

MEMORANDUM FOR THE RECORD – MFR

EVENT: Telephonic interview of William McKay

TYPE OF EVENT: Telephonic interview

DATE OF EVENT: March 24, 2010, 1:45pm

TEAM LEADER(s): Victor J. Cunicelli

**PARTICIPANTS/ NON-FCIC:** William McKay

**PARTICIPANTS/FCIC:** Victor J. Cunicelli

MFR PREPARED BY: Victor J. Cunicelli

**This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted except where clearly indicated as such.**

**SUMMARY OF INTERVIEW & SHORT BIO OF INTERVIEWEE:**

William J. McKay is the former Senior VP, Chief Credit Officer of New Century (NC) Financial Corporation. He was contacted by FCIC staff regarding his employment at NC. Mr. McKay worked at NC from 9-98 through 5-07. He was Chief Credit Officer of NC's retail division from 1998-2000. He was promoted to Chief Credit Officer for the corporation's consolidated operations in 2001 and acted in that capacity until 2003.

Mr. McKay said NC was in the top 25 subprime originators in this timeframe. Beginning in 2003, Mr. McKay said the credit rating agencies (CRAs) and Wall Street banks began dictating how subprime originators conducted business. Mr. McKay said he spoke with some secondary market people at NC in 2003. They showed Mr. McKay a pricing model they had received from the CRAs. Mr. McKay said it was explained to NC that, for future sales of mortgages to Wall Street banks, originators would have to comport with the CRA risk-based model which model was FICO driven.

Mr. McKay said that, after the CRA/Wall St. model was adopted by originators, the market for subprime mortgages was homogenized; essentially all players' product lines became identical. Mr. McKay said FICO scores dropped and issuers charged higher rates accordingly. Mr. McKay said he is an "old school credit guy" and voiced concerns about NC taking on additional risk. Mr. McKay was transferred shortly thereafter (in 2004) to a new assignment to apply an Eastern Software product called "Empower" to NC. He was to roll out the product and provide employee training. Mr. McKay did not see the transfer as punitive.