more clarity for the record. And as my associate said a number of times, he said -- and you also -- well, you commented -- and here’s the thing, is that you would get all these loans per day, per week, per month, whatever. And only unless it was blatant fraud or provable fraud did you put it in your report as fraud.

MS. LINDSAY: Correct.

MR. BORGERS: So if you were just missing documentation, if there was -- if there was no verifiable income, or whatever, that would --

MS. LINDSAY: That would fall in a different area, yes, absolutely. We didn’t have anything to do with all of the other pieces.

MR. BORGERS: So, now –

MS. LINDSAY: If they were missing documentation if they were out of compliance, if there was a lawsuit, whatever, I didn’t see those.

MR. CUNICELLI: And was that a bone of contention sometimes between you and sales, that, you know, “They’re saying show us the numbers,” and you’re

saying, "There's a problem," and they're saying, "There's no problem. Show us in the numbers"?

MS. LINDSAY: Yes. It was very frustrating, probably more so for me than it would have been for somebody else just because I grew up in the hard-money lending where you would have equity in the property or you would have some other way to regain or not take as large of a loss. And these, I would be saying, "There's a problem. I don't understand how it cannot be a problem."

And basically, if I could not show them the numbers, the argument was lost. So sales would continue to go.

MR. CUNICELLI: Well, two follow-ups on that. You were a member of -- you were on the board of MARI?

MS. LINDSAY: Yes, I was on the MBA MARI advisory committee.

MR. CUNICELLI: Okay, now, like MARI has a SAR report that's like a SAR --

MS. LINDSAY: Correct.

MR. CUNICELLI: -- but it's separate, right?

MS. LINDSAY: Yes, that's correct.

MR. CUNICELLI: Now, a lot of SAR activity, that's reported immediately, correct?

MS. LINDSAY: We didn't use SAR because we

were not federally regulated. And we had actually had a meeting to discuss what the benefits of SAR would be after looking at how to report and all of that, we felt that MARI was the best vehicle for us to use.

So whenever we had fraud, we would report to MARI. And then everybody who would subscribe to MARI would be able to get that information.

MR. CUNICELLI: Right, right.

But, now, standard SARs, most of the time it's observed conduct, so it's reported kind of contemporaneously.

But mortgage fraud would that be reported contemporaneously or would there be a lag, sometimes years?

MS. LINDSAY: Sometimes there would be a lag of years, depending on when it came to our attention. And then once again, it was a staffing issue if we -- you know, for example, if we really did a lot of due diligence and we had a lot of information, that would be stacked up on the person's desk who is reporting to MARI. He would go in and do his daily reports. And so, you know, sometimes if we would do an audit that went a couple years back, I mean, there was a lot of information that probably didn't surface. And if we were still in business, we would probably have a lot

more information now, you know, that would be pretty interesting.

MR. CUNICELLI: Right.

And one other thing, you said that it was frustrating for you because you had kind of the old-world banking values -- you know, the three C's and whatnot.

MS. LINDSAY: Right.

MR. CUNICELLI: Was it frustrating for anyone else at New Century? You know, did you commiserate --

MS. LINDSAY: Yes, I think a lot of the people were on the -- you know, the quality-assurance side, who were on that end were a lot more frustrated. People who had a lot more experience seeing risk, seeing the results of the risk.

I think the salespeople never had experienced losses, and yet they were the ones who were able to -- people learn from their experiences, people learn of their mistakes. And I think most of the salespeople had never experienced a loss or had seen the fraud, and so they didn't know any better, that they were able to make some of the decisions. I know there were a lot of people who were very frustrated, who knew the ramifications, who knew that, you know, this could potentially harm our company.

MR. CUNICELLI: I guess going on what you said earlier, they tended to be sales, the newer employees, so maybe they hadn't been through a business cycle like some of the --

MS. LINDSAY: Yes.

MR. CUNICELLI: go ahead.

MS. LINDSAY: Yes, that's exactly what it was. That's exactly what it was.

I think that there were a lot of younger, less seasoned, people. They may not have ever been in the mortgage industry before. They didn't understand anything to do with why this is a risk -- that was part of my job, is having -- as soon as we identify the areas where these people didn't understand it, I would go train them, and I would go talk to them.

We even had some underwriters and some funders who didn't understand fully. And, you know, so then that was part of my job, is to go out and train them and show them why this is bad. And, you know, some of them had no idea that we had representations and warranties to our Wall Street investors. That it would be like, "No, once this is sold, it's not gone. It can come back." And I think a lot of people didn't have that understanding.

MR. BORGERS: Okay, and, now, just getting

back to the numbers and the flow of the product. So if a loan is coming back and it was not paid -- it was an early payment default immediately, that loan would not go through to you or pass through you to the secondary desk? It would go directly to the secondary desk, right?

MS. LINDSAY: That's correct yes.

MR. BORGERS: Okay, after those loans, how did you get your loans? Were they being put back, repurchased, and then that's the reason it was brought to your group? Any -- all repurchases would be going through your group, and then you would determine whether or not there was gross negligence or some other reason, other than fraud; and then you would refer to another group?

MS. LINDSAY: No, actually, how that would work is, occasionally, I had built a rapport with different people, some folks at MGMC. So I would get, you know, some of their letters directly, the investment bankers I'd work with, occasionally I'd get their letters directly. And especially if I had written letters to them or responded, they would automatically pick up on me as the contact.

But generally, we would get a good spreadsheet. That would automatically go to secondary

marketing. And then there would be comments in the "comments" section why they're being repurchased. If it was simply a first payment default. And sometimes they wouldn't -- there could be multiple problems with these files, but they picked the easiest, fastest one because they didn't want to spend a lot of time on it. So they would come back and say, "First payment default." And then we would be required to repurchase it.

But there would also be ones where there was fraud, and they would identify those. All the ones that were identified as fraud would be extracted and sent to my group. So that's how I would get the repurchase requests.

MR. BORGERS: Okay, and here's the -- the $50,000 question: You would get, let's say, from the secondary market group that list of a hundred loans, or whatever it might be.

MS. LINDSAY: Right.

MR. BORGERS: And your guidelines for fraud is very -- it had to be provable fraud. So you get --

MS. LINDSAY: Yes, it was very *[inaudible]*.

MR. BORGERS: -- so that hundred loans, you might -- let me just go through this whole example -- might be just ten loans that were provable?

MS. LINDSAY: Right.

MR. BORGERS: The other 90 loans, they were not in compliance or they were missing documentation --

MS. LINDSAY: Right.

MR. BORGERS: -- and you probably had to buy the loan back?

MS. LINDSAY: Right. And that would be part of my job, is refuting their requests. If they said that there was fraud, we would go in and we would look. And if we could not prove the fraud, we would deny their claim and say, "No, it's not fraud. Come back with some other clause." So, I mean, we were -- you know, if it was a bad loan for whatever reason, they would have to find out, identify what the reason for the bad loan was in order for us to be required to repurchase it.

So if they didn't do a good job, if they didn't know how to identify that, they would be stuck and the securitization would take the loss.

MR. BORGERS: So if they were missing critical documentation, like if the deed was not there or recorded deed, or whatever it might be, or if it was a verifiable loan and the verification wasn't there, those loans, even though they might have been negligence and that you could not prove fraud, you would just say, "Listen, there's no blatant fraud here"?

MS. LINDSAY: Right. If they were missing documentation or whatever, that would actually go to our compliance department.

Our compliance department would try to then comply with whatever the missing documentation was.

And if there was some reason we couldn't get the documentation but it was a breach, those loans would generally be sold in a scratch-and-dent pool and moved on.

MR. CUNICELLI: Ms. Lindsay, let's circle back for a second. I'm looking at something you said, I guess when we talked to you prior, that you had maybe 70 front-end risk managers around the country?

MS. LINDSAY: Yes.

MR. CUNICELLI: Now, front-end there, these are risk managers who were looking at loans before they're written or --

MS. LINDSAY: Yes. So we had -- what we were trying to do, is we were trying to take as many preventative measures as possible. So what we did is, we had daily reports based on different things. Like, for example, the brokers on watch, that I had mentioned earlier, if we had a problem. All the brokers on watch, the risk managers would get a daily report of loans that they needed to look at. So then the risk managers would

look at those loans and make a determination whether there was a problem or not. They would note this in our database. And if there was confirmed fraud with those loans, they would be locked and it means that they could not proceed and the loan was declined.

MR. CUNICELLI: Was this something --

MS. LINDSAY: Now, if they couldn't prove anything, they would document the findings, and then the sales manager or whomever could go ahead and approve that loan.

MR. CUNICELLI: Right. And this is where the rubber hit the road? This is where those front-end risk managers really caught some grief?

MS. LINDSAY: Yes.

MR. CUNICELLI: Okay. And these are the stories that would sometimes come to you?

MS. LINDSAY: Yes.

MR. CUNICELLI: Okay.

MR. BORGERS: And why was -- and you only held this position for about three months?

MS. LINDSAY: Yes, I worked hand-in-hand with them. But they only rolled up to me for a really short time. And it was just -- I didn't feel the model was working, having them roll it to me. I felt I was more effective if they worked alongside me, reporting to

somebody else. I felt that I lost a little bit of my power or my influence by having them report up to me. I didn't seem to feel as effective.

MR. CUNICELLI: Well --

MS. LINDSAY: Because if I was on the back-end separate from them, I would almost feel like a separate person coming in, talking to the sales manager, you know, discussing the issues and problems, versus defending one of my employees.

MR. CUNICELLI: Yes.

MS. LINDSAY: I really felt the difference when they rolled up to me, and I requested that -- I asked the chief credit officer if she could move them back to somebody else.

MR. CUNICELLI: Was part --

MS. LINDSAY: And she did.

MR. CUNICELLI: Was part of the loss of authority, that they reported up through the front-end, through sales, so that their decisions could be overruled by sales?

MS. LINDSAY: They actually -- no, they actually never did report to sales.

They reported up -- but they were sitting in the department with sales. So they were kind of an isolated person. They would be kind of the defense

mechanism, but they were subject to those people day-in and day-out.

You know, so it was harder for them because they would -- they were right there. And they were, you know, maybe personality conflicts and, you know, I think it was easier if there was more salespeople and one risk manager, it was a little easier for them to gang up on them.

MR. CUNICELLI: Right. And ultimately, their decisions could be reversed at that level by the sales manager?

MS. LINDSAY: Yes.

MR. BORGERS: Now, that's a number of people around the country, 65.

MS. LINDSAY: Yes.

MR. BORGERS: And how many problems do they handle every day? I mean, you know, their concerns were very serious about, you know, whether or not there was, you know, serious problems with these loans. It might not be fraud but it might be serious problems of any type of risk, right?

MS. LINDSAY: Yes, and there were. And some of the risk managers had better relationships with the sales departments.

And like I said, you know, some of the sales

managers were great. They were smart, they were very businesslike, they understood the business, and they were very reasonable.

Others -- you know, like there was a small group of them that were just very -- didn't get it.

So the risk managers who had good relationships with the sales managers would sit and discuss their concerns. And the good sales managers who really, you know, knew what they were doing and understood the risk if there was a problem, would take that to heart and they would usually listen to the risk managers.

So it was a very individual thing. Some risk managers got along great in their divisions and others had conflicts.

MR. CUNICELLI: Okay. Ms. Lindsay, I'm going to probably wrap things up here.

We'd ask you to keep what you and we say here confidential, as we ask anybody that has business before the Commission to do, okay?

MS. LINDSAY: Okay.

MR. CUNICELLI: All right, I'm going to turn off the recorder.

The time is 1:11 p.m. Eastern Standard.

(End of interview with Patricia Lindsay)