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DRAFT
MEMORANDUM

TO:	File
FROM:	Mina Simhai
DATE:	January 26, 2009
RE:	Telecon w/ James Burkeen 36 CFR 1256.56 - Privacy [redacted] former contractor for Clayton Holdings

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On Wednesday, January 26, 2010 Tom Krebs and I phoned James Burkeen, who worked as a contractor for Clayton Holdings from January 2004 through June 2008. He started as an underwriter and was promoted to Quality Control ("QC") and then to Lead. Mr. Burkeen attended college but did not graduate. Before working for Clayton Holdings, Mr. Burkeen worked for SIB Mortgage, underwriting sub-prime loans driven by credit scores. SIB Mortgage was bought by Lehman Brothers. Following the acquisition Mr. Burkeen worked for Lehman Brothers, where he became a senior loan originator. Mr. Burkeen was offered the choice of transferring to Denver or New Jersey 36 CFR 1256.56 - Privacy [redacted] Lehman, Troy James of Clayton Holdings recruited Mr. Burkeen to work for Clayton Holdings. Although Mr. Burkeen was technically employed by PCI Group, an HR outsourcing business (*e.g.* PCI Group was the name on his paycheck) he worked only for Clayton Holdings, more than 40 weeks a year. Mr. Burkeen advised that about 2/100 people who worked for Clayton "on-the-road" were actually employed by Clayton, the rest were contractors like himself. Now Mr. Burkeen is working for investors and securitizers, reviewing loan pools to identify loans that should be put back to the sellers of the loans.

Lehman Brothers

According to Mr. Burkeen, Lehman Brothers bought pools of loans and individual loans from mortgage brokers that were underwritten to Lehman's guidelines, which were, in Mr. Burkeen's opinion "pretty good" guidelines. Lehman bought pools of mortgage loans (including sub-prime loans) from many entities, including Wells Fargo, Wachovia, US Bank, Bank of American and Freemont. He reviewed a lot of government mortgages, including loans from FHA, the VA, Freddie Mac and Fannie Mae.

Contractor for Clayton Holdings

Underwriter. As a contractor for Clayton Holdings ("Clayton"), Mr. Burkeen started as an underwriter. At Clayton, he reviewed loans contained in loan pools that Clayton's clients were considering purchasing. He would fly or drive to the job sites where the loan files to be reviewed were located. Travel and hotel expenses were covered. Job assignments typically lasted one week. The longest Mr. Burkeen worked on a job was 3 weeks, but he did not usually have to do "rolling" trips (*e.g.* spending the weekend at the job site).

When he started working for Clayton, Mr. Burkeen attended a 1 week training course in Connecticut. The training focused on credit practices, documentation and Clayton's proprietary software, the "CLAS System" (Clayton Loan Analysis System). About 30 people started in his class, and about 23 graduated. Chris Scampoli taught the class.

Mr. Burkeen stated he was already familiar with standard loan documents from his prior experience at Lehman Brothers and SBI Mortgage. At Clayton, he reviewed Fannie Mae form 1003 loan applications, which contained general information, and Fannie Mae form 1008 uniform underwriting and transmittal summaries, which included debt ratios, loan-to-values ("LTV"), combined-loan-to-values (*e.g.* the LTV of a borrower's first and second mortgage), and debt to income ratios.

Mr. Burkeen's first job for Clayton was in Orange County, California. There were about 25 people on the job; they reviewed 400 loans, which was every loan in the pool. Investors would decide how many loans in the pool to review. According to Mr. Burkeen, about 75% of the time investors would review 100% of the loans. Oftentimes he did not know or could not recall who the client was on a particular due diligence project, but he did state that Lehman Brothers hired Clayton.

Review of Loan Files. When reviewing loans, Mr. Burkeen used 2 sets of underwriting guidelines: (1) he reviewed loan files to ensure they complied with the originator's guidelines, and (2) he ensured they complied with the loan purchaser's guidelines. Mr. Burkeen advised that he thought Clayton's standards stayed about the same during his tenure with Clayton but that industry guidelines got worse, and brokers seemed more worried about loan volume than loan quality. The underwriters would review hard copies of the loan files and input certain data into the CLAS system.

Mr. Burkeen also noted that the loan purchasers could block loans from getting into the loan pool if they did not meet certain LTV or FICO requirements.

When he worked on jobs in California the rooms, servers and documents would typically be set up when the underwriters arrived for work, but in Chicago the leads often had to set them up themselves. Mr. Burkeen also observed that underwriters in California tended to be more lax than underwriters in the Midwest.

According to Mr. Burkeen, loans that received a ranking of 1 (the highest ranking) went in the box of accepted loans. Loans that received a ranking of 2 or 3 (3 being fail) would go to QC for a second review. The people in QC would review the hard copy loan files. Loans with a rank of 2 or 3 often had "compensating factors" explaining why the originator approved the loan in the first place. For instance, if the FICO requirement was 645, an originator might approve someone with a 640 FICO score due to compensating factors such as the borrower had been employed by his job for 20 years and had no payment delinquencies on his credit report.

Mr. Burkeen stated that Clayton would advise its clients of the loan rankings and it was up to the investors to decide whether they wanted to buy the bad loans. Mr. Burkeen estimated that clients typically purchased 35-40% of the bad loans Clayton identified.

According to Mr. Burkeen, leads he worked with often requested him again for their jobs. He stated he was "fast and thorough," meaning he would reject the bad loans. Mr. Burkeen worked as underwriter for about a year and a half. When he started he made
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[redacted]
Expenses such as gas, tolls and parking were reimbursed separately.

The biggest project Mr. Burkeen worked on at Clayton was a pool of 20,000 loans, based in CA, in late 2007 or early 2008. In this project, a hedge fund was buying loans from a sub-prime originator. Calvin Peterson was the lead on this project.

Mr. Burkeen knew lead Gary Barmore of Texas, and Mr. Burkeen thought Mr. Barmore may be from the Houston area. Mr. Barmore had 2 sisters who also worked for Clayton, one named Deb Medina. His son, Ben Barmore, worked at Clayton too. Mr. Burkeen got along with Mr. Barmore fine but noted that other people may have had issues with him. He also stated Mr. Barmore was one of the few leads who required his underwriters to work from 7 a.m. until 11 p.m.

Fraud. Mr. Burkeen stated he saw quite a bit of fraud throughout the country. Types of fraud he observed included the following:

1. *Appraisals*. Appraisers often inflated home values because they were in cahoots with mortgage brokers. This fraud could be identified by looking at "comparables" of houses on the same street or in the same neighborhood as the house being appraised, although fraud was difficult to prove.
2. *Income*. For loans where people had to provide some verification of their income, people would sometimes submit fraudulent W-2s, 1099s or other documents. For stated-income loans incomes would sometimes be grossly overstated, such that a Google search would show that the claimed income

was unreasonable. Oftentimes underwriters had to approve loans even if they didn't "look right" because the underwriter could not prove the amount was wrong.

3. *Seasoning*. Seasoning is stripping the equity out of a property, and it often went hand in hand with fraudulent appraisals, which allowed more equity to be stripped out. Under most guidelines a borrower must wait 12 months to refinance. However, a compensating factor that allowed borrowers to refinance earlier might be an appraisal showing the home had appreciated in value.
4. *Social Security fraud*. Loan applications sometimes use a person's real name but a stolen social security number. A credit report shows how many social security numbers a person has used, and multiple social security numbers may lead an underwriter to suspect fraud.
5. *Straw borrowers*. Under this scheme, a straw buyer is someone, typically with a higher credit score, that is listed on the mortgage even though he/she does not intend to live in the house (*e.g.* a parent and their adult child are both on the mortgage for child's house because parent has a higher credit score).

QC. When asked how he got promoted to QC, Mr. Burkeen stated he did good work and got good reviews. Mr. Burkeen went through a 3 week training program when he was promoted to QC. The first week was in Connecticut, and the other 2 weeks were on-site training (in CT and FL). Mike "Precious" Calloway from San Antonio taught the QC training.

In QC, Mr. Burkeen re-reviewed loans that the underwriters reviewed. According to Mr. Burkeen, if there was no real issue with the loan he would overturn the underwriters ranking, but if there was a real issue he would keep the rating as it was. It was typical to have 1 QC person for every 3 underwriters.

Mr. Burkeen worked as a QC for about a year and a half. At the beginning he traveled all over the country, but he requested to be work on jobs only in the Midwest because he preferred driving over flying to the work sites.

As a QC, Mr. Burkeen received 36 CFR 1256.56 - Privacy

Lead. Mr. Burkeen was promoted to lead. When asked how he got promoted, he stated that Lead Tremayne Carr, whom he worked with frequently, delegated a lot of responsibility to him and supported Mr. Burkeen's promotion. According to Mr. Burkeen, Mr. Carr is from Chicago, graduated from Brown University, lived in Atlanta for a time, and is now working in Virginia for Fannie Mae.

When Mr. Burkeen worked as a lead, representatives from Clayton's clients' would be on site sometimes, and other times he would communicate with the clients via phone or email. Typically, when Mr. Burkeen started a project he would meet with the underwriters to go over the CLAS system and what to focus on during their review of loan documents.

Mr. Burkeen's first job as a lead was in Ohio. The originator was National City; Mr. Burkeen did not recall the name of Clayton's client. The loans were prime loans. There were about 80-100 loans and the team consisted of 3 people: Mr. Burkeen, who performed the role of QC and Lead, and 2 underwriters. Each underwriter reviewed 8 loans a day. His second job as a lead was in Detroit, where Clayton reviewed about 150 loans. The biggest job Mr. Burkeen worked on as a lead involved about 400 loans. The job was based in Chicago. Resmae was the originator and the pool of loans was being bought by a hedge fund. The Clayton team consisted of 4 people. This transaction was done in late 2007 or early 2008, when the markets had already headed south, and about 70% of the loans were rejected. This was a higher rejection level than was typical in Mr. Burkeen's earlier days at Clayton because lending guidelines had gotten stricter.

Mr. Burkeen stated there was a misconception on the size of bonuses leads received. The largest bonus he received was [redacted] and bonuses would be received for jobs that were completed on time.

As a Lead, Mr. Burkeen received 36 CFR 1256.56 - Privacy

Mr. Burkeen believed Clayton did a good job of telling investors which loans were bad, but investors were greedy and would buy the bad loans anyway. According to Mr. Burkeen, almost all the investors, including Bear Stearns, Lehman, Morgan Stanley and Credit Suisse, would still buy the "bad" loans, but Goldman Sachs was more diligent about the loans they purchased.

<u>Current Job</u>

Mr. Burkeen currently works for investors and securitizers who purchased pools of loans. His job is to review the loans to for defects that would allow the investor to "put" the loan back to the seller. Some of the loans he is reviewing are loans that Clayton originally performed the due diligence on. According to Mr. Burkeen, the review he is doing now is more thorough, more like a forensic audit, than the review he did while at Clayton.

<u>Address</u>

James Burkeen
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<u>Next Steps</u>

1. Consider contacting Troy James of Clayton Holdings. He recruited Mr. Burkeen to join Clayton after Mr. Burkeen left Lehman Brothers.

2. Consider contacting Chris Scampoli, a contractor for Clayton who taught Mr. Burkeen's training class. (According to Mr. Burkeen, Mr. Scampoli is from NY or PA.)

3. Consider contacting Calvin Peterson, lead on the biggest project Mr. Burkeen worked on (20,000 loans in late 2007 or early 2008).

4. Consider contacting Mike "Precious" Calloway of Clayton Holdings, who taught QC training and is from San Antonio.

5. Consider contacting Tremayne Carr, a lead who helped Mr. Burkeen get promoted to lead. Mr. Burkeen believed Mr. Carr currently works for Fannie Mae.

6. Mr. Burkeen did not believe he had any copies of lending guidelines but said he would double check what he had.