Mike Callahan - (by phone)

- Grad. Harvard College + Harvard Law '92
- Wilmer-Hale - Wilmer, Cutler, Pickering
- Law

2007 - Sr. pol. counsel - Center for Responsible Lending

S. Callahan - Duke Univ Econ. 1974
- Univ NC Chapel Hill '77
- Legal Aid atty until 1985
- Private practice 1982 - (Durham)
- Center for Community Self-Help -
- Center for Community Self-Help Leadership -
- Commercial Lending -
- Secondary Market -

2007 Center for Resp. Lending

[Cut] 3½ yrs. ago - Dec. 2006

Gordon - Heavenly #1

Angelides - One of core parts of mission is to do lending to low-income -
- no credit history, etc.
- 30 yrs. existence - Center for Community Self-Help -
- Runs a large program guarantees loans
- FHA loans by mainstream banks, to be bought by Fannie
Self-help loans low foreclosures -
Defaults rates 1% - but in terms of default rates historically low.

Caution with underwriting
Fall behind - less mitigation measures.
High touch service - try to keep people in their homes.

Underwriting was relaxed (how long does it take?)
Timing win (overall)
Applicability approval?
For some subprime loans - 11 seconds - @ height of crisis.

#3

Collaboration - I've talked to Countrywide underwriters
(plus mortgage insurer)
Countrywide had specific #12 - 15/day to be processed - Semi-automatic
Almost half subprime market became No J&J loans.

Collaboration - "The underwriting was abysmal."

Comparison of US mortgage structure to overseas -
Ireland had bubble - 45% price decline.
US had subprime, the worse.

Big story - Our Losing Ground - Study late 2006 -
Didn't we see it in crisis to fail mortgages?
They were keeping up w/payments by refinancing to catch up w/payments.

Hybrid arms -

Q: Underwriting bad - bec. "desktop underwriters"?
A: Called No - it was not an accidental crisis. We were getting paid more for these loans.

B+ & C tend to - the purpose of No Doc loans was to pay employed workers that did not reflect their payment capacity. Became a standard product for wage earners, bec. it carried 100 pts. extra in interest.

Broker - steered them into these loans to get extra $ for those borrowers didn’t realize it.

Q: Higher yield spread premium? Mi population.

John - steering people into subprime if they qualified for prime. Or subprime w/prepayment penalty.

Minority neighborhoods would be targeted - papers in connections -

New Roof
Refi you - well in credit card.
We need –
Timing? Carhart – Hardacre decade –
around 2006 when a memo
published by Countrywide office – mg
directed all employees – routed into subprime
loans –
A fiasco - it –
But Countrywide paid the consequence
for subprime lending –

All - A - Option Arm - carried higher interest
rates - premium
feed into the housing bubble – rising home
prices –
The yield was higher for borrowers & prevent
up + down the loan –

Written testimony - Subprime 1996
Self Help – starting to be concerned
in 1990s –
This decade - AG action

& Products designed - ? Refis?
Julia - No one was modeling large prices
dropping off.
balloon loan

Teaser rate - after expired - gross income

vs debt to revenue ratio

Jula - No Doc loans - go on fixed incomes

could not make payments

& Raymond - HUD - I

got even hard to device

60 mos. ratio

Carrmin - page 42 of fmi print

& Brown - focus on - how brokers were compensated

yield spread premium - reason why

they were put into

They were engineering

selling

Wall Street - looking to buy - when brokers

ran out of plex to sell to - had to get more

Julia - "There are a lot of misaligned incentives

up and down the chain"

Incentives @ each step

We've heard - many pre assume an help

mortgage broker is working for them

(Weiss record vs. Banks)
& clients believe waiting for them?  
Julie - Yes

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

 Cheryl Dodd -
"From You Through You  
Mortgage Takeout Menusing Through  
the Mortgage Process"

Carly - help you find your way three
Julie - brokers paid by consumer + broker <

Retail Brokers
> 200 pts higher than retail

Studios - Callanen - we did study - matched
borrowers loan to credit

Outside studies:
Brokers originate loans higher default rates

New Century New Hqrs. (Orange County)
Quality Control 2007
How many brokers do you get different loans from?
30,000/100 brokers

(Just a data pt.)

They were trying to convince us that the banks were ok.

went from 2005 - no way these are sustainable

"We understand this is not a sustainable big model"

failures of regulation - no one leader could participate or get into other big banks.

cap yield spread premiums - Option One - trail to take public post "unethical"

clear get any loans from brokers.

factor their mortgage brokers not regulated by anyone?

jury

- ability of pee to recycle themselves

- thus the industry... put pressure lender world

- target of AG - can move to the next spot.

- registration & licensing are helpful

- to screen our folk.

- make sure pee have track record - don't represent themselves in the big.

call backs

state found - disqualified based on records

nc. former drug dealer went into real estate

nc.

follow the $ - when are the first incentives

Appraisals - in hearings in senate. Reader: Hit the book or any of regional appraisal firm. Don't know big.
0. An incentive for old biz -
   Their remes did not want to phase in info -
   Or create antitrust - don’t phase info about
   bad actors could recycle?
   "There was no incentive for the leaders to
   pull." 

   "All you want is the volume, you don’t have
   to care about what they’re doing."

[Blank for two lines]

- Defects were remarkably low for a long time

0. Aggressors - Black balled if they didn’t hit. #
   Not a lot of prosecutions b/c. of subjectivity
   in market. Comment?
   7. One of the major portfolio leaders will
   not rely - unreliable (Word Scary's)
   on outside
   
   Pigs on law on books - enforcement -
   can’t be enforced by an indiv.
   - Must fly - Big plaintiff's attys.
   
   Julia: Ensure private Rt. of Action
   Ensure the backstop -
Predatory lending - gone on in lots of cities of monetary lending environ.

Extent of these -

Calhoun - Teaser 8.5% (weren't all that low)
It was more recently - 2007 rears in 2/28 major factors in default - b/c int. rates fell
But the loans not sustainable -

Ferul -
1990s - regulators had access to the data
by early in 2002 - the data very real then
late 1990s defaulting
Net w/o OCC + OTS -
other net w/ Fed regularly -
to pt our trends in data
late 1990s - early 2000s -
access to what was happening

F: lack enforcement auth?
Julie - Why? Their task was the safety + soundness of banks.

Calhoun -
2 crises:
Pred. Subprime lending can be done on a profitable
1998-2003 - ultimately got our
you can price in additional interest
to compensate high for loans.
Primi loans had been commoditized w/ low margins.
Subprime loans were getting hammered when econ. was doing fun.

Fed - mostly unspecific. Regulators
HOEPT - They knew they had that
Authority: 2005 - They were paying
Wednesday of that -
2000 - 2001 severe. Record - Fed
incl. private credit insur. under HOEPT -
Considered using their plenary auth. to regulate all mortgages (liner refinancing for special
mortgages - bec. of victim)

Fed proposed rules for those mortg.
[Read: did not exercise that auth.
HOEPT - then after comment -
State regulators - did want to deal w/ that

Q: Exemption - ?
Very sign. factor -
Julie: There was legal in a # of states
no enforcement aggr. - fun. inst.
Ohio - OCC said you can't do it.

OCC - aggreg rule - based reg. of lending
2003 - 2004 - prop. standards for
home mortgages - principle based
Regulatory competi-

Regulators - no slow econ. growth
Calhoun - Alan Greenspan - he was generally
anti-regulatory + that was a huge
factor -

Fed
- not good comm.
- line staff - up the flagpole -
- growing, profitable -

Calhoun - Fed - 2/28 loans -
- needed for mortg -
- they were stressed - the loans
- had these teaser rates -

Fannie
- Treasury & other agencies & Fed -

Policymakers - not push marked
All of that policy level challenge
bec. fed brief than our 1PC.

Fannie - Other mtgs @ Fed -
- staff tally as of everyone in Cn
- has $400,000 - loans -
Century Shift -
Home ownership -
Only family asset -
Transmit wealth from one gen.
to another -

Home as investment versus a place to build equity

Unemployment driven foreclosures

Felicity By not regulating,
We ended up a much tighter credit market
than anyone could have foreseen.
We saw the car used as a stick.

Julie: We haven't figured out how to get our unempl. & hsg. decline -

Panic market down & down -
States: CA - mortgage fraud -

[Calhoun] - CA - standards - we suspect malignity of incentives.

CA: Many brokers had a fiduciary duty to reduce severity of the bubble.

Was not overheated markets -

stay finding aspect of bubble econ.
(what came first on the dot com bubble)
- feedback cycle -

Large minority people -

Julie: "T. Dakeoff -

CA: Latino households
Julie: report can't be an accident

ET CA - it was a victim of the crisis, not a cause of it -

Pleas weren't doing these bad loans for CA credit.
The bad lender crowded out the good lenders.
Jacksonville - Home Bank - zero box loan - pulled a lot of the rug - that it was selling - $100, $150 more less.

Julié - pref CRA was for ins'tics to loan to qualified borrowers - nothing about.

Q - Successes in blocking reforms - It's pretty staurer we didn't get.

1994 HOEPA - Gap in time -

Trade - was working no rushes

innovation/mediators -

President Bush took & our of homes
to help the economy -

Cash - our refinancing -

Q - The consequences (Congress refused to extend to those who took & our of homes)
Callaways - Mortgage Bankers - More PAC -
American - one of the most polar actors.
*
I'm to brief Re-elect.
*
I'm to inaugure -
One of the largest polar actors.
to the ticket -

FARCE - * used to punish those who supported the regime
but

& Examples - Who Callaways
CFAL - Andrews -
Amb Assoc &
Mary Baker -
Mr. Becker -
Household Bank
Blue Dog
lobbying

IEBA -
Ann
Comm Bankers
Fannie & Freddie - some proud, but
generally opposed to any
legality of loan

Consumers' Natl
Housing Policy
Council

Nat'l Assn. of Realtors - we worked closely w/
them -saw an actor w/banks
0 Fraud - what extent play - all loans
2005 - 2007 - 12% indicator of fraud

in subsequent - % much begin
< inflated appraisals >

PFI - material misrepresentation
Catering was widespread

loan application padding
usually complete by broker + presented to
the borrower

Routinely - like source padding -
now tend to gloss these up

Cottage industry of explicit fraud -
W2 forms forged or altered
loans - brokers give low-inc. Phl
"phantom second jobs" -

Borrower fraud - relatively ltd.

Julia - assumed to be borrower was usually
brokered fraud.

In many cases - had leg if loan no doc -
file CDR not contain any info
that reflected any income
0 FBE - fraud for housing (borrower)
FRAUD FOR PROFIT (organized)

Biggest problem -

Julia - Absolutely the fraud for profit - they are tied to the house built in checks for them.

> Getting charged an extra 100 basis pts