SESSION 1: ECONOMIC ANALYSIS OF THE IMPACT OF THE
FINANCIAL CRISIS ON NEVADA

JEREMY AGUERO, Principal, Applied Analysis

SESSION 2: THE IMPACT OF THE FINANCIAL CRISIS ON
BUSINESSES OF NEVADA

STEVE HILL, Founder, Silver State Materials Corporation and Immediate Past Chairman, Las Vegas Chamber of Commerce

WILLIAM E. MARTIN, Vice Chairman and Chief Executive Officer, Service 1st Bank of Nevada

WALLY MURRAY, President and Chief Executive Officer, Greater Nevada Credit Union

PHILIP G. SATRE, Chairman International Gaming Technology (IGT) and of NV Energy, Inc.

SESSION 3: THE IMPACT OF THE FINANCIAL CRISIS ON NEVADA
REAL ESTATE

DANIEL G. BOGDEN, United States Attorney, State of Nevada

BRIAN GORDON, Principal, Applied Analysis
JAY JEFFRIES, Former Southwest Regional Sales Manager, Fremont Investment & Loan
GAIL BURKS, Chairwoman, Nevada Fair Housing Center

SESSION 4: THE IMPACT OF THE FINANCIAL CRISIS ON NEVADA PUBLIC AND COMMUNITY SERVICES

ANDREW CLINGER, Director of the Department of Administration, Chief of the Budget Division, State of Nevada
JEFFREY FONTAINE, Executive Director, Nevada Association of Counties
DAVID FRASER, Executive Director, Nevada League of Cities
HEATH MORRISON, Superintendent, Washoe County School District

SESSION 5: FORUM FOR PUBLIC COMMENT

MEMBERS OF THE PUBLIC
CHAIRMAN ANGELIDES: The public hearing of the Financial Crisis Inquiry Commission will come to order. Welcome to all of you here in Las Vegas. I'm Chairman Phil Angelides, and it's an honor to be here with each and every one of you and my fellow commissioners, and particularly with Commissioners Murren and Georgiou who hail from this wonderful city.

It's now my honor in starting this hearing today to welcome and bring forward the president of the University of Nevada Las Vegas, Dr. Neil Smatresk.

And Mr. President, are you here, and if so, I'd like to ask you to come forward and to welcome us to your University.
MR. SMATRESK: If you'll forgive me, I have to put on my Madonna mike.

Hello, everybody. Can you hear me okay?

THE PEOPLE: Yes.

MR. SMATRESK: First of all, my name is Neil Smatresk, and I'm president of UNLV, and I'm so proud and honored to have you here today.

I know that Heather Murren and Byron Georgiou went out of their way to make sure that this event could be here in Las Vegas. I think it's both important and fitting.

For those of you who haven't figured it out yet, Las Vegas is in many ways the epicenter of the financial crisis in America. We have a brutally high unemployment rate. And I know you'll hear more about that today.

We have had a dominant industry without the appropriate level of economic diversification, cues for how we go forward into the future to build once again a prosperous society and a prosperous region.

UNLV has also, along with higher education in Nevada, suffered to some extent as a result of this
crisis. And I don't want to put a real fine point on it, because I know you have bigger fish to fry, but I will say that when the average loss at the two major research universities in this state, in just over a year's time, was 20 percent of their state-based budget, and a cumulative impact here at UNLV of over 50 million dollars, one has to question both how this crisis interacts with education, which we all know is counter cyclical, and we all know is the refuge and retooling area for getting back out of the old economy and into new economies.

And so I would submit that as you deliberate on this incredibly important problem that we also ask ourselves have the impacts created situations that are now so challenging that we may in fact cut off the wellspring of work force development, of innovation, and of transformation of economies, that is the wellspring of education in our state and elsewhere.

I know that this is a topic that's near and dear to your hearts, and I, once again, say we have many wonderful people who are certainly pulling in the right direction, some of the legislators that we have here, Alice and Paul, Debra, elected officials in the audience, of course, captains of industry for our region, and folks like Senator Reid who have been working steadily to
create new economies and new jobs, particularly green
economies as so well-reflected in the recent development
of our City Center project, the largest green project in
the world.

So I say to all of you today, I hope you have
a vigorous session. I hope you explore our beautiful
campus, and I hope you remember that UNLV views itself
not as a funding problem or challenge but as a solution
to building a brighter and sustainable future.

I thank once again the Commission. I hope you
have a profitable day.

And with that, I will gracefully step down and
let you get on with the good work that you're doing.

Thank you all so much.

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CHAIRMAN ANGELIDES: Thank you very, very much.

And let me just say on behalf of the whole commission, thank you to you and your staff and everybody here at the University of Nevada Las Vegas for hosting us and for all your efforts to help us make this a successful public hearing for this Commission, and for all the work you're doing, thank you so much.

It's now my honor to hand over the gavel for this session to our Nevada based commissioners. And just a point of personal privilege, I'm going to make opening remarks along with other folks in a minute, but I just want to say that serving with Commissioner Murren and Commissioner Georgiou has been a real privilege and opportunity.

I have known Byron Georgiou because we shared the same heritage for many, many, many years, and he's a person of dedication and energy and intelligence.

I have just gotten to know Ms. Murren this year, and I will just tell you she's an exceptional commissioner who brings an incredible amount of insight
and intellect to this challenge.

And with no further ado, it is my honor now to hand over the gavel for today's session first to Ms. Murren and to take this hearing forward.

So, Heather, the gavel is yours. Use it wisely.

COMMISSIONER MURREN: Thank you, Mr. Chairman. I'd also like to echo my thanks to UNLV and their terrific team for hosting us today.

We are extremely proud to be here in a place that we think represents some of the best of Nevada. So we are happy to be able to hold our hearings here today.

I'd also like to thank Senator Reid for appointing me to this Commission. I think that it is very important work that we're doing. I certainly think that the ability to bring a background in finance and also in founding our State's Cancer Research and Treatment Center, the Nevada Cancer Institute lends itself to being able to try to understand some of the problems and challenges that we face, and also to be able to represent and hopefully answer for the American people and for the people of Nevada some of why the causes of the crisis came to pass.

And I think it's also important that we bring our hearings here today to hear from the people that were
so dramatically affected by what has unfolded.

The charge of the FCIC, of the Financial Crisis and Inquiry Commission, is to determine the causes of the financial and the economic crisis.

It is our hope that in doing an unbiased and independent analysis, that we can help to prevent future catastrophes from occurring.

We are evaluating a very broad range of issues. They range from Wall Street excesses and behaviors to leveraged international capital flows, mortgage fraud, among many other things.

We have examined hundreds of thousands of documents, e-mails, transcripts, sworn testimony, academic papers. And we of course have heard from many witnesses in many different positions of both authority and of action within the context of the crisis.

But there really is no substitute for getting out into the trenches to hear from the people who have been most profoundly affected.

Today's hearings are an important part of our work and to provide a forum for our community to be able to share their observations and their insights, all of which are uniquely ours.

And while some of the seeds of the crisis were planted over many years and in many different places,
some of them far away from here, after many years of
rapid growth, Nevada has, in fact, been more profoundly
affected by the crisis than other regions.

We are here today to learn more about why this
is so and how it came to be. We are focused on talking
to businesses within our community -- big businesses,
small businesses, nonprofit organizations, state
government, among others.

We're focused on looking at things like the
credit freeze that led to many businesses within our
community being extraordinarily stressed. Also housing
and mortgages and state budgets.

Nonprofit organizations as diverse as Three
Square, who help to feed our hungry, and also UMC, our
county hospital, have needed to bear the burden of seeing
an increasingly economically distressed citizenry.

Our businesses have had to make very sharp and
sometimes painful adjustments to our new economic
reality. Some of these businesses have not been able to
adjust and have failed.

And those who remain and endure are working
all the harder to continue to bring people here to Nevada
and to Las Vegas. And we will be hearing some very
sobering testimony about the impact of the financial
crisis on our neighborhood.
But there are also reasons for optimism. Steps for reforming areas of our financial system, help to homeowners and businesses, these are all important steps towards regaining the ground that we have lost. Here in Las Vegas we have seen some flashes of improvement. And though it will take time and hard work, and we need strong champions and advocates on our side as we go forward, it is undoubtable that we will prevail.

As one of our two hometown commissioners, I will be moderating the first half of our sessions today, and Commissioner Georgiou will be moderating the second half.

And we will be swearing in all of our witnesses, as is our custom.

And I'd like to make one note, and that is that we did not include as witnesses individuals who have current political races because we felt like we wanted to make sure that this was appropriately nonpolitical.

We are very grateful to the members of our community for providing their time and their talent and their information to the Commission; our state, local and Federal governments; our business communities.

I'd like to especially thank Nevada Title who helped us quite a bit on housing issues.

We'd like to thank you. Your help and your
engagement is critical to our success. And we thank you.

And now I'd like to go to Commissioner

Georgiou.

COMMISSIONER GEORGIOU: Thank you, Heather.

I would like to thank all of you today for

joining us for this Las Vegas hearing of the Financial

Crisis Inquiry Commission. And I, too, would like to

extend a special thanks to Senator Harry Reid for giving

me the opportunity to participate in this important work

and for choosing to give the citizens of Nevada two of

the ten voices on this national body charged with the

responsibility for investigating the causes of the global

financial crisis and economic crisis that has inflicted

such suffering on our community.

We've been engaged for over a year now on this

inquiry. Our national hearings in Washington, D.C. and

New York City have focused on the big causes that drove

this crisis, causes that are both from human actions and

failures to act by major parties in both the private and

the public sector.

We've heard sworn testimony from many people

intimately involved in the decisions that led to this

crisis. And although we will not release our report to

the President and the Congress until December 15, and are

currently engaged in a spirited debate within the
Commission on the conclusions that we will reach from our many hearings and the continuing investigations conducted by our staff, some things have become clear from the existing record.

There is plenty of blame to be shared by the people we relied upon to keep our economy safe and secure.

Testimony we have heard nationally has ranged from candid admissions by some witnesses of errors that led to the crisis, while others, too many, claimed that the crisis came upon them like a storm without any responsibility on their part for the consequences.

We've heard from executives in charge of the Wall Street financial institutions that failed, or would have failed but for the bipartisan fusion of extraordinary assistance from our government to avoid the even more severe consequences to our economic system that could have occurred, most experts believe would have resulted from a failure to provide the assistance.

Astonishingly, many of the witnesses testified that they did not know the extent of the risk of failure that their companies faced in the early stages of the crisis.

Others were more candid in, in acknowledging errors of risk management, corporate government,
excessive leverage, undercapitalization and failures in market discipline and accountability that permitted practices designed to earn short-term revenues while at the same time creating and accumulating long-term risk that jeopardized the very existence of well-known companies that survived and thrived through good and bad times before.

These companies permitted themselves to become so fragile that their continued existence was in jeopardy when the forces of the market moved against them. Story companies like AIG, Bear Stearns, Lehman Brothers, CitiGroup, Morgan Stanley, Goldman Sachs, to name but a few.

We've also heard from government officials, the current and immediately prior chairs of the Federal Reserve Boards, Secretaries of the Treasury, Chairs of the Securities and Exchange Commission, Chair of the Federal Deposit Insurance Corporation, and the heads of the alphabet soup of various public agencies responsible for monitoring the safety and the soundness of the private sector institutions that were permitted to become so weak that they failed or would have failed during the crisis.

We've looked into the impacts of the derivatives markets and the so-called shadow banking system that operated outside of the protective
environment of the government standard banking institutions that took in the deposits of citizens and businesses, and we've examined the practices that led to the existence of financial institutions deemed, quote, too big to fail, so that rather than simply permit them to go bankrupt in the normal course when they either became insolvent or faced liquidity issues, our public officials were faced with the difficult decision whether to risk the potentially devastating consequences of their failure, or rescue them at a cost to the American taxpayer.

We've now concluded our national hearings, but our staff investigations continue. During this month of September we've decided to hold a series of four local hearings, yesterday in Bakersfield, California, a community represented for almost three decades in the Congress by our Vice Chair Bill Thomas, today in Las Vegas, and later in Miami led by our Commissioner Bob Graham and Sacramento, led by our Chair Phil Angelides.

These local hearings are designed to focus our attention on the, the human consequences of the crisis, on ordinary Americans, who bore no responsibility for the creation of the crisis but suffer its effects.

Here in Nevada where our economy depends heavily on tourists from all over the world coming to
enjoy our many attractions, we've been particularly impacted by this crisis, which has pinched worldwide pocketbooks, leading to fewer people being able to visit and reduced spending by those who can afford to come.

We will hear today from experts in the Nevada business community, bankers and executives, on the impacts of the crisis on large and small businesses; from participants in the residential and commercial real estate markets on the impacts of lending practices and mortgage fraud on property valuations; and the devastating impacts on the lives and fortunes of families when foreclosures resulted in the loss of their homes.

And also from our public sector leaders on revenue expenditure impacts at all levels of government that have resulted in greater demand for community services at the same time as revenues have shrunk.

We've suffered here in Nevada from this crisis and will continue to be impacted until the economy nationally and globally recovers sufficiently to enable our visitors to enjoy our State's many amenities.

But there are many hopeful signs that we are on the road to recovery. Just last Friday, the labor department reported that private sector employers added 67,000 jobs. The Wall Street Journal reported this weekend that the jobs report was consistent with other
recent economic reports, including a strong factory report that showed the economy continuing to recover, though obviously at a slower rate than we would all like. In the meantime, the members of our commission pledge to you that we will do everything in our power to write a clear and forceful report to the American people, identifying in plain language the causes of this crisis so that our policymakers can address the many failures that led to it.

I thank you again for joining us today and now turn the microphone back to our chairman for his opening remarks.

After his opening remarks and those of the vice chair, Commissioner Murren will guide us through this morning's session, and I will guide us through the afternoon session, after which we have scheduled an opportunity for members of the public to address the Commission on issues they would like to present.

We look forward to today's proceedings.

Chairman Angelides?

CHAIRMAN ANGELIDES: Thank you very much.

Let me just say that as you can tell, we have two very articulate, bright, energetic commissioners.

They have given I think tremendous opening statements that I think really speak to the views of many
of our commissioners who are here today.

And I will just add a couple of notes. As both Heather and Byron have noted, we have a very simple but important task, and that is to help Americans understand how it came to be that our financial system was brought to its knees, and in the wake of the greatest financial crisis in this country in seven decades, our economy was rocked in states and communities across this country.

I think no one knows better than the people of Nevada, and frankly in the home region from which Bill Thomas and I come, the Central Valley of California, that the financial crisis is not a past tense term. It is still very much with us.

As we meet this morning, 27 million Americans are out of work, can't find full-time work, or have stopped looking for work.

Two million American families have lost their homes to foreclosure. Two million more are in the foreclosure process. And another two million families are seriously delinquent on their mortgages.

The net wealth lost to American households has been about 12 trillion dollars and much of that felt by middle class and working families across this country.

The people of this country are justifiably
angry. They're confused, but they also have a tremendous hunger to understand what has happened here so we are less likely to repeat the mistakes of the past as we build our future.

Our job has been over the course of many months to probe, to ask the tough questions, often to bring heat to this subject, but in the end our job is to shed light and to produce, as Mr. Georgiou said, and Ms. Murren said, a report to the American people that helps them better understand how this calamity came to be.

For us it has been a year of revelation. I think it's fair to say that each and every one of us has been fascinated and often disturbed by what we have seen and learned as we have interviewed at the Commission now over 500 witnesses, as we reviewed hundreds of thousands of documents, and as we have conducted 14, 15 days of public hearings.

We held hearings in Washington, New York, and now we go across the country to really in a sense round out our investigation, looking at how this crisis began and ended at the ground level and went all the way to the halls of power in Washington and the corporate board rooms on Wall Street.

We are looking forward to today's hearing,
hearing from people here, learning more about what happened in this community and what exists today.

I assure you this is one instance where what happens in Vegas will not stay in Vegas. We will take everything we have learned today, we will incorporate this into our inquiry, and we will place it in the proper context of the important report we will deliver to the, the President, the Congress and the American people by December 15th of this year.

So thank you very much for giving me the privilege of being here today.

And now I'll turn this microphone over to the vice chairman.

VICE CHAIRMAN THOMAS: Thank you very much, Mr. Chairman, and it's nice to be here.

I've been familiar with this area, you know, all my life. Those of us who live in the West, discounting the distances between various population centers, which is so foreign to those in the East, really realize that there's, there has been a long-time symbiotic relationship between California and Nevada.

I was pleased to hear from President Smatresk from the currently walking Rebels, rather than running Rebels, and I represent Cal State Bakersfield, which are the Road Runners, currently the Road Walkers, given the
economy.

However, we have never, ever been kept down for long.

However, notwithstanding Byron's attempt to paint somewhat of a rosy scenario to the recovery, I am very, very concerned. I was in Congress for more than three decades, and all of us have been through boom and bust cycles, especially folks in your business, and, frankly, folks that are in business in the area that I represent and where we had the hearing yesterday.

I was pleased to hear Commissioner Murren refer to regions rather than states, because when you try to look at California as a State, or you use statistics of California as a state, it is frankly five states. And all of those five states within California have a population far greater than most states.

Some people have said oh, it's obvious if the Chairman is from Sacramento, and the Vice Chairman is from Bakersfield, there's going to be a hearing in Sacramento and Bakersfield.

You know why we have a hearing here. It's not just because two commissioners were appointed to this commission from Nevada. It is an obvious choice. Just as Miami is an obvious choice.

Real estate fraud was so bad in Miami, it was
giving Medicare fraud a run for its money. Apparently Medicare fraud is back in the lead in Miami, but it too has been significantly devastated.

It just so happens that the Central Valley, bordered on the south by Kern County, and on the north by Sacramento, is a region in terms of population actually larger than the State of Nevada.

My county, one county of the 58 counties in California, is engaged in betting and risk every day, much like much of the economic base in Nevada.

They gamble in agriculture, over four billion dollars' worth of agriculture. In fact, we have more value added by dairy than that state that carries around on its license plate "The Dairy State". We produce more oil than every state in the union except Alaska, Texas, and formerly Louisiana. But since the oil has been banned from being pumped on the offshore rigs, Kern County is ahead of Louisiana in oil production.

You would think that with an economic base of agriculture and oil, we wouldn't need to hold a hearing in Bakersfield. But those commissioners who attended heard horror stories, just as we're going to hear horror stories everywhere we go in these hearings.

And they're the kind of horror stories that
frankly are unacceptable. Yes, there's very high
unemployment in a number of areas. Yes, we had a housing
bubble.

But when you listen to real people with real
problems -- solvable problems -- not being able to get
help in areas that should be able to get help, loan
modification, even something as awful as a short sale so
that you can get something out of it, or even in a
foreclosure, we've heard story after story of people not
being able to seek even modest relief in those kinds of
conditions.

So that's why I'm very pleased that we
continue to go to those regions, sometimes represented by
states, that have been devastated because of the housing
bubble, the associated job loss, and especially, given
your economy, relying on people who are employed
elsewhere who come here to enjoy themselves and without
that wherewithal can't.

So it's a pleasure to be here. I know that
after the first hearing in Bakersfield, some of the
stories are going to be stories that will be repeated
from what we heard in Bakersfield. They deserve to be
repeated. They will be repeated in Miami and Sacramento.

And with those contributions we hope we can
bring home, as Byron said, to many of those people that
we interviewed in Washington and New York, who have no
real on-the-ground knowledge of the suffering that goes
on in a number of areas with people who largely, through
no fault of their own -- no one is without fault, but
believe me, people seeking to stay in homes, paying the
mortgage on a home that is not worth as much as the
mortgage but trying to do the right thing, should be
helped in doing the right thing.

And I'm anxious to hear the testimony which
will corroborate to a certain extent what we heard and
what we will hear, but laying the record is very
important.

I'm pleased to be here.

And I'll turn the mike back over to co-chair
Commissioner Murren.

COMMISSIONER MURREN: Thank you, Mr. Vice
Chairman.

It is my pleasure to introduce our first
panel, Mr. Jeremy Aguero.

Mr. Aguero is an expert in economic analysis.

He does extraordinarily thorough and diligent data
gathering which has been enormously helpful to the
Commission. And he will speak on the economic analysis
relating to the financial crisis.

And as is our custom with all of our
witnesses, we will be swearing in all of our witnesses in
today's field hearing.

If you could please rise and raise your right
hand. Do you solemnly swear or affirm under penalty
of perjury that the testimony you are about to provide
the Commission will be the truth, the whole truth, and
nothing but the truth to the best of your knowledge?

WITNESS AGUERO: I do.

COMMISSIONER MURREN: Thank you.

Mr. Aguero, you have five minutes to present
your oral testimony, and we thank you for your written
testimony.

And at that time commissioners will be able to
ask questions. I think each one of us has been allocated
between five and eight minutes for questions.

Thank you.

WITNESS AGUERO: Thank you.

Mr. Chairman, Commissioners. Let me begin by
saying how much I appreciate you convening this meeting
in Las Vegas today. Its importance I don't think can be
overstated.

I am also grateful for the invitation to
participate in your inquiry.

My name is Jeremy Aguero. I'm a principal
analyst and applied analyst in a Las Vegas based economic
and marketing research firm.
I am also a fourth generation Nevada resident and father to three fifth generation Nevada residents, something that I'm sure will also permeate my testimony in one way or another.

I was specifically asked to comment on how Nevada has been impacted by the financial crisis. I tend to view the crisis in two parts, the run-up of the economy that occurred between 2002 and 2007, and the sharp decline that followed and continues still today.

Nevada was uniquely positioned to benefit from the period of rapid economic growth that began in 2002. Home equity extractions bolstering consumer spending and low cost capital fuel and construction could not have been aligned more perfectly with the State's dependence on tourism and growth.

Now, growth itself was nothing new for Nevada. The State had led the nation in almost every measure of economic expansion for the preceding 20 years with population, employment and income, commercial and nonresidential construction, new business creation, business investment, all expanding at or near the nation's highest rates.

However, from 2002 to 2007, that growth started to take a notably different form. It was more aggressive and more speculative. This is true in the housing market where non-occupant buyers increased from a
fraction of home sales to the majority of home sales.

It was true in the commercial markets where office, industrial and retail projects began being developed at an unprecedented pace.

It was true in our tourism sector where several private equity transactions and large scale developments increased the industry's combined long-term debt by 70 percent or from 10.5 billion to 17.1 billion dollars between 2002 and 2007.

In mid-2008, the financial crisis merged and reality began to set in. The degree to which households and business were leveraged was a mounting concern. Access to capital was gone. The State was overbuilt, and some 100,000 jobs were predicated on a level of growth and consumer spending that seemed to evaporate almost overnight.

In much the same way as Nevada's consumer spending, the construction-dependent economy was uniquely positioned to take advantage of the economic run-up; it was equally well-positioned to bear the full force of its decline.

The State went from nation-leading rates of population growth to net population outmigration. It now leads all other states in unemployment, job losses, reductions in employee hours and wages, housing price
declines, foreclosure delinquency and bankruptcy.

Nevada is behind only California and Florida respectively in the number of subprime and adjustable rate mortgages, suggesting that the 50,000 foreclosures recorded during the past two years are far from the end of the current cycle.

Those who have chosen to stay in their homes have lost billions of dollars in home equity and household wealth.

The downward cycle also has a more human element. At present some 290,000 Nevada residents are participating in the supplemental nutrition assistance program. This figure, which translates to more than 1 in 10 Nevada residents, is up more than 30 percent from where it was one year ago, and is the highest figure on record.

Similar trends are apparent in the number of residents that are now Medicaid eligible. Nearly 50 percent, one out of every two Clark County School District children currently qualify for free or reduced lunch, and more than 7500 children are currently homeless.

The impacts of the financial crisis are apparent in our neighborhoods, our business parks, our schools, and in our churches. Government service
providers are seeing case loads grow even as the nation's largest general fund budget deficit looms.

To the specific question how has Nevada been impacted by the financial crisis, I would respectfully respond that the crisis has impacted every sector of our economy and has been felt by nearly every family in the State of Nevada.

It is unlikely that its full measure will be understood for a generation.

With that, I thank you again for both your time and consideration. Your work is remarkably important. Perhaps no more so than in this community and in this State.

COMMISSIONER MURREN: Thank you.

And thank you for your impeccable timing in delivering your testimony.

We'd like to now go to questions, and I believe that I will actually lead that session.

And I'd like to focus on one of the areas that you spoke about that has to do with the speculative activity within the State of Nevada, whether it be commercial development, whether it be residential mortgages, but one of the -- one of the elements that seems to be present in a number of different regions around the country that have been subject to a huge
escalation in real estate values over the course of the
boom, but then of course a commensurate decline during
the bust, seem to have been areas where there was a lot
of outside investment where everything from national
builders came in that previously would have not been
present necessarily, but came in, and in some ways,
squeezed out local efforts, also again, I think you
referenced non-owner occupied residences, people coming
in and, and buying homes for speculative purposes that
they may not necessarily reside in, and that may have
come from other parts of the country, I was wondering if
there was a way to determine to what extent the run-up in
the speculative activity might have been caused by
outside forces as opposed to necessarily those things
that are intrinsically our community.

WITNESS AGUERO: Incredibly complicated
question and one that is, is difficult to answer because
information seems to be somewhat imperfect. But based on
what we know, your question to me has two important
parts. One is on the supply side, which are home
builders coming in and supplying additional homes.

Certainly there was a consolidation that
occurred within the housing development market. That
wasn't just true here in Nevada, that was true across the
country, where smaller home builders were being gobbled
up, if you will, by larger home builders as they saw it to gain additional market share.

In addition to that, the second portion of your question, which deals with the question of outside money coming in to Nevada, essentially investing in homes as a investment as opposed to an end purchase with the objective being to rent that home, or hold that home for some period of time while the prices escalated, and then that home could be flipped and then ultimately sold for a profit, this occurred both with internal money and external money.

The number of home purchases at the peak of the market that were made by non-Nevada residents of homes -- and we gauge that by where the property tax bill ultimately goes, so that's the way we can analyze and see whether that happens -- you know, certainly the number of home sales that occurred to California-based buyers were substantially higher.

Now, you know, the ability to analyze whether that was a general trend overall, and, you know, just Nevada was prime for just that type of activity. Why? Well, number 1, our housing market was historically undervalued. And I don't mean that they were undervalued, that the houses were worth less than they were constructed for, but they were undervalued in
terms of they were just cheaper than they were in other states. So it was a fertile area for investment. Number 2, we led the nation in population growth. So if I'm a home builder, that's where I want to be. Why? Because you have more people consuming homes. You combine that with the fact that the stock market was underperforming, and that there was a general belief across the country that the residential market was fertile for individual investments, it was a way to make money, and Las Vegas, as well as major markets in northern Nevada, were essentially well-positioned to be in the bulls eye of exactly the, the housing crisis that emerged.

In terms of purely external money coming in, the ability to segment that away from external money is very difficult. I can tell you that the investment activity occurred both from residents in Nevada as well as those outside although certainly at the peak of the market the money coming from outside well outpaced that coming from inside the State.

COMMISSIONER MURREN: Thank you. That's helpful.

And then on the, again, on the speculative or the, the bubble portion of what we saw that might be something beyond what would normally occur, if you had
say houses that were relatively undervalued compared to homes in other parts of the country, when you look at that part of our growth, could you talk about where we are today in terms of, of overall investment activity? And are we back to five years ago in terms of what the, the population and the investment and home values would be?

WITNESS AGUERO: Currently with regard to housing prices, we are back to roughly 2000 levels. So we've lost about a decade worth of home appreciation. Everything that we've gained we've now lost.

Las Vegas here ranks number 4 nationally in terms of the rate at which housing prices are declining still today, after leading the nation in that particular category for some time.

In terms of housing markets, as it exists today, we estimate we have somewhere between 40 to 60,000 too many housing units still on the market today. Our residential vacancy rate is approaching, or a little bit over actually, eight percent of the market. The normalized level is about 3, 3 and a half percent of that market.

The trouble for us today is that not only did we have this overbuilding that occurred, but now you compound, compound that by the fact that unemployment and net population outmigration means that there's simply no
demand for the excess real estate that exists.

We are selling more housing units than we did before, but many of those are a shuffling of population as opposed to net new growth or absorption of existing inventory on the market today.

COMMISSIONER MURREN: And is it your feeling in order to absorb that, and also to move things forward, that the center, or the central factor that we'll need to address in our community is jobs creation? Or are there elements that you think will be important to, to advancement?

WITNESS AGUERO: I, I think job creation is the primary element that's going to bolster the absorption of excess inventory that's on the market today.

However, I don't think it's job creation alone. Of course, Nevada ranks remarkably high in, in terms of retiree migration. Factors coming from other states are retiring in Nevada. Certainly that factor will be important also to the absorption of existing real estate.

COMMISSIONER MURREN: Terrific. Thank you.

And I will reserve my last minute for later on. I would like to now turn the questioning over to Commissioner Georgiou.
COMMISSIONER GEORGIOU: Thank you, Commissioner Murren.

Mr. Aguero, thank you for your testimony and for the dedication you put in professionally to understanding the economy of our community for such a long time, you and the rest of your team. We're going to hear from another of your colleagues a little bit later today.

We have tried with all of our witnesses to press them on whatever contribution they think might have been made by their particular profession to the financial crisis or to avoiding the, the understanding -- avoiding the anticipation of the crisis.

We pressed the Wall Street executives, we pressed the public officials who had responsibilities in this area. I wonder if you have any thoughts on whether economists had a role in the financial crisis in failing to identify root causes that could have foreshadowed the crisis.

WITNESS AGUERO: Commissioner, the direct answer to your question is yes. I think that signs existed and that certainly I missed them. You know, southern Nevada, Nevada as a whole, the community that we're sitting in today, has been the most prolific economy in the United States for the better part of the
past 20 or 30 years.

No state has added more in terms of population growth or employment growth or income growth.

No State has added more in terms of housing development or new office buildings or hotels and casinos.

And that has worked remarkably well for us for a very, very long time.

That said, there is little doubt whatsoever that this community got out in front of its knees. And while we all expected that -- while there was a general expectation that the rate of growth was not going to be sustained for some time, I think that when we take a step back, and we look historically at housing prices doubling, at -- leading the nation in employment growth, and that employment growth being predicated on an unsustainable level of consumer spending, that these are warning signs that yes, I think that myself as an analyst should have been better adept at seeing. I think that other analysts across the country should have been better adept at seeing.

I think there is a general optimism that permeates the country, and we want to believe that tomorrow will look very much like yesterday. And that while we may have seen warning signs, I think that it is
difficult to -- I think it is extremely difficult to have
an expectation that such a sharp and extended downturn
would have occurred, particularly in a community like
ours which has -- had been so adept at growing for so
many years.

COMMISSIONER GEORGIOU: You're not alone in
being among those who didn't anticipate it. We've heard
from -- most of our witnesses I would have to say
suggested that they didn't really anticipate the crisis
or the, the, the drop in the housing market that impacted
so many securities and other financial assets that were
in the balance sheets of many of these institutions.

I, I want to press you just a little bit more
on it. I wonder whether we all didn't abandon some
intellectual discipline during this period.

I mean, isn't it the case that it's often
difficult to announce that the emperor has no clothes, or
to say anything in the face of a rising tide that
suggests a degree of caution?

But I think it's -- it's fair to say that
now -- sorry, fair to say that now we understand that
there were difficulties that probably should have, should
have been known to everyone, and people seem to either be
afraid to say them or, or reluctant to say them.

Do you have any thoughts in that regard?
WITNESS AGUERO: Commissioner, I think I would tend to disagree that people were just overall ignoring that the problem existed or that they knew or should have known that a decline on the order that we've seen today was inevitable or nearing.

Again, I think it's important to note that there were many analysts who said that the level of growth would not be sustainable. And certainly there was an expectation that it would slow.

But the -- the steepness and the depth of the decline, the length at which we are going to drag along the bottom, I think is something that at least very few, if any, sort of saw coming. And if they did see it coming, I don't know that people would be willing to believe them, because -- because history was just not on their side in terms of the rate at which we declined.

I mean, let me just give perhaps an example that, that may be somewhat level. Right?

COMMISSIONER GEORGIOU: Certainly.

WITNESS AGUERO: You know, a homeowner, many homeowners, not just the speculators and those types of things that came in, in order for them to have, have visualized and -- to have played the market properly, right, in order for them to have known, an individual homeowner would have had to buy their house in about
2000, sell their house in 2007, become a renter for a
couple of years, and now get back in the market.

I don't know anyone who logically thought
about that. Right. In order for a business person, a
lot of home equity -- home equity -- a lot of private
equity transactions for all different types of businesses
occurred in Nevada and outside of Nevada during that
period. Investors who had an expectation of future
growth and incredible access to capital which was before
unavailable were making offers on businesses and capital
assets that were worth more.

Those businesses would have had to say no, I'm
not willing to sell. Right? And I mean, a combination
of those two things, we expect individual customers to be
profit-maximizing consumers. And, you know, when the
situation presents itself where they get that far out in
front of that, no doubt it was unsustainable in any
number of ways.

Just circling back to your, to, to the
question that you asked, I don't think that analysts or
business people were intentionally -- most -- were
intentionally trying to play hide the ball, because while
they expected a slowdown, I don't think they expected a
crisis.

COMMISSIONER GEORGIOU: Understood.
But it's also the case that even homeowners and private equity investors and others were loading substantial amounts of leverage and debt on the assets they were buying, which of course in a modest down-market starts to hurt, and that's what we've seen, have we not?

WITNESS AGUERO: Commissioner, yes, although if I can offer one piece of context toward that statement, right. The homeowner in 2005 may have taken out a hundred percent loan-to-value mortgage on their home. By the time they got to 2007, they had $150,000 worth of equity.

COMMISSIONER GEORGIOU: Right.

WITNESS AGUERO: Right? I mean, same thing is true in the commercial markets. You know, we built more hotels and casinos on the Las Vegas strip because we had a 90 percent occupancy and had reported double digit over double digit growth in average daily room rates.

The idea that debt was larded on solely for the sake of extending debt and overleveraging to buy something else is true in some cases. We know, for example, that people took out home equity mortgages in order to buy a boat or take a vacation or those type of things. My testimony was aimed directly at that because it bolstered consumer spending. But right here in our own back yard so much of those investments were under the
expectation that they weren't bringing on as much debt, but that that asset would be worth significantly more in 12 months. And, and for three years they were absolutely right.

COMMISSIONER MURREN: I'd like to yield two minutes to Commissioner --

COMMISSIONER GEORGIOU: I won't use all of it. I'll ask a tough question and ask you to give us a short answer.

How do you see us coming out of it here in the State of Nevada?

WITNESS AGUERO: I think we have a large, a long road to hoe.

But that said, I believe in this community. I believe this community has been resilient and resourceful through a handful of economic downturns, and I think we will again.

You ask me how do we come out of it. I think that that's going to come from doing many of the things that we did right for the past 30 years. I don't think that our prosperity over the past 30 years was somehow by accident. I don't think that we were merely in the right place at the right time.

We, we took advantage of an incredible run-up in the economy. We are now being penalized on the back
end of that. Those two things shall pass. And when they
do, I believe that the fundamental underpinnings of this
economy will continue to be strong, and that we will come
out of it healthier than when we started. But it's going
to take -- this, this recovery is going to be measured in
years not months.

COMMISSIONER GEORGIOU: Thank you very much,
Mr. Aguero.

COMMISSIONER MURREN: Thank you.

I'd like to now yield to Chairman Angelides.

CHAIRMAN ANGELIDES: Great. Thank you very
much.

Let me ask some questions that give a little
more texture to what happened here in the run-up.

First of all, just a clarification, you
mentioned eight percent vacancy. Was that among owner
single-family detached units?

WITNESS AGUERO: No, sir. That is among all
residential housing units.

CHAIRMAN ANGELIDES: So it includes
multi-family?

WITNESS AGUERO: It includes multi-family.

CHAIRMAN ANGELIDES: Okay. Have you, have you
broken them out as between owner-occupied and
multi-family?
WITNESS AGUERO: I don't think we have that number that we can give you.

CHAIRMAN ANGELIDES: That's fine.

WITNESS AGUERO: But I'll make sure that we follow up on --

CHAIRMAN ANGELIDES: What was the excess inventory number, currently --

WITNESS AGUERO: We estimated between 40 and 60,000 units. It depends --

CHAIRMAN ANGELIDES: Currently on, on the market?

WITNESS AGUERO: Unoccupied on the market available today for --

CHAIRMAN ANGELIDES: Unoccupied. Okay. So that's just not units for sale?

WITNESS AGUERO: Units for sale -- the reason that we're looking at that in terms of vacancy numbers, if, if, if -- a large share of our units for sale are unoccupied, but if the unit is occupied, and available for sale, that person is presumably going to move from one place to another.

CHAIRMAN ANGELIDES: All right.

Let me follow up actually in a little different vein than what Mr. Georgiou was talking about.

I want to talk about when this market actually
peaked.

Yesterday we were in Bakersfield, it was actually instructive because, you know, no disrespect to economists, we did talk to a number of practitioners in the real estate market, and having been that myself in the Sacramento region, what we began to see, for example, at Bakersfield that was really laid out yesterday, was really prices topping out in 2005, sales activity began to dry up, you know, talked to builders who basically said that the number of people coming to look at units began to dry up.

When, when did the market actually peak here, but in terms of sales price as well as volume of activity, because just to add a little color to that -- why don't you tell me that, and then I want to take a chronology from there.

WITNESS AGUERO: Mr. Chairman, I want to be cautious about painting the entire economy with a single brush. For example --

CHAIRMAN ANGELIDES: Let me narrow my question.

I meant the single-family market.

When did it peak? When did sales top out? When did volumes top out?

WITNESS AGUERO: The single-family residential
market peaked out in about late, late 2007 when housing
prices hit their peak, those type of things.

    But with regard to the construction of
underlying housing units and those type of things, our
construction industry peaked out in late 2006. We
started seeing construction workers -- the number of
construction workers start to fall off.

    In 2007 and '8 we saw housing prices -- again,
different areas of the State peaked at different times --
2007 and '8 we started to see housing prices certainly
show degrees of instability, and the level of growth
followed by relatively significant declines.

    CHAIRMAN ANGELIDES: So you peaked here --
because the national peak was around July, and markets
began to shut down in the 2005 period where it began to
peak out. You're telling me the peak here in Clark
County didn't come until 2007 in terms of pricing?

    If you want to return to this later we can do
that. My clock is running.

    She's brutal with the gavel. I'm not sure how
much time she'll give me.

    WITNESS AGUERO: For new -- was that for new
home sales?

    New home sales peaked in June of 2006.

    CHAIRMAN ANGELIDES: In terms of volume or
pricing?

WITNESS AGUERO: That's in terms of volume.

I'm sorry. That's pricing. Okay.

CHAIRMAN ANGELIDES: Okay.

WITNESS AGUERO: And existing home prices peaked in October 2006.

CHAIRMAN ANGELIDES: Okay.

WITNESS AGUERO: They hovered in kind of a tight range after that.

CHAIRMAN ANGELIDES: All right. I mean, the reason I ask is I've been trying to do the analysis between when prices really peaked and when activity in Wall Street peaked, and there was, you know, even after prices began to fall, activity -- sales activity began to drop, what we saw is continued securitization of product all the way to kind of mid of 2007.

Let me ask one last question. And that is I want to talk about the rhythm of, of foreclosures for a minute. And if you were to over time talk about what happened in terms of, first of all, what were the first wave of early payment defaults -- I mean, if you were to give me the texture of the foreclosure crisis, how much of it and when were early payment defaults, people taking loans and defaulting right away; how much of it was precipitated then by declining home prices; how much of
it and when was precipitated by the loss of jobs?

If you were to give me the rhythm behind the
foreclosure crisis itself.

COMMISSIONER MURREN: Yield two minutes to the
Chairman.

CHAIRMAN ANGELIDES: Thank you.

WITNESS AGUERO: Mr. Chairman, the outset of
the foreclosure crisis was largely the -- the first wave,
if you will, was largely a function of, in, in fear,
right, the housing prices start to decline, and
investors, particularly, starting to work their way out
of the, the -- of homes that they were concerned were
just no longer a viable investment.

By the time we got to the middle of the
crisis, really between late 2007, throughout all of 2008,
then it became a mixture.

We've looked once, and I believe my colleagues
can remind me if my dates are off somewhat, but I believe
we looked at it in the second quarter of 2008 where we
broke down foreclosures by how many foreclosures were
owner-occupied versus non-owner occupied. I think it was
actually the first quarter of 2008. That was about a
60/40 split between non-owner occupied foreclosure
activity versus owner-occupied foreclosure activity.

Now, from that point forward, however, those
numbers started to switch. And by the first quarter of the following year, that was a 60/40 split the other way. And now what we're seeing is of course people are losing their homes because other folks have lost their homes. Right? There's -- of course there's a significant amount of strategic default continuing in the market today, but with the loss of equity being so significant, today the vast majority of foreclosure activity appears, based on the data, to be tied to individual residential owner-occupied housing units as opposed to the, the investors which spearheaded that foreclosure activity during the first part of that crisis.

CHAIRMAN ANGELIDES: Well, let me just quickly -- I'm going to ask you if you can provide some information. You don't need do it now, unless it's at the tip of your tongue.

I'm interested, I was looking at some of your charts on the nature of the activity, how much was refinance, how much was non-owner occupied, you know, a quick look at your charts tells me that, for example, in 2004 about 40 percent of the activity in Clark County was -- or Nevada, I can't remember the chart -- was essentially owner-occupied purchase, the balance was refinance, non-owner occupied.
I'm just curious if you have any numbers -- and if you don't, you can provide them to us -- do you know how much of the activity in the run up of that activity -- 2004, 2005, 2006 -- were first-time homebuyers, because a lot of this debate has been about, for example, promoting homeownership. And if you have it available, great. Great. If you can provide it to us, it would be very helpful to see the complexion of how much of this activity was actually related to the first-time homebuyers.

WITNESS AGUERO: Mr. Chairman, that's not something that I have off the tip of my tongue. We'll look into it and try and provide whatever information is available.

CHAIRMAN ANGELIDES: And if you could also provide some rent, owned, cost ratios and debt-to-income levels so we can see how this market skewed over time.

WITNESS AGUERO: Yes, sir. Thank you.

COMMISSIONER MURREN: Thank you.

Vice-chairman Thomas.

VICE CHAIRMAN THOMAS: Thank you very much, Commissioner Murren.

Mr. Aguero, I was pleased and I was smiling when you indicated you were fourth generation responsible for fifth generation occupants of Nevada, because all of us have seen the enormous growth. And it used to be odd
when you could find two people in the room who were
native Californians, but we've reached a population basis
where we're big enough that that's no longer a
phenomenon.

And I'm very familiar with growth. That's one
thing about coming from southern California. My folks
moved out to the country, it was called Orange County, in
1953. And we moved to this little sleepy town called
Garden Grove. In 1953 there were 2500 people in Garden
Grove. And in 1960 it incorporated as a City of 60,000.
That was typical of the kind of growth that I went
through in my formative years.

I also smiled at Commissioner Murren's comment
about whether or not some of the problems were caused by
outside forces.

Those of us who have watched Nevada -- all my
life -- think Nevada was created by outside forces. But
when you talk about Nevada, you talk about the growth,
the size, the importance of Nevada as a state, and that
clearly has occurred as a student, a teacher of political
science. It was fun watching those states who had one
member of the House of Representatives. That's the
default position. That's like South Dakota, North
Dakota. And then we've seen the evolution through the
political power as those populations came and stayed in
Nevada.

I envy Nevada in a certain way, and, frankly, Las Vegas in this respect: You folks have control of your own destiny, the State of Nevada, and the principal population and economic location in Nevada, Las Vegas.

The Central Valley, just to give you an idea of how comparative in terms of what we're doing, between Bakersfield and Sacramento, has about three million people. It's the fastest growing area in California. The problem is that inside that state there are 32 million others who control our destiny. And we are not able to make the kinds of decisions that we would like to make.

You're the fastest growing state. We're the fastest growing area in California.

You had cheap dirt, relatively speaking, and people forget there is a Las Vegas, and then there is the city and community of Las Vegas, which is an enormous and growing city, but still it was cheap dirt.

We had local builders for a long time, and then all of a sudden the outside builders with their enormous cash were seeing opportunities, cheap dirt, came in and drove those prices up, and, and put houses on the market. You suffered that same relationship.

We're familiar with your growth. In fact, the
Southern San Joaquin, Kern and Solano County sent a few
folk here over here over the years, some of them
builders, and, in fact, some of them became Governor of
the State of Nevada.

So my, my point in, in bringing out these
comparative scenarios is if you talk about how much
you've grown as a state, and that you do have the ability
to control your own destiny, I look at some of these
numbers, and I'm just pulling out some stats as people
were giving them to us in the book, in '07 the
Fontainebleau project, a three billion dollar project,
that was in '07. You look at '06 in terms of the gaming
revenue coming in. And of course the classic five
billion dollar Echelon, they were still talking about
growing.

You can control that through planning. You
can get serious about a mature tax base, not one which is
still the inventive, we're different than everyone else.
If you're suffering the same problems as everyone else,
I'm wondering to what extent you begin to examine how you
can by your own boot straps to a very great extent deal
with this issue, because you're a whole lot more like we
are than we like to admit. You're a state,
notwithstanding the growth, a smaller state, in a larger
state structure.
COMMISSIONER MURREN: Yield to Vice Chairman another --

VICE CHAIRMAN THOMAS: Two minutes, as everybody is using two.

And as Byron said, I won't use it all. We aren't going to be saved by outside forces. I mean, that's pretty clear. We can do a lot about making sure that those people who made a lot of money on the way up, especially banks investing, other structures, can now be part of the solution by quickly and efficiently changing money relationships, loan relationships. Why do you hold out, get a foreclosure and get far less for it than you could have through a very swift and appropriate short sale or some other loan modification?

That isn't happening. We need to bring pressure. And so since you're the only person on the panel, and we don't have the chance to talk to others, I'll aim it back at you.

I'm really more interested in how Nevada is carrying out a self-assessment and especially Las Vegas, about what do we do, just as we're looking at the national level to make sure it doesn't happen again, and we're beginning to move Federal legislation and other activities to make sure it doesn't happen again, to what
extent do the citizens of Las Vegas believe they have the
ability to change patterns in the future and are
accepting that responsibility, especially as a fourth
generation?

COMMISSIONER MURREN: I --

VICE CHAIRMAN THOMAS: You've got 30 seconds
to answer. But I'd love to have a written response in a,
in a more thoughtful way, because I'm here to hear how
people are going to realize they're the ones, along with
others, that are going to work our way out of this
problem.

COMMISSIONER MURREN: Mr. Aguero, I'd like to
yield a whole minute for your response and also to note
that our upcoming panel may also have some insights into
this issue.

Another minute, please.

WITNESS AGUERO: Thank you. A difficult
question, of course.

What I can tell you is that in my brief
experience, this community has come together like I've
almost never seen it come together before.

Let me look at it in three ways, respecting
the fact that I have a brief time to do it.

Economically, fiscally and socially.

From an economic standpoint, I think we
recognize that when 13 percent or 12 1/2 percent of your
employment is in the construction industry, that's
dangerous, and we have to be cautious about that.

But the local government's responsibility is
to manage growth as to opposed to dictate it, which I
think we are cautious about.

With regard to our fiscal problems, we have a
2.9 million dollar shortfall at the state general fund
level. And I think folks from the business community and
otherwise, legislators, business folks, from everywhere,
have recognized the shortcomings of that and are talking
about ways to remedy our system. I don't know that it
will ever --

WITNESS AGUERO: Thank you, Ma'am.

-- I don't know that it will ever go the way
of California or that there is a desire to go that way.
But nonetheless we are going to have to take greater
responsibility for our own costs.

With regard to the social aspects, it was real
easy to sweep some of the social problems under the
carpet when it wasn't your friends, your neighbors, your
former colleagues that were unemployed or dealing with
those type of things. Today that is in our face every day. Every time
you go to work you see vacant space. Every time you go home, you see foreclosed housing units.

We all understand that -- for those of us who have -- who are lucky enough to still be afloat, that is our responsibility to take care of not only our own families but to help this community as well.

VICE CHAIRMAN THOMAS: Thank you very much.

COMMISSIONER MURREN: Thank you.

VICE CHARMAN THOMAS: Thank you, Commissioner.

The first step in, in, in sobering up is understanding that you need to. That's one of the messages that I think we're long overdue in getting all across the country.

Thank you very much for your testimony.

COMMISSIONER MURREN: Commissioner Born?

COMMISSIONER BORN: Thank you very much, Commissioner Murren, and thank you Mr. Aguero, and thank you for appearing before us.

The Commission has a mandate to investigate the causes of both the, the financial crisis and the economic crisis that the country is still experiencing. And most of our hearings up until now have tended to focus, in both Washington and New York, on the financial crisis that has spilled over into the economy and had
such a devastating affect on Nevada and other communities throughout the, the country.

I was struck -- and, and want to thank you very much for the very detailed analytical materials you provided to us about the Nevada economy -- I was struck by how devastated Nevada has been, and how it leads the nation in a number of unfortunate impacts that you have provided us information on.

And I wanted to ask you, in your opinion, what made Nevada so vulnerable to the economic devastation from the financial crisis?

WITNESS AGUERO: Commissioner, thank you.

What made us so vulnerable was the structure of our underlying economy. The two largest sectors of Nevada's economy overall were construction and tourism. Not in that order, tourism and construction.

Tourism, of course, bolted by the fact that people were spending money they didn't have, and today of course we've learned, we've become -- it's become increasingly clear that it's a lot easier to spend money that you don't have than to pay back money that you don't have.

Beyond that piece, you know, the construction element itself, of course was the ready access to cash. Financial institutions were leveraging assets in order to
try and generate greater returns. And nowhere in the
United States -- I would argue -- does that confluence of
events impact more than a place that's growing faster
than anywhere else in the United States and has rel- --
relatively low cost underlying capital assets, like we
did..

COMMISSIONER BORN: You've provided us with a
lot of detail about -- and we've discussed at this
hearing -- a lot of detail about the impact on the
housing markets.

What has been the impact on commercial real
estate in Nevada, and has that been a negative as well?

WITNESS AGUERO: Commissioner, the answer to
that question is yes.

Office, industry and retail vacancies are at
all time highs in the State of Nevada. That market is
running about 18 months behind the residential market
today. But we've seen prices continue to decline even as
vacancies continue to rise.

The value of underlying land is also falling.

We have about a six to seven year inventory of office
space on the market today at historical average vacancy
rates and in excess of three to four years, both
industrial and retail.

So the direct answer to your question is the,
those commercial markets that also overbuilt are now
dealing with longer than expected lease out periods,
lower than expected lease rates, and declining values.
So certainly delinquency in the commercial markets are
problematic as well.

COMMISSIONER BORN: Have you seen any
turnaround yet in the Nevada situation, or are things
still deteriorating?

WITNESS AGUERO: Well, I think that if we're
looking sort of for signs of improvement, there are some
out there. Visitation is increasing to some degree. The
rate at which we're losing jobs is not nearly what it was
before. And those types of things are remarkably
encouraging.

That said, the overwhelming weight of economic
evidence would simply tend to suggest that we are perhaps
hitting a plateau at a lower level as opposed to seeing a
meaningful decline. Today with 195,000 people actively
looking for work, the highest unemployment rate in the
country, it's tough to suggest that we've seen any type
of recovery until we start to recover some of those jobs
that have been lost.

COMMISSIONER BORN: Could I ask one more
question?

COMMISSIONER MURREN: Yes, one minute.
COMMISSIONER BORN: In light of the situation in Nevada, I'm concerned about how long the adverse effects of the economic crisis are going to continue here and how long the eventual recovery is going to take. Do you have any views on that?

WITNESS AGUERO: Commissioner, I think that the recovery is going to be different for different groups of people. Those that were in the construction industry of course are seeing a 50 percent unemployment rate.

You know, the tourism industry is showing some signs of recovery. We're seeing, you know, health care is doing better than other sectors. So I think the recovery would be somewhat different.

But I would certainly suggest to you that the residual affects of this economic downturn on this community will be long. They will be borne by my children in some ways.

The mindset is different, the economy is different, and as Vice Chairman Thomas said, we're going to have to change the way we do things.

So the residual effects of this economic downturn will be long-lasting if not permanent in nature. In terms of the overall recovery, I think we will plateau for a year maybe two, and then the growth
will be slight from here. It's no longer helpful to think about, you know, when do we get back to 2006 or 2007 or peak levels. That is neither helpful nor productive in today's economy. But what we are looking for today is some stabilization, growth, from a sustainable level. And we're seeing some signs of that already today.

COMMISSIONER BORN: Thank you very much.

COMMISSIONER MURREN: Thank you.

Commissioner Thompson?

COMMISSIONER THOMPSON: Thank you very much, Commissioner.

Mr. Aguero, thank you very much for joining us this morning.

As we spoke with people in Wall Street and Washington, many described the events that led up to the crisis and the crisis itself as the perfect storm. That metaphor conjures up the notion that it's unpredictable, it's unforecastable, it's unprecedented, it's "un" everything.

You could also say that when some people say gee, that seems like it's too good to be true, perhaps it wasn't true.

So my questions will go back to a line of questioning that Commissioner Georgiou was on. And that
is let's start with who are the clients for your firm and
what kind of advice were you giving them leading up to
the bubble?

WITNESS AGUERO: Well, the clients that we
have are relatively diverse. If we look at the clients
that we had going back to 2003, '4, '5, '6, on the
private sector side, the questions were different than
they are today. Right?

And we were leading up to this bubble, the
questions weren't, you know, what about a housing
foreclosure crisis and those types of things. The
questions were how are we going to get enough employees
into southern Nevada, particularly, to fill all the jobs
that we're going to be creating.

The question wasn't are we going to stop the
development of the Ivanpah Airport expansion. The
question was how fast can we get the Ivanpah Airport on
line because we're not going to have enough air lift to
fill the hotel rooms that we're building. Right?

From a construction standpoint, I think there
was a recognition that there was becoming an increasing
disconnect between how many housing units we were
constructing and how many jobs we were actually creating,
which had a potential of a bubble. But to be sure,
although we offered caution, in some areas where we
thought opportunity existed in some places, the idea that housing prices would be cut in half, and what steps we would recommend to a client if that were to occur, or the fact that, you know, so much consumer spending was predicated on absolutely unsustainable levels of consumption fueled by home equity extraction -- although we recognized some of that -- the extent and what we recommended essentially wouldn't have been there.

COMMISSIONER THOMPSON: So were your clients principally the builders, or were they the local government officials?

WITNESS AGUERO: Our firm does -- probably 60 percent of our research is for the private sector and 40 percent for the public sector. So our research was across the board.

And, you know, in terms of questions we were dealing with from the public sector side was, you know, property taxes had escalated by so much, we worked with the state Legislature in order to put property tax caps on so they couldn't increase as much as they did.

We were -- we were managing the problem in two-year increments as opposed to taking a vision as to where this was going to lead us 20 years from today.

COMMISSIONER THOMPSON: So if I can follow
this just for a moment, if 60 percent or more of your
clients were the private sector, they were anxious for
the happy talk, so the more happy talk that you could
provide to talk up the economy was really in their best
interest?

WITNESS AGUERO: Well, we're analysts not
advocates, first of all. So our job is to analyze the
markets as we see them as opposed to trying to advocate on behalf of a
position for someone who wants to build an office
building or a hotel casino or those types of things.

We try to base everything based on supply and
demand. What is the expectation for population growth
and how many housing units are we going to need. In
terms of happy talk, that doesn't come into what we're
going to do.

Certainly when you're over viewing the economy,
you're not going to ignore the fact that the economy had
been growing faster than any other economy in the whole
United States.

Certainly the, the clients enjoy that.

Certainly when we look historically at the opening of
major hotels and casinos, back to 1989, when Mr. Wynn
opened the Mirage, and how those major openings had
buoyed employment growth in every other sector, to be
sure we pointed out those cycles and identified them.
But on the other hand, we also tried to provide some
cautions.

If the answer that you're seeking is
you know, did we exacerbate the problem by trying to,
look only, look at this economy through only rosy glasses
and ignore all the risks that were out there, I would
submit to you that did we foresee the full extent of the
downturn? By no means whatsoever. But were we in any
way trying to look -- have blinders on and simply tell
our clients only what they wanted to hear, and that
everything was all right, absolutely not. I mean that,
that, that wasn't the case from us. And I don't think
that was the case for anyone that I know in the
community.

COMMISSIONER MURREN: Do you need more time?

COMMISSIONER THOMPSON: No, I'm fine. Thank
you very much.

COMMISSIONER MURREN:. Thank you.

I'd like to thank you for testifying today and
for answering our questions. And I do recall that you
have data to submit to us as well in follow-up.

I'd like to take a five-minute break, and then
we will move on to our second panel, which is the impact
of the financial crisis on the business community.

So at promptly 10:32 we will reconvene.
Thank you.

(Whereupon a recess was taken.)

- oOo -
SESSION 2: THE IMPACT OF THE FINANCIAL CRISIS
ON BUSINESSES OF NEVADA

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COMMISSIONER MURREN: We will now reconvene
the meeting of the Financial Crisis Inquiry Commission
Field Hearing in Las Vegas.

Our second panel, it is my pleasure to
introduce four of our leading business executives,
gentlemen who have been great participants not only in
the building of our best sector of our community, but
also helpful and generous in philanthropic efforts, and
people that have also helped to shape Nevada and
hopefully will also help us as we move forward in
continuing to make progress.

Our comments today will actually focus on the
impact of the crisis on the business community.

And as is our custom with all of our
witnesses, I would like to ask all of you to rise, and I
will swear you in.

If you could please raise your right hand. Do you solemnly
swear or affirm under penalty of perjury that the testimony you are
about to provide the Commission will be the truth, the whole truth, and
nothing but the truth to the best of your knowledge?

WITNESS HILL: I do.

WITNESS MURRAY: I do.
WITNESS MARTIN: I do.

WITNESS SATRE: I do.

COMMISSIONER MURREN: Thank you.

And we will proceed with our testimony, starting from left to right.

Mr. Hill, if you could begin?

WITNESS HILL: Mr. Chairman -- Mr. Chairman, Members of the Commission, I want to thank you for the opportunity to be here today. I appreciate you taking the time to come to Las Vegas.

As Jeremy pointed out during the last session --

VICE CHAIR THOMAS: Mr. Hill, if you'll take your notebook and put it on, then you free your hands up. We learned it up here, that it works a whole lot better, because then you can concentrate on what you want to better. And you don't have to hold the button down.

CHAIRMAN ANGELIDES: The other Greek American Commissioner did that as a point of necessity since we always talk with our hands.

WITNESS HILL: Well, I'm trying to learn not to do that, but I appreciate the tip.

My name is Steve Hill. I am currently the senior vice president for CalPortland.

Is that not working?
COMMISSIONER BORN: Maybe you need to get the microphone a little closer.

VICE CHAIRMAN THOMAS: No, there's a connection problem. It's cutting in and out.

CHAIRMAN ANGELIDES: Gretchen, maybe check the mike next to him.

VICE CHAIRMAN THOMAS: See if Mr. Martin's mike works.

WITNESS MARTIN: This is mine.

VICE CHAIRMAN THOMAS: Did you pay for that microphone?

WITNESS HILL: Is that better?

VICE CHAIRMAN THOMAS: Yes.

WITNESS HILL: Great. Thank you.

My name is Steve Hill. I'm the senior vice president of Cal Portland, which is an international cement and concrete and sand and gravel company.

I moved to Las Vegas 23 years ago at the behest of a gentlemen I met in Ohio who later moved to Florida, felt like Las Vegas was going to be a great place to do business, and for 20 years he was right.

I'm fortunate that we were able to, to sell our company, and -- one time in 2006, and again in 2008.

And I'm now an employee of a company who, who has the wherewithal to make it through these difficult times.
I'm the media past chair of the Las Vegas Chamber of Commerce. I'm currently chair of the State Policy Task Force there. I recently was named Chairman of Service1st Bank.

I was asked to focus my testimony on the effect of the financial crisis on small business in the construction industry. As Jeremy pointed out, Nevada has been as hard hit or harder hit than any other community in the country.

We have 190,000 people out of work, a hundred thousand who are underemployed. The effect on them is an often overused word "devastating," but I don't know that there is a better word to use in this situation.

So many people in our community are having to look to start over at an age often that they had no intention of, of doing so, and certainly are struggling to figure out how to do that.

And it's hard to separate the impact on individuals from the impact on small businesses because for many small businesses, particularly those with 25 or fewer employees, their personal lives and their business lives are so intertwined. They borrow money against their personal assets in order to start those businesses. They often are the source of their paycheck. Maybe the paycheck for their families. So a failure of their business often means a personal bankruptcy.
The, the major issue that small businesses have now is one of demand for their products and services. Many of these businesses were started during the great times that we had. They expanded their capacity in order to take care of their customers and new customers. And then that demand began to shrink as the economic crisis began to take hold.

Striking their costs as quickly as that demand shrinks is very difficult to do. Certainly there are fixed costs, and often it means laying off employees who may be family members, certainly are friends and close associates. They hesitate to do that. It often means not taking a paycheck themselves.

The credit freeze that was discussed earlier certainly hurts small business. But small businesses obtain credit by showing they have the ability to pay that credit back. They've done that through mortgages on their homes, and other assets, they have done that through showing the ability to generate profits into the future. When those values drop, their creditworthiness drops as well.

In the past, small businesses were able to borrow money against credit that they had extended to their customers. It's now questionable whether their customers are going to be able to pay what they owe. Borrowing money against those receivables then becomes
much more difficult to do.

We can look back now and, and see that mistakes in judgment were made. And the issue of responsibility that was addressed earlier for those mistakes in judgment, I think we all have to take responsibility. And maybe one lesson that we should learn is that while we are -- make decisions when we are probably going to be correct, we need to remember that we might be wrong. And for 20 years it was hard to be wrong in Las Vegas. And that, that period of time with that consistency of profitability and growth certainly lulled most of us to sleep.

We've, we've talked about the projections for Las Vegas. And maybe in the written testimony that Jeremy has given you he's shown the correlation between hotel rooms and jobs in the community. That correlation existed for a long time.

As we look to the future, if we allow that correlation to continue to exist, we are going to be a stagnant economy, because we are not going to build rooms.

One of the things that Nevada needs to do in order to recover from this crisis is to take hold of our own financial future, determine what industries, three or four, a focused effort on three or four industries that
we can bring to Nevada that will drive growth into the future like the gaming industry has in the past.

Thank you for your time.

COMMISSIONER MURREN: Thank you.

Mr. Martin?

WITNESS MARTIN: Thank you.

Mr. Chairman, Madam Chairman and Commissioners, guests and other attendees, thank you for the opportunity to appear before your hearing today.

You have asked that I provide my personal perspective on the causes of the financial crisis.

VICE CHAIRMAN THOMAS: Mr. Martin, why don't you just take back the mike that you had before because that one is busting up as well.

I know you guys aren't used to sharing things, but it's a good idea this time.

WITNESS MARTIN: I'm married. I'm trying to share. It's not going well.

VICE CHAIRMAN THOMAS: That's more than enough.

WITNESS MARTIN: What caused our local impact to be far more severe than most all other areas of the country, the current ability of my bank to extend credit to local businesses, the ability of community banks to access credit from other financial institutions, and any
specific trends I have witnessed since the onset of the crisis.

There is very little prospect that I can possibly bring a new light to the already well-discussed and argued cause of the national financial and economic crisis and all the components that came together in the perfect storm.

While there has been a great deal of blame placed on Wall Street, government officials and their lack of regulatory oversight, elected officials pushing aggressively for liberal lending to promote home ownership, and a host of other targets -- and there's certainly a lot of blame to be shared by all of the above and more -- but whatever fractional blame each shares, it is my view that it was all fundamentally made possible by too much liquidity in the system.

Banks had deposits floating in the doors, and investors were flush. And all that liquidity needed to be profitably employed by banks, by individuals, by investment firms and investment partnerships.

The, the economy was strong in expanding, and lending investment opportunities abounded. Too much money chasing too few opportunities historically leads to heightened risk-taking through lessening of lending and investment standards.
But those lessons learned are often forgotten in times of great prosperity. You may recall Tommy Lee Jones in Men in Black where he holds a device in the air, and with a bright flash wipes clean the memories of everyone who has witnessed an alien event. I have a theory that this is also -- often occurs in times of great prosperity when everyone is smart because every loan and every investment turns out perfectly. When in actual fact, a rising tide lifts all ships, and seemingly, with a great flash, all the prior lessons learned from risk -- all prior lessons -- all prior lessons learned about risk are forgotten.

In the case of Nevada, this excess liquidity, seeking high and quick return, poured into the State allowed for extremely high levels of speculative investment and tricked us into believing that almost 20 years of spectacular growth was only a predictor of greater things and profits to come.

I've heard as much as 26 percent of our housing sales in the later years of the boom were to investors, thus creating an artificial demand, because the purchaser was not the end-user.

The same was true of raw land speculation where financing was plentiful, mostly from hard money lenders but also from a few liberal bank lenders.
All of this helped to pump the fuel, cash, into the system and send values higher and higher. Trees really do grow to the, the sky it seemed.

Home ownership for all, no matter whether an occupant or a speculator, and even for buyers of multiple new houses. I recall an article in the Las Vegas Review Journal in early 2007 in which a lady had purchased 16 homes, and they were all financed by Countrywide Mortgage. And the article was about her defaulting on all 16 homes because she intended to flip them and make a profit. And there were no buyers.

Homeowners took advantage of their rapidly inflated home values for refinance and used the proceeds for purchase of automobiles, recreational vehicles and even other homes for speculation.

While Las Vegas has clearly suffered more, this template fits most of the nation. The homebuyer, the investor, the mortgage loan officers, the mortgage companies, the GSEs, investment bankers, and through to the buyer of the mortgage-backed securities, everyone was making so darn much money that some efforts to bring control and order to this situation in 2001 never got traction, mostly I think because it was just all too good for too many people.

And our local economy became funded by
ill-conceived housing sales schemes, inflating real
estate.

As the former Controller of the Currency
testified in the late '70s before a senate banking or
house banking, and they asked why no one put a stop to
these very similar highly profitable schemes, he said,
Congressman, no one wants to be the skunk at the garden
party.

The gaming industry, likewise, had extremely
optimistic views of the future, spending billions on new
and expanded projects, creating thousands of new rooms,
more demand for construction workers, and this massive
employment was further a huge contributor to the economy.
And all this created jobs and new residents which meant a
need for more retail businesses and more office space for
new businesses and expanding businesses. And banks
finance those deals, because that's what banks do, to,
to create --

COMMISSIONER MURREN: Mr. Martin, if you could
summarize, please.

WITNESS MARTIN: Yes, I'm very close.

Retail centers, office centers were mostly
pre-leased for construction. But when completed, there
were no buyers and no renters.

In closing, everyone in this room, our
parents, or our grandparents, experienced the Great Depression, and it changed their view on financing and savings and their life all together.

    Fast forward 80 years, we all had it pretty easy for many years in this country. Jobs were easy to find and paid well. Houses and cars and luxuries were readily available, and maybe it all came too easy.

    Too much could be obtained without really working for it. Everyone living through these years, like our parents and grandparents, will likely be changed forever.

    Just give me another chance, we say, I'll do it differently. Good judgment comes from experience. Experience comes from bad judgment.

COMMISSIONER MURREN: Thank you.

Mr. Murray?

WITNESS MURRAY: Good morning, and thank you for inviting me to testify before the Commission.

    My name is Wally Murray. I'm the president and chief executive officer of Greater Nevada Credit Union based in Carson City.

    I also currently serve as the Chairman of the Nevada Credit Union League, the State trade association for the majority of credit unions in Nevada.

    Credit unions have served an important role in
the national economy for over a hundred years, and we are
unique from other banking institutions in several
important aspects.

One of the most important of these differences is that
credit unions are financial cooperatives. This means
that we are organized, owned and controlled by the very
members that we serve.

Since about 96 percent of credit union
business comes from consumers, there is no way I can talk
about the business of credit unions without talking about
the business of consumers. There's undoubtedly a very
tight correlation between American families and their
credit unions. As a result the, the fortunes of credit
unions are very closely tied to the financial well-being
of our members. Therefore, when consumers, i.e.,
members, face financial adversities, their credit unions
are also significantly challenged.

These trials have caused a significant drain
on the credit union's financial capital within the State
of Nevada during these past several years.

As a result, for example, during 2009, four of
Nevada's 27 credit unions, or approximately 15 percent,
were forced by Federal regulators to either liquidate or
merge with healthier credit unions based outside of the
state due to their reduced capital basis.
While pursuit of this merge strategy by regulators helps protect the Credit Union Deposit Insurance Fund at the Federal level, the damage it's causing to Nevada based credit unions and their members will likely be irreversible.

At a time when credit unions have both the demand from consumers for credit and liquidities to support such lending activity, they're being directed by an agency that's interested mainly in the view from the 30,000 foot level to avoid taking such actions.

This is occurring in spite of the fact that credit unions have long been noted for having more stronger loan underwriting standards than other type of financial institutions.

As a result, Nevadans who have long relied on their credit unions for assistance during times of personal need are being forced to turn to other alternatives that are often more costly to them individually.

In addition, credit unions having additional liquidity that they cannot lend due to the aforementioned condition, are being forced to manage their balance sheets by reducing their deposit basis. This has resulted in credit unions reducing interest rates on consumer savings, which are historically among the most attractive in the market so that they can rid themselves
of excess liquidity that they are unable to invest.

The sad result of these circumstances is that credit unions within Nevada have been less able to meet both the lending and deposit needs of their members at a time when their families need them the most.

This has even led to regulatory pressures and to curtailed loan modification efforts. Where my credit union, for example, has modified roughly 49 million dollars in mortgages over the last three years, helping 240 families stay in their homes.

While there's probably relatively little to offer on the causes of the national financial and economic crisis beyond what the Commissioners have already heard, hindsight does seem to clearly indicate that a majority of – a major underlying root issue was the aggressive pursuit of fostering of the American dream of home ownership during the past generation for as many people as possible.

This was certainly a popular political position to take as evidenced by the litany of efforts introduced in the past 15 to 20 years that were aimed in that direction. However, it is now also clear that in doing so, decision makers and implementers, including credit unions, overlooked one vitally important stabilizing factor, the need to ensure adequate financial
literacy of those seeking to own homes.

Throughout this period, significant advances were made toward making the process of buying a home and obtaining a loan easier to achieve. However, very little was done in the area of ensuring an adequate understanding of the consumers who were entering into these very complicated transactions that would impact them and their families for the years to come.

Without a full understanding of the risks and responsibilities associated with the purchase of a home, some people tended to be swept up in the euphoria that can be associated with such a transaction.

I believe we are witnessing the fallout from such a lack of education and hope we can learn from that experience going forward.

This should serve as the impetus for requiring that the responsible use of credit be incorporated into the curricula of our schools at the secondary level as has recently been done by the state legislature of Nevada.

We can also help avoid a repeating of the mistakes of the immediate past by not allowing people to enter into loan modification agreements without requiring that they are first able to demonstrate some basic level of financial acumen.
While this may sound somewhat burdensome for an already troubled consumer, evidence is bearing out that those who do not possess such capabilities have as little chance of succeeding with their modified loans as they did when those mortgages were first granted.

COMMISSIONER MURREN: Mr. Murray?

WITNESS MURRAY: Yes.

COMMISSIONER MURREN: Thank you. If you could summarize.

WITNESS MURRAY: Thank you.

I will just say that I thank you and I appreciate you having me here today, and I will answer any questions that you have for me.

COMMISSIONER MURREN: Appreciate that. Thank you.

Mr. Satre?

WITNESS SATRE: Good morning, and thank you for the opportunity to join you this morning.

My name is Phil Satre. I moved to Nevada in 1975 from California. And in 1980 I began a career at Harrah's Entertainment for 25 years.

Most of those years I was the president, CEO, or chairman until I will retired in 2005. Those 25 years were a period of explosive growth for the gaming industry, both for the gaming industry here in Nevada and
elsewhere in the United States.  

Our company expanded from two casinos in Reno and Lake Tahoe to over 25 casinos, now over 40 casinos throughout the United States and the world, and, importantly, significant investments were made by Harrah's while I was president and CEO in southern Nevada, in particular with acquisitions of the Rio, expansions of Harrah's Las Vegas, and then ultimately the acquisition of Caesars.

After I retired, I began participation in a series of not-for-profit and for-profit boards. On the for-profit side, I joined the boards of Nordstrom, a fashion retailer based in Seattle; Rite Aid Corporation, a drugstore chain based in Harrisburg, Pennsylvania; and two Nevada-based public companies of which I am in both cases the chairman of the board -- NV Energy, Inc., the investor-owned electric utility that serves all of the commercial and residential electricity needs of Nevada, and International Game Technology, which is the world's larger developer and manufacturer of electronic games and systems.

In both cases the largest Nevada customers for NV Energy and IGT tend to be Nevada casino hotel businesses in Las Vegas and to a lesser extent Laughlin, Reno, and Lake Tahoe.
IGT and NV Energy in many ways to me mirror the impact of the financial crisis in Nevada. The period of 2000 to 2007 was a period of explosive growth for both companies as the hospitality industry and the construction industry in Nevada grew rapidly.

As the financial crisis took root in 2008 and 2009, both companies saw a drop in demand, a drop in revenues, and their Nevada payrolls declined significantly.

For NV Energy the total head count peaked at 3,244 employees in 2008 as we added new generation facilities to meet the electric demands of residential and commercial growth in Nevada, that had been leading the nation in population growth for nearly 20 years. Today 330 of those jobs are gone, along with an additional 250 or so contract employees which were eliminated at the same time.

Our load forecast which we present to the Public Utilities Commission of Nevada and our integrated resource plan have been reduced significantly as population growth, unemployment, construction, and the hospitality industry have contracted.

While the direct impact on NV Energy has been moderated by the need for all of those customers to continue to keep the, the lights on and their air
conditioning on, the outlook for new capital investments and new job creation driven by our annual system peak demand growth over the next ten years has been reduced significantly.

For IGT, the financial crisis has had a much more severe and much more direct impact. The company's two main sources of revenue and profits are the sales of slot machines and replacing those slot machines, and revenue sharing slot machines placed on casino floors. Those have reduced significantly, not only in Nevada but throughout the United States and the world. We have a significant world-wide sales effort.

In Nevada specifically, machine sales were crushed by stalled and terminating casino hotel projects, drastically reduced by capital budgets that had contracted in order to pay higher levels of leverage that our casino customers had taken on, and coupled with reduced play on our revenue-sharing slot machines, our customers, in our customer's casino, IGT's revenues have dropped from a peak in 2007 of 2.6 billion dollars to 2 billion dollars roughly today. And our U.S. operations primarily here in Reno and in Las Vegas, have reduced our employee population by 800 jobs since our peak year of 5,000 employees in 2007.

Thank you for the, the opportunity to address
COMMISSIONER MURREN: Thank you.

At this time we'd like to open the session for questions.

And I'd like to begin with actually a question for all of you which relates back to some discussion that we had had earlier about the liquidity crisis.

In thinking about the sequence of events and how the financial crisis and the economic crisis unfolded, it's clear that there was a period of time during which credit availability became extremely scarce.

And I would like, if you could, to comment, each of you, on the timing of that, how it affected either your businesses and perhaps how you saw it affecting your customers or your peers in other companies here in Nevada.

And, Mr. Hill, if you don't mind, you can start. Thank you.

WITNESS HILL: Thank you, Commissioner.

We went, at least in my experience, and from those who I was able to speak with about this, went from a period where credit was exceptionally easy to obtain to the, the point that if you wanted to borrow a certain amount of money, the banks would ask you, Can't you borrow more? That happened often from 2005 into early 2007.
In the middle of 2007, we saw almost a light switch turned off when there was a realization that there was questionable asset value, how low were assets going to go, questionable projections for EBIDA, banks, for larger companies, it lent on multiples of EBIDA, those multiples were starting to rise as EBIDA was starting to drop.

So once that uncertainty got into the, the credit markets, credit at that point in our experience pretty much dried up. If you didn't have credit, you weren't going to get it. And when any loan that you had out was up for renewal, refinancing, you were going to struggle if you didn't have additional equity to put into your business.

COMMISSIONER MURREN: Mr. Martin?

WITNESS MARTIN: I would agree with Mr. Hill that the credit was very easy. It was all based on the optimism. Every loan paid. So you made a new loan, the values in real estate were going up, if you made a mistake as a lender, wait six months, and it would cure itself.

Everyone had the optimism of, of the future. And there was a lot of liquidity, as I previously indicated.

The interesting thing is today, as far as most banks I know in this state, the liquidity is almost the
size it was then. We're a 200 million dollar institution. We have about 85 million dollars in cash. We're earning about a quarter percent from the Federal reserve on overnight Fed funds. On most of those funds, we would love to lend that money out.

It is very hard to find qualified businesses. Their revenues are down. Their financial statements reflect stress, and we have gone as many as three months in a row without making a loan.

So it's not a shortage of liquidity, it's a shortage of qualified buyers. Las Vegas has always had real estate as its primary form of security. That's what we did. Banks ranged from 65 percent to 95 percent of their portfolios in real estate.

It didn't matter whether you were extremely conservative, which most banks were. You'd lend 65 or 70 percent. Unlike the oil crisis of the '80s, it didn't matter. When land goes to 20 percent of its original value, when a building is now empty, and it's worth 35 or 40 percent of what you thought it would be once it's completed and occupied, it doesn't matter how conservative you were. It's very difficult to lend today.

COMMISSIONER MURREN: If I could follow up on that, though, do you think that the comment made by
Mr. Hill is a fair assessment of the banks' behavior prior to the collapse, and that is that banks were so eager to lend that they would in fact ask people to take more money.

And did you see any deterioration, or do you think you can comment on your own loan standards within the bank, not only your own institution but perhaps activity in other banks?

WITNESS MARTIN: Yeah, I'm glad Mr. Hill feels it's appropriate to spear the bankers again. We haven't had near enough of that.

So certainly banks have lots of liquidity they needed to employ. Whether it went so far as having people, you know, push them to borrow more, there's probably some truth in that, because we were trying to get money out the door and everybody was, was optimistic.

And of course now I have forgotten your question.

COMMISSIONER MURREN: Just about lending standards.

Was there any kind of correlation between the desire to want to lend and lending standards that were prevalent at your own enterprise or others within the community?

WITNESS MARTIN: Yeah, my present bank and my former bank both had lending standards, and this may
sound a little offensive, but they really weren't ever violated significantly. But as you have lots of liquidity, you do find yourself first competing by reducing pricing, and when that goes away, you reduce your standards, you reduce the amount of the guarantor, the guarantee and protection, you advance higher on collateral.

I think those happened in all banks, but to a great extent in some banks that went deeply into hard money lending and spent more speculative lending, I do think an awful lot of that occurred where lender standards literally went out the window. I mean, literally.

I remember one customer just recently told me that they had a loan at a bank that has now failed and said they never had a single inspection of their, the home they were building for spec and sale. So I think a lot of banks bought into this, drank the Kool-aid, bought into it to the extreme.

COMMISSIONER MURREN: On the point of the inspections, but actually from the other side of it, one of the observations that I've heard here and elsewhere is that the regulators that came in to do bank examinations actually had relatively -- they came in for examinations, but they were not nearly as intense perhaps as they are
Do you think that that is a fair assessment of the degree of intensity of the bank examination process or the regulator regime?

WITNESS MARTIN: I can't wait to criticize my regulator. And then follow up.

I was a, a bank examiner 15 years. I was in Washington five years as head of the Controller's office for problem banks, so I feel I have some experience there.

And I'm going to say when I say everyone bought into the, the economy, I mean everyone. And that included the regulators. And they -- they were not critical of lending standards or administration or oversight because everything turned out well.

And, and I even recall one regulator of the FDIC I think that laid off a substantial amount of their examining staff. I seem to recall that.

So everyone bought in, I'm going to say nationwide, into this, and the regulators as well.

COMMISSIONER MURREN: Thank you.

And Mr. Murray?

WITNESS MURRAY: From the credit union perspective, I can echo much of what Mr. Martin said on the banking side.
Yes, we were scratching our heads at the time when we were hearing about this liquidity crunch and the credit crunch. We had plenty of liquidity throughout, and we still do today on a similar scale to what Mr. Martin indicated.

We also have the similar issue of being able to grant loans. We don't do so many on the commercial side. Most of ours are on the customer side.

Our issues are, in that regard, are not with the consumers, but they are with the regulatory agency that we deal with, who is very skittish about the prospects for the economy in Nevada, quite frankly.

That is definitely hampering us at this point in time. And that is a 180-degree shift from where they just a few years ago when in our industry we had such regulatory initiatives as, called serving the underserved. That was the pressure we were receiving, go out and do more lending to underserved areas of the community, find those underserved areas, seek ways to serve them, and, again, help them improve their lot in life.

That now has been entirely forgotten. We never hear an utterance of that as we are experiencing these increasingly demanding regulatory examinations at this point in time.
COMMISSIONER MURREN: When things really
unraveled on Wall Street with regard to short-term
funding and liquidity, broadly speaking, did that have
an immediate impact on the kinds of lending that you do,
or did it take a while to work its way through the
system?

WITNESS MURRAY: It did take a while to work
its way through the system. And really the impact that
it had on the kind of lending we do was once
consumers became concerned about it, they'd heard about
it often enough and frequently enough to where their
confidence was shaken, that's when it began to impact our
business.

COMMISSIONER MURREN: Thank you.

Mr. Satre?

WITNESS SATRE: I'll speak from the standpoint
of both IGT and NV Energy. And for IGT, I'd say that the
credit availability was enormous going into this credit
crisis. I mean it was an investment great company, it
was one of the fastest growing companies --
publicly-traded companies in the United States from time
to time.

There was some product introductions that had
a tremendous impact on the market, and, and I think in
hindsight now, as directors, when we look at the
borrowing behavior of the company, the criticism that we
would level, looking backwards -- and this isn't just
IGT, it's some other companies that I've been involved
with, and some other companies that I'm aware of -- is
that the overconfidence in the economy was, to me,
represented by the fact that you would borrow money to
repurchase your own shares. And that was happening
there.

And then by the time you got to 2008, 2009,
you looked back and you said why did we ever do that?
How dear that money is now when you go back out to borrow
that money, and you look at what the cost of your capital
is, whether it was debt or equity. And so that's a
lesson I think that is, has been dearly learned for me
and I think many other people in, in my position.

NV Energy is a slightly different story and
one that I think is somewhat interesting based upon
Bill's reference to the depression.

While we didn't experience -- well, we did
experience the depression at NV Energy, because it's a
hundred years old, but I wasn't there -- Bill was -- but
the, the thing that I wanted to make a point of is that
NV Energy did experience the Western energy crisis, which
brought the company to its knees, very near ended the
life of the company.
And what happened was our credit was slashed.
We ended our dividend. And it actually was a favorable
impact for the company by the time 2007 and 2008 rolled
around, because a period of great frugality had to ensue
at the company through 2001, 2002, 2003. And it was only
until 2007 that we returned to investment grade credit
and began to declare a dividend, which is, for a public
utility, a big no-no.

So I think the fact that we had gone through
such an austerity program, leading into this, actually
benefited us when the crisis occurred because we didn't
have the opportunity to get over our skis the way so many
other companies did.

COMMISSIONER MURREN: Could you comment just a
little bit on, again, the same issue of when there was
the credit freeze in the short-term credit markets, to
what extent was it felt by business here and how
immediately did that occur?

WITNESS SATRE: Well, speaking from -- at the
time, I wasn't at IGT, so I can't speak for what was
going on in there, so I won't.

At, at NV Energy, I don't remember it being --
I remember it being a significant topic in the board room
because of the nature of the debts, the loans and the
other debt that we had on our books.
At the time the crisis hit we were not -- we did not need to be in the market for any short-term credit at that time.

COMMISSIONER MURREN: Thank you.
And I'd like to reserve my time for later.
And I'd like to go ahead and turn the questioning over to Commissioner Georgiou, please.

COMMISSIONER GEORGIOU: Thank you.
Mr. Satre, I, I noted that in your testimony you really didn't get on the last half of your testimony. I wonder if you could sort of finish up on it, because I think it would be interesting for people to hear about all of the major capital projects that, in the gaming industry and otherwise, that were suspended, really, from completion as a result of the crisis.

WITNESS SATRE: I'll start, Commissioner, with just some of the comments that, that were, what we felt were a summary of the economic downturn and its impact on both the gaming industry and IGT.

Las Vegas visitation rates and Las Vegas strip gaming revenue, since 2007, visitation rates have significantly declined by roughly 2 million or 5 percent.

2007 was the peak year at 39 million visitors.
2010 is estimated at 37.

Gaming revenues for the Las Vegas strip have
declined from 8.4 billion in 2007 to a projected 5.7
billion in 2010, which is a 32 percent decline.

And the importance of that, and I know you
know this point, is that we have a very narrow tax base
in this state. Primarily gaming gross revenue taxes and
sales taxes. Most of those gaming gross revenue taxes
are generated in Clark County and in particular on the
Las Vegas strip. And when you have a 32 percent decline
in gaming gross revenue taxes over that period of time,
you end up with the kind of deficit that Jerry Aguero
referenced about a three billion dollar reference or
roughly 50 percent of the budget, which is I think as a
percentage is the greatest in any state in the United
States.

COMMISSIONER GEORGIOU: And we're going to be
hearing this afternoon from the Chief of the Budget
Division of the State of Nevada from Governor Gibbons'
office to talk about the impacts on the revenues and the
expenditures of the State.

WITNESS SATRE: Significant Las Vegas casino
resorts that were impacted by this economic fallout was
the New Frontier site that was sold to a company called
El Ad in May 2007 for 1.2 billion dollars at the time.
That was 33 million dollars per acre, the highest price
ever paid for real estate on the Las Vegas strip. As of
2010, no construction has begun on that site. Originally it was planned to redevelop the property as a project called the Las Vegas Plaza. I think that is far out into the future.

A three billion dollar Fontainebleau project, which was referenced by Jeremy, it began construction in April 2007. It was the old El Rancho site. The construction was halted in June of 2009 when the project was 70 percent complete.

The company planned to finance and sell condo units to fund the construction costs. The recession caused that particular strategy to not be able to be pursued. Bank of America, the biggest lender, refused to provide further funding for the project, and in June 2009 it filed for bankruptcy protection.

In February of 2010, Carl Icahn assumed partial ownership for about 150 million dollars, which is one of the things you're seeing here in Las Vegas referenced today in the Wall Street Journal, that a lot of the distressed property in this market is being picked up through the purchase of convertible debt. The project goes bankrupt, and then you own a significant portion of the equity and control of that project going forward.

A five billion dollar Echelon Project built by Boyd. The project was halted in August 2010 on the old
Stardust site and is not expected to start up again until 2012 through 2014.

COMMISSIONER GEORGIU: Thank you, Mr. Satre.

I wonder, if I could turn back maybe to Mr. Hill, and do you think that there was overleveraging in the business community in this time of extraordinarily available credit that contributed to our crisis here in Nevada?

WITNESS HILL: The answer to that is certainly, yes. And, and it's easy to say in retrospect.

If community banks were willing to lend 65 percent loan to value on a physical asset, if larger banks were willing to loan five or six times projected cash flow, those seemed very reasonable at the time.

And the, the projection seemed very reasonable for the reasons that Mr. Satre just pointed out.

There's been a correlation in Las Vegas for a long time of six jobs in the community for every hotel room in the community. And you go back 25 years, that projection has remained fairly constant.

When there's 40,000 rooms projected to be built, you just do the math. The construction industry does the math on that and says okay, that's going to generate 240,000 jobs, there's 1.3 jobs per house, that's how many houses we're going to have to build.
We had discussions in 2006 about how in the world were we going to build enough housing for all these jobs that were going to be created and all these people moving in order to fill them. That, that was going on in the middle of 2006. It, it seemed reasonable at the time.

As I said earlier, we need to remember that we can be wrong. And we forgot that. And we forgot that when we borrowed money.

But when asset values fall 75 percent, and your cash flow not only falls 75 percent and goes negative, you're overleveraged.

COMMISSIONER GEORGI OU: Mr. Martin, do you have any comments on the overleverage situation?

WITNESS MARTIN: Well, I think that the overleverage of a lot of the big gaming companies is well known. That's not my lending area. That's not my customer.

So I guess I have to go back to business customers, individuals, and I don't recall there being severe overleveraging. I think lending standards, bankers still lent on a debt coverage ratio. I don't remember them dropping below 1.2 percent, 1.2 times. That was kind of standard. So I don't remember the leverage being an issue.
However, the purpose of capital is to absorb capital and the depreciation of the assets. And the assets of doctors, lawyers, businesses, it didn't matter. When the assets values depreciated as deeply as they did, then clearly the liabilities exceeded the value of the assets.

Now you've got overleverage. But I don't remember that as a community bank lender, as that being a big contributor to the, the loans we would make.

COMMISSIONER GEORGIOU: Right. And what's the asset base of your bank?

WITNESS MARTIN: A little over two hundred million for a small bank.

COMMISSIONER GEORGIOU: I guess, Mr. Satre, you can speak to it.

Some have suggested that the availability of credit in the private equity community contributed to the crisis in that it inflated large scale commercial real estate and business acquisitions that, that ended up with institutions that had significant debt in a, in a period when they obviously had retreats in the, in the economic marketplace and couldn't finance their debt.

Could you speak to that?

WITNESS SATRE: I can speak to it from the standpoint of what I know about my former company,
Harrah's Entertainment, Inc., which was acquired through a private equity transaction in 2008 just at the beginning, in a very significant transaction, about a 30 billion dollar transaction, that was funded primarily with debt, either the existing debt that the company had or debt that was layered in by the two sponsors of that acquisition, Apollo and TPG.

And I think my successor at Harrah's, Gary Loveman has said it. He said in a perfect world, we never would have done this transaction at this time, if we had seen this coming; that there was a strong belief by I think the sponsors of that acquisition, TPG and Apollo, that this Las Vegas economy and the ability of Harrah's and other companies like Harrah's to I think grow and increase both their revenues and their profits to support those levels of debt would remain. The opposite has been true. That has declined rather than grown.

And as a consequence, a significant amount of that debt has been renegotiated, maturities extended, and in some cases the sponsors have repurchased that distress debt at very low prices in order to bring down the total debt load. And I think that the debt load has now been reduced from about 24 billion to 18 billion.

But that exacerbated, I think, the impact of
the consumer crisis everywhere else in the United States.

COMMISSIONER GEORGIU: Thank you.

Mr. Murray, you've got a, a relatively small
institution up there in northern Nevada.

You, you service about 50,000 members, is that
right?

WITNESS MURRAY: Yes, that's correct.

COMMISSIONER GEORGIU: And an asset base of
how big?

WITNESS MURRAY: 500 million.

COMMISSIONER GEORGIU: What are your
principal lines of businesses that have been impacted by
this crisis?

WITNESS MURRAY: Well, our principal services
that we provide is vehicle lending to consumers and real
estate lending to consumers and a variety of savings
products. That's generally what we do.

COMMISSIONER GEORGIU: And have they been --
do you have significantly reduced demand for those
products at this time?

WITNESS MURRAY: On the real estate side, not
significantly reduced demands, significantly reduced
amount of the mortgages due to the decrease in housing
values.

On the vehicle side, certainly significantly
reduced demand as evidenced by the national reduction and
the issues in the automobile industry. So yes,
absolutely there.

    COMMISSIONER GEORGIOU: Okay. Do any of you
feel that you did anything that you wish you had done
differently to help avoid this crisis?

    We've tried to ask that of just about
everybody who has come before us, and if you can't think
of anything you'd be in the majority.

    VICE CHAIRMAN THOMAS: Madam Chairman, yield
an additional, to the, the chairman an additional 20
minutes.

    COMMISSIONER GEORGIOU: The -- you'll find --
we found it quite surprising that we had so many people
who had fundamental responsibilities in both the private
and the public sector who came before us and essentially
said they were the victims of a financial storm over
which they had no control and which no one could have
predicted and that they just simply were victimized like
everyone else.

    But we've had some people who upon further
self-reflection realized that there are things that they
did that they could have done differently. Maybe
questions that they could have raised or doubts that they
had along the way.
I wonder if any of you could share them, and I guess I'll put Mr. Hill on the spot at the front end.

Mr. Hill, you're the chairman, are you, of Service1st, right?

WITNESS HILL: Yes. Yes, I am, just recently.

COMMISSIONER GEORGIOU: And, Mr. Martin, you're the vice chairman and the CEO. So you only have one institution to speak for there.

But go ahead. Maybe you could extend your remarks to not just that institution but your own experience in your own, your own private business as well.

WITNESS HILL: And I'll let Bill speak for the bank.

As, as a businessman, I think any, any business has to, has responsibility for the outcome of that business. Whether we should have been able to see the future or not, it, it, it becomes our responsibility, it is our responsibility. That worked for some businesses, it did not for others.

It's difficult for me to point a finger at an individual business who has their head down, trying to take care of customers, growing as fast as they can in order to do that, employing people, those are all good things, looking up and seeing the economy jerked out from
under them.

As a person who has been a chairman of the Las Vegas Chamber who some people look to for some leadership in the community, I feel responsible for not having spoken up more clearly about my concerns. I did push our companies to sell during this period of time. I was concerned about the future. I thought I was wrong, and most people around me did as well.

Looking back, I think more voices on the other side of our enthusiasm -- and we're still enthusiastic about Las Vegas -- but that should have been tempered. And I think we all bear that responsibility.

The mistakes in judgment are ours. That has been exacerbated or multiplied by the abuse of derivative products, by the abuse on the mortgage side, by rating agencies papering that with Triple-A ratings. And I think the anger that most feel across the country is they have the responsibility for the result because it's theirs.

It has been multiplied, and it's difficult for us to know by how much, by abuse. Which I don't think most in Las Vegas participated in at all.

COMMISSIONER GEORGIOU: All right. You know, some of the, one of the findings you might be interested in is we've discovered in the course of our investigation
that some 94 percent of the mortgage tranches of the
securitized mortgage-based securities that were rated
Triple-A by the credit rating agencies have now been
downgraded in many instances very, very significantly.
So that those Triple-A ratings enabled investors in many
institutions that could not have purchased them otherwise
to have bought them, and of course enabled all the
parties who participated to be paid from the proceeds of
the sale. And that was certainly a contributing factor.

Mr. Martin, could you share with us your
insights?

WITNESS MARTIN: You know, this institution is
under three years old. It began with 50 million in
capital. I joined it after it was 12 months old. And
I'm very pleased to hold prior management responsible for
a hundred percent of our problems.

The institution has lost over 50 percent of
its book value on loans made essentially from January of
'07 to December of '07, and much of that was based on the
standards of '06, '05, '04. They didn't see it coming.

My prior institution was 4 billion, and it was
a heavy real estate lender. It's very solvent, but it
has absorbed very large losses.

I, I wish, I guess we're all back to saying
give me one more chance, and I'll do it different.
COMMISSIONER GEORGIOU: Very good. Thank you.
We'll all have that chance.

Mr. Satre, maybe I'll go back to the other end
and come back in here.

WITNESS SATRE: From the standpoint of, I'll
look through the lenses of the four companies that I've
been involved with recently -- Nordstrom, Rite Aid, IGT
and NV Energy, all of which have some nexus to Nevada.

Most of our, our, our planning in the board
room, I think a fault we might have is that we were
looking at our demand drivers and not looking through our
demand drivers.

So for NV Energy, it's how many homes are
going to be built, how many casino rooms are going to be
added, without saying what really is driving that demand,
and is it sustainable.

And we had to completely revise our forecast.
The same was true for IGT. We'd use historic replacement
projections. We'd use all of the plans that we saw on;line for building these.

And, again, I think we didn't look through
that and say how, how sustainable and how realistic are
these projects as we planned. And we would have done
some things differently, I think at IGT. We would have
not built a brand new office building south of town.
Very expensive. Very big. Manufacturing and office building plant. I think we would have lived with a little bit more austerity.

And the same is true for Nordstrom, which is based on what developers say they're going to build.

I think everybody in the room, myself included, of the board rooms I was in, kept asking where is the money coming from?

There's just so much money around. The consumer's loaded with money, and the financial markets are loaded with money. The access to capital for private equity transactions, the, the access to capital for mergers and acquisitions. And I don't think anybody asked probing questions about how can that much cash be generated and be sitting on the, the sidelines waiting to go someplace, whether it's the consumers coming to Las Vegas, paying $10,000 for a bottle of champagne in a nightclub, which 20 years ago wouldn't have happened, or whether somebody would have had access to private equity to make a transaction of the, the nature that occurred with my former company.

COMMISSIONER GEORGIOU: Thank you.

Mr. Aguero said one thing interesting at the end, he said now in hindsight, it's much easier to spend money that you don't have than to pay back money you
don't have.

But anyway, I think I'll let you off the hook, Mr. Murray, because we've run out of time.

Thank you very much.

COMMISSIONER MURREN: Thank you.

Chairman Angelides?

CHAIRMAN ANGELIDES: Thank you very much.

Mr. Martin, let me start with you.

You alluded to the fact you worked at OCC. I was looking at your bio, I couldn't find it, and for everyone in the audience, that is the Office of the Controller of the Currency.

During what time period?

WITNESS MARTIN: Examined in the Western area from 1964 to '78 and was in Washington from '78 to '83.

CHAIRMAN ANGELIDES: All right.

Well, let me just ask you then as veteran here, both of the regulatory regime and also in banking -- and prior to Service1st Bank, what was your immediate position prior to that?

WITNESS MARTIN: It was chairman, president and CEO of Nevada State Bank.

CHAIRMAN ANGELIDES: All right.

So you had -- and you were there during what time period?
WITNESS MARTIN: I took over a bank called Pioneer Citizens in '89. We built it up for ten years and sold it to Nevada State. So then I stayed at Nevada State until, from '99 up until 2007.

CHAIRMAN ANGELIDES: All right. And just so -- at Nevada State and your current bank, who were your regulators?

WITNESS MARTIN: The FDIC was regulators in both cases.

CHAIRMAN ANGELIDES: And do you have a Nevada Department of Financial Institutions also?

WITNESS MARTIN: We --

CHAIRMAN ANGELIDES: -- regulations?

WITNESS MARTIN: Correct.

CHAIRMAN ANGELIDES: All right.

So let me ask you, at Nevada State Bank and your current institution, were you in the residential mortgage lending business at all?

WITNESS MARTIN: None.

CHAIRMAN ANGELIDES: Neither institution?

WITNESS MARTIN: No.

CHAIRMAN ANGELIDES: But did you have your finger on the pulse of various lender markets in the state?

WITNESS MARTIN: With respect to like residential lending?
CHAIRMAN ANGELIDES: Yeah.

WITNESS MARTIN: Absolutely not.

CHAIRMAN ANGELIDES: Absolutely not.

WITNESS MARTIN: I was absolutely the most naive banker in the State of Nevada. It wasn't until that article in the Review Journal in, I believe, 2007 that I learned that Pulte Homes had sold 16 homes to one person who made 50,000 a year, and it was financed by Countrywide, and then I learned that there were purchases of 20 and 25 homes by these builders, and that's the first time I woke up to the fact of how much easy credit there was. Because, remember, there weren't 25 homeowners or 16 that wanted those, and it created an artificial demand, and they probably went out and built 16 more homes. Now we've got 32 homes.

CHAIRMAN ANGELIDES: So what time was that?

WITNESS MARTIN: Well, I believe the article was 2007. I want to say 2007, early or mid. And I wish I could tell you that I had my hand on the great pulse -- but it took me totally -- I had no idea of the liberal, uncontrolled, ill-conceived, irresponsible lending that was going on in that market. I had no idea.

CHAIRMAN ANGELIDES: All right. Well, I was going to ask you a general question about whether you saw -- I mean, you obviously worked at regulated
institutions, whether you saw or have any perspectives on
growth of kind of unregulated -- well, I mean,
Countrywide was regulated by the Office of Thrift
Supervision, some would argue that the regulation at OTS
is equivalent to being unregulated -- but whether you saw
dramatic evolutions in lending regulation, lending
underwriting standards kind of through the 2000s and a
particular differentiation between the regulated and
nonregulated institutions.

WITNESS MARTIN: Well, of course nonregulated
institutions obviously have an advantage, but they still
have to be controlled by their source of funding. And,
and all this was accomplished by selling this product
like an egg going through a snake, as we used to say in
Texas. And the reason you could make those loans is
because there was a buyer of those securities all the way
at the other end. So the, the, the money clearly was
available to fund all this.

And the trick was, it was like the, the, the
old game of hot potato, get rid of it, make the loan and
pass it on and pass it on and pass it on. So.

CHAIRMAN ANGELIDES: Did you, did your
institutions ever buy any RMBS, CDOs, any of those
instruments?

WITNESS MARTIN: No, we did not.
CHAIRMAN ANGELIDES: And that was because --

WITNESS MARTIN: We probably weren't asked.

Yeah, we didn't, we didn't --

CHAIRMAN ANGELIDES: You referred in your testimony to a point in 2001, you said -- I'm just curious what you were referring to, the homebuyer, the investor, the mortgage loan, the mortgage companies, the GSC, investment bankers, and through to the buyer of mortgage-backed securities, everyone was making so much darn money that some efforts to bring control and order to the situation in 2001 never got traction.

To what were you referring?

WITNESS MARTIN: There's two New York Times articles. One is September 30, 1999, in which there was an absolute idiot named Peter Wallison, who, in evaluating the new lower standards at Fannie Mae said if you allow them to do this, you will have to bail out Freddie and Fannie just like you bailed out the savings and loan ten years ago. Put that in 1999.

He's one of your commissioners, as you know, and he's one of my heroes because I'm sure everybody thought he was completely insane. So if anybody saw it, he saw it.

In 2001 -- and these are both on snoops.com, another New York Times article, in which there were
attempts to regulate the GSEs, and that went beyond farm credit, it went beyond Freddie and Fannie. But there was an effort to know that there was an awful lot out of control in these government sponsored entities.

And that's the article that I referred to out of the New York Times. I don't remember the date, but it was 2001.

And I don't want to get political, but all efforts to bring any additional regulation and control didn't happen.

CHAIRMAN ANGELIDES: Right.

WITNESS MARTIN: So you'd have to ask someone more experienced than I as to why.

Do I think anybody saw this giant crash coming? Absolutely not.

CHAIRMAN ANGELIDES: All right.

Mr. Hill, you had referred to mortgage fraud deception, greed, lack of regulatory oversight, again, what were you seeing, at least touching and feeling at the local level?

WITNESS HILL: Well, I'm in the concrete business for most of my career. And that industry tends to be a leading indicator, which was helpful for me.

And we saw the market roll over in May of 2006. That was the highest month we had. And it was
downhill from there.

We, we touched that industry. The home builders, through our customers, our indirect customers. And the issues that Mr. Martin raised certainly existed. We were seeing homes, new homes up for auction where lines of people were there ahead of time in order to, to buy a home. At that point we, we should have had our eyes more open than they were.

We saw people who bought homes that really couldn't pay the loan back unless the home sold for more money soon than they bought it for.

That's just a, it's a mistake. It's a mistake for somebody to sign that mortgage. It's also a mistake for someone to give them that mortgage. Once you get into that cycle, as we've seen now in retrospect, you've got a problem coming your way.

So those are the, the types of things that we saw.

CHAIRMAN ANGELIDES: Final question.

Mr. Murray, quickly.

Do you do home lending?

WITNESS MURRAY: Yes, we do.

CHAIRMAN ANGELIDES: The nature of the loans you made, I mean the terms -- fixed, adjustable,
WITNESS MURRAY: Combination of all three.

Fixed and adjustable.

CHAIRMAN ANGELIDES: Did you do any subprime lending?

WITNESS MURRAY: No. No. We made a conscious decision when that was going hot and heavy not to do that because that violated our core values.

CHAIRMAN ANGELIDES: So let me ask this question.

What did you see in the way of kind of unregulated lenders, mortgage brokers, out in the field? How did the, the marketplace transform in Nevada?

COMMISSIONER MURREN: Yield two minutes for an answer, please.

WITNESS MURRAY: There was a great deal of money being made. There were a lot of people jumping into that. And through those efforts no question about it, no question about it.

And they did not seem to have any trouble either making those loans or selling those loans.

Like I said, we weren't actively involved in the market, so I'm not sure of the sources they were using there, but it was definitely, definitely going very hot and heavy.

And we, you know, we turned away a lot of
CHAIRMAN ANGELIDES: When you say it wasn't part of your values, you mean underwriting discipline, or was it also regulatorily --

WITNESS MURRAY: No, it was, it was the core values that we operated by as, as an institution, that we, you know, and, and which ultimately drive our underwriting decisions and our underwriting guidelines.

CHAIRMAN ANGELIDES: Was your underwriting based on ability to repay?

WITNESS MURRAY: Yes, it was. Yes.

CHAIRMAN ANGELIDES: Thank you.

COMMISSIONER MURREN: Thank you.

Vice Chairman Thomas?

VICE CHAIR THOMAS: Thank you.

I'm going to honor the time given to me and so I’m going to move very quickly, and if I cut you off, it's only because I want to focus on very particular concerns.

And I'm really concerned about not looking backward but looking forward. If we want to look backward, Mr. Satre, I talk about the joy I had when I was younger walking down row after row of older and antique cars at the Harrah's -- absolutely unparalleled Harrah's Auto Museum, but that's backward.
Are we coming to an agreement in Nevada that government basing its revenue on gambling is gambling? Just, you know, one person can be designated, and yes or no.

WITNESS HILL: It's more than a yes-or-no question, Mr. Commissioner.

VICE CHAIR THOMAS: Well, then I'll ask you additional questions, because I want to talk to you about businesses who aren't in that business, and the fact that your economic viability is to a very good extent defined by them.

One of the joys of representing an area in which all the participants in a geographic area or within the district is you get together and get people to commit to solve problems.

In our area a lot of business was complaining about the product being turned out by the high schools, that they weren't -- the kids weren't equipped to even take basic jobs in a number of the industries and businesses that were in the community. I said well, if you aren't getting the product, why don't you get involved and interact in ways that produces a better product.

So you've got to get involved. You talked about diversity. At some point if we're going to talk
about where we're going forward, I'd really like to hear people being -- I used to call it thinking outside the box -- I don't think it's that far out -- about maturing, Nevada thinking in more mature ways, and you don't need to answer it.

Mr. Martin, you've obviously been around a long time. We had some community bank failures. We had everywhere -- we had a community bank failure in our area. They were more heavily into commercial mortgages and commercial real estate not necessarily residential.

If you're acquainted at all with the recent financial regulatory changes that were passed by Congress, do you have any concern about the community bank business model being one that's viable as we go forward?

WITNESS MARTIN: Yes, I do. And I've had that concern prior to this legislation.

The community bank business model is not broken, but it's very difficult, and I think with regulation, and I think there is a bias towards having fewer large banks rather than more small community banks.

VICE CHAIR THOMAS: Well, and as the regulations kick in fees and everything, it's going to be that much more difficult.

This whole business about moderation, I mean,
the definition of a bubble is irrationality. If you were rational, you wouldn't do what you were doing.

So notwithstanding the old saw that a rising tide raises all boats, a tsunami crushes them all, and the idea of trying to be rational rather than irrational, is a very difficult thing to do, because as you said, we -- even Warren Buffett was in front of us, and he admitted he didn't see it coming. So if you've got a guy like that who didn't see it coming, looking backward is easy. It's looking forward that is tough.

Mr. Murray, I don't know exactly what to do with your testimony. You were created by Congress because there was an underserved population, the, the old saw about if you wanted to get a loan from a bank, you could get one if you didn't need it, but if you needed it, you couldn't, based upon the collateral that you could have other than your commitment to work hard, and so the whole savings and loan industry was built up around that, as well as the credit unions, except you had a charter which said you were to be servicing a defined universe.

And in listening to your testimony, I just got a little bit of a subtle undercurrent that you're not comfortable in that role.

The idea, I mean, right now -- I mean, what
are the restrictions on joining your credit union?

WITNESS MURRAY: We have a community charter for 11 to 12 counties in northern Nevada.

VICE CHAIR THOMAS: So it's geographic?

WITNESS MURRAY: Yes.

VICE CHAIR THOMAS: If you're vertical sometimes, and warm all the time, you can join the credit union?

WITNESS MURRAY: If you're a member of those communities, yes.

VICE CHAIR THOMAS: If you're warm; sometimes vertical, and live in the geographic area.

WITNESS MURRAY: Yes.

VICE CHAIR THOMAS: And for that charter, what do you get in return from the government and the society?

WITNESS MURRAY: I believe I know where you're heading. You're -- we're tax exempt from Federal income taxes.

VICE CHAIR THOMAS: Okay. You're tax exempt. Mr. Martin pays taxes. But in reading your testimony, it was, it was told that, that you needed to honor its original heritage by reaching out to provide financial services, including home loans to people who are not able to get them elsewhere, try to provide a service, which was the original intent for creating them
in the first place, and that, that that was something
that was being imposed on you and made it difficult for
you to carry out your business.

WITNESS MURRAY: No, I, I --

VICE CHAIR THOMAS: Do you want to make a deal
that you can act like a bank in all aspects if you're
willing to pay taxes for the privilege of acting like a
bank?

WITNESS MURRAY: We're not, we're not a bank.

We're vastly different.

VICE CHAIR THOMAS: So when the structure
requests that you perhaps carry out a socially relevant
function, partially, I assume, in return for the tax
exempt status that you have, you ought to go back and
have a third party read your testimony about how willing
and acceptable you are to carry out that role.

WITNESS MURRAY: We have no qualms about
carrying out that role.

VICE CHAIR THOMAS: Okay. I just had
difficulty when I read it seeing that you were
enthusiastic about helping people in need to carry out
the ability to do certain things financially. I just,
it's, it's shocking to me --

WITNESS MURRAY: No, I --

VICE CHAIR THOMAS: -- that you want to act
like a bank but you don't want the responsibilities of
the bank because you don't want to give up that leverage
or advantage that you have. Gifts in terms of social
responsibility carry obligations.

COMMISSIONER MURREN: Should I --

VICE CHAIR THOMAS: No, don't give me any
additional time. And I really appreciate it.

And I, and I want to watch, I want to watch
this experiment because you are capable in a defined area
to a very great extent of solving the problem that you've
gotten yourself into, but it really requires cooperation
among all aspects in this area.

I mean, in some areas, there are states that
have certificates of need to build hospital rooms. It's
a demand, and you meet the demand.

The idea that building rooms defines who you
are and what else you do, is kind of the problem that you
got yourself in.

I'm interested to see where you go. I'm going
to watch, and I hope you can really do a good job because
I liked the Rebels when they were running not walking.

Thank you.

COMMISSIONER MURREN: Thank you.

I'd like to use one of the moments that I have
in my reserve time to ask Mr. Murray if you can please
respond.

At any point in time in the pursuit of your mission were you asked to compromise any of your lending standards?

WITNESS MURRAY: No, we were not, we were not asked to compromise any of our lending standards, per se. We were just asked to go out and seek more underserved Communities, more underserved people groups.

In our specific case, the group that we chose, to -- after analysis of the communities that we served, to try to serve was the Latino community. We made a specific outreach to the growing Latino community in northern Nevada.

Doing so did not require that we necessarily compromise any of our lending standards, but it meant that we invest time, energy, and resources in trying to develop relationships with those groups from the community aspect and also from the individual aspect and build trust based in those relationships.

From that standpoint we, we extended loans to them. And that's a, that's a group in our area that was largely very closely tied to the construction industry.

COMMISSIONER MURREN: But, again, within the context of your lending standards being held firm.

WITNESS MURRAY: Yes.
COMMISSIONER MURREN: Thank you.

Commissioner Born?

COMMISSIONER BORN: Thank you very much. And I very much appreciate all of you being willing to appear before us and provide us information about the Nevada economy and how it's affected your companies and also your industries.

I want to ask you each, I'm, I'm -- I have been struck by how very hard the hit on Nevada's economy has been. And I'm sure from your testimony, that each of your industries has been really devastated by the tremendous downturn caused by the financial crisis and its spillover into the Nevada economy.

I wanted to ask each of you what you foresee going forward in terms of the time period for recovery, the road to recovery, if you have any insights into that.

And I'd like to start with Mr. Hill.

WITNESS HILL: Thank you, Commissioner.

I don't know that my crystal ball is better now than it was five years ago, and it wasn't very good five years ago.

I do see what our road to recovery is. I don't know really how long that will be, although it's not going to be a year or two, it's going to be five years or eight years. And it relates to how quickly the
national economy recovers as well.

The gaming industry is largely driven by that. Employment in the gaming industry on a per room basis has dropped from about 1.4 employees per average room to one. That needs to grow back. And that's not going to happen until the national economy recovers.

Going forward, though, Las Vegas and Nevada is going to have to seize control of our economic growth future. That is not going to come to any extent as it has in the past from the gaming industry. It will be a foundation, but they will not be the driver of our vitality.

We have opportunities there. The downturn has created even more opportunities. We have affordable housing. We have affordable industrial space. We have a work force that is well-trained and ready to go to work.

We need to harness that, and we need to partner with our education system, this great university and find three or four industries that will really provide jobs that will be our, our growth in the future. We're in the process of doing that. But it will take some time.

COMMISSIONER BORN: In other words, what you're suggesting is that the path for recovery will involve diversification of the economic base of, of
Nevada?

WITNESS HILL: Yes, Commissioner, it will.
And we've talked about that for a long time, and we have diversified our economy, but not in a targeted way that creates industrial clusters that then become their own magnets for other companies to come here and grow. We need those three or four clusters in order to support Nevada in the future.

COMMISSIONER BORN: Thank you.

Mr. Martin, let me ask you, I was struck by your testimony about how 50 percent of your loans in the 2005/2007 period have, you've had losses on. And I assume that your bank and other community banks in Nevada have been heavily impacted by the downturn, is that right?

WITNESS MARTIN: That's correct. And I don't mean to correct you, but it's our capital that's been depleted by about 50 percent as a result of those losses.

COMMISSIONER BORN: Oh, my goodness. Well, that is even worse.

WITNESS MARTIN: Yes.

COMMISSIONER BORN: So do you -- what do you foresee in terms of the road to recovery for community banks and for the Nevada economy?

WITNESS MARTIN: Well, I've been here since
'83, and they've attempted to diversify the economy, and each time a new company comes in and hires 150 or 200 people in over a period of six months, we might gain 600 jobs. A casino would open and hire 6,000 people on day 1, or 8,000 people on day 1, so all efforts at diversification are sincere, but they always become a very small piece, because gaming is -- gaming and tourism is what is done.

I'm going to be a little more direct.

Mr. Thomas made a comment about the education and a qualified work force. That is an area that lacks in this State. And there's a lot of people very sincerely working to try to improve the educational system. When a third of our graduates go to college and take remedial English, you've got a problem.

And people who want to move their company for a lot of good reasons are still seeking that really educated work force. And we need that to really have diversification.

COMMISSIONER BORN: Well, I also notice we're going to have testimony later today that indicates only 50 percent of your children actually graduate from high school. And that's quite a handicap for the, for the state, I would assume.

WITNESS MARTIN: It's a tragedy.
COMMISSIONER BORN: Yes. Mr. Murray, what do you foresee -- you're from northern Nevada -- as the road to recovery and the time period for recovery?

WITNESS MURRAY: Well, there's no question it's going to be a long and challenging period for us. You know, we are currently, I think I've heard many categorized, and I would agree with this assessment, that we're bouncing along the, the bottom. Some good news, some bad news. And --

COMMISSIONER BORN: But no turnaround yet?

WITNESS MURRAY: No, no turnaround.

And I heard early on some projections that well, since maybe Nevada was the first into this situation it would be the first out. I think that was -- and even back then -- I think that was foolish to believe that because of the way our economy is based, so highly on tourism and gaming, those will be the last dollars that are going to come from people that might be willing to let go of their own pocketbooks, and they won't do that until they're very confident in their own personal situations and that's going to take a nationwide endeavor.

I would also say that our, our economy is very closely tied to the California economy. Until the California economy improves significantly, especially in the northern part of the state, we get a lot of spillover
business from northern California, and all of California, quite frankly. So we keep a very close eye on our situation and what's going on in California. We see some good and some bad in that economy as well. So that's part of our road to recovery.

COMMISSIONER BORN: Commissioner Murren, may I have a little extra time so that Mr. Satre can respond to my question as well?

COMMISSIONER MURREN: Could we yield three minutes, please?

COMMISSIONER BORN: Mr. Satre, I wanted to pose the same question to you, you know, what do you see going forward, what is the time frame, if you have any idea about recovery, and what is the path for recovery for the economy of Nevada?

WITNESS SATRE: Well, I'm not very sanguine about the prospects for the recovery in the near term. Mr. Murray made the comment about the relationship to California. In my view, we have a giant umbilical cord to California. And until the California economy becomes more robust, what sustains this economy in the short term is going to be the return of the tourism market and driving gaming gross revenues, sales tax, job creation, filling hotel rooms, and ultimately filling homes. And then maybe we start to build some new
The concern that I have is I think Nevada across the United States is at the bottom of the food chain in terms of recovery. I think we will be the last state to recover. And we'll be the last state because we're not going to recover until all of the people who have been driving this economy have the ability to come here with the kind of, I think, attitude of enjoying themselves, paying for a nice restaurant, meals, going to shows, gambling in the casinos, staying in the hotel rooms. And I don't see a return to that for two or three years.

So my own prospects, from looking at the companies that I'm involved with, is let's not make major capital investments that extend out or that begin to show up on our balance sheet until we're very confident, and that's probably two to three years before we'd be in a position to do that.

COMMISSIONER BORN: In effect, one of Nevada's problems, then, if I understand you correctly, is that not only does consumer confidence in the country have to come back, but people have to feel that they have some excess disposable income that allows them to come to Nevada and to have a really nice vacation and spend money.
WITNESS SATRE: Yes, and I would add to that I think it will be a long time before we ever see the kind of spending patterns that we saw in 2003, '4, '5, and '6.

COMMISSIONER BORN: They were euphoric, weren't they? Thank you.

COMMISSIONER MURREN: Thank you.

Commissioner Thompson?

COMMISSIONER THOMPSON: Thank you very much.

Thank you, gentlemen, for joining us.

I'd like to go back to one of the core issues in the crisis, and that is literacy of Americans in the process of buying a home.

In the very early days of our investigation, we had a professor from Dartmouth share with us a point of view about financial literacy in our country. And she went on to say that -- I'll have the number off, but the magnitude is generally right -- roughly a quarter, two-thirds of the people in the country aren't financially literate.

So I want to go to you Mr. Murray, and think about the consumer who walks into your bank or to your credit union, I'm sorry.

In your judgment how literate is that person to understand the documentation that you provide for the home loan to really calculate what his or her obligations
are and so on and so forth?

WITNESS MURRAY: It's extremely challenging. And I can, I can speak just from the standpoint of, of a manager of employees who are responsible for knowing those documents. Keeping them educated on, on the various complexities of those documents and the requirements is challenging.

And so for a consumer that deals with it, you know, once in a blue moon, so to speak, yes, it's very challenging, and the level of literacy in that aspect is very low.

COMMISSIONER THOMPSON: Well, California's process for buying a home is near lunacy. The stack of documentation is about, you know, a foot and a half to two feet tall. So even a literate person oftentimes has difficulty wading through it.

I just wonder in the quest to ask you to serve the broader community, were they pushing you to serve the broader community with homeowner loans, or was that just general credit?

WITNESS MURRAY: It was a combination of both, yes.

COMMISSIONER THOMPSON: Can you say more, and where was the pressure coming from?

WITNESS MURRAY: Well, the pressure was coming
from our Federal regulator the National Federal Credit Union. And there was definitely pressure, again, repeated speeches by the board members of that administration, talking about providing greater home ownership opportunities for the underserved.

COMMISSIONER THOMPSON: And the consequences for not doing so would have been?

WITNESS MURRAY: Increased regulatory pressures. Again, we never had to undergo any of those because we were heavily involved in trying to comply.

COMMISSIONER THOMPSON: So in the loan activity that your organization undertook, how much of it was refinancing versus new mortgages or first-time buyers?

WITNESS MURRAY: There was a significant portion of first-time buyers, both in that underserved market and in the general market as well.

COMMISSIONER THOMPSON: Significant. Should I take that to mean the majority?

WITNESS MURRAY: No, no, not the majority. I will probably get the number wrong. But my estimate is 20 to 25 percent.

COMMISSIONER THOMPSON: For new homes?

WITNESS MURRAY: First-time homebuyers, yes.

At the height of the activity.
COMMISSIONER THOMPSON: You knew that the client on the other end of that transaction was completely illiterate -- well, less literate than we would like for him or her to be, let's put it that way.

WITNESS MURRAY: Yeah, that's been a concern of ours, you know, and we attempted to be involved in a variety of financial literacy programs, not just at this point, but a number of years going back in our history, going back to we actually operated a branch of our credit union at a local high school that is designed, not just on mortgages, to provide financial literacy opportunities for both the students that run it and the students that use it.

COMMISSIONER THOMPSON: Is it your opinion that this literacy rate has declined precipitously or steadily or gradually, in over what period of time?

WITNESS MURRAY: I just don't have an estimate on that, Commissioner. I'm sorry.

COMMISSIONER THOMPSON: Did you at any point raise this issue with the regulators who were pushing you to do this?

WITNESS MURRAY: We and ENDAY, (phonetic spelling) in all fairness, they have recognized that financial literacy has been an important issue. Their energies in that regard have really been multiplied over
the past two to three years.

But even throughout -- and I've been with the institution for 22 years, even throughout the time, they've always talked about the need for more credit unions to do more to encourage financial literacy. So it's something that they've recognized as well.

COMMISSIONER THOMPSON: Mr. Martin, can I shift that same line of questioning to you? Given that you've been in the banking business for a long, long time, can you comment on the path to us becoming less literate financially in this country?

WITNESS MARTIN: That's about the fourth reference to how long I've been in the banking business.

COMMISSIONER THOMPSON: I don't mean that. While my hair is dark, I'm almost as old as you.

WITNESS MARTIN: It all started with the hundred year.

The point you make is great. I would say it's, it's less. We've got less graduates, less qualified graduates going to college, less, less, less.

I think there's a failure. There's no personal finance talk in schools almost anywhere. There's no economics, even the most basic economics.

But I would say to you on financial literacy, it goes far beyond that horrible loan closing that even
the most literate person has something better to do than
read through those documents, and you just sign them and
take them all on faith. I assure you it's to the
lender's benefit.

But it extends to signing an apartment lease.
It extends to a car loan. It extends to so many things.

The credit union I'm sure has it, the bankers
have it, they have these financial literacy -- they teach
them about checking accounts and managing budgets, but
it's a literal drop in the bucket.

The financial literacy is very low, and it
goes far beyond the real estate mortgages. Everything
they sign, with so many implications, listening to the
radio and the T.V., and all the people that can solve all
your problems, and even those documents. So I'll stop.

COMMISSIONER THOMPSON: So with a high high school
dropout rate or a low graduation rate, with a literacy,
financial literacy rate that is no better than the
national average, which is abysmal to begin with, do you
believe that there really might have been predatory
lending practices where Nevada or Las Vegas was targeted
by institutions outside this environment?

WITNESS MARTIN: The predatory lending, when
it first kind of came to surface, was people who really
wanted to take your property away from you. It had a
real -- a different motive to it. I'm sure those predatory lenders who got all that property aren't as happy to have it today as they might have been in years past. But forgetting that side of it, I don't know how you can avoid some predatory lending when we know that mortgage agents and everyone else were changing documents and increasing income and falsifying records that many borrowers didn't know about it.

COMMISSIONER THOMPSON: Is it your sense that it was specifically targeted at a work force or a population that really was not capable of understanding what they were committing to?

WITNESS MARTIN: You know, I'm going to make one quick comment, and it goes back to that New York Times article of 1999 in which they wanted to target low and moderate income people. And, and yet -- and we know they were probably financially less literate, so you're targeting a population where you're trying to raise home ownership, and at the same time you wind up lending to people that, that maybe weren't capable of doing it. It's a two-edge sword, if that makes any sense. I'm sorry.

COMMISSIONER THOMPSON: Mr. Murray, can you comment on that? The predatory aspect.

WITNESS MURRAY: Yes, you know, we saw a
massive explosion in the number of greedy lenders and those kinds of operations in, in the northern part of the state, and I would assume in the southern part of the state as well.

You know, and, and -- and they were preying on people in our estimation that were unable to understand those transactions and the true costs of those transactions.

When you take out a $300 payday loan, and the effective rate of interest on that loan is 4 to 600 percent from day 1, and that's if you don't roll it over, and it quickly becomes 1200 percent, that's predatory in every way, shape or form.

COMMISSIONER THOMPSON: Thank you very much.

COMMISSIONER MURREN: Thank you all.

Thanks to all of you for submitting your written testimony, for taking the time to appear before us, and for your thoughtful answers to all of our questions.

This is extraordinarily helpful to the work of the Commission. We're very grateful to you being here. We thank you.

And the Commission now will take a very short break in order to stay on schedule.

We will take a break until quarter of the hour
and then come back for our third panel. Thank you.

(Whereupon a recess was taken.)

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COMMISSIONER GEORGIOU: We call this session of the Financial Crisis Inquiry Commission back into order.

I want to thank all of you for coming this afternoon.

Mr. Bogden, Mr. Gordon, Mr. Jeffries and Ms. Burks, thank you very much for coming to testify with us here today.

We're going to change our procedure just modestly to accommodate Mr. Jeffries' need to depart relatively early. So we're going to have all the opening statements, and then we're going to try to allow all of the Commissioners to question Mr. Jeffries before he goes, and then we'll complete everyone else.

As is customary in our practice we have asked all of our witnesses to be sworn before they begin.

If you would please stand and raise your right hand. Do you solemnly swear or affirm under penalty of perjury that the testimony you are about to provide the Commission will be the truth, the whole truth, and nothing but the truth to the best of your knowledge?

WITNESS BOGDEN: I do.
WITNESS GORDON: I do.

WITNESS JEFFRIES: I do.

WITNESS BURKS: I do.

COMMISSIONER GEORGIOU: Thank you very much.

And Mr. Bogden, the United States Attorney for the State of Nevada, thank you for making time in your busy schedule to join us, and thank you to the Department of Justice for authorizing your testimony here today.

Please proceed and limit yourself to five Minutes if you can.

WITNESS BOGDEN: Thank you, Commissioner Georgiou.

Distinguished Members of the Commission, thank you for the invitation to speak before you today about the Department of Justice's mortgage fraud enforcement efforts in Nevada.

Your work in identifying the causes of the financial crisis in this country is vital, and I am pleased to have the opportunity today to assist you in your fact-finding process.

In January of this year, Attorney General Eric Holder, and Assistant Attorney General Lanny Breuer testified before the Commission about the Department's aggressive enforcements in combating financial fraud.
What they told you then is worth repeating again today. In the Department's fight against terrorism and crime we hold wrongdoers accountable. From significant jail time to severe civil penalties, the
Department uses all of the tools at its disposal to keep this country safe.

This mission takes on important significance in the high priority area of financial fraud. The Department fights fraud in all its forms, from mortgage fraud and health care fraud to securities fraud and corporate malfeasance.

Nevertheless, while we stand on the front line in combating financial fraud, our work has its limits. As the Department has stressed before, it is not as a general matter within the scope of our expertise or mission to opine on the causes of the financial crisis.

We are a terrorism and crime fighting body, and our resources are focused on the investigation and prosecution of the violations of the Federal criminal laws.

Within these constraints I am happy to provide you with a prosecutorial perspective of my office's work in Nevada to address mortgage fraud.

Of course, any discussions of the Department's mortgage fraud enforcement efforts in this community should begin with the Department's strategic approach to financial fraud.

In November 2009, as a response to the
unprecedented nature of the financial crisis, the
President created the Financial Fraud Enforcement Task
Force, over which the attorney general serves as
chairman.

The task force, which is compromised of
officials from across Federal, state and local
governments, is the most comprehensive collection of
criminal, civil, and regulatory officials ever assembled,
with a focus on developing forward-leaning enforcement
and prevention strategies against financial crimes.

Through the task force, we have entered what's
been referred to as an era of heightened cooperative
fraud enforcement.

In this regard, we have strengthened our
collective efforts to prosecute, convict, and punish
those who commit fraud in order to send a positive
deterrent message.

Mortgage fraud enforcement provides an
excellent example of the government's collective action
at work. In June the task force announced the conclusion
of Operation Stolen Dreams, the most comprehensive
mortgage fraud enforcement initiative ever undertaken.

The task force coordinated the months long
operation, which included Federal and state criminal
prosecutions and civil actions across the United States.
In support of this massive sweep, U.S. attorneys offices across the country, including my office here in Nevada, brought charges against fraudsters who have perpetrated various mortgage fraud schemes.

At its conclusion, Operation Stolen Dreams resulted in Federal and state criminal charges against over 1,500 defendants, and civil charges against nearly 400 defendants who caused an estimated loss exceeding three billion dollars.

Your invitation to address the Commission at today's hearing included a list of areas upon which you asked me to comment. These areas included the, the types of mortgage fraud my office has encountered, factors which may contribute to high mortgage fraud in Nevada, the standards for determining which cases my office pursues, and the training and other needs of area law enforcement agencies.

I'd like to spend the remainder of my time commenting on those areas.

The types of mortgage fraud in Nevada run the gamut from loan origination schemes, property flipping, builder buyouts schemes, and foreclosure rescue scams to loan modification fraud.

Between approximately 2000 and 2006, when the, the economy was stronger, home prices were rising, and
foreclosures were low. Most frauds involved loan
origination schemes and property flipping.

But starting in 2007, when the market
weakened, and home prices fell, the number of those
schemes declined while the number of foreclosure rescue
scams and loan modification fraud increased.

Loan origination fraud in its most basic level
involves individuals falsifying loan documents to qualify
for a mortgage to buy their own homes. Such fraud was
less detectable when loan qualification requirements were
less stringent, and lenders required few verification
documents.

Such fraud has had less impact on Nevada's
financial community than has organized and ongoing fraud
schemes. Loan origination fraud at a more complex level
involves property flipping schemes. Here culprits
fraudulently buy homes to skim money from the mortgage
issued to buy those homes.

These schemes operate in one of two ways. The
first involves a fraudster who persuades a seller to sell
him a house at a price substantially above the asking
price while agreeing to secretly kick back the inflated
amount to the buyer.

The kickbacks often range between 50,000 and
150,000 per house.
The second way involves a fraudster who
arranges to buy a house at the asking price, then
immediately sells the house to a straw buyer at a price
inflated by $50,000 to 150,000. The straw buyer never
intended to occupy the house or become the owner of the
house, but simply agrees to let the fraudster use his
name and credit history to buy the house.

The fraudster pays the straw buyer usually
between 5,000 and 10,000 per house. The fraudster then
keeps the $50,000 to 150,000 for himself.

The builder buyout frauds involve builders
inflating the prices of their homes to kickback
incentives to the buyers and others and concealing the
kickbacks from the lenders. The frauds often attract
fraudsters who use straw buyers to buy the houses so the
fraudsters can keep the incentives for themselves.

COMMISSIONER GEORGIOU: I'm sorry.
If you could sum up, and then
we'll hear the rest of your testimony in the course of
your questioning.

WITNESS BOGDEN: Yes, sir.

There's also foreclosure rescue fraud and loan
remodification fraud, which are similar to each other.
Those are types of frauds that have been pursued by the
Nevada Attorney General's Office. Our office as well as
the F.B.I. and our Southern Nevada Mortgage Fraud Task Force has taken the cases, the loan origination, as well as the property flipping and the builder buyout cases as the cases we've pursued through investigations and also prosecutions.

COMMISSIONER GEORGIOU: Thank you very much.

Mr. Gordon?

WITNESS GORDON: Commissioners, I'm grateful for the opportunity to speak to you here today.

My name is Brian Gordon. I'm a principal with Applied Analysis. We're a Las Vegas based economic real estate and market research firm.

I'm also a native Nevadan and attended this fine institution, UNLV, where I graduated with a bachelor of science degree in business administration. I'm also a certified public accountant.

I've been asked to speak directly about the impact the crisis has had on the Nevada real estate market. Much has been discussed today about the, the broader economic climate and business conditions in the United States including Nevada and its real estate markets. These discussions provide a meaningful foundation for my testimony today.

It is also worth noting that when discussing state-wide trends, Clark County accounts for
approximately 72 percent of the State's total population.

I'll start by discussing briefly residential trends, commercial trends and then vacant land.

The residential market in Nevada has been characterized by a typical boom/bust cycle. Prior to the 2000s, housing values reported only modest price movement not unlike the national housing market during that same timeframe.

We saw price appreciation through the early 2000s, escalating up with annual price appreciation topping out at 47.1 percent during the year-end of June 2004.

Price appreciation continued for some time with the median home price peeking out at $290,000 per unit in mid-2006.

During the 12 months ended May 2006, over 43,000 residential housing units were permitted for construction. The new construction sector was also experiencing a significant boom during that time frame.

Following the boom periods in the '06/'07 timeframe we saw a significant amount of foreclosure activity, particularly in southern Nevada, with over 7,000 homes being foreclosed upon since the beginning of the national recession in December 2007.

Lack of market demand during that downturn resulted in a number of distressed sales with the median
home price now hovering around $125,000 per unit here in southern Nevada. That's been a trend over the better part of the past year.

An interesting statistic according to CoreLogic, approximately 23 percent of all homes with a mortgage in the United States are underwater or upside-down.

In Nevada that figure is 68.1 percent of the borrowers, reflecting the nation's highest rate.

Las Vegas ranked as the most underwater city in the country with 72.8 percent of borrowers owing more on their property than it is currently worth.

CoreLogic also estimates the total amount owed on mortgages in Nevada reflects 120 percent of total property value.

Nevada has -- was the only state to report a value above a hundred percent. The national average is 70 percent.

These market dynamics are not limited just to the for sale market. We've also seen similar trends in the professionally managed apartment market of southern Nevada and the State as a whole.

Turning to commercial markets, the trends are very similar. The trend lines are very similar to what we've seen in residential in terms of overall supply
outstripping demand.

Turning to the professional office market, for example, currently vacancies are hovering around 24 percent in the office. They were previously at a low of 8.1 percent during the third quarter of 2005.

During that time frame, millions of square feet have been constructed and developed while demand for overall product has turned negative for the better part of the past two years.

Turning to the commercial real estate retail market, the southern Nevada market has been hard hit by not only local conditions here but also the national economy.

Reorganizations and liquidations of national retailers such as Circuit City and Linens and Things played a role locally as the major anchor spaces they occupied have remained vacant.

Historically averaging vacancies in the 3 to 4 percent range, vacancies in anchored retail centers currently stand at 10.4 percent. Again, as demand turned negative, construction stalled, and prices plummeted.

The industrial real estate market has been similarly impacted by the downturn with vacancy rates hovering around 16.2 percent today. That is well above the 3.3 percent low in the fourth quarter of 2005.
All of this has translated into little and lesser demand for overall vacant land, so we've seen pricing plummet in that regard as well. I've included a number of exhibits to the Commission in advance of our meeting today in support of our research. And I hope this information is useful. And I'll be happy to answer any questions.

COMMISSIONER GEORGIOU: Thank you, Mr. Gordon. Mr. Jeffries?

WITNESS JEFFRIES: Good afternoon. My name is Jay Jeffries.

From 2004 to 2007, I was regional sales manager for outside sales at Fremont Investment & Loan.

VICE CHAIRMAN THOMAS: Mr. Jeffries, could you either come closer to the mike -- it's very hard to hear you. But if you get too close then you rock it.

WITNESS JEFFRIES: All right. I'll start over here.

From 2004 to -- again, my name is Jay Jeffries.

From 2004 to 2007, I was regional sales manager with Fremont Investment & Loan for the Southwest Region wholesale sales outside.

Basically we developed sales in the Las Vegas area through the relationships developed by our account
executives with mortgage brokers and bankers.

Loan products sold by Fremont Investment & Loan, we had 2/28 and 3/27 ARMS available as well as fixed rate 15-year and 30-year mortgages.

Loan types were 80/20, were a hundred percent financing were available from 2004 to 2006.

As the market began to deteriorate, loan values became more restrictive, as did guidelines for underwriting.

These loans were considered to be all day subprime loans. Documentation was full doc, alternative dock and state income loans.

The process by which Fremont Investment & Loan underwrote loans were all loans throughout the Southwest region were underwritten centrally in Anaheim, California. Brokers and bankers overnighted or e-mailed loan packages to Fremont Investment & Loan for underwriting. The loans were either approved or denied, and the broker/bankers would notify as to what conditions would be required to fund the loan.

Brokers, account executives and regional sales managers were compensated this way. Brokers were compensated by Fremont Investment & Loan through yield spread premium.

Account executives were compensated with
forgivable draw based on commission based on the amount of volume they generated.

Regional sales managers were given a base salary plus bonus, based on the amount of volume their account executives generated.

What connection did the mortgage industry have between Main Street and Wall Street? Well, in my opinion, Wall Street created the market utilizing mortgage-backed securities as an investment vehicle.

The mortgage industries supplied the Wall Street banks with the pools of loans to be packaged up and sold to investors as mortgage-backed securities.

With low interest rates and a growing economy, most regions of the U.S. were showing a vast increase in appreciation of their homes. Borrowers were purchasing and refinancing loans at an alarming pace.

As history shows, you can only sustain this type of growth and appreciation for so long. As the market came to a screeching halt, Wall Street banks left the, the mortgage industry and the American people holding the bag.

As far as what's to be done regarding mortgages to prevent the, the next crisis, in my opinion I think the new rules and regulations that have been set in place right now, you know, that's going to tell the
I don't know what you could possibly do. As most things happen, you know, the Federal government or the State governments are always a day late and a dollar short. We're always a step behind. So I'm not quite sure what we can do.

Thank you very much.

COMMISSIONER GEORGIOU: Thank you, Mr. Jeffries.

Ms. Burk -- Burks?

WITNESS BURKS: Thank you, Mr. Chairman and the Commission.

My name is Gail Burks. I'm president and CEO with Nevada Fair Housing Center. We are a qualified fair housing organization and have been in the valley since 1993.

And in 1999 we started to serve clients more around financial issues and mortgage issues.

I've been asked to address the crisis from two perspectives. One is sort of what happened in terms of the financial crash and the economic crisis, the affect on the real estate market, and to look at from the perspective of the field for someone who is in the field serving clients.

In order to understand it, I've divided it
into four separate cycles. The first cycle is the cycle
that we started to report on and to express concerns
about back in 1999 and 2001.

We started to see about 400 plus clients a
month come into the office with issues stating that they
had not been given proper information with their
mortgages, their mortgages had adjusted, or that payments
that they had made were not being properly applied to
their mortgages.

In addition, escrow accounts, or impound
accounts, which are collected, taxes or insurance, were not being
transferred
or used to pay the taxes.

At first it seemed a bit impossible, but as we
started to examine mortgage documents and to look further
into detail, what we saw was a host of activities. We
saw homes that had been issued just under the HOPE or the
Section 32 standard. This is the standard that requires
you to issue additional disclosures for a predatory loan.

We saw over fraudulent appraisals, properties
that had been appraised for more than the property was
worth. And we knew that by looking at the different
locations of the same house in different parts of town
and also looking at what those homes, looking at what
those homes had sold for before.

In addition, we tried to address the issues by
working with local government, other agencies to do
education, but we all also started to file a series of
lawsuits on behalf of consumers to try to get to the
bottom of the issue, and at a minimum to address
their mortgage problem and to help them keep their
mortgage. Some of those cases involved lenders such as
EMC and Fairbanks Capital, which is today known as SPS.

The other cycle of the crisis occurred between
2004 and 2007. And during this cycle we saw legitimate
subprime or nonprime mortgages start to be turned on
their head.

Now contrary to what you may hear, there is a
legitimate place for nonprime mortgages, and
traditionally the consumers who received those mortgages
had three trade lines or less, they maybe had a credit
score of 586 to 600, their debt-to-income was about 45
percent, they had consistent employment, or in some cases
they had no credit at all. That traditionally was a
legitimate subprime client.

However, what we decided to see was the market
turning subprime on its head. It grew into no
underwriting, no doc loans, lenders not doing a full
amortization of the loan, and showing that the client had
the ability to pay.

And, again, they failed to collect the impound
and taxes. And there was no PMI or private mortgage insurance on most of these mortgages.

The impact on the market from a client perspective, we have seen -- our case load has grown from 400 to over 2,000 inquiries of assistance for mortgage help to save their home.

Overpriced homes, the ratio of consumers that are upside-down is about 9 to 1.

In addition, we are seeing an increase in consumers that are sort of giving up, even those consumers who played by the rules and tried to do what was correct are starting to do what's called strategic defaults.

Although we have foreclosure programs that supposedly are there to assist clients, some of the same lenders and servicers that refused to play by the rules in originations, and we some of those original lenders, are also not playing by the rules for foreclosure prevention. And we do have a client with us today to talk a little bit about that issue.

There's also a new trend in terms of delinquencies, up to 33 percent in the FHA mortgage program. And we are starting to see more problems with respect to seniors who are taking out what's called reverse mortgages or HECM loans.
And, in fact, the Office of Thrift Supervision issued an advisory to seniors talking about the problems that they are seeing with respect to reverse mortgages.

So I guess the -- in conclusion, if you ask what caused the crisis, it wasn't one person or one company or one entity or one regulatory agency that failed to enforce existing law. It was a combination of all these things together that sort of resulted in what we are seeing today in terms of the foreclosure rate.

COMMISSIONER GEORGIOU: Thank you, Ms. Burks.

You've been right on five minutes. Within a second or so. I understand you have one of your clients who would like to speak to us for two or three minutes about his situation?

WITNESS BURKS: Yes, Mr. Glen Smith. I'll trade with him.

COMMISSIONER GEORGIOU: Thank you, sir.

And if you could limit your time to three minutes, we'd appreciate it.

MR. SMITH: Thank you members of the Commission.

Again, my name is Glen Smith. I've been a realtor for 25 years, primarily working in the area of affordable apartment development the rehabbing of houses and property sales.

I had purchased my home in December of 2005 at the peak of the housing market. It was not a speculative
purchase or a flip property. It was a home that I had intended to occupy for a long period of time. My main source of income was rental property income. Income that had come from rehabbing properties. Again, they were affordable properties.

As the economy changed, clients were -- tenants were losing their homes -- I mean, losing their jobs and not being able to pay for their rents, which impacted my income. Sales declined, real estate sales declined, so at that point I decided I needed to find another way to earn a living other than commission income and rental property income, which I had been accustomed to for 25 years.

I went back to school to train in another area which would allow me to earn non-commission wages. During that time my home went into default, and I applied for assistance with Chase Bank.

After explaining the hardships and what was going on, and the reason for my the loss of income, I was told that I could apply for the home loan modification program.

This is where the nightmare began. I was given a list of documents to send in, which I promptly did, only to be told they were not received.

I had confirmation that the faxes went through
yet somehow Chase denied receiving them.

This became a repeated line over and over and over again, please refax, please refax, please refax. So not only did I refax, I sent certified mail, went to a housing fair that was set up to help the borrowers, and I took the entire package of the same documents that Chase claimed they had not received and provided them to a representative from Chase who was at the housing fair.

I followed up and was told that my paperwork had been sent to another office. After the runaround and not getting anywhere, I contacted Gail Burks in the Nevada Fair Housing Center to help navigate this craziness.

Mrs. Burks consistently sent letters and contacted people. I received a trial modification in July of 2009. I thought things would be finally moving along.

I had signed up for Nevada Foreclosure Modification Mediation Program and had a hearing set for October 2009. I had completed all of my trial payments prior to the mediation and wanted to simply confirm that everything had been processed for my permanent modification.

The night before our hearing, Mrs. Burks received notification from the Chase Homeownership Officer here in Las Vegas that, the manager sent over an
e-mail that my loan had been approved and it had 
become a permanent modification.

So I went to the mediation the next day.

Chase did not bring any of the documents to the mediation 
they're required to bring nor did they have anyone who 
would be able to confirm the correspondence received the previous night 
by Mrs. Burks, and they were not prepared with any type 
of offer, property valuation, as required by Nevada law.

Chase also did not have anyone present to make 
authority on a decision.

The mediator issued a finding against Chase 
for not being prepared and having the proper personnel at 
the mediation or anyone that could offer a solution or 
make a decision. The mediator then issued a no 
foreclosure order to Chase.

Fast forward to where we are now. I continued 
to make trial payments for over a year, continually 
contacting Chase, requesting the final paperwork for my 
permanent modification. I kept getting the runaround. 
Again, we're working on your file, we need additional 
documentation, please refax. Same old story, same kind 
over and over again.

I again contacted Mrs. Burks who followed up 
for me and was told that my file had been sent to another 
department.
I then received a letter back in June of 2010, and my payment had been sent back to me stating they had filed a notice of default on my home again.

I inquired -- Ms. Burks inquired to find out what happened. I was told that my loan had been turned down because I had no buyers for my short sale. My loan had been sent to the short sale department. I explained to Chase I had never listed my home for a short sale, nor was it ever on the market.

I contacted Chase, and I said well, if my property was listed for sale, where's my signature, and where's the loan documentation that I listed it for sale. They told me they couldn't provide any documentation. And I said well, do you have anything with my signature on it saying that the home was listed? They said no. At this point, they told me I would have to start the modification process all over again.

And I just want the Commission to know that the modification process is not working. It's been extremely stressful. The banks are making people feel that they're stupid. Saying over and over again that they never received the documents when I have multiple faxes, I have a file about seven inches thick of papers, and over 40 confirmations of documents that I've sent over and over again.
In closing, I'm a single parent raising a son, a 16-year-old son. My 87-year-old mother lives with me. I didn't buy the home to flip it. I lost 70 percent value in my community. We have, over 50 percent of the homes in my development have gone into foreclosure. There are three that are bank-owned now that have been sitting on the market for over a year and a half. And I'm trying to save my home.

That's all I want to say.

Thank you for your time. I do have the documentations from the mediator which show the finding against Chase. I also have the e-mail that they sent the night before the mediation hearing so that we wouldn't go through with the hearing, stating that my loan had been permanently modified, yet they did not go through with what they stated that they were going to do.

COMMISSIONER GEORGIOU: Thank you very much, sir.

If you could submit those materials to our staff, we'll put them into the record.

We appreciate your testimony. If you could stay around, we might have some questions, additional questions.

VICE CHAIR THOMAS: Mr. Chairman, could I tell Mr. Bogden that's criminal. I know you have different
definitions. That's criminal.

COMMISSIONER GEORGIU: Thank you.

What we're going -- we're going to go a little bit out of order here. I'm going to ask some questions of Mr. Jeffries and then some of the, the other commissioners have some questions of him, because he's he got to go.

And then we'll continue with some of the other witnesses shortly thereafter.

Mr. Jeffries, you were in charge of what

region of Fremont?

WITNESS JEFFRIES: Southwest.

COMMISSIONER GEORGIU: And what did that include?

WITNESS JEFFRIES: It included a little bit of southern California, Nevada, Arizona, New Mexico.

COMMISSIONER GEORGIU: And where were you based?

WITNESS JEFFRIES: Phoenix.

COMMISSIONER GEORGIU: And how many people were originating loans for Fremont during this time?

WITNESS JEFFRIES: Well, we weren't originating loans. We were working with the broker community. We didn't -- we don't -- from a lender standpoint, our account executives do not originate
loans. I call them paper pushers. They're getting a loan package from the broker and submitting that to Fremont. The broker is the one that deals with the borrowers.

COMMISSIONER GEORGIOU: Right.

WITNESS JEFFRIES: And to answer your question, I had approximately 20 account executives working for me.

COMMISSIONER GEORGIOU: In Phoenix?

WITNESS JEFFRIES: No, I had 20 account executives throughout my region.

COMMISSIONER GEORGIOU: Okay. How many in Nevada?

WITNESS JEFFRIES: Four.

COMMISSIONER GEORGIOU: And how many did -- how many loans did they originate during the relevant years, if you know?

WITNESS JEFFRIES: Yeah, I don't recall.

COMMISSIONER GEORGIOU: Were they all subprime mortgages?

WITNESS JEFFRIES: I would characterize that yes.

COMMISSIONER GEORGIOU: Okay. Now you say that the brokers were compensated by Fremont through yield spread premium.
Could you explain that to the people here who, who may not know what that means?

WITNESS JEFFRIES: Yes, yield spread premium is a spread between the -- a broker may give a borrower an opportunity to pay them on the front side or get paid on the back side, the backside being yield spread premium. There's going to be a higher rate.

So when you're talking to borrowers, sometimes a borrower has no money to put down on the loan, or to, to pay the broker to buy the loan. They can charge a higher rate. That's called yield spread.

COMMISSIONER GEORGIOU: I'm sorry. Who can pay the higher rate?

WITNESS JEFFRIES: The borrower would pay a higher rate.

What happens is a borrower may come into the broker's shop, the broker's office, sit down with the loan officer, they're given a good faith estimate. Probably given two.

They're given one if you want to pay for all the fees up front, or if you want to put all your fees into the loan is the other one. That's the yield spread premium.

If you put all your fees into the loan, you're going to pay a higher rate. That's how the brokers are
COMMISSIONER GEORGIOU: And were the brokers paid a differential amount for generating or originating a loan that was customary, was a standard conforming loan as opposed to one that had a yield spread premium?

WITNESS JEFFRIES: I don't recall.

COMMISSIONER GEORGIOU: Do you know how much your brokers that originated loans for Fremont were paid?

WITNESS JEFFRIES: It would vary depending on the loan.

COMMISSIONER GEORGIOU: Okay. Now I guess -- let me try and ask it a different way. Maybe I wasn't being clear.

Were -- did you provide any, any traditional 80/20 fixed rate loans where people put 20 percent down, or were all your loans in the, the subprime space?

WITNESS JEFFRIES: Most of our loans were in the subprime space. I mean, there might be somebody that came in, or may have obtained a loan from a broker that maybe the loan to value was 80 percent. Sure. We would get those loans.

COMMISSIONER GEORGIOU: Right, but most of them were 90 percent, a hundred percent, what were they? A hundred
and ten percent?

WITNESS JEFFRIES: In the hey day, I would say most of them were 80/20s.

So you have an 80 percent first, 20 percent second. And therefore you have a hundred percent financing.

COMMISSIONER GEORGIOU: And you provided both the 80 percent first mortgage and the 20 percent second?

WITNESS JEFFRIES: That is correct.

COMMISSIONER GEORGIOU: Okay. And what were the customary terms of those loans to the borrowers?

WITNESS JEFFRIES: As far as?

COMMISSIONER GEORGIOU: Interest rates, points.

WITNESS JEFFRIES: They're going to vary per borrower, but most of them are probably done on a 2/28, which is a two-year ARM, so it's fixed for two years, and at the end of the two years it can adjust, depending on what the market is doing.

COMMISSIONER GEORGIOU: Do you recall what the adjustable spreads were?

WITNESS JEFFRIES: I do not.

COMMISSIONER GEORGIOU: Okay. And these are, these originating brokers -- I'm going to try to ask it one more time in a slightly different way -- were you --
were they paid a higher percentage -- they were paid a percentage of the loan amount of the mortgage, isn't that correct, as an origination fee?

WITNESS JEFFRIES: Correct.

COMMISSIONER GEORGIOU: Okay. Now were they paid a higher percentage of the loan amount for originating a mortgage that had a greater yield to the lender, that is Fremont, than would otherwise be the case in a lower priced mortgage, lower interest rate mortgage.

WITNESS JEFFRIES: If I use round numbers.

Let's use $100,000.

Let's say that loan amount for this particular borrower was 100 thousand dollars. The broker could ask the borrower to pay the origination fee at say the par rate, meaning the flat rate, lets call it 5 percent.

If the broker charged an origination fee to the borrower, then the borrower would pay that, usually it's 1 percent, it could be more, it's negotiable with the broker. I don't have a -- any idea --

COMMISSIONER GEORGIOU: So it would be, 1 percent would be a thousand dollars additional for the borrower?

WITNESS JEFFRIES: Correct. So for an origination fee due by the borrower that would be a thousand dollars.
The broker could then try to make yield spread premium by increasing the rate by say a quarter point. We may pay another percent back to the broker. We would pay no more than 2 percent back to the broker depending on what the rate would be.

COMMISSIONER GEORGIOU: So if the broker then got the borrower to take a loan that had a higher interest rate to pay back, you might pay that broker 2 percent instead of the 1 percent it would get for having a standard conforming lower interest rate loan, is that correct?

WITNESS JEFFRIES: Well, I don't know if they qualified for a conforming loan.

COMMISSIONER GEORGIOU: Did you buy any lower interest rate loans that you only paid that 1 percent to the brokers on?

WITNESS JEFFRIES: I don't recall.

COMMISSIONER GEORGIOU: You don't recall ever having done that, our you don't recall whether you did it?

WITNESS JEFFRIES: I, I think there's some, a disconnect between what you're asking and what I'm trying to explain.

COMMISSIONER GEORGIOU: Okay.

WITNESS JEFFRIES: I mean, I guess if I could
put it in layman's terms. And I'll try to be as easy as possible here.

So if you have a borrower that is a subprime borrower, I'm not saying that they're a conforming borrower, conforming paper today, an FHA loan might be a conforming loan. But back in the hey day, from 2004 to 2007, you may have a borrower who is a subprime borrower. Now let's say that that borrower, needed an 80/20, and his rate for practical purposes was 5 percent on the first mortgage.

The broker said well, I need to get paid here, the borrower doesn't have any money to put down or to pay me for the loan origination fee, I'm going to bump the rate by a quarter point, therefore, the Fremont Investment & Loan is going to pay that broker 1 percent of the loan amount.

COMMISSIONER GEORGIOU: 1 additional percent.

WITNESS JEFFRIES: So a hundred thousand dollars, we'd pay him a thousand dollars.

COMMISSIONER GEORGIOU: I'm sorry. Then I didn't understand.

I thought you said that they would pay you an additional -- they would pay the broker an additional yield spread for originating a loan that had the higher, the quarter percent higher interest rate.
WITNESS JEFFRIES: No, we don't, we don't pay the broker -- if the rate is 5 percent, that's the par rate. If the broker decides he's going to try and make more money on the loan, then he's going to raise the rate to 5 and a quarter, that 25 basis points is what's going to get him the yield spread premium. We've got a higher rate loan, we're paying the broker for that yield spread premium.

COMMISSIONER GEORGIOU: So you'd pay the broker say 2 percent instead of 1 percent, if they produce for you a loan that charged the, the borrower 5 and a quarter percent as opposed to 5 percent?

WITNESS JEFFRIES: No. We would pay him 1 percent.

COMMISSIONER GEORGIOU: Well, then what's the additional yield spread premium to the broker?

WITNESS JEFFRIES: He makes 1 percent by charging a higher rate.

COMMISSIONER GEORGIOU: Makes an additional 1 percent in addition to the other 1 percent that he got for originating the loan in the first instance?

WITNESS JEFFRIES: Potentially.

COMMISSIONER GEORGIOU: Essentially?

WITNESS JEFFRIES: Potentially.

COMMISSIONER GEORGIOU: You know, I may be
dense, but I'm going to try to get to it in another, in
another way.

When you bought these loans, was the -- were
the fees that were charged and that were made by the
brokers embedded in the loan?

WITNESS JEFFRIES: The broker had their set of
fees that they were charging. Fremont would have another
set of fees that they're going to charge for underwriting
and processing a loan.

COMMISSIONER GEORGIOU: Right.

WITNESS JEFFRIES: And yes, they -- are they
embedded? They're on the good faith estimate. They're
all showing on the good faith estimate.

COMMISSIONER GEORGIOU: Understood. I'm
trying to get on the additional amount that the broker
earned by steering someone to a 5 and a quarter percent
mortgage as opposed to a 5 percent mortgage.

Would that be 1 percent additional?

WITNESS JEFFRIES: It could be, yes.

COMMISSIONER GEORGIOU: And it would be
customarily, would it not?

WITNESS JEFFRIES: It depends on what you can
get the -- I never had any contact with the borrowers, so
I don't know how the broker is talking to the borrower.

So at the end of the day, if the borrower were
saying on this hundred thousand dollar mortgage loan for me to get this house, I need to pay the broker $2,000, I don't have it.

The broker comes back and says well, I can charge you 5 and a half percent to make my $2,000 on that hundred thousand dollar loan.

COMMISSIONER GEORGIOU: Because they could then sell it to a someone like Fremont because they would pay the broker that additional amount?

WITNESS JEFFRIES: The broker is not selling the loan to Fremont. The broker is -- the broker or a banker can't fund that loan. The broker doesn't have the money to fund that loan.

He's not necessarily selling, I wouldn't say he's selling it to Fremont. He's outsourcing the loan to Fremont. We then acquire the loan and do the loan for the broker and compensate the broker for the, for the --

COMMISSIONER GEORGIOU: Right. And then what would you do with the loan?

WITNESS JEFFRIES: As far as I know, they were packaged up and sent to -- sold to the highest bidder in pools of loans from, you know, your Lehman Brothers, Goldman Sachs, Bear Stearns, those type of bankers.

COMMISSIONER GEORGIOU: Okay. And then they would securitize them of course into the various
instruments?

WITNESS JEFFRIES: Correct.

COMMISSIONER GEORGIOU: Okay. I'm going to hold on the remainder of my time and pass it to Commissioner Murren for questions for Mr. Jeffries.

COMMISSIONER MURREN: If I could ask a few questions about Fremont, and actually just one question for you to start off.

Are you currently employed?

WITNESS JEFFRIES: I'm self-employed.

COMMISSIONER MURREN: What is your line of work now?

WITNESS JEFFRIES: I do, I have a real estate investment company, and I rehab properties. And I turn around and resell them.

COMMISSIONER MURREN: So you're still in the real estate business?

WITNESS JEFFRIES: Somewhat.

COMMISSIONER MURREN: A question on Fremont. You had had some years of experience at the company, and I'm curious about what impact the cease and desist order that was issued by the Massachusetts Attorney General had on your business, if any.

WITNESS JEFFRIES: I don't recall. And I'm not quite sure what you're talking about.
COMMISSIONER MURREN: Well, there was a lawsuit filed that was filed specifically relating to your company's operating with management whose policies are detrimental to the bank without effective risk management policies operating with inadequate underwriting criteria and excessive risk in relation to the kind of quality of assets held by the bank; operating without an accurate, rigorous and properly documented methodology.

There are a number of listings of shortcomings here that related specifically to an order on March 7th of 2007. And you're telling me that you had no idea that this happened? That you were unaware of the national news on this?

WITNESS JEFFRIES: I don't have -- I didn't handle Massachusetts, so I can comment on that.

And as far as my employment with Fremont Investment & Loan, basically our last day of employment with them was about March 1st, 2007. We were furloughed or technically laid off on May 18th of 2007. So we, we didn't do any more business after March 1st of 2007. And if what I heard was correct, the lawsuit was filed on March 7th, 2007. So I can't comment on that, I don't know.

COMMISSIONER MURREN: Could you comment just
on principal then of the general allegations that were
made about the way the business was run at Fremont and
perhaps comment a little bit about how you yourself
pursued some of these issues relating to underwriting
standards or quality?

WITNESS JEFFRIES: Underwriting is completely
separate from what my sales team did. So I didn't have
any -- I didn't have any oversight or any management with
underwriting.

What I would like to add, though, is Fremont
did have five centers throughout the United States. So
the Massachusetts thing that you're relating to, maybe
that went through the center in New York, because we were
regionally located.

But from an underwriting standpoint, I didn't
have any direct association with underwriting. I
understood the guidelines, but I didn't have any
management with, or any influence upon how things were
underwritten. I mean that was a total -- that was all
kept separate from sales. You want sales kept as far
from underwriting, processes as can be.

COMMISSIONER MURREN: That's an interesting
observation because one could make the, the argument that
actually compensating people strictly for producing
volume as opposed to producing quality actually would
have some unintended consequences.

What do you think about that?

WITNESS JEFFRIES: Well, you, you did get paid, as far as there was a couple of other factors as far as getting paid. One was called pull-through. So the number of loans that were submitted, if you were below 75 percent loans that came through that actually funded, that could impact your income.

COMMISSIONER MURREN: So that would suggest then that if they were kicked back from whoever it was that was reviewing the files, then your income would be affected by that.

WITNESS JEFFRIES: That's a possibility, yes.

COMMISSIONER MURREN: Could you talk about any interactions that you might have had with the quality assurance people at Fremont? It's my understanding that you did have people that would periodically review the loan files to ensure that they were in fact complying with origination standards or other measures of quality.

Did you have any discussions or interaction with them at all?

WITNESS JEFFRIES: I did not, but you are correct in saying that we did have an audit department that audited loans very closely.

COMMISSIONER MURREN: Yesterday in our
testimony in Bakersfield, we actually had a gentlemen who
was very intimately involved with the appraisal process
in Bakersfield.

Is that one of the areas that you oversaw?

WITNESS JEFFRIES: I did not.

COMMISSIONER MURREN: His comment, I guess
he had -- it had been brought to his attention that there
were some fraudulent activities that related to loan
origination that he brought to the attention of a quality
assurance officer at Fremont, and I think the quote was:
Don't put your nose where it doesn't belong.

Is that something that surprises you, knowing
the culture of your firm?

WITNESS JEFFRIES: Very much so.

COMMISSIONER MURREN: I think I will end my
questions there.

COMMISSIONER GEORGIOU: Chairman Angelides?

CHAIRMAN ANGELIDES: Great. Thank you very
much.

Mr. Jeffries, by the way, just for the
audience, we're not picking on Mr. Jeffries. It's just
we're trying to accommodate schedules here. So we're
trying to get our questions in just so the folks in the
audience know.

I want to ask a couple of follow-up questions.
First of all, I think that I understand yield spread premium, which is essentially the higher the interest rate goes, the greater ability to pay the loan origination fee to the broker, correct? Essentially.

WITNESS JEFFRIES: Essentially, yes.

CHAIRMAN ANGELIDES: And embedded in that, is this a fair statement, that the higher the interest rate grows, it also produces, even with the higher loan origination payment to the broker, it produces a higher value for Fremont, therefore when they sell the loan, they can sell it for a greater amount, correct?

WITNESS JEFFRIES: Potentially that could be correct. It depends on what the, the loan to value is, depending on what the documentation type is, it depends on what the FICO score was. There's a lot of things that go into that pool to determine what that price --

CHAIRMAN ANGELIDES: But generally the math, I would assume is, that the higher interest rate allows the higher loan origination fee, and I would assume, from a business perspective, some extra margin for Fremont.

Just generally, given the variables.

WITNESS JEFFRIES: That's a possibility, but also on the higher interest rate loans, there's higher risk involved. Normally, on the loan.

CHAIRMAN ANGELIDES: Okay. Compensation. You
said pull-through, which means how many loans that you put through or approved.

Was there any measure of the compensation that was tied to the performance of the loans ultimately?

WITNESS JEFFRIES: Later in my tenure at Fremont I would say probably mid-2006, we instituted a, a -- as part of the compensation plan that stated that if we received a buyback on a loan or a first payment default, then it very well could affect that account executive's income as well as my income.

CHAIRMAN ANGELIDES: But not until that time?

WITNESS JEFFRIES: It was -- yeah, not until that time. It was instituted I want to say maybe mid-2006.

CHAIRMAN ANGELIDES: And loan volumes I assume dropped significantly in the second half of 2006, correct?

WITNESS JEFFRIES: I would say they dropped fairly quickly the beginning of 2006.

CHAIRMAN ANGELIDES: All right. So the horse was out of the barn by that point. You don't set comp policies then.

Is it fair to say that until that time there were no clawbacks or relationship to long-term performance?
WITNESS JEFFRIES: Correct.

CHAIRMAN ANGELIDES: We're asking for your view, so what Ms. Murren was referring to, just for clarity, were there actually two cases, one was the Massachusetts case, Attorney General Coakley brought a case -- actually after closure of Fremont, which closed down in March of 2007, but essentially the case went to the Superior Court and then was affirmed by the Massachusetts Supreme Court. And essentially the judgment in the case was that the company had violated Massachusetts Predatory Home Loan Practices Act because the lender had ignored the homeowners' inability to repay their mortgages.

Also in 2007 -- and I think this is what Ms. Murren was reading from -- the FDIC issued a cease and desist order, which, it essentially comes at the same time that the company is closing down. And they found a number of things.

They said that:

Fremont had operated with a large volume of poor quality loans, engaged in unsatisfactory lending practices, had operated with inadequate underwriting criteria, had marketed and extended the
adjustable rate mortgage products to subprime borrowers in an unsafe and unsound manner that greatly increased the risk to borrowers.

Give us your assessment of whether you think this is an accurate characterization of the company's practices.

WITNESS JEFFRIES: Honestly, I don't think that is characteristic of Fremont at all. Like I said before, we had five centers throughout the United States. And the center I worked with was in Anaheim, California. We were held to very high standards as far as underwriting goes, as far as sales people go, what we were doing on a daily basis. So that does surprise me. From an FDIC standpoint, I can't comment on that because I don't know anything about the -- their investigation. So --

CHAIRMAN ANGELIDES: All right. Let me ask you one more question, and then I'll rest my questioning and return -- and I'll probably ask you two quick questions, quick, because I do have other things for other folks.

There is -- in some information provided to us, our staff examined, for example, one of the mortgage security packages that was sold into the marketplace. So this is actually a bundle -- you know, obviously Fremont
would sell its loans in the market, as you said, to Goldman and Bear and everyone. This is a package which actually was a 1.76 billion dollar package of loans, all Fremont loans, rated Triple-A, 2006 loans, 57 percent -- 57 percent of these were refinance loans.

It went out Triple-A. As of today it's rated Triple-C. The foreclosure REO rate is 26 percent, and 49 and a half percent of the loans are 90 days delinquent.

How did that happen? I mean, what is it in the system that broke down so horribly?

WITNESS JEFFRIES: In my opinion, I would say, you know, I don't know why those loans are 90 days past due on payments, but I think, you know, if you look at a borrower who has no skin in the game, they've got a hundred percent financing, and appreciation is going up, and then at the end of the day, everything fell off a cliff, and now all of a sudden you're upside-down on your house, and what are you going to -- I mean, from a borrower's standpoint, what are they going to do?

So from the vast appreciation that we saw I think a lot of people got upside-down on their house and they --

CHAIRMAN ANGELIDES: Doesn't no skin also apply to the broker, to Fremont itself, that were taking these products and moving them up through the system?
WITNESS JEFFRIES: I think Fremont had some skin in the game. I mean, they had 2500 employees throughout the United States. I mean, I no longer work in the mortgage industry. I'm a 10 or 20-year veteran, and now I don't have a job.

So, you know, did they have -- they were a publicly-traded company. So I would say they had some skin in the game.

CHAIRMAN ANGELIDES: All right. Thank you.

COMMISSIONER GEORGIOU: Vice Chair Thomas?

VICE CHAIR THOMAS: Thank you. I'm not a big acronym guy, so as we talk, if you use letters to describe something, I'd rather have words so other people can understand it. Actually, so I can understand it.

What did you do prior to 1990?

WITNESS JEFFRIES: I was in college in Arizona State University.

VICE CHAIR THOMAS: So your first job was a AVP, as an area vice president or -- a vice president bank manager?

WITNESS JEFFRIES: Right. Assistant vice president branch manager with Norwest Financial, which is now part of Wells Fargo. Wells Fargo was acquired by Norwest.

VICE CHAIR THOMAS: So you became -- your
first involvement in this area was as an assistant branch
manager?

WITNESS JEFFRIES: Yes.

VICE CHAIR THOMAS: And then moved up, was at
Countrywide. I assume Fremont Investment & Loan -- what
happened between '07 -- Fremont got absorbed by a
Decision One Mortgage.

WITNESS JEFFRIES: Fremont got a cease and
desist. They went out of business basically from the
real estate lending standpoint.

VICE CHAIR THOMAS: And, and Division One
picked up some of the folk?

WITNESS JEFFRIES: I applied there.

VICE CHAIR THOMAS: You applied there. And
you got picked up?

WITNESS JEFFRIES: Yes.

VICE CHAIR THOMAS: Okay.

You referred several times to the people that
you oversaw in terms of what they were doing as a sales
team.

WITNESS JEFFRIES: Yes.

VICE CHAIR THOMAS: What were they selling?

WITNESS JEFFRIES: Service.

VICE CHAIR THOMAS: Did the service produce a
product?
WITNESS JEFFRIES: At the end of the day it got funded loans, it got people in-house, it refinanced loans for people.

VICE CHAIR THOMAS: So they were in the job of creating a loan?

WITNESS JEFFRIES: The loan was already created by the broker. We basically would go into the broker office and meet with the loan officers and say here's what our products are. Here's how our guidelines work, because every company has a different set of guidelines, so they're not all the same.

VICE CHAIR THOMAS: Right. But, but you only visit that broker first once. The second visit is not the first visit.

So when you visit with them the first time, you kind of spell out how you operate, right, so they know what to expect to be able to sell their product to you.

WITNESS JEFFRIES: They -- they understand -- we go in and educate the broker on our product, on our service, and on our process.

VICE CHAIR THOMAS: And of course those, those members of your sales team knew that if the pull-through or whatever you want to call it, the performance of the products that they're sending up fell below 75 percent,
does that mean they would fall through; they were so bad, they wouldn't clear?

WITNESS JEFFRIES: No. You could have somebody -- let's say, part of the pull-through deal as well might be somebody gets an approved loan, and that loan never funds with Fremont, because they went to XYZ Mortgage Company, just name some names out there, Decision One or Mortgage Lenders or Countrywide. It went someplace else. So you still, you're going to get dinged on that loan, because we approved it --

VICE CHAIR THOMAS: Why would it go somewhere else if you went to the trouble of setting it up, working with it?

WITNESS JEFFRIES: Because most good brokers out there, or most brokers, in general, are going to place their loan at several different lenders, and at the end of the day they're going to go with the lender who has the best rate, where they can make the most money and the most ease of getting the loan done in a quick manner.

VICE CHAIR THOMAS: So everything was based on getting to yes, including the way in which your sales team was paid, and ultimately the way the broker got paid; once those thresholds are passed, and everything goes through, was there any -- sometimes it's called
clawback -- was there any responsibility after it went through this process on, on pay in any way?

WITNESS JEFFRIES: I don't know what clawback is. Are you referring to a buyback?

VICE CHAIR THOMAS: No -- see, I did it to you. That's good. Let me think of another term.

These loans, I mean, you say 2/28, which means it's fixed for two years -- it's adjustable, but it's fixed for two years and then it goes 28?

WITNESS JEFFRIES: Well, then you have 28 additional years that you're still paying on the loan.

VICE CHAIR THOMAS: Right. So at least there's a two-year fixed period.

WITNESS JEFFRIES: That's correct.

VICE CHAIR THOMAS: So was there any evaluation of the loans that failed after that two-year period and any ripple back through payment structures if in fact something that was written for 30 years hopefully didn't make it past two?

WITNESS JEFFRIES: Well, I think in a lot of cases, the loans weren't ever getting out to two years, because everybody -- you have such an aggressive appreciation value in the Southwest, that people were refinancing and pulling cash out of their houses. So a lot of these loans I don't think ever got to that point,
or sometimes these loans are referred to as a Band-Aid loan, so they can get their credit back in line, so they can go out and get a conforming loan down the line.

VICE CHAIR THOMAS: So what was the volume increase during this period? I mean, you were pretty much in the business from '90 to '08, and you have your sales team.

What was the turnover in the sales team?

WITNESS JEFFRIES: At which company?

VICE CHAIR THOMAS: Pick one.

WITNESS JEFFRIES: At Fremont, less than ten percent.

VICE CHAIR THOMAS: And what about expansion of sales team?

WITNESS JEFFRIES: I inherited a sales team of approximately 14 account executives when I came on board. And then we increased that to approximately 20, but we also picked up another state, New Mexico, so we had some expansion state-wise.

VICE CHAIR THOMAS: How did you find additional team members?

WITNESS JEFFRIES: I've managed other states in the past, so I've got a pretty good network of people I know.

VICE CHAIR THOMAS: What was the most
rewarding aspect of your job to you?

WITNESS JEFFRIES: I would think, you know, putting people in homes. I mean, that's the American dream. People go out, and they get to buy a house. That is, you know, outside of having a family, I think that's the American dream. Everybody wants to own a house.

VICE CHAIR THOMAS: And you oversaw a lot of those deals getting people in homes.

Did you ever get any feedback from those who couldn't stay in the home or were not able to maintain it in part maybe because of the way the loan was written, not quite to their knowledge?

WITNESS JEFFRIES: I have not because --

VICE CHAIR THOMAS: No one ever came back to you?

WITNESS JEFFRIES: We never talked to borrowers. My sales people would never talk to borrowers. We talked to the loan officers and the brokers. We don't talk to borrowers because they're not our client.

VICE CHAIR THOMAS: Well, so, you know, someone has a beer with the broker when they're trying to make a pitch.

Did they ever get any feedback from, from -- was there a question about whether or not the pattern
that we're producing of whether a loan is continuing to
produce a, a loan that may be less and less viable?

WITNESS JEFFRIES: I can't comment on that, because I don't know.

VICE CHAIR THOMAS: And of course that wouldn't be a problem because the viability was only through the first threshold, and after that it was someone else's problem, huh?

WITNESS JEFFRIES: Well, if Fremont Investment & Loan funded the loan, it's still going to be Fremont Investment and Loan's problem, I mean, if they packaged the loan up and it sold to other investors because of the buyback principle; if the loan doesn't perform the, the loan comes back to Fremont, and Fremont has to pay that loan off.

VICE CHAIR THOMAS: And you were high enough to know about the loans coming back?

WITNESS JEFFRIES: I was not.

VICE CHAIR THOMAS: You were not. That was someone else. Okay.

COMMISSIONER GEORGIOU: Do you know how many on --

VICE CHAIR THOMAS: I'm, I'm finished with my time. You may go.

COMMISSIONER GEORGIOU: I'm sorry.
Do you know how many loans had to be bought back by Fremont?

WITNESS JEFFRIES: I have no idea.

COMMISSIONER GEORGIOU: Thank you.

Commissioner Born?

COMMISSIONER BORN: Thank you, Commissioner Georgiou.

So you have no idea what the performance of the loans that Fremont was making through your sales efforts has been?

WITNESS JEFFRIES: No, I do not.

COMMISSIONER BORN: Do you think they've been successful?

WITNESS JEFFRIES: Well, the company is no longer in business, so apparently something wasn't successful.

COMMISSIONER BORN: What was your experience in terms of the numbers of buybacks during the time that you were at Fremont?

WITNESS JEFFRIES: In my opinion on just things that I had heard in the past, buybacks weren't a big deal up until about, you know, the first quarter of 2006, and then they started becoming a big deal, because I think the investment banks that were buying the loans,
they didn't really care at the time, because there were so many loans in those pools that were performing they didn't really care. But then when the buyback, when the loans quit performing, and it got to be a big deal, then they were coming back and saying hey, we want some compensation.

So I don't know what, what the actual number is, but, I mean, just from the rumors and things that you hear throughout the company, I'm sure that it increased dramatically in 2006.

COMMISSIONER BORN: And did that affect compensation for you and for the salesmen under you?

WITNESS JEFFRIES: The comp plan changed dramatically. You know, it seems like it changed every year, like twice a year.

But as far as -- in 2006 it was the most drastic. But it was just because the other thing was we weren't doing the volume we were doing in the past either.

COMMISSIONER BORN: Now you, if I understood you right, you said -- you've testified that the mortgage brokers you were dealing with were placing loans with Fremont or other lenders, depending on how much the broker would make on the loan, is that correct?

WITNESS JEFFRIES: I would characterize --
that would be one of the components of where they placed
the loan, yes.

COMMISSIONER BORN: So as far as you know, the
mortgage brokers were focusing on their own compensation
rather than on the benefits to the borrower of a
particular loan?

WITNESS JEFFRIES: I would say that that
probably went on, yes.

COMMISSIONER BORN: And you felt your
customers were the mortgage brokers, is that correct?

WITNESS JEFFRIES: That is correct.

COMMISSIONER BORN: Rather than the borrowers?

WITNESS JEFFRIES: That is correct.

COMMISSIONER BORN: So did you focus on
whether a particular loan was beneficial to the borrower?

WITNESS JEFFRIES: Our underwriting department
did. They had -- it had to meet a series of guidelines
in order -- from a benefit standpoint. If there was no
benefit to the borrower to do the loan, then we didn't do
the loan.

COMMISSIONER BORN: So your underwriting
standards were based on what was good for the borrower
rather than what was good for Fremont?

WITNESS JEFFRIES: Yes.

COMMISSIONER BORN: And in what respect were
they doing that? You were giving no doc loans, right?

WITNESS JEFFRIES: Stated income. We didn't do no doc.

COMMISSIONER BORN: Stated income loans?

WITNESS JEFFRIES: Correct.

COMMISSIONER BORN: You were saying that there was a hundred percent -- you testified already that there was a hundred percent financing being provided to many of these borrowers, that they had no skin in the game as of the time that the housing bubble collapsed, and so it's not surprising that they defaulted, right?

WITNESS JEFFRIES: In my opinion, no, it's not surprising that they defaulted. But I think the same thing can be said for FHA. If you're obtaining an FHA loan, there might be times that you have no skin in the game on that loan either.

COMMISSIONER BORN: So were you aware of what the underwriting standards were?

WITNESS JEFFRIES: I know that our underwriters were held to the highest standard.

COMMISSIONER BORN: But how did you know what kind of loans to obtain from your brokers?

You knew what the standards were, didn't you?

WITNESS JEFFRIES: I knew what the guidelines were, yes. And so did our people. We trained them on
the guidelines. You have to know the guidelines or you can't step foot in the broker's office to, to get a loan, because you don't have -- if you don't know the guidelines, they don't want, want you wasting their time.

COMMISSIONER BORN: And did you feel that the guidelines were reasonable and designed to ensure that the borrower would have the capability of paying off that loan?

WITNESS JEFFRIES: I can't comment on that. I never thought of it.

COMMISSIONER BORN: You never thought of that? You were placing hundreds, thousands of loans to homeowners, and you never thought about whether they could pay them off?

WITNESS JEFFRIES: That was not my job. My job was sales. I did not underwrite loans.

It's not my job to comment on whether the underwriting guidelines are too stringent or too soft. I mean, that's -- we were, we were a sales organization. So from my standpoint, I'm employed to do the selling not the underwriting.

COMMISSIONER BORN: It's like you were selling Chinese toys with led-based paint, and you never thought were these good for children.

Thank you.
COMMISSIONER GEORGIOU: Commissioner Thompson?

COMMISSIONER THOMPSON: Thank you for coming, Mr. Jeffries.

Having managed sales organizations my whole life, I think I know a little bit about the process. So can you describe for me the qualifications to be a sales rep for you?

WITNESS JEFFRIES: Qualifications would have been, you know, five years in the mortgage industry, understanding of, either from a loan origination standpoint, how a loan is put together.

We want somebody to have some good longevity with a previous company. We didn't like to see any turnover amongst our employees. We wanted to hire good solid people.

So from the standpoint of somebody with good sales experience in the mortgage industry, that's somebody you might hire.

COMMISSIONER THOMPSON: So generally you're hiring people who are not fresh out of college, you're hiring very experienced people that have a track record and credibility that you can point to?

WITNESS JEFFRIES: That's correct.

COMMISSIONER THOMPSON: What became then the attraction for them to leave their firm to join your
Was your offer for riches and fame, or what was the attraction?

WITNESS JEFFRIES: Well, I think the attraction might have been it was just a better environment. I mean it was a very good company, had a family atmosphere type of company, where everybody knew your name. It wasn't just you were another number and how much volume are you doing this month.

So the attraction would have been, yeah, they would probably make more money with Fremont than where they currently were.

COMMISSIONER THOMPSON: Was that a part of your pitch to attract them to Fremont?

WITNESS JEFFRIES: I would certainly, if I thought the guy was really viable, I'd make an attractive pitch to him, sure.

COMMISSIONER THOMPSON: So what was the average compensation for a rep that worked for you or for Fremont in the 2005/2006 time frame?

WITNESS JEFFRIES: In Nevada, Arizona, in New Mexico?

COMMISSIONER THOMPSON: That worked for you. So you had a pretty expansive territory, so pick what the average rep that worked for you in your geography would
WITNESS JEFFRIES: Well, I would think the average rep in Nevada in the 2004/2005 time frame probably made, you know, 175 to $200,000.

COMMISSIONER THOMPSON: Is that all?

WITNESS JEFFRIES: I'm sure we had some that made more.

COMMISSIONER THOMPSON: So your home run hitter, how much did he or she make?

WITNESS JEFFRIES: I don't recall.

COMMISSIONER THOMPSON: Could that possibly have been over a million dollars?

WITNESS JEFFRIES: None of my reps made over a million dollars.

COMMISSIONER THOMPSON: So at it was not at your leg of the value chain where all the money was being generated?

WITNESS JEFFRIES: No, I, I -- yeah, I would agree with that.

The other thing, you know, I would like to comment on, Fremont also had inside sales. And those inside salespeople could call on Nevada as well. And they had sales managers. It wasn't just, you know, Jay Jeffries and his four account executives.

COMMISSIONER THOMPSON: Does that imply that
that the inside sales team might have been more
productive and doing more effectively or better than your
team?

    WITNESS JEFFRIES: It's certainly possible.

    COMMISSIONER THOMPSON: I know it might be
possible. I'm trying to get your recollection of whether
or not it was true.

    WITNESS JEFFRIES: I think our inside
salespeople that were calling on Las Vegas probably
outperformed my outside salespeople.

    COMMISSIONER THOMPSON: Therefore, they could
have been much, much higher income on average than your
team?

    WITNESS JEFFRIES: Yeah. And the reason being
is they could go nationwide. My people were stuck here
and only calling up brokers here. If you're inside sales
you can go all over the country.

    COMMISSIONER THOMPSON: Fremont really
wasn't your first job in the industry, you've known this
industry for quite some time before joining Fremont?

    WITNESS JEFFRIES: Yes, sir.

    COMMISSIONER THOMPSON: And why did you choose
Fremont?

    WITNESS JEFFRIES: I chose Fremont, more
money, less headache.
COMMISSIONER THOMPSON: And were you surprised at the colossal collapse?

WITNESS JEFFRIES: Absolutely.

COMMISSIONER THOMPSON: This family culture that you talked about was a charade?

WITNESS JEFFRIES: No, I don't think it was a charade. I mean, I felt like, you know, Fremont was going to be my last job. Ever.

COMMISSIONER THOMPSON: You mean you don't get a sense of an organization that's operating on thin ice when you are as close to the factory where the product is made?

WITNESS JEFFRIES: I never thought we were operating on thin ice. I thought we were a very sound company.

COMMISSIONER THOMPSON: So your whole team was delusional?

WITNESS JEFFRIES: I don't think anybody was delusional. I just think that, you know, as fast as the mortgage industry fell apart, Fremont was a casualty. There's 300 plus other lenders out there that went down the tubes, too.

COMMISSIONER THOMPSON: Thank you very much.

COMMISSIONER GEORGIOU: One last question, Mr. Jeffries.

Did you tell our staff that you thought that
mortgage brokers that were originating loans that were
produced by Fremont could make as much as a million
dollars a month?

WITNESS JEFFRIES: Never.

COMMISSIONER GEORGIOU: A million a year?

WITNESS JEFFRIES: It's possible.

COMMISSIONER GEORGIOU: Thank you. I think, in light of your travel schedule, I guess we need to excuse you.

And let's proceed to the other witnesses, if we could.

Thank you for waiting so patiently.

Mr. Bogden, if you could just -- I understand we spent quite a lot of time with Mr. Jeffries. If you could complete your testimony in describing the types of mortgage fraud that you found in the marketplace that, that infected the Nevada real estate marketplace, we'd appreciate it.

WITNESS BOGDEN: Commission Georgiou, what we saw was loan origination type schemes. We saw straw buyers, what we call double escrow schemes. There were buyer build-out type schemes. And then we also then have seen fore-- foreclosure rescue schemes as well as loan -- as well as other types of loan schemes that are, are going through the foreclosure type market.
Our efforts then, when these things started to come to light to us, we were able to put together a task force. And I know you had questions of, of some of the other panelists, you know, concerning whether we saw this coming.

You know, our office, from 2000 to 2010 has prosecuted close to 172 mortgage fraud defendants. So we've always been active, chasing down these types of mortgage fraudsters.

But the FBI, in speaking with them, they weren't getting complaints in the period of time from about 2002, '3, '4, '5, '6, up to about 2007. And in my preparations for this testimony, I sat down with the agents of that task force to try to see if we could put a finger on something we should have been more diligent on or something we should have been more observant with. And it seemed that things focused around the end of 2007 when uptick in the telephone calls and the complaints of the victims reporting their losses to the FBI started to occur.

Around that time we also received a number of SARS filings from FinCEN. And we were able to identify at that point near the end of 2007 that there was a problem concerning mortgage fraud in our Nevada communities.
It was at that point that we went ahead and put together our Southern Nevada Task Force.

COMMISSIONER GEORGIOU: Wasn't there an FBI report in 2004 or thereabouts that was sent to the main headquarters of the FBI and circulated inside the Department of Justice, suggesting that there was quite an epidemic -- they actually called it an epidemic of mortgage fraud across the country that needed to be addressed?

WITNESS BOGDEN: Yeah, that's a question I know you asked of Attorney General Holder. And he said he was going to go back and address that and see if he could do some follow-up there and see exactly the contents of that report and see exactly what happened once that report was, was filed.

In looking at that comment, and those transcripted comments, I went back to our task force folks to see around 2004 in Nevada what we were doing. At that point we had an emphasis on corporate security fraud which was a DOJ priority, but we still were doing mortgage fraud cases in Nevada. It just wasn't at the level that things have gone to now where we're looking in 2008, 2009, and especially in 2010, when we took down Operation Stolen Dreams, where in a period from March 1st to June 17th of this year, we were able to
arrest some 123 defendants. I mean, that is almost
getting to an epidemic level here.

COMMISSIONER GEORGIOU: Mr. Bogden, you served
as the, the U.S. attorney under both President Bush and
President Obama, isn't that correct?

WITNESS BOGDEN: That's correct.

COMMISSIONER GEORGIOU: So you're really in a unique
position to address a continuity or discontinuity in this
particular area.

Your current investigation continues, I take
it, and do we -- can we anticipate additional
prosecutions going down, coming down in the future?

WITNESS BOGDEN: Yeah, our current
investigation does continue. What we've been able to do
is take the number of investigations, because there's a
great multitude of them, and actually put them into three
tiers. Operation Stolen Dreams and what we were able to
put together in the 123 arrests of individuals involved
in mortgage fraud, I sat at the press conference, and I
repeat here, I mean, that's a beginning. It's a good
start. It's probably what we would term round 1, and
it's certainly not the end of our efforts.

COMMISSIONER GEORGIOU: Thank you.

Ms. Burks, if I could ask you, you've had an
enormous increase, I take it, in the number of people
that have come to your office seeking help in the recent past, is that right?

WITNESS BURKS: Yes.

COMMISSIONER GEORGIOU: And are people primarily coming to stem foreclosure of their properties, is that the central thesis?

WITNESS BURKS: The increase just in the clients seeking assistance with foreclosure. Initially we saw a lot of clients that had the type of issues that I talked about, the predatory cases.

Then we saw sort of the clients that were trying to deal with their subprime mortgage adjusting.

Now we're seeing lots of clients that have been affected by loss of job and are trying to do modification, or clients who have previously applied for modifications that were not finalized.

And then the last category would be we call the innocent renters, people who come home from work, didn't know prior to the passage of the new bill that the property was in foreclosure. And they're renting the property, they've paid their deposits they're current on their rent and need some place to go.

COMMISSIONER GEORGIOU: Thank you very much.

Ms. Murren?

COMMISSIONER MURREN: Thank you, Commissioner
Ms. Burks, if you could comment based on the testimony we just heard about Fremont's business here in Las Vegas, I think that would be a useful context for us.

WITNESS BURKS: During the initial period of predatory lending that I discussed in my testimony, we saw loans from companies such as Fremont, Taylor Bean, Fairbanks Capital. And when you look at the HUD 1, typically four pages, the points and fees on average that were charged say on page 2, averaged on a loan that was 150 to 180,000, you were paying about 8,000 in origination fees and discount points. And when you looked at the last page of what we call a HUD 1, you would see the yield spread premium upwards of a thousand plus dollars.

So they were getting monies on the origination and discount points and on the yield spreads. So if the discount sheet that morning said, you know, the rates are 5 percent, but you bring it in at 7.5, then you're getting that spread plus the fees on the, on the origination.

COMMISSIONER MURREN: So maybe you could help us to clarify the question that was on the table earlier, which is if you just take a hundred thousand dollar mortgage for the sake of argument and easy math, what
were the different potential payments that the broker could receive depending on the product that they sold to the customer?

WITNESS BURKS: On a hundred thousand subprime
the, the broker could receive on average of about $4,000 in origination and discount points. An additional three in yield spread premium. And then we would often see something called POC or paid outside of closing.

So there were fees that were also paid by the buyer outside of closing on a loan that was very small.

COMMISSIONER MURREN: And based on your observation of this process, and looking and hearing from people, do you have a sense of how many loans of this type were being made at the peak of the, of the bubble, maybe on a weekly basis or, you know, you pick your timetable, but a successful broker was making how many loans at any given time?

WITNESS BURKS: I would say probably a successful broker was probably doing 100 to 150. That was just in the subprime mortgage. It didn't include what we call alt A loans, or FHA was very little at that time or less than 2 percent in the hay day.

COMMISSIONER MURREN: 150 per?

WITNESS BURKS: 150 per broker. It was huge.

COMMISSIONER MURREN: Per week?

WITNESS BURKS: Per week. On average, at the
end of the month -- and we know this from operating a
first time homebuyer program -- on average at the end of
the month, it was taking from 60 to 90 days to get the
loan closed, and that's assuming that you had everything
in order.

COMMISSIONER MURREN: Thank you. That's
illuminating.

Mr. Bogden, perhaps if you could comment a
little bit, maybe all of you could comment. There was a
lot of -- it seems like there were a lot of gaps in
either regulation, oversight, or the enforcement of what
was already there.

Do you see that still in existence today? You
had referenced earlier reverse mortgages. It seems like
maybe that would be people preying on the retired and the
elderly.

Is that something that is currently being
regulated, or are there still gaps out there, I guess is
what I'm asking.

WITNESS BOGDEN: We have not seen as far as
our task force cases involving that problem as far as
reverse mortgages. So I, I can't give more detail in
that regard.

COMMISSIONER MURREN: Are there other areas
that you think require greater oversight or greater
scrutiny?

WITNESS BOGDEN: Well, you know, we've got a lot of laws on the books. And we've got a lot of different agencies doing different things.

I think one of the things that we've attempted to do, and what the President has attempted to do by putting together the Financial Crimes Task Force, is try to bring everybody together.

And, you know, we tried to do that in Nevada back in 2008. By putting the task force together, is a way that we can bring all these agencies together, not just for manpower purposes, but probably the most important thing we do with our task forces is deconfliction, in that cases come in, complaints come in, and they need to be sent to the right place.

Like the gentleman was speaking in terms of some consumer fraud and some consumer issues that he's been confronted with, where does he go when something like that happens? You know we've tried to set these task forces down. I know the Nevada Attorney General has also done a job in trying to advertise numbers, places to contact.

We've relied upon the task force in order to try to put things together, so we can try to get all these agencies working together so that when problems
come up, issues come up, different crimes come up, we're able to get them to the right venue for either prosecution or the right venue to be addressed.

COMMISSIONER MURREN: Thank you.

COMMISSIONER GEORGIOU: Thank you, Ms. Murren.

We're going to go to Vice Chair Thomas, who has travel emergencies.

CHAIRMAN ANGELIDES: I object. Just, just kidding.

VICE CHAIR THOMAS: Objection, overruled.

Ms. Burks, we heard a lot of, you have to call them sad, unfortunate, outrageous statements when we were in Bakersfield, not unlike the gentleman behind you.

Do you have any success stories on loan modifications, short sales, or foreclosures?

WITNESS BURKS: Yes.

VICE CHAIR THOMAS: One or two?

WITNESS BURKS: Yes, we do have some success, otherwise, you know, you'd just go home and not come outside.

We do have clients that have had principal balances reduced. We had, when the, the first initial resource centers were done, we had lenders that were there that, for example, for seniors, who had experienced a hardship, would simply wipe out or put in abeyance the
balance on their loan, which was quite helpful.

VICE CHAIR THOMAS: What percentage of those have been successful?

WITNESS BURKS: Prior to the passage of HAP, we probably had maybe 10 to 15 percent.

VICE CHAIR THOMAS: What's your batting average recently?

WITNESS BURKS: Batting average recently probably has been less than 5 percent because most lenders are using only HAP and not other loan modification.

VICE CHAIR THOMAS: Yeah. That's the point, Mr. Bogden, that when you listen to people who are going out of their way to try to deal with the issue, and what you get is not just stonewalling, but, frankly, fraudulent activity or complete failure, these are the people I think that we really aren't serving well.

On your testimony, I don't have a page, it's line 206, 207, 208, when you talked about before the crisis became apparent, I assume that's somewhere around the '07 period as you started to crank up. That was when, that's what apparent meant?

WITNESS BOGDEN: That's correct.

VICE CHAIR THOMAS: Yeah. And I've often wondered about this, because whenever we see the Department of Justice in there with their wind jackets
and the rest, carrying out an operation, whatever, that's when you get recognition for it.

But I don't understand, we were unlikely to accept a mortgage fraud case or prosecution where the loss was less than $100,000.

In other words, you only do it with people who had bigger homes and had enough money to deal with them?

WITNESS BOGDEN: We'd only do it with losses in excess of a hundred thousand dollars to consider.

VICE CHAIR THOMAS: But that's more than some people's home totally.

WITNESS BOGDEN: That's why, you know, when things really started to break, we went ahead and changed that guideline to reviewing matters on a case-by-case basis, so that we can try, attempt to see how many cases we can do and try to find the cases that we can get the most bang for what we have as far as resources.

VICE CHAIR THOMAS: Was your mental set that there was widespread single event fraud?

WITNESS BOGDEN: When we had the hundred thousand dollar guideline, or the things that have happened thereafter?

VICE CHAIR THOMAS: Let's start early, because I think it's pretty obvious now there's a multiple event from a fewer number of people.
COMMISSIONER GEORGIOU: Vice Chair Thomas, I'm going to yield. You're over about three minutes. I'll yield another minute or two.

VICE CHAIR THOMAS: It's not mine. I started with zero if I'm over three. They kept her going. That's ok, we'll debate it later. Do you now believe that this is a serious enough level of fraudulent activity that it was multiple instances on the part of a perhaps fewer number of people than anticipated?

WITNESS BOGDEN: Yes, we do.

VICE CHAIR THOMAS: RICO law apply here at all? Are you smiling happily or painfully? I can't tell.

WITNESS BOGDEN: I'm smiling painfully, sir. RICO sometimes is a very advantageous statute to use. However, it's very difficult to prosecute because the resource investment we have to make in doing RICO would be something that we'd have to weigh with the advantages and disadvantages.

These cases, you know, when the task force really started rolling when we put it together in 2008, I mean, we're looking at the number of cases that would just -- that would, that really are stunning as far as the amounts of loss.

VICE CHAIR THOMAS: They are stunning, and sometimes the, the educational effort is worth it in
terms of the long-term return on investment and not the
short-term conviction aspect, and that's exactly in my opinion what needs to be done in, in this area of the absolute failure to deal honestly with people when people are trying to create a reasonable change in a financial relationship.

And, and that's one of the areas that we need to really expose on how few people who are honestly trying to do the best they can, are stonewalled, and they wind up not only losing the home -- and there's got to be a dollar value involved somewhere that I don't understand -- but ultimately a lot of these wind up in foreclosure, and they get sold for less than what a short sale would have provided the paperholder, and they're often sold to someone on foreclosure who turns right around and makes the very handsome profit of selling them outside of the previous loan arrangement. That gets real close to criminal.

I'm throwing that term around loosely. I'm going to admit I am not an attorney, but behavior like that, in terms of no social conscience and sometimes even not from a financial sense, makes no sense. Makes no sense.

Somebody needs to start creating a pressure field that this is the wrong thing to do and you need to move forward. I'm using this as a forum. You've got your own jobs to do.
But let me tell you, if you're looking for total impact on shaving the law and violating the law, you've got no bigger example of what's happening in the boom and bust.

COMMISSIONER GEORGIOU: Thank you, Mr. Vice Chairman.

VICE CHAIR THOMAS: Thank you very much for the courtesy.

COMMISSIONER GEORGIOU: Thank you for joining us here in Las Vegas. We appreciate it. And safe travels.

VICE CHAIR THOMAS: I have to get to the airport in time to lose a couple of quarters.

COMMISSIONER GEORGIOU: Chair Angelides.

COMMISSIONER MURREN: And we hope you do.

COMMISSIONER GEORGIOU: I'm sorry.

It's back to Commissioner Murren's time.

COMMISSIONER MURREN: Thank you.

I actually want to share a number with everyone here. And that number is $1,050,000, which is $7,000 times 150 mortgages per week times 52 weeks a year, just to get a sense for what is possible when you're in that line of work.

In any event, Mr. Gordon, if you could talk a little bit about the current state of the mortgage and
the housing industry here, any signs of light that you
see or at least what your thoughts are about the outlook,
that would be wonderful.

WITNESS GORDON: Sure, Commissioner.

With regard to the mortgage industry, I don't
have a whole lot of insight there. Obviously, it's
changing on a day-to-day basis. And we're hearing a lot
of reasons why.

In terms of the housing market here in Nevada,
including southern Nevada, we've seen one bright spot,
that the median home price has been starting to bounce
around in a relatively tight range for the better part of
the past 12 months. The median home price has hovered
around 125,000 a unit. Again, coming off of the peak of
290,000 in mid to late 2006, a much -- a significant
difference, I guess, is the right way to say it, but we
have started to see pricing flatten out, the rate of
price depreciation has started to slow again. I'm not
suggesting that we're out of the woods by any measure,
but we have started to see some stabilization within the
housing market.

On the new construction side, there has been
an increased incidence in terms of residential
permitting, but these are permitting levels that are well
off the, the peak, and even well off of historical
averages. So the new construction side of the housing market is continuing to face its challenges.

COMMISSIONER MURREN: Thank you. I will yield my time.

COMMISSIONER GEORGIOU: Thank you.

Mr. Chairman?

CHAIRMAN ANGELIDES: I, I'll rearrange all my electronic equipment here.

All right. First of all, Mr. Bogden. You indicated in your testimony that I guess you brought criminal charges against 172 folks in this arena and involving thousands of properties.

Do you have a magnitude? I'm trying to get a sense of what you've been able to bring prosecutions around in the context of the full market.

WITNESS BOGDEN: I think the, the best way to do it, it would have been in context of Operation Stolen Dreams, because we do have good numbers there.

From March 1st, 2010 to June 17, 2010, we ended up arresting 123, arresting, indicting or sentencing individuals. 73 of those were involved in the real estate industry.

CHAIRMAN ANGELIDES: You said indicting, correct?

WITNESS BOGDEN: Indicted or brought by way of
information. And the losses generated by those 123
individual were 246 million.

CHAIRMAN ANGELIDES: 200,000 approximately per
house lost.

WITNESS BOGDEN: That's correct. Yes.

CHAIRMAN ANGELIDES: So a thousand. Am I
doing my math right?

WITNESS BOGDEN: Yes. It was in the
thousands.

CHAIRMAN ANGELIDES: All right. So not
insignificant if you're a veteran of law enforcement.

If you, if you swept up a number of folks,
what's the extent of, you think of yet uncaught?

WITNESS BOGDEN: You know, I would hate to
give a number, but, you know, I would think we're
probably maybe about a third of the way there.

CHAIRMAN ANGELIDES: Okay. Because yesterday
we were in Bakersfield, and somebody was very cognizant
of the marketplace, a veteran appraiser, thought that
mortgage fraud is sometimes significant
misrepresentation, appraisal fraud, straw person buyers,
could have accounted for about 20 percent of the
marketplace at the peak.

I want to ask you something about the period
after 2004 when the, the -- may I ask for a couple of
COMMISSIONER GEORGIOU: Yield two minutes.

CHAIRMAN ANGELIDES: Are you aware of any specific actions that the Department of Justice took in response to the 2004 mortgage fraud warning of the FBI?

Were there any actions taken here in Nevada specifically in response to that warning?

WITNESS BOGDEN: We just continued on what we were doing as far as investigating and prosecuting mortgage fraud cases.

I'd have to say around that 2004 period, there was a priority in the department to go after corporate security fraud. There was a task force put together nationally, and that pretty much was the focus of our financial crimes efforts.

But it's something that we never dropped the ball on or lost the, the ball on here in Nevada. We continued prosecuting mortgage fraud cases. We didn't have excess amount of resources dedicated in that area, though as far as --

CHAIRMAN ANGELIDES: What did you indicate, kind of in the, say in the 2004 to 2008 time frame?

WITNESS BOGDEN: We have a unit that does white collar crime for us that's compromised of about six attorneys, and I think we had one of those attorneys
pretty much focusing his efforts on mortgage fraud.

CHAIRMAN ANGELIDES: What about the FBI? You said now the FBI has only 10 agents plus seven loaned, is that 17 total, or did the 10 incorporate the 7?

WITNESS BOGDEN: The 10 incorporated the 7.

CHAIRMAN ANGELIDES: All right. What did the FBI have dedicated at the time?

WITNESS BOGDEN: I couldn’t their numbers. I could get those numbers.

CHAIRMAN ANGELIDES: Could you, please?

Can I ask that you provide to us with the 2004 to -- I'm going to say end of 2008 time frame, if you could provide to us the number of prosecutions, the resources dedicated both in your office as well as the FBI. Thank you very much. During each of those years.

I have a question, follow-up. I understand, at least I was told at one time, there was a meeting of U.S. attorneys with Attorney General McCasey, it was in the Midwest, the issue of mortgage fraud came up. A number of U.S. attorneys raised the seriousness of the issue. I've been given to understand that he said that this is a local matter not a national problem.

Do you remember ever having discussions as a U.S. Attorney with the U.S. Attorney General about the extent and nature of these problems?
WITNESS BOGDEN: In 2007 I was not the United States Attorney.

CHAIRMAN ANGELIDES: Okay. What about during any time during your tenure?

WITNESS BOGDEN: We had conversations concerning our financial fraud efforts back in 2004 when we, when we put together the priorities with the DOJ. President Bush, as well as Attorney General Ashcroft, had us to Washington in order to discuss, it was corporate security fraud issues. I would have to check with the U.S. attorney in 2007 for --

CHAIRMAN ANGELIDES: But you don't have any recollection of any meetings with the Department of Justice top brass about mortgage fraud during that period and the extent of it being a national problem and resources needed?

WITNESS BOGDEN: During the 2004 time frame?

CHAIRMAN ANGELIDES: Yeah, any time when you were the U.S. attorney.

WITNESS BOGDEN: First time around?

CHAIRMAN ANGELIDES: Yes.

WITNESS BOGDEN: No.

CHAIRMAN ANGELIDES: Oh darn. Maybe Mr. Georgiou, since I indulged you so much during the year, if you would allow me to just to ask Ms. Burks a couple of questions.
COMMISSIONER GEORGIOU: Yes, why don't we turn to Commissioner Thompson next so he doesn't feel like he's always called upon last. And then we'll go back.

COMMISSIONER THOMPSON: I had assumed that that was my natural place in life or something.

So Ms. Burks, I want to thank you on behalf of all the citizens of Nevada, although I'm not from the State, for what you're doing. It's admirable work. So my hat's off to you.

Can you describe the family effects that, what you see as having on households in this community.

WITNESS BURKS: Yes. When we meet on these cases, especially with couples, we try to meet with both of them at the same time, it's stress on the family.

CHAIRMAN ANGELIDES: Can you please -- I'm sorry, you need to hold that --

COMMISSIONER GEORGIOU: Can you hold down your microphone?

WITNESS BURKS: It's stuck down.

COMMISSIONER GEORGIOU: Thank you. Maybe put your, just go a little closer to it then.

WITNESS BURKS: Okay. When we meet with couples, we try to do it together when we're dealing with an issue. It's very stressful. There are times that the couples we are helping end up divorcing, sometimes before
the process is over. It takes quite a while.

We've also seen threats of suicide. We referred those clients to get professional help.

And there was a recent article in the Las Vegas Review Journal -- these clients were not our clients, but the overall murder/suicide rate is up because of the financial stress, some of it brought on by unemployment, some of it brought on by the loss of home and unemployment combined.

COMMISSIONER THOMPSON: So I take it you have had a chance to look at recent legislation, or at least heard about it as it relates to consumer protection.

If you've had a chance to review it, can you give us your perspective on its value in the context of trying to address some of the problems.

WITNESS BURKS: Sure. And we do work nationally to try to educate elected officials on what's happening.

We are concerned that the recent financial legislation that was passed does not really deal with one of the most severe issues, which is the securities industry and mortgage backed securities.

As we are working with clients with modifications, one of the things that we try to take a look at is the PSA, or Pooling Service Agreement, that
actually defines the relationship between the investors, the trustees and the lender.

As long as lenders can continue to create what I call creative products that sort of are in their interest -- I don't think we've addressed the issue. We worked with groups that have brought cases against the rating agencies that actually rated some of the subprime material as Triple-A, and it was not. So if we don't address that issue, we will have the problem again.

I think the consumer issue is not being addressed on a national basis. The good thing is we did get a new rental law that protects innocent people. So it's slow going.

COMMISSIONER THOMPSON: So if you could propose one thing that might be meaningful to help mitigate or mediate this problem what might it be?

WITNESS BURKS: Penalize lenders that are getting paid to do modifications but are not doing them in good faith.

COMMISSIONER THOMPSON: How about loan origination?

WITNESS BURKS: On loan origination, I would make sure that the broker has a stake in it after it's sold.

Right now the person holding the paper is the
one that's stuck with it. I would institute a rule that
would require a signing liability so that everyone who
touches it is responsible.

COMMISSIONER GEORGIOU: Yield another minute.

COMMISSIONER THOMPSON: Mr. Bogden, pardon me
if I sound a little cynical here, but I find it very
difficult to believe that this level of fraud could have
occurred nationally, much less the local consequences,
and the answer is I just didn't have enough people, or I
was focused somewhere else.

How is it that the American people are to
accept that from our government?

WITNESS BOGDEN: You know, we try here to do
the best we can with what we've got. You know, mortgage
fraud is an issue. It's become very apparent.

I'm thinking back into the time frame of 2006
and 2007 and looking at what our priorities were, we were
attacking terrorism, we were addressing violent crime and
gangs, we were addressing drugs, we were addressing
identity theft, addressing issues concerning immigration
issues and fraud.

There was just a lot going on. And we, with
the 50 attorneys we've got for the District of Nevada --
I've got 28 criminal attorneys in Las Vegas, I've got
seven up in Reno, with those 35 resources attorneys, we
try to do the best we can to address every issue that comes our way.

COMMISSIONER THOMPSON: Who sets then the priority for how you spend your time and the time of your team? Is that a local decision, or is that some edict from upon high?

WITNESS BOGDEN: The priorities will be passed down from the Attorney General as to what he sees as the priorities, but every district, because the districts are so different throughout the United States, each U.S. attorney needs to go ahead and factor some priorities that he's got or she's got for their own district that will address the needs of that district.

COMMISSIONER THOMPSON: So if I were to say on a slate of a hundred items, do you have 20 percent flexibility, 50 percent flexibility, how much control or flexibility do you have to determine what's right for your local market?

WITNESS BOGDEN: I'd say we have great latitude to do what we need to do in our local market as long as we address the top priorities. And right now terrorism is the top priority for the Department of Justice.

We are crime fighters. We're then to look at the other issues that have the greatest impact on your
district. Right now the District of Nevada, you know, it was public corruption for a period of time, some years, right now, you know, the second priority we have underneath terrorism is that of financial fraud, and part of that is mortgage fraud.

And that's why we've dedicated the resources that we have, and we're able to be so successful in Operation Stolen Dreams and will continue on with our efforts to fight financial crime, continue to fight the financial mortgage crime problem with the resources that we've got.

COMMISSIONER THOMPSON: So if I can ask a similar question that I asked of Ms. Burks, if you could change something, or replay the calendar of the last five years, how would you replay it?

WITNESS BOGDEN: That's something that I've contemplated and, you know, thought through. And when you talk with our task force agents, and you talk with our prosecutors, you know, the issue came to our attention through the SARS reports and through the complaints and through the hotlines and the things that we have in order to be ticklers, so that we know that there's an issue. And this was late 2007.

By the start of 2008 we had already put together the Southern Nevada Mortgage Fraud Task Force.
Similarly, we put together the same task force up in northern Nevada. From a law enforcement standpoint we've tried to do the best we can with the resources that we've got when made aware of the situation.

COMMISSIONER THOMPSON: Thank you very much.

COMMISSIONER GEORGIOU: Commissioner Born?

COMMISSIONER BORN: Thank you very much, Commissioner Georgiou.

Ms. Burks, let me start with you. It's my impression that you do not think that the loan modification program has been an unmitigated success.

Why do you think it has been so difficult for so many of your clients to effectively have loan modifications?

WITNESS BURKS: I think in the meetings that I've been involved in with officials and treasury and talking about the problems, I've been very honest about no, it's not working for a couple of reasons. There is no incentive to lenders to modify loans. If they hold it for the quarter or through a certain period where they have to file their SEC filings, they literally dealing with the loans based on what's best for the bottom line.

And you have to do that, and I understand that, and the capital system is one of the greatest in
the country. It is the greatest in the country.

But I think we have to be realistic in terms of if a consumer wants to pay the bill, they're trying to pay the bill, what's the reason for not modifying the loan. It doesn't make sense.

So the system is designed to deal with the lender side but not the consumer side. And as a result, consumers no longer believe us when we say you need to do the right thing and pay your mortgage because it affects your neighbors. People are starting to walk away. And if we have more strategic defaults, at least in Nevada, we're going to be looking at communities that are in bad shape for a long, long time.

COMMISSIONER BORN: Are some lenders more difficult to work with than others on loan modifications?

WITNESS BURKS: Yes. I've given your staff the list. There are some that are just absolutely horrible. They will violate the rules.

The rules are very clear. If the consumer can prove they can pay the loan, you are to modify them under HAMP if it's owner-occupied. They are not.

I think part of it is lenders had to hire people quickly. Part of it is the brokers and the people who were doing the loan originations are now some of the people working in the departments to do the
modifications. And there's a disconnect between the
foreclosure department, the pre-foreclosure department,
and the modification department in most places.

COMMISSIONER BORN: Well, it interests me that
the testimony we heard today from Mr. Smith is remarkably
similar to testimony we heard yesterday in Bakersfield
from another borrower who coincidentally had been dealing
with JPMorgan Chase, and JPMorgan Chase was losing
repeatedly all of her documentation as well.

Is this merely disorganization at JPMorgan,
which is so efficient in most of its money-making
activities? Is it, do you think, purposeful stringing
the borrower along, and not wanting to go forward with
loan modification?

What do you think is happening in these
institutions?

WITNESS BURKS: I think it's on purpose in
many instances. And there's no financial incentive to
get the job done.

They are paid by the government for doing the
trial payment not for success or finalizing the document.
And if you don't finalize the document, 10 months from
now, you'll be looking at the same problem. No job is
done until the paperwork is done.

COMMISSIONER BORN: May I have another two
COMMISSIONER GEORGIOU: You may.

COMMISSIONER BORN: Mr. Bogden, in reading your testimony, I noticed that -- and also this was true of Attorney General Holder's earlier testimony as well -- I noticed that the Justice Department, in focusing on mortgage fraud, tends to define it as fraudulent borrowers and their cohorts defrauding lenders and doesn't tend to focus on the fraudulent nature of predatory lending where the lenders and their cohorts may be taking advantage of naive borrowers on the, the one hand, and placing them into instruments, loan instruments that they shouldn't have to deal with, and then passing along those defective, toxic mortgage instruments ultimately to investors who have lost enormously.

And I wondered exactly how the Justice Department is looking at where its priorities are in terms of who the culprits you're going after, and who the victims are you're trying to protect.

WITNESS BOGDEN: Well, I think the, the best answer to that is, you know, we're in an investigative stage. And, you know, initially it may appear that there's victims and there's certain folks that are at fault, but as investigations continue, you're able to take things further up the chain.
And certainly the goal of any investigation, especially a Federal investigation, is to start out where you can, where you find a problem, where you are able to address a crime, and work to the top.

And we will continue to pursue as far as we can go with our investigations, and we will prosecute whoever we need to prosecute in order to try to get things straightened out and make a difference.

So I wouldn't just say we're just after borrowers. I wouldn't say that we're just after people in certain levels. I mean, that's where we are right now in our investigations, but that's not saying that's where we're going to be a year from now, or two years from now. We're going to continue to pursue, we're going to continue to investigate, and we're going to continue to prosecute.

COMMISSIONER BORN: Well, then I also suppose that in Nevada you may need to focus on people and institutions in Nevada with respect to their contributions to the fraudulent activities, and -- but it may well be that there should also be an effort looking at the top, which may be on Wall Street, and investigating from there down.

WITNESS BOGDEN: Well, the good thing about the Department of Justice is our abilities to use other
U.S. attorney's offices and be able to pursue targets that may not be in our own district. And I can tell you that the other cohorts that I have as U.S. attorneys are as dedicated as we are in this district to pursuing wrongdoing and trying to make a difference in this. And if we've got to go all the way to the top, then so be it.

COMMISSIONER BORN: Thank you.

COMMISSIONER GEORGIOU: Thank you, Commissioner Born.

Chair Angelides, two minutes.

CHAIRMAN ANGELIDES: Super quick.

You mentioned in your testimony, Mr. Bogden, about 6,000 SARS reports. These are mortgage-related and during what period?

WITNESS BOGDEN: Once we started the task force in the beginning of 2008 we set up a hotline, and we also started receiving the SARS reports. Since that time, since March 2008 to now, we've received 6,000 SARS reports through our task force.

CHAIRMAN ANGELIDES: Mortgage-related?

WITNESS BOGDEN: Mortgage-related. And we've received 3,500 calls concerning incidents.

CHAIRMAN ANGELIDES: So just to put that in perspective, 6,000 suspicious activity reports related to
mortgage fraud, 3500 hotline calls. This is not a niche problem. It's pretty pervasive.

Fair statement?

WITNESS BOGDEN: Yes, sir.

CHAIRMAN ANGELIDES: All right.

Ms. Burks, excellent testimony. I just want to say that.

I have two quick questions for you. You say:

From a public policy we participate in meeting with the Federal Reserve to plead for regulatory enforcement of the existing law against unscrupulous practices perpetrated by fringe lenders.

During what time frame was that?

WITNESS BURKS: From around 1999 to 2002, and it continued. I was in meetings with then Chairman Alan Greenspan and other groups around the country where we talked about the problem.

CHAIRMAN ANGELIDES: So you went in as groups and expressed concern about unfair and deceptive lending practices.

WITNESS BURKS: Yes. We talked about --

CHAIRMAN ANGELIDES: How many times did you do that?
WITNESS BURKS: I met with the Federal Reserve probably more than five or six times.

CHAIRMAN ANGELIDES: Interestingly enough, when we look at the record, it turns out that they only made two referrals from 2000 to 2006 for unfair and deceptive practices, one with a small bank in, near Palm Desert and one small bank in Illinois, in my recollection.

All right. So this was not -- you know, a lot of times we hear people weren't aware of the problem. But this is on people's screen?

WITNESS BURKS: Yes.

CHAIRMAN ANGELIDES: The other thing you said which I thought was interesting, you said:

A review of mortgage documents showed that a core group of sophisticated lenders offered products with loan terms that fell just under the required HOEPA or Section 32 reporting limits.

Are you referring to the limits that were put in in 2001 when the Federal Reserve adopted new HOEPA regs in 2001?

WITNESS BURKS: Prior to that they had limits that were reportable as well, and you had to give the,
the disclosures and give people a chance to look at those disclosures. So they had rules, and then those rules were amended.

CHAIRMAN ANGELIDES: Are you talking about the rules before or after or both?

WITNESS BURKS: Before.

CHAIRMAN ANGELIDES: Before. All right.

And you're aware of the rules in 2001. We've seen information that indicates that the Federal Reserve at the time thought they'd be covering about 38 percent of the subprime lending, and it turned out their rules covered 1 percent.

WITNESS BURKS: Right.

CHAIRMAN ANGELIDES: So your experience is that the lenders calibrated what they did just to nose under those thresholds?

WITNESS BURKS: Correct.

CHAIRMAN ANGELIDES: Thank you. Appreciate it.

COMMISSIONER GEORGIOU: All right. Thank you, Chairman Angelides.

Thank you very much.

Ms. Burks, extraordinary testimony.

Mr. Bogden, thank you for your service to our District of the State of Nevada.
Mr. Gordon, thank you for your participation today.

It is now 2:45. And as you might note from our schedule, we were supposed to be done with this panel at 2:00.

So we're going, we're going to get -- take back some of that 45 minutes by cutting our break from 15 minutes to five minutes, and cutting the next panel from an hour and 15 minutes to an hour so that we can get to the public testimony as well.

So if you could all be back in here at 2:50 promptly, we will start with whichever commissioners make it back to their chairs in that time. Thank you.

(Whereupon a recess was taken.)
COMMISSIONER GEORGIOU: Thank you so much to all of you for coming, Mr. Clinger, Mr. Fontaine, Mr. Fraser and Dr. Morrison.

As is customary here, we have asked all our witnesses to be sworn. And we've done it for every witness before the Commission everywhere.

So if you could stand and raise your right hands. Do you solemnly swear or affirm under penalty of perjury that the testimony you are about to provide the Commission will be the truth, the whole truth, and nothing but the truth to the best of your knowledge?

WITNESS CLINGER: I do.

ANDREW CLINGER, Director of the Department of Administration, Chief of the Budget Division, State of Nevada

JEFFREY FONTAINE, Executive Director, Nevada Association of Counties

DAVID FRASER, Executive Director, Nevada League of Cities

HEATH MORRISON, Superintendent, Washoe County School District

COMMISSIONER GEORGIOU: Thank you very much for coming here today, gentlemen.
And if we could start -- Mr. Clinger, if you could each confine your remarks to approximately five minutes. Thank you.

WITNESS CLINGER: Thank you. Good afternoon.

Mr. Chairman, Members of the Commission, I'm honored to have this opportunity to describe how the current economic crisis has impacted Nevada's economy and
the State's ability to provide services to its residents.  
As you are all well aware the nation is still 
in the shadow of the deepest recession since the 
depression of the 1930s. The Great Recession was caused 
by the implosion of a nation-wide real estate bubble of 
unprecedented magnitude.  
The formation of this bubble had wide-ranging 
effects on the nation's economy. The rising home prices 
fueled consumer confidence and consumer spending. 
Increasing prices meant increased home equity that provided 
consumers with easy access to money for debt finance 
purchases that were bought beyond the means of earnings 
from salaries and wages.  
A nation obsessed with rising home prices led 
to speculation as well as innovations in lending 
practices and financial instruments that further inflated 
the housing market.  
During the real estate bubble, Nevada's 
economy was positively impacted by euphoric consumers 
from the rest of the nation and world. Visitors to the 
State bolstered retail sales and gaming establishments, 
contributing to the State coffers.  
According to Standard and Poor's Case-Shiller 
Home Price Index, in 2004 Las Vegas home prices were 
increasing the fastest of the 20 major metropolitan areas
tracked, soaring more than 50 percent year over year.

This in turn inflated the State's construction sector, resulting in a larger proportion relatively high-paying construction-related jobs than any other State.

The rupture of the real estate bubble produced a liquidity shortfall that caused the collapse of large financial institutions and necessitated the bailout of organizations deemed too large to fail.

The ensuing financial crisis led to the deepest economic downturn in a generation. Plummeting home prices nation-wide have resulted in plummeting consumer confidence and spending.

The loss of wealth means fewer and more frugal visitors to the State of Nevada. Nevada home prices have fallen faster and further than any other State.

To date, home prices in Las Vegas have fallen 56 and a half percent from the peak reached in August of 2006. Nearly two-thirds of Nevada homes are worth less than their mortgages, the highest rate in the country. And the number of Nevada home foreclosures also among the highest in the nation is nearly four times the national average.

Nevada has lost 179,000 jobs since the recession began in December of 2007, tumbling 13.9
percent. However, if measured against the historical
trend, the job loss is more than twice as large.

Meanwhile inflation-adjusted wages and
salaries in Nevada are down 16.6 percent, sinking to 2004
levels.

Nearly 70 percent of Nevada State general fund
revenues are generated from discretionary consumer spending. The
two largest revenue sources of sales tax receipts and
gaming fees contribute more than half of the total.

When consumers tighten their purse strings, as
they are now doing, the impact on the State's ability to
provide necessary services is significantly curtailed.

Inflation-adjusted sales tax receipts have
posted year-over-year declines for the past four and a
half years, plunging 46.8 percent since the peak.
Collections are now down to the levels of the late 1990s.

Gaming win, the amount casinos keep after
wager payouts have been made, have plunged, and with the
increased competition by other states offering legalized
gambling, it is not clear that a full recovery is
possible.

The recession has also resulted in growth in
the number of residents requiring welfare assistance even
as the State's ability to provide such assistance is
decreasing.
Over the past three and a half years, the State's Medicaid recipients have increased by more than 50 percent. The number receiving temporary assistance for needy families has nearly doubled. And the number collecting supplemental nutrition assistance program payments is nearly 2.4 times larger. The case loads are likely to climb further as unemployment insurance benefits expire for Nevadans unable to find work. Medicaid assistance percentages along with distributions from the American Recovery and Reinvestment Act of 2009 have helped immensely, but are not enough to prevent the need for deep spending cuts in the 2011/2013 biennial budget currently being prepared.

Under current law the shortfall is huge, approaching an amount equal to half of the general fund. The State's fragile economy will be hard-pressed to raise the revenue for absorb such drastic cuts.

Thank you.

COMMISSIONER GEORGIOU: Thank you,

Mr. Clinger.

Mr. Fontaine?

WITNESS FONTAINE: Thank you. I'm honored to represent the Nevada Association of Counties this afternoon and really appreciate your interest in hearing about the impact the financial crisis has had on the
counties and the services that they provide to the people of Nevada.

The burst in the housing bubble has hit Nevada hard, and unless our economy turns around in the next year, we will have spent more time in this Great Recession than Nevada has spent in the Great Depression.

The economic crisis has affected all portions of the states, particularly in the growth counties, which including Clark and Washoe. Some of the smaller rural counties have also been hurt. While they didn't experience the large population growth, they were looking to take advantage of the boom to grow their economies, but these plans now have mostly been stymied because of the financial crisis.

County services are funded with property taxes, sales taxes, fees and Federal payments. And property tax caps put in place in Nevada in 2005 in response to the rising property values have helped stabilize those revenues for counties, but this is about to change, and in some counties the property values will have dropped so low that they will actually result in less property tax revenues. Sales taxes are also down.

Compounding the problem has been the diversion of county revenues by the State to address its own revenue shortfall in the last couple of years. In the
first round of cuts made by counties, they were made
primarily to one-time expenses such as public works
projects, and they were put on hold which resulted in
less work in the construction industry.

Funding for nonessential programs such as
parks, recreation, and libraries were also cut, which
resulted in less hours and less maintenance.

And of course many counties were forced to dip
into their reserves to balance their budgets.

The counties were then forced to implement
furloughs and salary reductions and finally layoffs. And
as the recession deepened, even law enforcement personnel
and fire fighters lost their jobs.

The challenge for counties during this
difficult time is to provide services to an increasing
number of families, seniors, and others in need, who are
relying more on county services as the economy continues
to struggle.

Counties play a vital role in these
Federally-funded programs, including Medicaid, TANF, and
supplemental nutrition assistance programs, formerly known as
food stamps, and counties are often the points of access
for referral and provide a portion of the required match
for Medicaid dollars.

And the increase in the number of Nevadans
enrolling in these programs for the last three years far
surpasses the national average.

Most importantly counties are the safety
net to take care of people who are not served by these or
other programs.

At times the State has reduced services,
and capped enrollment, and also eligibility requirements
prevent some people from participating. For example,
Medicaid and TANF programs do not serve adults under the
age of 65 unless the person is disabled.

As stated by Clark County Social Services, the
people we serve are not served by anyone else, and if we
don't serve them, no one would.

Clark County Social Services has seen a
significant change in the demographics in the last year.
They are seeing more employable adults and more
individuals under the age of 25 seeking assistance than
ever before. They are currently seeing an influx of
individuals who have exhausted their 99 weeks of
unemployment benefits and have nowhere else to turn for
help.

Last September they began implementing drastic
cuts to the Financial Housing Assistance Program, and
this means less people will be served. The result of these
cuts is reduced services for county indigent clients,
increased homelessness, increased medical costs, and a strain on nonprofit partners in the community.

The University Medical Center, which is operated by Clark County and the State's largest public hospital, is also seeing effects of the economy. And because of its indigent care responsibility, they have had a long history of deficits, but they are now reporting that with the last three year-decline, they are seeing a trend unlike anything previously encountered, and it's directly related to the current economic conditions.

Contributing to the deficit are indirect impacts of the reductions in the county social services and the State's mental health services which are driving patients to the emergency room. UMC has been forced to make the difficult decision to abate certain services.

Washoe County Social Services also reports during the last two years they've seen a significant increase in the number of people seeking housing and shelter, as well as programs that provide emergency assistance payments and payments for medical services.

During the early part of the decade Lyon County was one of the fastest growing counties in the State. Construction workers flocked there to build new homes and businesses. But that industry has dried up and
unemployment is over 18 percent. They are now one of the
most economically distressed counties in the U.S.

And while the social services department there
had planned for the number of residents or an increased
number of residents seeking financial assistance for
housing and utilities, they were not prepared for what
they now face, an overwhelming number of people,
especially male heads of households who are seeking
counseling.

The number of suicides in Lyon County has
increased from 11 in 2008 to 17 in 2009. And,
unfortunately, the county does not have the resources to
serve all those that are seeking help. The
alternatives are slim. The private providers are maxed
out, and the state's facilities are only taking new
clients as old ones drop out.

The county says that these are people with
mental -- these are not people with mental health issues
they would normally see like bipolar disorder or
schizophrenia. These are individuals and families that
are highly stressed because they have lost their homes or
jobs or both.

And the situation is not much better for
seniors in any county that are on fixed incomes.

Nonprofit partners throughout the State are
also seeing dramatic increases and the demand for services, and we have provided some figures in our testimony.

To the members of the Commission, I can tell you that the Silver State finds itself in the grips of a very deep economic crisis and with very dim prospects for recovery in the short term.

But as history has shown, Nevada will take the necessary and decisive actions to recovery from the effects of the current economic condition, and I'm confident that Nevada's counties will play an important role in that.

Thank you.

COMMISSIONER GEORGIOU: Thank you,

Mr. Fontaine.

Mr. Fraser?

WITNESS FRASER: Thank you. I can't tell if that's on or not.

COMMISSIONER GEORGIOU: You have to hold it.

WITNESS FRASER: I am holding it.

Thank you very much for having me today. It's a pleasure to be here with you, and an honor to represent Nevada cities.

And I appreciate the time of the Commission, and I recognize the long day that you've had.
Interestingly my testimony would very much echo what you've heard already from these two gentlemen to my right. In fact, I provided the, the, the Committee with some graphs, which if you changed the, the caption on those, would, I think, could substitute and supplement Mr. Clinger's testimony, because the condition of the cities so much very much mirrors that of the, the State.

In fact, we have such a very similar revenue stream that, that really everything he said applies almost across the board to cities.

I will indicate that as you've heard today, certainly, Nevada certainly lead -- leads the nation in unemployment and housing foreclosures. We are certainly on the leading edge of the financial crisis.

I wish I could say that I think we'll be on the leading edge of coming out of it. I think the opposite will be true. I think because of the nature of our resources and the dependency that we have on visitors, that, that it will be hard for us to come out -- that it will probably be one of the last states really to come out of that.

I will mention to you that -- I call your attention to page number 6, which is revenues, general fund revenues. As you can see, they're nearly 70 percent of revenues from any unit, and you can put any given
city's name on here, and it would look similarly.

Nearly 70 percent of the revenues come from C
tax, the Consolidated Tax of Nevada, which is primarily
sales tax and property taxes.

And so we're hit both ways from that as we're
seeing property tax decline -- or, excuse me -- we're
seeing foreclosures and reductions in property
valuations.

In fact, valuations across the State are down
about 36 and a half percent presently. And as we see
that, we not only see the reductions that come just by
percentage with that, but also as we see the vacancies
and the foreclosures, and trouble with collections, those
are all contributing factors.

And more so, you see that on both sides,
really, of the ledger, getting hit both ways in that not
only are we collecting fewer property taxes, but as those
homes become vacant, we have greater demands, not only on
the social services Mr. Fontaine mentioned, but also
greater demands even on our code enforcement services and
our law enforcement services as a direct result of that.

So while we're having less resources with
which to deal with these problems, we seem to have
greater demands in some of the areas, as you can see on
page 5, greater demands in those public safety areas,
which are such a large part of our budget.

And so we really are kind of taking the brunt of that both on the revenue and on the expenditure side of the equation.

I'll, I'll mention just briefly that in general across the board Nevada cities have cut their budgets by about 15 percent almost uniformly across the board.

But that kind of, kind of hides -- that doesn't show the entire problem in that up to this point, we've had an opportunity to use some of our reserve funds to cover some of the budget shortfalls, which really in almost all of our communities are entirely or almost entirely used up.

So you're going to see that the next cycle is going to be an even greater problem for local governments to deal with budget reductions, as we don't have those reserves to rely upon as we did in the past.

We also are, the figures also don't represent the entire staffing cuts because of under NRS 288 our requirements to collective bargain. We're under collective bargaining contracts that have pre-existed the downturn in the economy, and so we're still in the position of honoring the terms of those agreements, although we've certainly have sought, and in some cases
received, some concessions from the bargaining units, we
still have to live with the terms of the contracts that
were negotiated beforehand.

One thing that we don't have in Nevada is the
ability to reopen contracts when we're in a fiscal
crisis. So that has made that difficult for us as well.

I see that my time is nearly expired. But
again, I just appreciate the opportunity to come here
because Nevada's local governments as well as the State
government really is in a state of crisis as a, as a
result of the financial downturn. And I appreciate the
opportunity to discuss that with the Commission.

Thank you.

COMMISSIONER GEORGIOU: Thank you, Mr. Fraser.

Dr. Morrison? You'll need to hold that down
to keep the --

DR. MORRISON: Mine is already down. I appreciate you making it
easy on me.

COMMISSIONER GEORGIOU: Very good.

DR. MORRISON: Good afternoon. It's an honor
to come before you today to provide testimony about the
current economic conditions in Nevada and its impact on
K-12 education.

However, the information I must provide to you
is somber. And particularly distressing when you
consider the impact of our economy on some of the most
vulnerable of our citizens, our children.

Some statistics about education in our current economy. 50, 220,000, 5.2 billion.

50 is the percentage of our students currently graduating our high schools in Nevada.

220,000 is the number of students out of 440,00 students that we educate who do not reach graduation in the Silver State.

5.2 billion is the lost lifetime earnings in Nevada from the Class of 2009 dropouts alone.

50, 1, 53, and 49.

50 is Nevada's national ranking for college graduation in four years.

1 is Nevada's national ranking in high school dropouts.

50 is Nevada's national ranking for jobs available to college graduates.

3 is Nevada's national ranking for employing high school dropouts.

49 is Nevada's national ranking of per people expenditure according to last February's Wall Street Journal.

A recent survey in education entitled Chance for Success ranked Nevada's student's opportunities for lifetime success dead last in the nation. Prospects for
our state to invest in educational improvements over the next few years do not look encouraging, as you've heard from my colleagues.

As you've heard the entire day, Nevada has the distinction of having the single most distressing economy in our country.

I've been asked to address the impact of the financial crisis on the entire State of Nevada's K-12 system with a particular focus on where I have the honor of serving as a superintendent, Washoe County, Reno, the second largest system in the state and 55th largest school district in the country.

There are 17 school districts in Nevada, including Clark County, the nation's fifth largest, and Esmeralda County, one of the smallest with 68 students.

As stated already, Nevada has historically ranked low in educational funding, some $2000 below the national average per pupil.

As the economy has deteriorated, additional monies for such things as technology, innovation, empowerment schools, after school tutoring and mentoring have all but disappeared.

What remains is state-mandated contributions to operational funding, limited full-day Kindergarten, and class size reduction in our primary grades.
A 6.9 percent reduction, approximately 117 million in last February's special session, along with previous cuts of educational funding have resulted in some of the following reduction in school districts across the Silver State:

Four counties have had to close schools because they can no longer afford to operate them. Eight counties have moved to a four-day school week.

Many counties no longer offer after-school programming, and the majority of counties have reduced or cut electives in art and music.

Clark County, where we are today, had to increase class size and eliminate over 700 teaching positions last year.

And Washoe County School District had to cut approximately 40 million over the past three years prior to this year, and an addition $37 million this year.

To bridge this gap, the following measures were implemented. We renegotiated contracts. We spent down our fund balance. We reduced our central services. And we increased class size, eliminating close to a hundred teaching positions.

Like every district in Nevada, Washoe County has had to reduce employee compensation, lay off workers,
freeze vacant positions and reduce investments in technology and textbooks.

The educational impact of these cuts is devastating. Many students are coming with greater needs. The percentage of students in Washoe County eligible for free and reduced meals has increased from 33 percent seven years ago to a projected 44 percent this year.

The percentage of students speaking English as a Second Language has tripled over the past 14 years. And the population of students impacted by homelessness has continued to increase, with around 2300 students last year. However, that rate is vastly underreported with multiple families living in shared housing.

With the State facing a projected 2.9 billion dollar shortfall in a budget slightly under seven billion all state agencies must grapple with the possibility of at least a 40 percent cut.

If K-12 were to face a 40-percent funding reduction, at least 10 of the 17 school districts report they would have to close schools. Several counties would face bankruptcy.

In Washoe County, a 40 percent cut could mean approximately 178 million in the binding. This could mean the loss of many teaching positions, classified, and
the elimination of programs vital to our children.  

Even a ten percent budget reduction would have
an impact. All school districts would have to report
that they have an increased class and lose elective
programming.

All the school districts report that there
would be layoffs and wage reductions.

The economic impact is equally profound as in
every school district, the school system is usually the
larger employer. Clark County employs 35,000 workers,
Washoe County School District 7200. Further cuts to
education will result in increases to the, the State's
unemployment rate.

As we look to see how we arrived at our
current economic state, Nevada must look to its past to
see its present condition.

Our tax structures have been based on
industries tied to the health of the nature's economy,
therefore highly volatile.

Jim Collins in his book Good to Great says
that you must confront the brutal facts. The brutal
facts of our state are that with construction and gaming
as the primary sources for employment, there was little
motivation for students to graduate from high school, let
alone get a college degree.
In 2006, it was not uncommon for a busboy at a high end restaurant in Las Vegas to earn as much or more than a starting teacher in Clark County. That is no longer the case.

This economic crisis has brought Nevada to a crossroads. It can hold onto its past and wait for an inevitable collapse, or it can look to the future to begin to make the investments that will sustain the next generation of Nevadans.

I arrived in Nevada just over a year ago from Montgomery County, Maryland where I served as an area superintendent in a school district that is regarded as one of the nation's finest.

Improving public education in Montgomery resulted in new businesses such as Nextel, Sprint and Marriott to relocate there.

This can and must happen in Nevada as well. In Washoe County School District we have engaged one of the, the most aggressive reform improvements in the country. We are already seeing positive results and intend to do our part to attract new businesses to the Silver State.

Our plan is not built on the anticipation of new monies coming from the state over the next several years, but it also cannot sustain any further cuts.
It is time for Nevada to see that an investment in public education is not only the right thing to do for our 440,000 students, it's the right thing to do for our economic future.

Thank you.

COMMISSIONER GEORGIOU: Thank you, Dr. Morrison, for that extraordinarily sobering testimony.

You know, we've heard today from a whole litany of witnesses who have spoken to the question that for Nevada's future, we really need to diversify the economic base of our state. And I think that's undoubted, and some people have said that we've been saying that in Nevada for some 30 or 40 years now and not accomplishing a whole lot in that regard.

Obviously the education of our students, if we don't have an educated work force if half of our students are dropping out without finishing high school, that doesn't speak well for moving businesses here from other states that have greater burdens and may like the economic climate here, or for generating new businesses locally.

So I guess I'd ask you to respond to that. What are your thoughts in that regard? How do we solve it in the current economic crisis?
DR. MORRISON: Thank you for the question.

I think that budgets are choices about
priorities, and we have to make educational funding not
just K-12, but higher education a greater priority to
attract those businesses that we know are necessary to
diversify our economy.

A recent Wall Street Journal/CNN poll came out
today with an index of states that are most friendly to
attracting businesses. Nevada ranked 16th in the country
in terms of having a tax structure friendly to bring new
businesses in, but it ranked 50th in terms of educational
quality.

So as you are a COO, thinking about relocating
your company, and you're looking at Nevada, the tax
structure looks wonderful, but the educational
programming and other essential governmental services
look less so, and so unfortunately too many are deciding to go
elsewhere.

So we have to try to change the mindset.

Again, for a long time the industries that sustained the
Silver State did not require a high school diploma or a
college diploma. That's not going to be the case if we
want to attract green energy, if we want to attract
medical, if we want to attract these high-end industries,
they want to make sure that they're making their
commitment to their work force that they're going to come
into a quality educational system. And they also have to
be assured that they are going to have a quality work
force for the future.

COMMISSIONER GEORGIOU: Thank you.

I wonder if I could provocatively ask the
other panel members to address that question.

Mr. Clinger?

WITNESS CLINGER: Thank you.

One of the problems that we face in the State
of Nevada is that when you look at state government, and
what State government spends in Nevada, and it's in my
testimony, when you look at the U.S. Census Bureau data,
and you look at it on a per capita basis, in the State of
Nevada we are last in spending on a per capita basis.

And so part of the problem is is in order to
diversify our economy and generate these jobs, you need
the education. Which can you do first? In the
environment that we're in, diversifying the, the economy
is everyone's goal, but that's not going to help us in
the next two years.

We're not going to be able to put together a
plan that will create enough jobs in the short term to
help us balance the budget, let alone put in the
additional resources into, whether it's K-12 and/or
higher ed to help, you know, attract those business here. So I don't know, from my perspective, where you start. I mean, I don't know how you get down that road of diversifying the economy if we're in such a hole, and we don't have the industries out there that can support the type of tax increase needed to bring us up to a level of funding that would be deemed adequate.

COMMISSIONER GEORGIOU: And you've been in the budget department for the last two gubernatorial administrations in Nevada, is that right?

WITNESS CLINGER: That is correct.

COMMISSIONER GEORGIOU: Have you seen any -- you've not seen anything like this crisis, obviously, during your tenure?

WITNESS CLINGER: I have not.

COMMISSIONER GEORGIOU: And I take it that the next legislature, which will be meeting here shortly in a few months, is going to have an enormous task ahead of them.

What recommendations -- I guess you won't be making recommendations, the next government will be making recommendations, maybe that will be you as a budget director, maybe not. It's just too provocative of a question. I'll just leave it be.

Mr. Fontaine and Mr. Fraser, you provide
extraordinarily important services for, the counties and
the cities of the state, provide very, very important
services -- police, fire, mental health services, hospital services,
social
services.

For those people who have no other way of
getting them, what are the prospects if we can't fund
them, if the property tax revenues are drying up as
rapidly as they are in light of the reduction in property
valuations? What are our prospects here for filling that
gap?

WITNESS FONTAINE: Well, from the, the
counties' perspective, as I indicated in my testimony,
they are obligated or mandated by Nevada law to basically provide
indigent medical care, indigent defense and basically to
take care of those individuals who otherwise don't have
any other place to turn.

And so, for example, in the case of Clark
County, when the state caps enrollments in their programs
or closes clinics, and Clark County Social Services
has to reduce their budget and reduce the number of
clients they can see or financially they can provide,
people that are homeless, become sick, they become acutely
sick, and they end up in UMC's emergency room where it's
very costly to treat, they're turned back out, maybe they
find shelter, maybe they don't, but that's the cycle we're
headed towards, unfortunately.

So the prospects are not very good, and unless we figure out how we can all come together to make sure that the continuum of social services is there, and that there are not gaps, and that there are not holes in the safety net, I'm afraid we're going to have people drop through that, and end up having some serious problems and costing everybody a lot of money.

COMMISSIONER GEORGIOU: Mr. Fraser, the city budgets are dependent on a percentage of sales tax revenues, is that correct, and a percentage of property tax revenues?

WITNESS FRASER: That's correct.

COMMISSIONER GEORGIOU: Both of which are in decline?

WITNESS FRASER: That's correct. And public safety is a big part of what our cities do. Each of our cities -- and I say each of our cities, because as you look at a chart of expenditures and revenues, there's almost mirror images from city to city to city, but each of them have about 50 percent of their expenditures tied up or greater in public safety.

And so far what we've seen mostly is that -- and I'm just referring quickly to the pie chart on page 5 of my presentation which I've labeled service area A and
service area B, but in service area A, which includes public safety issues, that's a great, that's a great amount of that. And to get to my point, what we've seen so far is that the areas in what I've labeled service area B, which would be parks and recreation and other quality of life issues, that those have taken a tremendous hit in order for us to try to keep whole our public safety efforts.

However, going forward, as Mr. Fontaine indicated, that's only going to get more and more difficult. And we've already begun to see cities that have had to deal with tough decisions such as how many, how many personnel will be on a fire truck when it responds to your home. How many fire stations can we keep open.

So these are already difficult decisions that are being discussed, and like I say, up to this point, really, we've been able to keep those very close to whole at the expense of some other very important quality of life programs and services that we provide. But those very, very difficult decisions are coming just right around the corner.

COMMISSIONER GEORGIOU: I really, given the importance of the availability of public and community services and the funding crises that you have, I hate to say this, but we're going to narrow down the time that we
allocate to this panel, not because it's not important, but because we also want to get to public testimony.

So I'm going to reserve the remainder of my time at this time, and I'm going to ask each of the commissioners, ask Commissioner Murren and myself to cut three minutes off of our allocated time, and the others to cut off two, so we can try to catch up and hear from members of the public, many of whom have sat here exceedingly quietly and patiently all day to be heard.

And I hope that you gentlemen, when we finish the panel can stay to hear some of them, because I think you'll hear some testimony that will be relevant to the, the issues that you're testifying about as well.

Commissioner Murren?

COMMISSIONER MURREN: Thank you.

I'd like to respond to one of the things said by Dr. Morrison which relates to the disincentive people may have to complete a high school education here in light of some of the opportunities in the hotel industry, among others.

I think that, you know -- I don't think we necessarily need to avoid provocative discussion here. So what I would say is that that's only part of the story. And it is slightly convenient, noting where the bulk of the funding comes for the school budgets.
I think that the other part of the story is we live in a place that glorifies professions that don't need a Ph.D. I think there's a culture here that doesn't necessarily value an education like that or the technical skills in a manner that it might if we had a much more mature culture. So I do think that simply laying it off on the fact that there are busboy opportunities is really, is not the complete picture. So I would leave with that.

Also, there was a mention in your testimony that you did renegotiate some of your contracts in order to reduce costs to help with the budget. Did those include the teacher's contracts?

WITNESS MORRISON: Yes, we have five bargaining units, and that includes the teachers. We were one of the first large school districts in the country that was able to successfully bring all five associations to the table and go through very successful contract renegotiations. And those are very painful decisions, but they allowed us as best we could to negotiate the, the $37 million reduction and keep the harm as far away from the classroom as we possibly could.

COMMISSIONER MURREN: And it was noted earlier, though, that the State of Nevada does not allow in a time of fiscal crisis for contracts to be revisited.
Is that accurate?

DR. MORRISON: I believe that is true.

288 does not have an economic emergency clause that automatically reopen contracts. So that was an issue for us last year. We had, of the five bargaining units, four had contracts, only one was open at the time.

So we could have asked all to come to the table, and they could have said no. Thankfully, we have a wonderfully positive relationship with our employees associations in Washoe. They came voluntarily. They did what had to get done.

But, again, so much of what we're doing right now are short-term fixes instead of looking at long-term solutions.

COMMISSIONER MURREN: But it does sound, from what you said earlier -- I'm sorry if I don't remember who it was that actually gave that testimony -- but that there are limitations to what we can do on the cost side as a result of the contractual situation.

Is that correct, Mr. Clinger? Perhaps you could comment on it.

WITNESS CLINGER: Yes, Commissioner Murren.

I would agree with Dr. Morrison's statements that NRS 288 puts a limit on what the local governments and school districts can do in renegotiating those
contracts.

COMMISSIONER MURREN: Thank you.

Also, another observation, having been someone who has been in the biomedical field and recruited quite a few of people who have come from other places with either doctoral degrees or medical degrees that are scientists, researchers, doctors, nurses, imagers; education is critically important, and I would agree with you that it's at the top of the list, but by no means is it the only thing on the list.

Some of the handicaps that I've had or that we've had in recruiting people, include the state of medical care here, include the state of elder care, people who are taking care of their parents and don't have a place to put them, people who have children with disabilities, there are very few opportunities for people to have homes and other types of resources that they may need to have, to move a child who may have a particular disability.

And previously and almost ironically, housing was an issue. It appears as though that problem has been solved for us.

But there are many challenges here, and I guess my final question would be for all of you. You know, just to this room, none of you guys are running for
office, I mean, it's now come across on a flash on the RJ that our Vice Chairman Thomas says that Nevada, in order to recover, needs to diversify its economy. And I presume that he means also the tax base.

What would you do if you were in charge?

Mr. Clinger?

WITNESS CLINGER: Commissioner Murren, that's a tough question, given that I'm an appointed official, and hopefully will be employed still come January 1st.

COMMISSIONER MURREN: It is a little unfair. I do apologize for that.

WITNESS CLINGER: You know, I agree we do have to diversify our economy, and I think we have to come up with a tax structure that represents where we are as far as an economy.

I don't think that is -- that is true where we're at right now with a tax on goods primarily, and we are a service-based economy, and we've shifted from a goods-based economy. So I think that's something that needs to be looked at.

But what's really going to drive an economic recovery for the State of Nevada is jobs. So we do have to attract new industries to the state to attract jobs. That's what we need looking forward is job growth. And with the numbers that we look at, it doesn't look good on
the immediate horizon for job growth for the State of Nevada.

COMMISSIONER MURREN: Thank you.

Mr. Fontaine?

WITNESS FONTAINE: Thank you.

You know, here are 17 counties, and I think each one would answer this question a little bit differently. We have some counties that would say you know, they're okay. They've been very conservative in the way they budgeted their resources, so during times like this, times of duress, they've been able to pull through.

But then we have other counties that really are struggling, and as I indicated in my testimony, cannot provide the services that their constituents rely on.

You might say that we do need to increase revenues. But I think one thing that all of my members would say is that they have to be able to keep the revenues that they do have currently. And as I indicated in my testimony, the State has taken or diverted quite a bit of that to help solve its budget shortfall, and, and that's what they've done.

So I think the counties feel as if if they can control their own destiny, if you will, then they might be in a little bit better condition than they are today.
COMMISSIONER MURREN: Thank you.

Mr. Fraser?

WITNESS FRASER: Thank you.

Interestingly enough, one of the things that our members have had a lot of discussions about is the nature of the sales tax and the fact that we tax goods and not services when increasingly, and I almost included a slide that shows goods versus services, but we see an increase in services and a decrease in the sales of goods. And so that's one area that we focused on as Mr. Clinger indicated.

Interestingly, one of the -- in addition to my service here with the League of Cities, I had served previously as a city manager in three other states. And interestingly, one of the most reliable stable sources of revenue typically over the last century for local governments has been property taxes. That is, that is the one, the one source of revenue that has just tended to be stable consistently. And of course we see here that that's entirely not the case, and, in fact, really kind of leading to the demise of some of the other taxes that we've seen.

So, unfortunately, like I said, the -- typically we would say maybe we need to rely more on that, but that doesn't seem to have helped us in this
case. It's a very tough question what we should do, and I can really only echo what's been said, that we need to focus on jobs creation.

And we also suffer, being political subdivisions of the State, and we also live in a little bit of mystery as to what will be our resources after each given legislative session. And of course so that's a real aim of ours is to, to try to teammates with the State rather than adversaries, and hope that the recognition is there that, that their constituents rely on our services in times of need.

COMMISSIONER MURREN: Thank you.

And, Dr. Morrison, I didn't mean to pick on you earlier. My mother actually was a teacher in the Baltimore County school system. And I know that in times of stress teachers are often coming out of pocket to buy supplies.

DR. MORRISON: Absolutely.

COMMISSIONER MURREN: So I'm familiar with that. Thank you.

DR. MORRISON: Very quickly, last February the Wall Street Journal came out with an article about Nevada. And what it says is Nevada has the lowest contribution to essential government services in the country, and the biggest gap between what it could afford
and what it chooses to afford.

So in my line of business we deal with achievement gaps, the difference between what kids ought to be learning and what they are learning, and the differences amongst many of our groups of students.

So I think Nevada has to come to a realization of that gap, between what it could choose to spend on essential government services -- and you've listed many -- and what it chooses to afford.

We not only invest the least amount into public education and higher education in the country, we also spend the least amount on economic development.

I believe our state budget is about 5 million dollars a year for economic development. Compare that with I think the second state in the country that is as distressed as we are with unemployment, Michigan, and I think they spend five times that. So it's about choices, and it's about doing things differently than we have done before.

COMMISSIONER MURREN: That's an excellent point. Thank you.

COMMISSIONER GEORGIOU: My time very briefly. I guess I would ask Dr. Morrison how it is that you decided under all these circumstances and how much you've read to come to Washoe to take this job? That's a
rhetorical question. You don't need to answer it.

There was someone's testimony suggesting that there might be some consolidation in the provision of government services. And I can't recall -- was it Fallon that is looking at combining the city and the county?

But I'm wondering whether there are any, any structural modifications that any of your institutions would consider that might reduce administrative costs that could be allocated, could be redirected to the, the provision of services.

Mr. Fontaine?

WITNESS FONTAINE: Yes, I believe that was in my testimony, and I know that in White Pine County, a rural county in eastern Nevada, they have placed an advisory question on the November ballot asking their voters if their only incorporated city, the city of Ely, should be incorporated with White Pine County.

That's the only structural reorganization that I'm aware of that's even under consideration, but I can tell you that certainly around the state, including here in Clark County and in Washoe County, there is a lot of discussion about shared services and using things like, you know, data services or personnel services amongst the various entities to streamline those processes and save costs.
And so, in fact, the Legislature last session asked Washoe County, the cities in Washoe County and the same in Clark County to provide a report and report back to the Legislature on their efforts in that area.

COMMISSIONER GEORGIOU: Mr. Fraser?

WITNESS FRASER: I think Mr. Fontaine just answered the question for me. I'm not sure what I would add to that.

COMMISSIONER GEORGIOU: Okay. Thank you.

Commissioner Born? I understood that Chairman Angelides asked to be last. Is that wrong?

CHAIRMAN ANGELIDES: I just wanted to see if you were paying attention.

COMMISSIONER BORN: Thank you, Commissioner Georgiou. And thank you all for appearing.

It certainly is an extremely sobering picture that you paint of the constraints that the state, county, cities and education systems of the State of Nevada are currently under. And it certainly shows what a horrendous impact the downturn in the economy has had on the State.

I wanted to ask whether there have been other sources of income that are being explored, other sources of revenue. And particularly I want to ask you -- I don't see in any of the charts of sources of revenues
that you have a state income tax.

Is that, is that right, that you don't have
one? And has that been considered as a possibility?

WITNESS CLINGER: The, the Nevada State
Constitution prohibits implementing a state income tax.
So in order to implement a state income tax, it would
have to go to a vote of the people. Actually, it's been
to the vote of the people twice.

So that is not something that would be
available in the short term to help us. And I'm not
sure, given the state of the economy, that if it was sent
to the voters, that they would approve a measure such as
that.

COMMISSIONER BORN: Are there any other
thoughts of revenue sources?

Mr. Fontaine?

WITNESS FONTAINE: One, one of the --

COMMISSIONER BORN: I did hear mention of
extending the sales tax to taxing services as well as
goods.

WITNESS FONTAINE: One of the points that I'd
like to make as it relates primarily to the rural
counties in the State, and you have to remember that
roughly 83 percent of land in Nevada is owned and managed
by Federal agencies, primarily the Bureau of Land
Management, and as much as Nevada's future I think is really being tied to the development of renewable energy in this State -- the State has lots of sunshine, lots of wind, and one of the top-producing states for geothermal energy in the nation, and so to the extent that those developments will occur on Federal lands, we are hoping and advocating for some share of those revenues to help, again, primarily the rural counties, but it also will help Clark County and Washoe County because, again, developing renewable energy resources in this state will I think be a benefit to everyone. So that's one area that I know the counties are very interested in pursuing.

And, again, the impacts of the Federal lands, the vast size of the Federal lands in Nevada creates a whole host of impacts. And so things like payment move taxes, PILT taxes, are very important to rural counties. And, unfortunately, that program is about to sunset. So, you know, we need to keep those programs alive for rural counties. And they're very important, particularly during these times.

COMMISSIONER BORN: I'm sorry. I don't understand what the program is that you're talking about that is going to sunset.

WITNESS FONTAINE: There's a program that's called Payment in Lieu of Taxes authorized by Congress,
and appropriated almost every year by Congress. And those are funds that go to county governments that have Federal lands within their boundaries. And the purpose of that is to help offset the costs associated for the counties that have to provide services related to those public lands, as well as helping offset the fact that the counties can't develop those lands for tax purposes.

COMMISSIONER BORN: Or get any property taxes related to them.

Well, those of us who reside in the District of Columbia are familiar with this as well. And that's going to sunset?

WITNESS FONTAINE: The current PILT authorization is due to sunset in 2012.

COMMISSIONER BORN: Well, that should be renegotiated then. I hope that you're able to have a continuation in a meaningful way, because, of course, that does give up a great deal of revenue that would otherwise be available to the counties.

Any other revenue ideas?

Mr. Fraser?

WITNESS FRASER: You know, I appreciate, again, the comments of Mr. Fontaine and Mr. Clinger. That's a tough issue that the State is dealing with right
now. And one thing that I would mention for the benefit, particularly for those of you that aren't from Nevada, is one of the unique problems that we have as local governments in Nevada is that we have very little authority to deal with revenue issues on our own. We are what is called a strict Dillon's Rule state, Home Rule being at the one end of the spectrum where if the State government doesn't indicate otherwise, you can proceed, and Dillon's Rule being you can only do what the State explicitly allows you to do in the constitution or statute.

And a lot of states fall in a spectrum, and we are at the very end of the spectrum. And we are a strict Dillon's Rule. So that leaves us very little room autonomously to do anything about revenue. And that is part of the reason for my earlier comments about, you know, the mystery that we live in from session to session as to what we'll be able to do with our revenues sources.

At the risk of saying something positive in the midst of all this negativity --

COMMISSIONER BORN: It would be very welcome.

WITNESS FRASER: One of the things that we've seen is really an increase in volunteerism. I mentioned earlier in my testimony that, a lot of the quality of life services, parks and recreation, and arts in the parks programs, all these sorts of things,
where the cities
are having a difficult time funding because we've had to prioritize safety issues. We've seen a lot of community groups that are stepping up and are taking over a Little League program that would have previously been run by a city and doing it on a volunteer basis.

Even so much as, as volunteering, you know, cutting the grass on the ball fields and all these, these kind of things.

So we are really seeing, you know, I think there's still room for more, and, frankly, without getting too high on my soap box, I think society could, could use a good dose of that, but we have seen a positive increase in that as people have taken note of the fact that the local governments are having trouble providing this and they want to see those, the provision of those services continue.

COMMISSIONER BORN: Well, that may be very necessary in the coming years.

DR. MORRISON: Very quickly on an educational front, we have been very aggressive in the district in trying to get Federal grants. We have been very successful and very proud of our grant department.

As a state, we've been trying to do that as well, we recently put in a very aggressive application for Race to the Top, which would have brought in about
175 million dollars for Nevada schools, for educational reform. Out of over 40 applications I believe we came in 24th. There was 22 points separating us from New Jersey, the last state that got into the finals.

The unfortunate thing about the way that that particular Federal appropriation was structured is you got half of the points for your grant application for the, the reforms that you've done, the other half for the performance you were pledging to. We got almost every point we could get through the work for the State Department of Education and the Blue Ribbon Task Force chaired by Elaine Wynn here in Las Vegas and Dan Klaich, our Chancellor of Education, and I'm very proud to serve on that task force, so we go almost every point we could get for the performance we pledged to do to improve public education in Nevada, and we lost a lot of points for the reforms that we haven't done in the past.

So it was, it was unfortunate because that would have been very needed money at a time when we are very stretched. But we're continuing to be aggressive in trying to get every Federal dollar that we can.

COMMISSIONER GEORGIOU: Thank you,

Commissioner Born.

Commissioner Thompson?

COMMISSIONER THOMPSON: Thank you,
Commissioner Georgiou.

There's a longstanding adage in business that you can't save your weight of prosperity. And I don't think that necessarily should be confined to the private sector. It works in the public sector as well.

So ultimately you're going to have to figure out how to grow revenues. So let's be clear about that. And California has got the same set of problems. So your neighbor is as inflicted with this problem as you are.

I'm struck, though, by the notion that you've got these reserve funds. What happens when they run out? Is there anarchy in the streets? I mean, what happens? What do you do?

Mr. Clinger?

WITNESS CLINGER: We have through, over the last three years in budget cutting processes, you know, we had a rainy day fund reserve. That is one of the first ones we tapped into. And that is the purpose of the rainy day fund, obviously.

But the Legislature, you know, with our recommendation, has also tapped into other reserves -- Fee funded accounts, other things -- and that over the last couple of years has been a tremendous help in balancing the budget.
The problem it creates is, along with
sunsetting taxes and other things, those are temporary
fixes that, you know, they help at the time, but they're
also contributing to the shortfall that we face in the
upcoming biennium, because we didn't make long-term
changes to spending or revenue. We put in short-term
fixes.

So there's not anarchy in the streets yet, but
we are still facing that, you know, 50 percent shortfall
in the upcoming budget cycle.

COMMISSIONER THOMPSON: Mr. Fontaine. Same
question.

WITNESS FONTAINE: Pretty much the same
answer. You know, the initial budget cuts made by
counties were reserve funds held for capital budgets,
one-time expenses that they felt were not needed at this
time because the growth has ceased for the most part.

And over the last several years through, I
think a very strategic and public process, the counties
have, have reduced their expenditures. They have reduced
their labor costs, whether it be through, you know,
negotiations with their bargaining units or, or laying
people off, have cut services and are very lean.

But as Mr. Clinger indicated, this coming year
will really test our metal, if you will, and, and, and
everybody is going to have to pitch in and do what they can.

I'm still hopeful that we're going to find our way out of this. I understand your comment about needing to grow revenues. I think everybody can agree with that. It's just going to take a long time.

COMMISSIONER THOMPSON: Yeah, I'm struck. I live in northern California, and one of the most beautiful freeways in the world is Route 280 that runs along the coastline. And ironically enough, I saw for months going to work every day this structure going up. I couldn't figure out what it was. That was as I went south from my home on the freeway. As I went north, I saw another structure going up.

It turns out these are multi-million dollar projects that are the fun projects for some political leader. One was a bike path across the freeway. And the other is a visitor observation center to overlook the pastoral valley of Menlo Park.

I would just comment that you probably ought to purge all of those first. California's got a more severe budget problem than does Nevada. And we haven't seemed to learn from the mistakes that we've made, and so I'd ask you to just kind of look across the state divide, at some of the horrific mistakes that have been made in
California where they've not been able to do simple things like shut down funny programs, that while they may seem interesting and exciting, they really don't improve the overall outcome or solve the problem of education in our economy, just like the problem you have here.

Now all of that said, it is a very bleak picture that you paint. It's a scary thought that a state could be first or fiftieth in almost any category that's measurable or important.

And while it's hard to say that you ever want to invoke an income tax or invoke things that have been heretofore considered taboo, arguably in a time of crisis that's when you have the best opportunity to capture the hearts and minds of the citizens.

And I would argue that the leaders of this State -- you as leaders in your particular roles, have to be bold, have to think more bold, and have to find role models across the State that can reflect what you want for the State or the local government to look like. End of my speech.

WITNESS MORRISON: If I can comment real quickly. We are probably the last in everything we want to be first in, and first in everything we want to be last in. And that's a brutal fact.

In deference to this esteemed body, I think we
can thumb wrestle you for the distinction of having the worst economy in the country.

The last I looked at California's budget problems, I think you have to cut 20 billion, we have to cut three, so certainly that's more than we have to cut, but I believe that's about 20 percent of your overall state budget. Three billion out of ours, as Mr. Clinger said, is between 45 and 50 percent. So that's not something we're trying to win.

COMMISSIONER THOMPSON: You can win that one.

DR. MORRISON: Yeah. But real quickly, you know, I think bad budgets, as Rahm Emanuel often says, you don't want to let a crisis go unwasted.

We are at a crossroads as a state, and we can't keep on doing the things we've done before. They're not working. And we can't afford to do it the way we've done before. And the way we've done it before isn't getting us the results we need in any of our sectors.

So it's a, a time to come together. I'm the new Nevadan in the room probably. But the last time the state was challenged in a great financial crisis, we built the Hoover Dam. So we can do the impossible when we're really stretched.

In Washoe County, even having to cut $37 million from our state budget, from our county budget, we
increased our state test scores this year. We're going
to announce next week an increase in graduation rates I
think our community is going to be proud of. So as the
good Thurgood Marshall once said, you have to do the best
you can with what you have.

COMMISSIONER GEORGIOU: Thank you. Thank you,
Commissioner Thompson.

Chair Angelides, last but not least.

CHAIRMAN ANGELIDES: Yes, thank you.

Let me ask you, going back to the run up of the
crisis versus prospectively. And I want to ask you, both
the State, county, and city level, really two questions.

What did you do to prepare for what would be
an inevitable down cycle? I'm not saying that anyone
could have predicted the magnitude of what hit, nor do I
believe that there were any budget planning that would
have allowed you to weather this storm unaffected.

You had mentioned a rainy day fund, but, you
know, like a lot of America, there was significant
leverage, people on the good times were riding the wave
up without consideration of the wave down, and I'm
interested what you did to prepare and what lessons have
been learned from that.

I speak with some experience having been
Treasure of California, and, of course, having run a
campaign for Governor, which I haven't referred to once
in this whole hearing process, where I actually tried to
be the person taking away the punch bowl. It is not a
popular role, and you end not being the life of the party
when it's all over.

Having said that, I'm interested because I, I
see a lot of state challenges faced today, and municipal
challenges, not unlike what we see in the private sector,
those who prepared better are weathering it better, so
perhaps you could, there could be some moment of
self-reflection here about what the State did or didn't
do, cities and counties didn't do, to prepare for what
would be rougher seas.

WITNESS CLINGER: Chair Angelides, one of the
things that we did do was put money into a rainy day
fund. Obviously in retrospect that was a drop in the
bucket compared to --

CHAIRMAN ANGELIDES: What was your reserve?

WITNESS CLINGER: It was at the time, I
believe, roughly six to seven percent of ongoing
appropriations. So --

CHAIRMAN ANGELIDES: That's the public sector
equivalent of capital.

WITNESS CLINGER: Yeah. Again, a very, very
small rainy day fund. And I think one of the things that
we need to do as a State moving forward -- and I get this question a lot -- is how can we stabilize things moving forward. And I think that one of the ways we can do as a state government to stabilize things going forward is to have a stronger rainy day fund and a mechanism to put money into a rainy day fund to try to keep politics out of it, if you will.

If you have a surplus, it's easier to hand that out and increase programs, than it is to put it into a savings account moving forward.

So I think we have to have a mechanism in place that takes that decision-making process out of putting money into a rainy day fund and creates it as an automatic trigger.

Now would we have put 50 percent of our ongoing appropriations into a rainy day fund? No, we wouldn't go that high. But certainly we need something more, much higher than the five to six percent that we had in there previously.

WITNESS FONTAINE: With regard to counties, I, again, I think of those counties that were sort of riding the coattails of the counties that did have large growth, again, they were very conservative in their budgeting, and I think kept pretty healthy reserves.

Now in the case of Clark County, commissioners
there adopted a taxpayer's bill of rights, and I think they were cognizant of the need to control costs. They, you know, adopted a no deficit spending posture while retaining a 10 percent fund balance. They tried to, you know, reduce their ongoing operating costs because one of the things that we have found, and I think this is true of the State or any governmental entity, is once you start a program, those roll-up costs just increase and increase and increase. And, you know, they're very hard to curtail once you sort of let them get out of control. But I don't think that was necessarily the case for a lot of the counties.

I think one of the real issues here is that no one could have possibly predicted, at least up until two years ago, what was going to happen here.

Through, through -- from 1990 to, to 2006, Nevada was the fastest growing state. The population just exploded. There was no indication that we were going to see these kind of effects.

I know here in Clark County they went out on a pay-as-you-go basis and built large public work projects to try accommodate the growth. And I'm not aware of any county that got themselves into debt that are now over their heads in trying to pay off that debt.

So, you know, could they have done different
things? Perhaps higher reserves, but they kept at least
the minimum required by state law, and many much higher
balances than that. And I suppose the lesson to be
learned is, you know, maybe that's not enough, and maybe
you need to have more reserves.

WITNESS FRASER: Just as a comment, I would
like to thank the panel for always directing the
questions first to Mr. Clinger.

CHAIRMAN ANGELIDES: Thank you for pointing
that out. We'll make sure we start with you on the last
couple. And those are always the toughest.

WITNESS FRASER: That's at my own peril, isn't
it?

You know, I'd just comment, I've got to echo
what they said. I don't know how we could have seen this
coming.

In fact, how could we dream the situation we'd
be in? Most of our cities kept fund balances of 10 to 15
percent, which, which in good times seemed very
conservative. Should those, you know, once we recover,
and hopefully that day is sooner rather than later, but,
you know, when we recover, do we need to re-examine where
those are I think perhaps.

I think also most of our cities did use, use
one-time monies for one time projects. And, and
Mr. Fontaine mentioned pay-as-you-go projects. And I think most of our, most of our municipalities acted very responsibly in that manner.

You know, again, thinking, thinking that what we were doing was very conservative and not having any idea of the enormity of the situation that we would face.

One thing that we've discussed among our membership a bit, again, going back to the collective bargaining agreements, which can represent 75 to 80 percent of your costs, you know, we've talked about perhaps we ought to have in our collective bargaining laws something that would trigger an automatic renegotiation in a severe financial crisis. You know, and of course with the difficulty of defining that.

But we've had some pretty good success, and I've got to be, actually be complimentary of most of our bargaining units across the State, we've had some exceptions, but we've had many cases where the bargaining units have come to the table voluntarily, recognizing the problem. And we've been able to renegotiate some of those things.

But, again, under our law, they weren't required to do that. That was something that needed to be voluntary by both sides. And so that might be -- that might be one place that we could maybe look at a change.
going forward.

DR. MORRISON: This is my first year as a superintendent in Reno, Washoe County, but through the leadership of our board of trustees we have had some savings and fund balances to offset some of the blow of the economic budgets that we've had to reduce.

I think one thing is that it's really important to look at why things have happened. There's a mindset of we're going to get through this, and the things that have always worked in the past are going to come back and work again.

I'm sure this morning when you heard from Jeremy Aguero you heard some very frightening statistics about the fact that everybody thinks that this is a recent phenomenon of where our economy has been going. And, for example, there's an assumption that gaming is always going to be able to save us. Well, for the last 20 years, gaming has been on a decrease in terms of the available tax revenues per every 1,000 taxpayers in Nevada. So there just has to be a recognition in terms of where we are, where we're going, and that the things that worked in the past are probably not going to work again, and either we have to change, or we're just going to be doomed to make the same mistakes that led us to where we are today.
CHAIRMAN ANGELIDES: I'm out of time.

COMMISSIONER GEORGIOU: You are. Long out of time. But I've been, I've been, I've been letting you slide here.

Do you need anything more? You don't need anything more.

CHAIRMAN ANGELIDES: No. Need, want. Two different things.

COMMISSIONER GEORGIOU: Very good. Thank you. I think we're done. I want to thank all four of you for making the trip from northern Nevada to Las Vegas today to join us.

It's testimony that has been sobering, but something that has I, I think, educated all the members of our Commission on the dramatic crisis that we face.

Thank you. Now we're going to -- we'll excuse you gentlemen. You're welcome to stay and hear.

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COMMISSIONER GEORGIOU: We're now going to turn and thank the citizens of Nevada that have joined us in the audience today. We'd like at this time to take the opportunity to hear brief commentary or testimony from members of the public.

We have a limited amount of time and ask that each person's remarks be kept to no more than two minutes.

If you do not get the opportunity to speak today, or for members of the public who have been watching our live web stream, please submit your story to us via e-mail at: personalstory@fcic.gov. That's our website. personalstory@fcic.gov.

If you're interested in speaking at this time please raise your hand, and after being called upon, an FCIC staffer will come to you.

I'm going to start with Yvette Williams who is here standing up.

MS. WILLIAMS: Thank you. Thank you to the Commission for coming to Nevada.

COMMISSIONER GEORGIOU: Would you identify yourself?
MS. WILLIAMS: I'm sorry. Yes. Yvette Williams. I'm a loan originator, in my past life, so I wanted to comment on that, but I'm also the chair of the Clark County Black Caucus, and I wanted to also talk a little bit about how the minority community has been affected by the housing crisis.

I'd first like to say thank you again for coming. We are in extremely difficult times in our community. But as an originator, I wanted to just mention that as a loan originator, many of my clients came back to me after I refused to do like the NegAm loans and those types of loans, they would go elsewhere and purchase those loans because they wanted that deal. And they would come back with their plastic bag with their documents in hand asking for help. Yvette, can you help me? Well, once you've kind of gone down that path there's very little you can do.

But, the other thing is there was a time where -- and I listened to the testimony of Fremont -- and I'm very familiar with Fremont, by the way -- there was a time where a 30-year fixed loan you almost couldn't get unless you purchased an FHA or a VA loan.

They made it difficult as an originator to sell a 30-year fixed loan. They made the interest rates higher on an FHA or a VA loan. In a lot of cases, two
points. So if a borrower came into my office, I'd have to offer them an 8 percent interest rate for a 30-year fixed loan in lieu of maybe 6 and a half on a subprime.

So if you're looking across the room at a borrower, and you're going through the numbers -- we talked about Section 32, and you're going through all the different programs available, it's easy for that borrower to say I want that 80/20, I want that 100 percent subprime loan because I don't even have mortgage insurance.

So not only was their payment lower because the interest rate was lower, but they also said don't pay mortgage insurance, and that made my payment even lower.

So it was very difficult to convince a borrower as to why they should go with this 30-year fixed loan.

That was the environment that was created by these investors on Wall Street. They sold the product. As a loan originator, you're stuck with what they offer the consumer.

COMMISSIONER GEORGIOU: Thank you. You've gone two and a half minutes. So I appreciate it.

Mr. Chestnut?

MR. CHESTNUT: Hi. I'm Duane Chestnut. I wanted to thank the panel for being here.
It's a very impressive bunch of people. I don't see anybody just sitting there. You're very actively involved.

I have a whole page of things that I would like to be able to discuss, but I can't do it in two minutes.

One of the things that's only been touched on briefly. The impact of this crisis on our education system. This is a real chicken and egg problem.

I've got a bachelor's degree in chemical engineering, a Ph.D. in chemistry, and fortunately I've been retired for ten years.

If I had to find a job in Nevada, neither one of these would do me a lot of good.

So the point is in order to have a good education system, you have to have good opportunities for the graduates. In order to have opportunities for the graduates, you have to have a good education system. This is a chicken and egg problem that I don't really see how to crack.

The one thing that I've been working on for the last year and a half in my spare time is looking at Nevada's economy and seeing what have we got on our plate that could be used to diversify.

One of our assets is the Nevada test site.
This is a piece of ground that's got nice security, it's got good access to power lines. It has about 40 or 50,000 acre feet of water that's contaminated with radioactive material. It could be used as a site to produce nuclear power and export it to other states.

This is a pretty radical concept, given the fact that we've been antinuclear in this state for so long. But it's one of the assets that I really think that we need to look at carefully and find a way to exploit. That would ultimately provide a market for people highly trained in the education system that we need to put in place and get developed.

But it's a 10-year, 20-year solution. I don't see the short term. But thank you very much for your presence here, and I thank you very much for being on that commission. I think it's going to do some good.

COMMISSIONER GEORGIOU: Thank you, Mr. Chestnut.

I don't know where to begin. And, I'm sorry, I'm sorry, I don't know the names of all these individuals, I don't know where to begin.

Let's try this gentlemen in the middle there.

That would be you.

MR. CHITO: Me?

COMMISSIONER GEORGIOU: Yes, sir.
MR. CHITO: Hi, thanks for coming. Dr. Chris Chito (phonetic spelling.) I'm a local optometrist here. I've been here since '94. I have three offices and a partner.

And we've heard a lot of things today. I'm glad you guys have come. It's been very informative.

And, but, you know, there's an organization here in our country, and it starts with Washington being up here. And it filters down. There's the Cabinet, the Congress, the House. We're talking on a local level here that, you know, Nevadans, we need to become individual, we need to take care of ourselves.

But a lot of the policies that have been changed in Washington that have created this economic condition have not been discussed.

We've heard from a lot of important individuals about mortgage fraud and businesses, and I'm a businessman here myself. But, really, some of these policies need to be looked at.

The Glass-Steagall Act. You know, I don't know how many people are familiar with that. But we learned in the 1930s -- we're trying to learn this again, but we learned it back then, that Wall Street should not be connected to our community banks.

And I believe that that in itself has been a
main part of what's gone on here. So why is there no
discussion -- why is nobody, you know, talking about what
to do? We're talking about all the stuff down here and
the symptoms, but we're not getting to the root of the
problem. If you know what created the situation -- I've
got a six-page document here --

COMMISSIONER GEORGIOU: Well --

MR. CHITO: -- that outlines the history --

COMMISSIONER GEORGIOU: I'd like to invite you
to submit that to our staff. We have a staff member
right there. We'll put it in the record of our
proceedings.

And I just want you to know that we have
examined some of these major overarching issues. We've
conducted a series of hearings in Washington, D.C. and
New York City.

We've got almost 50 staff investigating them
for the last year. And if you look at our website,
fcic.gov, you'll find a number of those preliminary staff
reports and prior testimony.

The purpose of this hearing today was not to
look into that particular -- those particular global
issues, but to focus on the on-the-ground impact here in
the State of Nevada.

So you're right, we haven't addressed
Glass-Steagall, securitization, and a whole variety of other issues that are relevant to the discussion. But thank you for your testimony, and we'll provide that in the record.

MR. CHITO: Thank you.

COMMISSIONER GEORGIOU: Yes, ma'am.

MS. HULLIHAN: Hi. My name is Denise Hullihan. (Phonetic spelling.) I've been doing real estate -- I'm the owner of a company here, and I've been doing real estate for over 13 years. I'm also in television media. I'm also suing Fremont Investment & Loan, Wells Fargo and U.S. Bank National in a Federal lawsuit that I've been litigating on my own as a pro se plaintiff in the Federal Court.

And the issues with Las Vegas, the declining market, bottom line, I think government, our Congress, needs to mandate principal reduction besides interest rate reduction.

We are so far under water here, that even if we didn't pay interest on modifications, that is not enough to cover the losses that we are facing today.

If this continues, the foreclosure rate will go up, and the resale market goes down. Bottom line. We need principal reduction mandated in government.

COMMISSIONER GEORGIOU: Thank you very much.
And I invite you, if you have additional information on that, to submit it in writing to our, to our staff.

Yes, sir. In the back. Second to the back row there.

MR. CAPEL: Hi, my name is Martin Capel.

(Phonetic spelling.)

The Nevada financial problems did not start with the bankers and mortgage brokers. There were two parties at fault before them. The first was the developer selling houses in excess of 250,000 that are now selling for a hundred thousand less and still making a profit. That doesn't seem profitable, but a hundred thousand more for each and every house, and all of that profit is taken out of Nevada for somewhere else.

And Nevadans are left holding the bag. They're servicing all that new populations would require.

If there had been put in place justified development fees, or impact fees, for even ten percent of that excess profit, then it is likely we would have had the financing Nevada needed to finance schools, police, fire, parks, water, and other, other special service districts throughout Nevada.

As a former elected official in the Los Angeles County District, where I was able to put in place development fees, I know how well they work.
But yet the, the Las Vegas School District I talked to as a member of the No Committee on the last withdrawn bond issue, seemed unwilling to even consider this prudent solution.

So now we suffer underfunded districts and still they will not move forward on development fees. So it is my opinion, the second fault belongs to special districts that did not put in place justified development fees that would have funded the needs for the growth taking place in those districts.

Now many consider the banks and mortgage industry to be at fault, and while they may have been complicit, it seems reasonable that they were responding to the needs of the developers to fund their greatly overpriced homes. And the loss of value of the homes and all the problems it has created is a natural progression.

When the excess home prices could not be sustained, they readjusted back to the valid real worth of the homes, which is what they are selling for now.

May I respectfully suggest that putting in place justified development fees and price controls are the important part of the answer to preventing these financial disasters in the future.

Thank you.

COMMISSIONER GEORGIOU: Thank you. Right on
two minutes.

Yes, sir?


Mortgage insurance, for those of you who don't know, because we invested in some homes, if you don't pay 80 percent, you have to pay mortgage insurance.

The purpose of that, and correct me if I'm wrong, but the purpose of that, is that if you default on the mortgage, and the banks have to foreclose, the insurance pays the difference.

Okay. Is that right so far?

UNIDENTIFIED SPEAKER 2: No, it's a percentage.

UNIDENTIFIED SPEAKER 1: It's a percentage.

Okay. So --

UNIDENTIFIED SPEAKER 2: (Inaudible.)

UNIDENTIFIED SPEAKER 1: Okay. So --

UNIDENTIFIED SPEAKER 2: If you default, the lender collects the debt, (inaudible) a percentage of that loan.

UNIDENTIFIED SPEAKER 1: Okay.

COMMISSIONER GEORGIOU: Go ahead, sir.

UNIDENTIFIED SPEAKER 1: That's just what I read, so I wanted to check it. Maybe sometimes they do
it.

So, anyway, on the other hand, if you do -- if the bank readjusts your mortgage to a lower rate, where is your compensation? They have a motivation provided by our insurance, and the government, to foreclose on you. I'm surprised the people don't understand that. That was point 1.

Point 2, as far as our expenses go here, most of the expenses in this state are for salaries. Now I'm sure that a lot of, of senior fire department personnel work very hard, but I don't think that their salaries should be two to three times greater than that of a four star general. And then they retire with that amount.

Okay.

There's -- we're not going to save our way out that, we're not going to get revenue out of that to cover $600,000 a year salaries for executives in the fire department.

And the third point here, this is the only place in the world where the taxes on the gambling industry are less than the sales tax. Okay. The nearest tax rate in other states in this country is twice what the, what the companies pay here.

The gambling industry in this state gets the best laws and legal system that their money can buy, and
that's why this State is in the place that it is.

COMMISSIONER GEORGIOU: Thank you, sir.

Anyone else that hasn't been heard? The Gentleman in the red tie.

MR. BOHL: Thank you.

Thank you.

My name is Jeff Bohl. This is the perfect example of what's wrong with the system and what's right with the system.

We're here today, the people are here for public forum, and we're going to be crowded in for, you know, in the sake of time this one chance we have to express ourselves. So I'm going to do the best I can. I was prepare to do something else.

The bottom line on this whole crisis is we the people have to organize to keep your committee and other congressional senate committees in check. It's called trust but verify.

The major problem that I wanted to talk about today is my mother and I invested $600,000 in the GSEs, Fannie Mae, Burkstock Series T. (Phonetic spelling.) What was the affect of that on us? It was devastating.

Our investment at $25 a share within 70 days went to 65 cents. We were promised by politicians that the problems would be fixed. They never were.
We lost a tremendous amount of money and disrespect for our leaders because they lied to the American people about what really happened with the GSEs.

What really happened is that the GSEs were basically taken from us and used to cover a gigantic hole that was created by Wall Street, and the profits that were taken out from '04 to '07.

It's there by the facts. If you look at the testimony of Hank Paulson in July of 2008, he testified to Congress that he would never use, that he wanted to establish an independent regulator.

This man was Lockhart. The truth of the matter is Lockhart testified to your committee that he came to Paulson and said that the GSEs were adequately capitalized. He testified that to the senate and he did it to this commission. In fact, in the beginning of Paulson's book he says -- the very first thing in the book is: Their heads were going to roll, that the GSEs when they heard that we were going to take them over, and we were going to conservatize them.

They also have one choice. They could either have agreed to the terms of the conservatorship now, or they would be forced by Treasury to accept the, the conservatorship.

So they all went for it. And signed it.
They also had memorandums of understanding which basically gave these --

COMMISSIONER GEORGIOU: Sir --

MR. BOHL: -- payoffs to take the deal and --

COMMISSIONER GEORGIOU: Sir --

MR. BOHL: -- then additionally, were put into secrecy agreements and never allowed to communicate with the shareholders.

COMMISSIONER GEORGIOU: Sir, you've gone beyond the two minutes. You've gone to two and a half. I'd appreciate it, if you could, if you could submit any additional material to our staff in writing.

Thank you very much.

MR. BOHL: I'd be happy to do that.

COMMISSIONER GEORGIOU: Sir. Yes, sir.

MR. JULIAN: Yes, my name my name is Ed Julian (phonetic spelling.) I moved here with my parents 67 years ago in 1943 when Las Vegas was a city of 8,000 people. And I was three years old. My father came to work on the, after the dam was built.

I have never -- this is just unbelievable.

The crybabies that have been in front of you today.

These people are responsible for what has gone on in this city, what is going in this economy. And they accept no individual responsibility. They fill you with
a bunch of half truths.

For example, it was mentioned by, I believe Mr. Fontaine, the Taxpayer Bill of Rights. One, one major factor he forgot to mention, that calls for equal pay for public workers as local workers. The public workers here in this county get three times the salary of the local workers. And so -- and this, and -- and -- I mean, they are just -- they are literally raping us.

The, the police department hired 500 new policemen, through lies that they told to get a higher sales tax. And what do they do? They give tickets. If you go out at night in this city, you'll see people being pulled over for $200 fines because they've done this or that little thing. There are 200 million dollars in fines that they're trying to collect.

They just passed a law imposing a thousand dollar a day penalty for, if you have grass more than four inches high. And, and with no limit on that. They're, they're imposing new codes when the values of properties are very low.

It's just, it's just absurd. And here, we keep hearing that thing about diversity. That, we don't need diversity. We're in the best industry, the fastest growing industry in the entire world, and that's tourism. We're just executing it poorly.
We have an agency here in this, in this city called the Las Vegas Convention and Visitors Authority, and they have created by their incompetence, a decrease in visitors when it's -- when this industry is booming all over the world. We're decreasing in visitors, we're decreasing in money, and because they don't know how to appeal to the, to the people in the world that have money.

COMMISSIONER GEORGIOU: Thank you very much, sir. Appreciate it.

You've gone over your time.

MR. JULIAN: Excuse me?

COMMISSIONER GEORGIOU: I think we've heard from everyone who has asked and -- I'm sorry.

There's one -- is there one more gentlemen who hasn't been heard?

I'm sorry. Yes, sir.

You'll be the last one.

MR. JULIAN: Okay. Okay.

Thank you. Two minutes is not enough time to get into the complexities.

COMMISSIONER GEORGIOU: Could you give us your name, sir, and where you're from.

MR. ABRAMSON: (Phonetic spelling.) My name is Tom Abramson. I'm a local resident here. I have been
in the mortgage and housing industry in excess of 20 years.

And I can tell you the complexities of what has caused the crisis and the solutions cannot be summed up in two minutes. But if I can give you one thing to take that will help the people of Nevada here that is a very simple process that you guys could look into enacting, is bringing back the streamlined refinance process from the GSEs that was very popular up until about 10 to 12 years ago.

Why that's needed in Nevada is, as you've heard from the testimony, is a tremendous percentage of people that are under water in their mortgage. The way the streamline processed worked is if you had been paying your mortgage on time, if you originally took out a loan from Fannie or Freddie, if you paid your mortgage on time, you can fill out a one-page form that simply says here's what my interest rate and what my payment will be, and here's what the current interest rate will be, and what my new payment will be. As long as there was a decrease, they approved you no matter what the value of the property was.

The theory behind that is the GSE has the loan currently, they will have the new one, and what that will enable people to do is people that bought properties
three, four, five years ago that may have fixed rates, 6 and a half, 7, 8 percent, which there's a significant amount out there that are making their payments on time, it will reduce their payments by anywhere from 250 to 300 or $400 a month. They are going to turn around and go out and spend that money at the local restaurants, buying supplies for their kids, buying clothes that will help spur the economy. That will increase the sales tax. Increase the tax revenue for the state. Help out education.

Those are all simply things that can be done. The only reason these people can't refinance is simply the value of their property has dropped so much that they do not have enough equity. And that's what's causing a big problem in the Nevada area --

COMMISSIONER GEORGIOU: Thank you.

MR. ABRAMSON: -- that other places don't have.

COMMISSIONER GEORGIOU: Thank you very much, sir, for that suggestion. If you have any others, feel free to write them in to us, even though you didn't have more than two minutes to speak. Provide them to our staff.

Thank you all.

Again, I'm going to turn over the control of
the closing of this hearing to my fellow commissioner, my fellow Nevadan commissioner, Heather Murren, to close out the hearing. And thank you again for all of you for joining all of us today.

COMMISSIONER MURREN: Thank you. And we would like to allow for people to have more opportunity to comment. So I would encourage you to go ahead and write in to our e-mail address and use our website because it is something that we utilize. And we value your comments.

So we do thank you for your participation today.

The Commission is grateful to all of our witnesses as well as members of the audience who have come here today, and people who have provided their personal stories and their testimony.

We'd also like to again thank UNLV President Neil Smatresk for his hospitality and to especially Laurel Knox, Sean Duey, Mike Pierce, Dan Grimes, Jennifer Ream, (all phonetic spellings) and the catering service, which I can personally testify was delicious, I just wish we had had a little more time to enjoy it.

We also would like to recognize the following elected officials for joining us today:

Congresswoman Shelley Berkley, Assemblyman
Paul Aizley, Senator Allison Copening, Las Vegas City Councilwoman Bridget Barlow, Henderson Councilwoman Debra March.

A huge thank you to all of our staff and to our ground coordinators Lori Goodwine and Erika Albini. Thank you very much.

CHAIRMAN ANGELIDES: I just want to close this hearing as chairman by thanking every person for being here today.

I particularly just want to again thank Commissioner Murren and Commissioner Georgiou for all the effort they put in. They have said since day 1 they wanted to come to their hometown and hear what was going on on the ground. So thank you very, very much.

This meeting of the Financial Crisis Inquiry Commission is adjourned.

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(Whereupon, at 4:29 p.m., Wednesday, September 8, 2010, the hearing was recessed.)