

Sarah Hanks - COP - (Red Stealy in Hawaii)

Background - Undergrad degree speech path & aud.  
Univ. of Houston

- taught public school

NI Rutgers - Law degree 1976  
Solo practitioner - civil law

Teach class Rutgers

Univ. Houston

" Texas

Mich

Penn

Hawaii since 1995 -

Leo Gottlieb prof. of law -

Track One - Consumer perspective causes +  
consequences -

Too way to work @ it

100,000 feet - imp to think abt incog. fragility - families

1970s - flat wages for fully empl. men

Rising housing health care Transp. costs -

premium on families -

Both parents in workplace -

Took on more debt - to deal w/ emergencies

stopped savings -

hit late 1990s - families taking on  
more debt -

absence of  
Usury laws are the tent pole of consumer  
regulation - knocked out for  
1979 credit cards  
1980 - by Congress on mortgages

Adapt new biz models - takes a decade -  
Old idea - lend to those who can repay  
Gave way to profitable model -  
lend widely ~~at~~ in large amounts -  
To ppl who have managerial ability to repay

When there were usury ceilings - not worth who  
products very complex - didn't make it -  
Compare one to another -

Once cap gone - products bec. complex -  
Consumers can't compare notes

Ex. 1980 credit card agreement  
700 words - interest rate was the variable  
by 2000s - agreements 30 pp. of largely  
incomprehensible text - can't tell full  
pricing - you can see this in revenue streams

the computer

Feb - 2007 - Congressional trip  
universal default - into credit card  
agreements -  
effect - you kept making payments 79%



79 to 2970 → . a penalty rate of interest "

> Citibank said it was doing away w/ universal default -

6 mos. late - they were adding it back in -  
statement VP - we made our card a  
little clearer -

All we did was give up revenue -  
going back to old way of doing biz -

@ Gary C. - pp. of card statements -  
response to market or regulation?  
(Both + Both) - Yes + Yes.

The product itself became complicated.

Nominal int. rate ↓, but cost of credit product ↑

Credit cards = innovators, but mortgage lenders were  
not far behind -

Shift from careful screening

More profits to be made from the marginally solvent -

@ Tom -  
When did this happen?

Credit cards → mortgages

Late 1990s

One off. @ Freddie Mac told her

as long as Fannie + Freddie were marketers,  
they defined what was a "company loan"

Callo - softer twist to keep "company loan"

The guy wld say "No"

"One day the phone stopped ringing" → The market went to securitization instead of GSEs

Fannie & Freddie given a choice: lose mortgage share

Standards vs. Profits

→ Fannie + Freddie decided to drop their standards

Q KD -  
When? - late 1990s into early 2000s -  
1 by 2003 - GSEs have lost that market

Q TS - What's wrong w/ losing market share?  
What was the role of Fannie & Freddie's?  
Depends on your definition.

Q TS - Consumer credit market - contributing to fin. crisis

- 1) In part the credit card - contributed in two enormous ways -
- 2) Consumer credit market charges made families so much more fragile - even little changes <sup>would</sup> send them into econ. failure

Q DATA - Her writing debt  
bankruptcy defaults  
contact by debt collector -  
Country doesn't collect quite the same data -  
correlation, NOT CAUSE



link betw rise credit card debt ↑  
+ bankruptcy -

Prof. Ronald Mann - Columbia - "Charging Ahead"  
5 ctuis  
US  
Canada  
Japan  
2 Eur. ctuis

Credit card debt + other econ. failure

show for whole popul. - consumer credit rises -  
bankruptcy - short term borrowing  
patches families tog., but assoc. costs  
of that debt end up sinking families

⊗ Mortgage Transaction itself - ?

lending up until end of 1990s was  
a "virtuous circle" - up until Fannie + Freddie  
steps in

Banker decides - market rewards the smart  
on risk vs. reward -

How to get diversification <sup>of risk?</sup> who losing the virtuous circle  
Fannie + Freddie did that -

↓  
when his standards went down - no penalty  
for bad decisions - "That's where the  
Crisis comes from. Right @ that  
pt. "



Banker eat the losses if wrong - perfect market  
gets the funding @ the 1st place

Fanni + Freddie offer liquidity - but less touch  
w/ borrowers - if rt. standards -

"That breaks down entirely w/ the securitization market"

lenders - if tradit. banker relationship -  
Wld have been harder to emulate credit card eos.

Q - Mortgage Transactions As vms  
"Tricks + Traps" "Did it so much faster"

Tricks in mortgages - as academic - I didn't keep up  
w/ it -

Mortgages for older generation = stability - solidity

Credit reports + car loans anchored off the  
house loans

first student bankruptcy

1981

Mortgages were a stabilizer in market -  
"Enforced savings devices"

Home + SS = retirement plan  
equity Much more than investments

balloon etc.  
Most people didn't understand -

"The dog becomes a bear" -

That shift occurred so fast - most people did not understand

☞ Five big sheets: Soph. analysis - the price in the trenches - "Is that legal"

☞ - Fed clues? "I found myself hrg to explain this everywhere I went"

By early 2000s - talking to anyone who would listen how the mortgage market changed + changed the econ. of the family

Big \$ inflows = housing bubble  
"if even mildly suspicious that mortgage - there was the roar of a hog bubble in your ears -"

"Ordinary suspicion becomes overridden by hrg. bubble that inflated"

☞ DATA - late 1990s → ?  
Susan Wachter / Wharton  
Adam Mour. &



#4 - Tape rec. #2 -

"The customer's had bullseyes painted on their backs & didn't know it"

or Blindsided -

"If they were blindsided it was because they had their eyes closed"

We knew

We were doing blog posts -

I did warnings 2003 - 2 - the same tracks

Harvard - Govt officials 2004.

Brig School 2004 - 2005 -

presented

Michael Barr

Pete Tefano -

Eric Betsky -

Everyone in here - PhD -

if we don't know what people -



Q TS - Consumer goes to broker - fraud  
This is a tough one - plz respond.  
for saying things that are true -

Anecdotes

Mortgage broker changed the #s

Just it in for me -

presumption into system -

Too costly to have an advocate

Q TS - Consequences of crisis:

Costs of crisis to consumer -

→ look @ foreclosures - these are the death cases -  
"Following the Econ. prudent thing -"

Troubles me: Remember like unempl.

Short sales - hand over keys -

are showing up in foreclosure #s -

Data sign. underrepresenting

Foreclosures - cumulatively - if at all  
(Tawana data) <sup>did of lie</sup> - no one tracking

→ Phila. Fed - data on foreclosures -  
Inclusive database on foreclosures  
→ 30 - 40 - 60 day default - 270  
" 270 days ↑ huge magn.

## Not Jingle mail -

Kristin  
Q NY - DC - Bakerfield - Las Vegas -  
80% loans in Nevada - underwater  
50% zip codes in Fla. - delinquent

Projections - NOT good.  
→ Businesses walk away when they're underwater

Everything priced into the loan - to expect homeowners to behave differently is naive -  
Not every homeowner will walk away.

Rising market not going to produce  
Sumo

Q Gay? Anti-deficit states  
vs. anti-recourse states  
→ Even in non-deficiency state dsnr  
mean borrower has any assets -

"No"  
data good

"The legal right dsnr always produce \$"

3 good studies that <sup>No</sup> state outperforms  
lending laws - <sup>1990s 2000s</sup> higher foreclosure rates  
than others



↳ bigger on credit cards -

TEXAS study - VT -

→ Centr for Respons. Lending (NC) ?

Their studies tend to be really good.

① IS - Impact of foreclosure -

"JUST Walk Away" I mt as well move out of  
this house I'm renting +  
so rent another one -

Terrible emotionally

There are more + more families to take  
care of themselves first

② What are the conseq. - ? In part it depends on  
where you are in the curve -

Suicides in Nevada - 6 murders - suicides -  
in August -

↳ Old foreclosures - the guy who foreclosed had  
to look @ you - tell you himself -

③ WARNINGS ?

Op-Ed - yield spread premium  
conseq. '07 -

> Her email jammed < then -

Q Innovation wasn't supposed to  
mean that the sophisticates  
Ald put the pockets of  
the unsophisticated

unwelcome - it was regarded  
as not just stupid - but  
subversive, inappropriate

Improving

ex. - Bankruptcy laws - premise  
a company goes bankrupt -  
automatic stay to protect assets -  
Eg. to rescue or liquidate to max. return  
to investor + creditors

Law If belly up - can't collect for some pd. of time  
"lock the doors + windows"

1990s (1994) Small techn. amendments to  
bank. laws - some instruments trade even  
if bankrupt - hmmm!

Late 1990s - series of amendments -  
Consumer bankruptcy



Exempt from auto. stay in bankruptcy -

(she)  
Risk vs. (costs)  
adopted 2005 -

(injected more risk  
into the fin. system)

Expert  
Jay Westbrook  
UTexas law school -  
Served on  
Citrus - Nat'l  
Bankruptcy  
Conference

Lehman - choos - now we watch -  
picking through the rubble -

- leading that wld have been secured credit -  
wld trade for a few more  
basis pts -

Employees, trade creditors - who never  
in the opportunity

Lobbying!

"It's just not a level playing field"

Q - Did that provision change the way  
they behaved -

Euron collapsed - Remster vehicle - "Bankruptcy Remster vehicle"

Clinton vetoes last act in office -

Euron explodes - Am public steps in -  
to capture attention - Called NYT  
provision - wld say what Euron  
did was OK & retroces wld have  
gotten no assets if law passed -



nyj - front page article -

Bull printed next time - that one  
dense removed, it has been Euron-ized -

<sup>per ni</sup>  
High finance - bankruptcy remote vehicles -  
full out of favor -  
shift risk - so the market works -

→ Securitization gains a comparative adv. -

→ What scares me

Lehman - risk among visible cos.

A market segment we identify -

COP  
panel

How many other cos are being effectively  
fin. sources co. - Guy from Cerberus -

1 1/2 yrs. ago spring 2009 -

Crisis in full force -

Access to capital questions - Executive of Co. -

" We don't use banks -

" We go to capital markets -

" And we lend \$ to all of our suppliers "

Manufacturing glass + mg. the flow of \$  
to markets -

" A bank that produces glass "



raises questions about risk  
What happens when a manufacturer -  
wld have been fully protected -  
now looks like a bankruptcy -

KD -  
① - Good biz reason -  
Innovation

Aversion to regulation - Chicago school  
of economics ?

" Belief that markets wld always  
regulate themselves

has been proven deeply  
deeply wrong "

" No one wanted to talk about risk "

equity

debt

risk that this biz won't make it -

" don't change by capital structure "

Troubles - no one wanted to talk  
about risk -

" Risk game has been very very good  
for the financial intermediaries  
& bad for the families "

Crisis - Blow up -

> How many of the decision makers  
lost their homes -

④ Loan modifications -  
adam levittor.