

Mike Colburn (by phone)

grad. Harvard College + Harv Law '92

1992 - Wilmer Hale - Wilmer Center Pickens;

Legal Aid orgs. -

Nat'l. Org.

Law

2007 - SR pol. Counsel - Center for Responsible Lending

Colburn - Duke Univ Econ. 1974

Univ NC Chapel Hill '77

Legal Aid atty until 1985

private practice 1982 -

(Durham)

Center for Community Self Help +

Self-Help Lending -

Commercial Lending -

Secondary market -

2002 Center for Resp. Lending

Pres 3 1/2 yrs. ago - Pres. 2006

Gordon Hearing #1 -

Q Angelides - One of core parts of mission  
is to do lending to low-income -  
no credit history, etc.

30 yrs existence - Center for Commun. Self-Help -

Runs a large program guarantees - loans -

CRH loans by mainstream banks, to be  
bought by Fannie

Suf- Help loans low foreclosure

Delinquency rates  $\uparrow$ , but in terms of default rates historically low

Cautious w/ Underwriting

Fall behind - loss mitigation measures.

High touch servicing - try to keep ppl in their homes

Q Underwriting was relaxed (how long does it take?)  
timing w/in (overall)

applic to approval?

for some subprime loans - 11 seconds - @ height of crisis

#3

Calhoun - I've talked to Countrywide Underwriters  
(+ by mortgage insurance)

Countrywide had specific # 12-15/day to  
be processed - Semi-automatic

Almost half subprime market became No Doc loans

Calhoun - "The underwriting was abysmal"

Comparison of US mortgage structure to overseas -

Ireland had bubble - 45%  $\downarrow$  price decline

But US underwriting the worse.

BIG SHORT - "Dear Losing Ground" study late 2006 -  
Didn't req. ifn crisis to fail mortgages -

They were keeping up w/ payments by refinancing  
to catch up w/ payments -

Hybrid arms -

Q Underwriting bad - bec. "Desktop underwriters"?  
Calhoun - It was not an accidental crisis.  
Plc were getting paid more for these loans.

B+C lending - the purpose of No Doc loans was  
self-employed workers that did not reflect  
their payment capacity  
Became a standard product for wage earners  
bec. it carried 100 <sup>basis</sup> pts. extra in interest

Broker - steered them into these loans to  
get extra \$ for those  
Borrower didn't realize it

Q - higher yield spread premium? in population

John - Steering ppl into subprime if  
they qualified for prime  
Or subprime w/ prepayment penalty

Minority neighborhoods would be targeted -  
papers in car -

New roof

Refrigerator - Hell in credit card -

Push <sup>were</sup> marketed -

Timing? Calhoun - throughout decade -  
around 2006 when a memo  
publicized by Countrywide office - mgr.  
directed all employees - routed into subprime  
loan -

A flap about it.

But Countrywide paid dbl. commission  
for subprime lending -

Alt-A - Option ARM - carried higher interest  
rate - premium  
fed in w/ the housing bubble - rising home  
prices -

< The yield was straight fees, bonuses + promises  
up + down the line.

Written testimony - <sup>press reports</sup> subprime 1996

Self-Help - starting to be concerned  
in 1990s -

This decade - AG action

⊗ Products designed - ? Refs?

Julia - No one was modeling hsg prices  
dropping off.

balloon loan

Teaser rate - after it expired - gross income  
vs debt to revenue ratio -

Julia - No Doc loans - ppl on fixed incomes -  
cld not make payments -

& Papousouk - HUD - I -

aspects hard to discern

leo mos. intro. -

Carlson - page 1/2 of fine print

& Brokers - focus on - How brokers were compensated  
yield spread premium - reason why  
they were put into

They were originating

Selling

Wall Street - looking to buy - when brokers  
ran out of ppl to sell to - had to get new

Joha

"There are a lot of misaligned incentives  
up and down the chain"

Incentives @ each step -

← We've heard - many ppl assume an indep.  
mortgage broker is working for them -  
(We've record vs. BANKS)

Q Clients believe waiting for them?

Julia - Yes

> Nat'l Assoc. of Mortgage Brokers  
website Feb. 2007 -

Big Chris Dodd -  
"Mortgage Trustee Mentors, <sup>Guiding You</sup> Through  
the Mortgage Process"

Carly - Help you find your way there

Julia > Broker paid by consumer + lender <

Their study  
Studies - Callahan - we did study - matched  
borrowers loan to credit

Retail      Broker

> 200 pts. higher than retail

~~Q~~ Outside studies:

Broker originated loans higher default rates

New Century New Mgmt. (Orange County)

quality control 2007

How many brokers do you get different loans from?

50,000 / diff brokers -

(just a data pt.)

Q New Century - front-end loaded - mentored - ? No.

! They were trying to convince us that the loans were ok

Went there 2005 - no way these are sustainable  
> "we understand this is not a sustainable biz model"

Failures of regulation - no indiv. leader  
Could - participate or get into other biz

Cap yield spread premiums - Option One - tried to  
take public post - "Unethical"  
could get any loans from brokers -

Factor that mortgage brokers  
Not regulated by anyone?

Jeyar -

Ability of ppl to recycle themselves  
thru the industry. Subprime lender works, +  
target of AG → can move to the next spot.

→ Registration + licensing are helpful  
to screen out folks

Make sure ppl have <sup>fraud.</sup> track record -

don't represent themselves in the biz

Callahan  
> State funds - disqualify based on records  
inc. former drug dealer went into real estate  
OK -

Follow the \$ - when are the fin. incentives

Appraisals - in hearings in Senate.  
Mgr. of regional appraisal firm - { lender - hit  
the market - or  
don't expect any  
new biz.

Q Plc restructuring plc in biz -

Their mbrs. did not want to share info -

Or create antitrust - don't share info about  
bad actors could recycle?

" There was no incentive for the lenders to

Julia - "Can"

" All you want is the volume, you don't have  
to care about what they're doing. "

Break for H20

> Defaults were remarkably low for a long time

Q Appraisers - Blackballed if they didn't hit #.

Not a lot of prosecution bec. of subjectivity  
in market. Comment?

> One of the major portfolio lenders would  
not rely - unreliable (World Savings)  
on outside

Right or law on books - enforcement -

can't be enforced by an indiv.

Small fry - Big plaintiffs attys: -

Julia

Ensure private Rt. of Action

Ensure the back shop -



predatory lending - gone on in  
lots of diff of monetary lending environ.

Extent of these -

Calhoun - Traser <sup>rate</sup> 8.5% (weren't all that low)

It was more recently - 2007 resers in 2/28 mapi  
factors in default - bec. int. rates fell

But the loans not sustainable -

- hence approx. rates -

Regulation - <sup>Julia</sup> 1990s - regulators had access to the data  
by early in 2002. the data very much then  
late 1990s) defaulting

Met w/ OCC + OTSR

Others met w/ Fed regularly -  
to pt out trends in data.

late 1990s - early 2000s -

access to what was going -

⊗ lack enforcement auth?

Julia - Way - "Their task was the safety +  
soundness of banks"

Calhoun -

2 Crises:

pred. subprime lending can be done on a profitable  
basis  
1998-2003 - ultimately got out

you can price in add'l interest  
to compensate high foreclosure rates

( Prime loans had been commoditized w/ low margins )

Subprime loans were getting hammered when econ. was doing fine

Fed - most conspic. regulator

HOEPA - They knew they had that authority. 2005 - they were saying muddying of that -

2000-2001 regul. record - Fed -

incl. single credit instr. under HOEPA -

Considered using their plenary auth to regulate all mortgages ( limit refinancing for special mortgages - bec. of victims )

2000-2001 Fed proposed rule for those mortg.

Wed - did not exercise that auth

HOEPA - then after comment -

State Regulators - did want to deal w/ that

○ Preemption - ?

Very sign. factor -

Julia - There was legit in a # of states

no enforcement agnst. fin. inst.

Ohio - OCC said you can't do it.

Callahan

OCC

agnst rule-based regul. of lending

2003-2004 - prop. standards for

home mortgages -

principle based -

## Regulatory competi -

① Regulators - no slow econ. growth

Calhoun - Alan Greenspan - he was generally  
anti-regulatory + that was a huge  
factor -

② Futini  
not good commun. -

line staff - up the flagpole -  
showing profitability -

③ Calhoun - Fed - 1/28 loans -

asked for mtgs -

they were steamed - the loans  
had these teaser rates -

Futini  
True w/ other agencies + Fed -

Policy makers - not push marketed  
All of that <sup>president</sup> policy level challenge  
bec. ple bring their own exp.

Futini - Other mtgs @ Fed -

staff talking as if everyone in Cen  
has \$200,000 - home -

Culture Shift -

home ownership -  
only family asset -  
transfer wealth from one gen.  
to another -

Home as investment versus a place  
to build equity

Unemployment driven foreclosures

Julia

By not regulating  
we ended up a much  
tighter credit market  
than anyone could have  
foreseen.

We ran the car into a  
ditch

Julia: we haven't figured out how  
to get out - unempl. + hsg declines -

drive market down + down -

N. Dakota

Q States - FIA - CA - mortgage fraud +

pred. lending -  
[Cathoun] - CA - standards - we support  
realignment of incentives

CA Mort Brokers had a fiduciary duty  
to reduce severity of the bubble -

Was abt overheated markets -  
self-fueling aspect of a bubble econ.  
(what came first on the dot.com bubble)  
- feedback cycle -

Q Large minority popul. -

Julien N. Dakota -

CA - Latino households -  
Julien - report can't be an accident

Q CRA - it was a victim of the  
crisis, not a cause of it -

Pls weren't doing these bad loans for  
CRA credit.

The bad lending crowded out the good lending.

Jacksonville - Home Bank - zero base loan -  
pulled a lot of ppl into that  
it was selling - \$100 - \$150 / mo. less

Julia prof CRA was for instits. to loan to  
qualified borrowers -  
nothing abt

Q - Successive in blocking reforms  
It's pretty stunning we didn't get.

1994 HOEPA - gap in time

Trade - was working no risks  
innovative products -

Julia

President Bush take \$ out of homes  
to help the economy -

CASH-out refinancing -

Q - Tax consequences (foreigners refused to  
extend to those who took \$ out  
of houses)

U U U talking pts.

> Callous - Mortgage Bankers -  
More PAC -  
Americquest - one of the  
most polit. active  
\$1m. to Bush Re-elect.  
\$1m to inaugu.  
One of the largest polit. contrib.  
to the ticket -

Juan - \$ used to punish those  
who supported the Reg reform  
but

Q Examples - who Callous

Am B. Assoc.  
Nat'l Assoc. of  
Mr. Brokers -  
Other  
Doers

ICBA -

C.FAL - Andrews -  
Option One  
Household Bank  
Wall Street Firm - virtually integr.  
to guarantee supply of loans -  
Lobbying

Ann  
Comm. Bankers

Consumer Mktg.

Housing Policy  
Council

Juan + Fudde - some point, but  
generally opposed to any -  
legality of loan

Nat'l Assoc. of Realtors we worked closely w/  
them - Brian fight w/ banks

① Fraud - what extent play - all loans  
2005-2007 - 12% indicated of fraud.

in subprime - % much higher  
< inflated appraisals >

FBI - material misrepresent.  
Carleun was widespread

loan applic. padding -  
usually completed by broker + presented to  
the borrower -

Routinely - like resource padding -  
w/ tend to gloss these up "

Cottage industry of explicit fraud -

W2 forms scanned & altered  
loans - brokers give low-inc. ple  
"phantom second jobs" -

Borrower fraud - relatively ltd.

India - assumed to be borrower was usually  
broker fraud.

IndyMac - had req. if loan no Doc -  
file cd not contain any info  
that reflected any income



② FBI - fraud for housing (borrower)  
          fraud for profit (organized)

Biggie Nelson

Julia

absolutely the fraud for profit -

They are tied to the house  
built in check for them.

→ getting charged an extra 100 basis pts

