

Yale University

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Documents (Series 1)

[Browse by Media Type](#)

9-16-2010

Notes from Interview of Julia Gordon and Mike Calhoun

Mike Calhoun

Julia Gordon

Follow this and additional works at: <https://elischolar.library.yale.edu/ypfs-documents>

Recommended Citation

Calhoun, Mike and Gordon, Julia, "Notes from Interview of Julia Gordon and Mike Calhoun" (2010). *YPFS Documents (Series 1)*. 6302.

<https://elischolar.library.yale.edu/ypfs-documents/6302>

This Document is brought to you for free and open access by the Browse by Media Type at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in YPFS Documents (Series 1) by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.

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 ^{basis} 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 ^{were} 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 - ^{press reports} 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 final 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 walking for them?

Julia - Yes

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

Big Chris Dodd -
"Mortgage ^{from Open} Trusted ^{Guiding You} Through
the Mortgage Process"

Carly - Help you find your way there

Julia > Broker paid by consumer + lender <

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

Retail Broker

> 200 pts. higher than retail

~~Q~~ Outside studies:

Broker originated loans higher default rate

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 - mention - ? 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?

Jeyaraj -

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 ^{fraud.} 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.
Mngr. of regional appraisal firm - { lender - hit
the market - or
don't expect any
new biz.

Q Pls rewording pls 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 b/c. 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 ^{rate} 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 - ^{Julia} 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 primary 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 ^{president} 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 -

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

Q Examples - who Callous

Am B. Assoc.
Nat'l Assoc. of
Mr. Brokers -
Blue
Doeg

ICBA -

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

Ann
Comm. Bankers

Consumer Martz.

Housing Policy
Council

Juni + Fuddeu - some point, but
generally opposed to any -
legality of loan

Nat'l Assoc. of Realtors we worked closely w/
them - Broker 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)

Bigger problem

Julia

absolutely the fraud for profit -

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

→ getting charged an extra 100 basis pts

