Margot Saunders | visit | 9/10/10
Diane Thompson | phone
Nat'l Consumer Law Center

10AM
730 yrs - legal services in consumer law -

Expanded to include - utility law -

Utility manuals + selling

1994 lost fed funding -
Keep orientation + legal status - rep.
Row income consumers -

Successful - en quest to rep. low-income consumers.
Write consumer manuals to keep up w/ new law
(18) - manuals

Ext. training -
Extensive speaking
Lead in past 2 decades in Congress - details of consumer law as they impact low-income people -

Joined 2005/2006
Diane + I consult to attys. across country
Rep. consumers & low-income

They don't deal w/ them directly - only their lawyers

Margot - When did you both become aware of problems in the mortgage arena?
HOEPA - would not be able to handle all the problems we saw

Testimony re Nat’l Consumer Law Center - what HOEPA could & should do

Blamed problems on:
1) Derig. of interest rates
2) Preeminent of states' abil to limit alternative mortgages & balloon (AMPTA)
3) 1986 Tax code changes - take non-home secured debt w/ home
4) New securitization of lending - creating a "push market"

"we were politely ignored" - HOEPA - protection only on certain 8 lending

It put a cap on the most abusive loans but cap was high (10%-8%) over prevailing

Necessary rate

Arbitrarily set by Congress, it was a poor piece

It didn’t stop

(last 1995-2010)

Consumers law passed

Diana 1994-2007 (the cept) consumers apparent by 1998 (1996) on the ground

market being flooded w/ "appropriate products"

Hybrid ARMS

Teaser Rate 9-10% Cap = 21%
Clients did not understand -
  fraudulent appraisals - lender had
  knowledge of fraudulent appraisals

Unusually coming in at $60,000
  Discovery revealed that lenders knew
  property did not worth $60,000.
  "A real recklessness" valuation
  documentation

It was apparent - signatures not matching
  names inconsistent
  "Fixes" - "Adjust the income"
  (lender to broker)

Grossly falsified earnings statements -

Tom: - HOEPA - did not apply to purchase
  money mortgages?
  (Right?)

Diane - By 1998 most abusive loans
  (H1) were in purchase money markets

Tom - prevalence regionally -
  Diane - endemic in low income communities
  concentrated in communities of color
  inner cities -> older suburbs

One of tragedies - chance as Af-Am increased
  chances of toxic product the higher
  your income level
  Community of color - RACE - MINORITY Issue
Continuation of a trend?

Diane - East St. Louis (Af. Am. >90%)
initially white + Black clients

mid-1990s
Crisis - stopped seeing white homeownership clients, which reflected the trend

History of lending

decent
Never got credit into these markets

why, what? Decent - credit the consumer has some hope of repaying

HARGOT - When the risk gets too great +
prices go up - that becomes destructive credit. Credit not worth happening

Diane - could have been homeowners

80 yr old - clear owner -
Used contractor for pack - lost $10,000 @
12% - (should have been 7.75%)

NARGOT - Winston Salem, NC - (1978) *1,000/ window

Womens -
Consumers not shopping -
Sella Adams -
When they did shop, they were steered

paid - elder man

*
Some pre-approval credit they didn't want

I thought they were signing papers. Thinking insurance, and it was a $30,000 loan

[Diary] — when placing back - plea of color [steered] to subprime lenders

[Tom] — Where borrowers disappeared in 1990s - Where did they go?
[Diary] — By early 2000s, foreclosure clocks - everyone being foreclosed on was African
It flooded out - observed all other reasons
You foreclosure (divorce) — toxic loans took over the landscape

[HUD] — Counseling agencies — pre who get pre-purchase counseling do better.
[Diary] — We are not always able to access
pre-purchase counseling.

[Margo] — There was no pre-refi counseling or
for reverse mortgages

In N.C., we saw ridiculous absurd loans
made to elderly - affordable then ballooned
into bad loans (refi)

[Margo] — problems in 1990s - the problems
were with unsophisticated consumers
look @ testimony WVL 2001 - Senate Banking Comm - she described how she owned home - lost it, if not for consumer help. (They didn't get any benefit)

2000s - loans - some benefits were seen from the borrowing.

1999

ATM 1990s - predatory lending -
Margot 1998 - Mila Calhoun + she wrote a model state law + NC got it enacted.
Center for Responsible lending - went around country to get mini- Hooper's enacted (8% vs 5%)

So how are these benefits?
Margot 2001 -
HUD + Treasury came out w/ reports 2001 - proposing a cap of $30,000 pts + fees.

Freddie Mac would not take loans > 5% (New defacto cap.)

Spawned new products as result. New yield spreads + prepayment fees. "3/28" "3/12-7"

(Volumes, Repeat biz was goal for lenders)

The loans were not affordable -
From the investors' point of view, prepayment penalties were seen worse than defaults.

Taking long-term assets into short-term assets.

Diane - end of 1990s - prepayment penalties became ubiquitous.
- 70-80% by 2000
- predominant in subprime market

They became "a special franchise." There were investors who got income stream from the prepayment.

The existence of prepayment penalty in loan will send msg. to consumers not to pay.

Another form of income to the investors.

No positive incentives.

Interest rate higher for prepayment penalty.

Leads to brokers, full prepayment penalties + higher int. rates because they get #

Margot - draw a line between "prime" and "subprime" borrowers.

"It was a sucker-prize market."

Margot - Quicken Loans: she testified in court.

Training material - told personnel - Quicken - fraud found in court.

1990s...
Reports - late 1990s - rising foreclosure rates then (now look laughably low)


I remember discussing loans to Bd. of Fed. Reserve

Marge: "These are isolated instances."

Larry, Lindsey, Ned Gramlich, Greenspan - would come then for Bernanke came to some of these NGOs.

Marge: "Brought them w/ legal service attys. w/ files STATS from industry"

Mort. Bankers Assn. - pressing foreclosures

"This delinquency"

Bd - Ned Gramlich - called tee conversations we were in these fig.

The Fed always had the authority

1999 - 2000 - was at informal mtg. at the

VTAP auth - Unfair trade practice use

Fed Tcol - debt to

40-50% income

Chief staff of Fed - 99% debt to income - Richard Hart

She was pushed out her

She was too
Diana - Greenspan - as long as home values continue to go up - that housing bubble or boom was a may

Margo - what we didn’t know, see the Securities -

These things would be - still going on -

Wall Street

(Adrian too) - seemed to be a friend to consumers -

Margo - industry influence - we go in a meet wi Fed Staff - we have impression - meet wi Fed even more -

Diana - didn’t comment wi their word view frame -

Consumer Advisory Panel - industry has seats - they had preponderance of seats -

Law, Stats, 5 comm dev't -

10 indus -

10 consumer reps -

10 “academics + journalists”

Q[Tom] - 2000 - "Jimi mickaels - -" -

Margo - head of Fed truth + leading -

Diana + J + some others -

mgs @ Fed 3x ni last year -
MARKED - market cont. to find ways to avoid

Comptroller - guidance
preemption - GA, NC law - all laws all preempted
- applied to banks & subsidiaries -

Banks weren't making the bad loans anyway
(not true - look @ FDIC)

early 2000s - mushrooming of bad loans

Option / ARM loans - we couldn't believe.

 thought these were in FL, NV, CA, where high home values

2007 - saw them being made to inner-city homeowners - (refis, a lot) made to elderly - fee for reverse mortgage -

Originator [World Savings Bank]

did not lead to a lot of losses @ first, but then expanded the market & bad thing materials - pushing to elderly
fixed-income borrowers

Not a mistake in market.

It was a design in market - rewarded brokers for making these loans -
Banks make more $ -
Extra interest they could sell more
Collect more interest
Lack of truth in lending

[MARGO] They wouldn't have lost $$
if home values would have kept going up.

Loans - never actually be repaid -

Most outrageous -

2007 guidance - Underwriting 2007 - Only underwrite
FFIA:
to the fully indexed rate

These loans - Blame on
Payments reg.
Fully indexed rate - Rate @ time loan made +
rate ↑ -
Index floats - (Libor + m.o. index)
+ margin - Fixed

After 2yrs - after loan adjusted Index @ Zyr. mark
plus margin

Oct 2006 = Libor 3%
Margin = 7%
Fully indexed rate = 10%

Initial mt. be 7% Payments based on 7% interest rate
2009 - Index 4.5%
Diane - CAP + timing of increasing.

Fed resistance - "if would discourage people from borrowing"*

Fed economists -
know max. payment ci -
2003, 2004, 2007, 2008 -

Diane - some misreading -

Margot - Final issuance of guidance -
summary of max payment underlying -
value -

"I forwarded all this to you Tom." - Margot

Diane - green space paid this was imp for the economy - adj. rate mortgages

Margot - 1996 - OTS issued regulations that said
AMTBA (OTS auth.) - rules for state
law
asset creditors -
beg. of are preempted - all the bad prepayment penalties

who governed who? - they were empirical bedg.
OTS vs. OCC

@ 2006 - what led to guidance?
Diane - there was strategy to be retrievable
uptrie in preclusions & exotic products -
payment option ARMS - + advertising -
often focused on deceptive advertising
DIANE: Banks' regulators under pressure to follow guidance.

Banks are taking a risk by undergoing examination.

Ron: Some allege that housing policy at root of crisis.

CRA:

Commitments under CRA lead banks to take risks.

Farrell:

"It's laughable, it's ridiculous.

Low-income loans to comply.

DIANE: These loans were not CRA-qualified.

Farrell: Freddie Mac entrance was good, yet practices.

Subprime lenders were NOT regulated.

CRA - HUD:

"Loans get worse the further they get from the CRA.

Onerous terms, foreclosure.

Ron: Bank mergers - CRA-type commitments.

DIANE: These were NOT the loans that ended up in foreclosure.

Margot: Early 1990s - challenges to CRA.

"You all looking for an excuse to get rid of the CRA."
NY Fed - 2 yrs ago study

Chapter 14 - Cost of Credit - Diane just updated
Chapter 3 - Preemption - footnotes of cites

Reinvestment Fund - graphics
Neighborhood - NYC NEDAP - mapping
NY Fed interactive page - when foreclosures

Mortgage Fraud -
Exculpation - can be resolved
Trial - requires ext. discovery
It's prohibitive in many cases

Contant pushback -
Prosecution by US Atty.

Diane - Hundreds of thousands of homes
Diane - Minority of legal services -
Death of
- Nat' Assoc. Consumer Advocacy - best bet
Net legal aid & Defenders
AUD -

Diane - Hundreds of borrowers -
This is easy on - Knowledge of anything false

FedRes.Bdl. - borrower - study
Kickback - tell -
Test form -
Broken is NOT your agent

[DIANE] - investor borrowers -
vs. peg who live in home -

[MARGOT] - whether you give app. to read
three all materials - Did you understand
everything -?

[Closing? -
i] broker's house -

[MARGOT] - 1990s - securitization -
getting loan - used to be
banker made loan to borrower -
Wall Street pushing bad loans -
Wall Street - hiding behind legal teams -
they were not able for fraud -
when loans originated
You wouldn't been having FICO -
Wall Street had air had a meet down -
CDO - CDS - products -

[JSI] - 2004 - 2005 - geni counsel -
genii counsel -
Yenne Ann Fox -
HUD - jail Lester - Clinton

Treasury -

Late 1990s - early 2000s - Senate - Harvard -
Rhodes Scholar -

Macro int'l
HOPE - 2008 -
Rep. LaFave -

"But for camp. contib. the playing field would have been fair."

Tom -

If you had camp. Tom Rep -

Diane - All this wheelmaking -

Diane - needs fixing - good - there's a

huge amount of wheelmaking.

Diane -

Wall Street was pushing bad loans -

payment option ARM loans -

Wall Street thought we had

Diane -

mortgages were distorting terms -

there are kinds of loans we'd

Diane -

2003 Enron bankruptcy - Lehman -

2003 Enron bankruptcy -

Wachovia - similar

Diane -

Some deals done Wachovia - similar

Diane -

Wachovia -

Noon -