3-29-2010

FCIC memo of staff interview with Bob Gnaizda, Orson Aguilar, Chris Vaeth, Greenlining Institute

Robert Gnaizda

Orson Aguilar

Chris Vaeth

Dixie Noonan

George Wahl

MEMORANDUM FOR THE RECORD - MFR

Event: Interview with the Greenlining Institute

Type of Event: Telephone Interview

Date of Event: March 25, 2010

Team Leader: Dixie Noonan

Participants - Non-Commission: From the Greenlining Institute: Orson Aguilar, Executive Director; Chris Vaeth, Legislative Director; and Bob Gnaizda, General Counsel & Policy Director (retired)

Participants - Commission: Dixie Noonan, George Wahl

Date of MFR: March 29, 2010

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 the Interview or Submission:

We explained that we were interested in speaking with the Greenlining Institute about its efforts to warn the Federal Reserve and its Chairman, Alan Greenspan, about predatory mortgage practices (as reported in the New York Times, "Fed Shrugged as Subprime Crisis Spread," E. Andrews, Dec. 18, 2007).

Bob Gnaizda said that the Greenlining Institute had semi-annual meetings with Chairman Greenspan beginning in 1992, and that its efforts on subprime lending practices began around 1999. They raised predatory lending concerns and the need to regulate predatory lending with Chairman Greenspan.

In at least two meetings in 2000 and 2001, Mr. Gnaizda told Chairman Greenspan that they didn't agree with the OCC's preemption policy and they didn't agree that the federal regulators had no influence over the most dangerous mortgage instruments.

Mr. Gnaizda urged regulatory compromise that was consistent with Chairman Greenspan's free market approach. He suggested that Chairman Greenspan bring together 8-10 of the largest financial institutions to adopt a code of conduct regarding all types of home lending, but with a focus on predatory lending. This was not dissimilar to Sheila Bair's "best practices" proposal when she was an Assistant Secretary at Treasury. Mr. Gnaizda thought that if the banks could agree on a high common denominator, they could work with community groups and regulators to establish the equivalent of a seal of approval. Chairman Greenspan responded that this probably wouldn't work. They discussed particular mortgage instruments, which the Fed staff looked into.

Mr. Gnaizda's proposed response was that if the entity is unregulated, it is free to offer different mortgage instruments but it must tell applicants: (1) they are not approved by the federal government; (2) the government has a list of approved firms; and (3) borrowers have the right to call a hotline within 14 days to get advice regarding the terms of their loan. Mr. Gnaizda believes this would have eliminated 90+% of the problems (e.g., Ameriquest).

Mr. Gnaizda said it is hard to define "predatory lending" except to say that it is not limited to subprime. Mr. Gnaizda pointed to World Savings as a problematic example, saying that all of its loans were predatory, and that it did not offer any fixed-rate products.

After Chairman Greenspan's comments in February 2004 concerning the benefits of adjustable-rate mortgages, the Greenlining Institute convened a meeting with 15 financial institutions and regulators (including the FDIC, OCC, OTS, and Federal Reserve). The Fed's representative may have been [redacted]. The Greenlining Institute felt that Chairman Greenspan's remarks were troublesome and urged banks to join with community groups and regulators to develop a minimum amount of adjustable-rate mortgages and for banks to assume some fiduciary responsibility to borrowers. Mr. Gnaizda said that not one bank would agree to the proposal, but that Wells Fargo came closest.

In June or July 2004, John Gamboa (of the Greenlining Institute) met with Chairman Greenspan and 8 key Fed staff members. Chairman Greenspan said he appreciated the letter from Mr. Gamboa and that he had asked his staff to look at all adjustable-rate mortgages. When pushed by Mr. Gamboa, Chairman Greenspan admitted that he had never had an adjustable-rate mortgage because he liked certainty.

In early February 2005, the Greenlining Institute convened another meeting with financial firms. This took place at the Federal Reserve Bank of San Francisco. [redacted] the head of CRA for FRB SF was there. (Mr. Gnaizda said that [redacted] is practical and never bought into Jerry Hawke's OCC view.)

At the meeting, Countrywide made it clear that it was not willing to stop offering products because it believed in consumer choice and that they helped its clients, particularly minorities. Brad Blackwell of Wells Fargo was willing to take the lead in establishing a high common denominator on ARMs -- i.e., that only a certain number should be available; always make sure homeowner understood the implications; always offer a fixed-rate alternative; require a minimum of 5 years before they can be modified; set a maximum on how much the rate can increase (i.e., no more than a 2-3% increase over a 10 year period); always look at the income of the borrower. Mr. Gnaizda said that Mr. Blackwell would probably be willing to talk to the FCIC.

The Greenlining Institute is a proponent of restricted ARMs in limited use. Mr. Gnaizda said that they would send us copies of relevant American Banker articles (including a Feb. 2005 op-ed re: ARMs Race Could Lead to Foreclosure Crisis).

In 2000/2001, on the issue of regulating subprime, the Greenlining Institute wasn't able to convince Chairman Greenspan that regulating subprime lending wasn't inconsistent with Adam

Smith's free market views (i.e., free market works best with regulation and total information). Chairman Greenspan was not opposed to the industry doing something on its own, but he was not willing to call the industry meetings suggested by the Greenlining Institute.

Mr. Gnaizda said that mortgage fraud was not a topic of discussion at the two meetings with banks that he described. He says the issue may have been discussed at other meetings.

Mr. Gnaizda said that when Greenspan was Fed Chairman, he met with Greenlining Institute representatives alone (unlike Chairman Bernanke, who brings other Governors to these meetings). The Greenlining Institute did meet with other Fed Governors while Greenspan was Chairman (including Janet Yellen, Alan Blinder, Roger Ferguson and Alice Rivlin), but met with them each separately.

Mr. Gnaizda said that the Greenlining Institute did correspond with Angelo Mozilo at Countrywide and other market participants regarding what they were seeing in the market, but that Greenlining's success was mostly with regulators. The Greenlining Institute had a successful relationship with Gene Ludwig at the OCC and Ellen Seidman at OTS.

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