
# Who's Behind the Financial Meltdown?

## THE TOP 25 SUBPRIME LENDERS AND THEIR WALL STREET BACKERS

**THE SUBPRIME 25**

Check their stats, including the bailout funds they've received

THE CENTER FOR PUBLIC INTEGRITY

*Investigative Journalism in the Public Interest*

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## On the Web

**Interactive Maps** that show where the top 25 subprime lenders originated most of their high-interest mortgages from 2005 through 2007 at **www.publicintegrity.org/investigations/economic_meltdown/data/maps/**

**Share Your Story:** If you are one of the thousands of homeowners affected by predatory lending, the Center would like to hear your story. Go to: **www.publicintegrity.org/investigations/economic_meltdown/share_your_story/**

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# About the Financial Meltdown Project

**THE CENTER FOR PUBLIC INTEGRITY** began work on this project in fall 2008 as it became clear that subprime lending was at the heart of the financial crisis. While keeping track of other work in this investigative field, we believed that most news organizations were caught up in the rapidly changing day-to-day economic stories, and none were digging into precisely who was responsible for the subprime lending that contributed so heavily to the disaster.

In late September, the Center's data editor David Donald began his computer analysis of some 350 million mortgage applications going back to 1994. We wanted to determine how America's subprime lending unfolded and who the biggest lenders were. At the same time, reporter Kat Aaron began work on a widely overlooked history of attempts to reign in abusive loan practices, "Predatory Lending: A Decade of Warnings; Congress, Fed Fiddled As Subprime Crisis Spread."

In January 2009, former Associated Press reporter John Dunbar, who had been covering the economic crisis in Washington, joined the Center and immediately began work designing a project around the top subprime lenders and their financial backers. Meanwhile, data expert Donald focused on the top loan originators from 2005 through 2007, a period that marks the peak and collapse of the subprime boom. These lenders we eventually dubbed "The Subprime 25." With our data analysis in hand, Dunbar and a team of Center reporters put together profiles of all 25 top subprime lenders.

Through our reporting, we discovered that at least 21 of the top 25 subprime lenders were directly or indirectly financed by the mega-banks that received bailout money — through direct ownership, credit agreements, or huge purchases of loans for securitization. Dunbar then completed two major reports with the help of his team, "The Roots of the Financial Crisis: Who Is To Blame; Banks that Financed Subprime Industry Collecting Billions in

 

Bailouts," as well as a thorough primer on what had happened, "Meltdown 101: Subprime Mortgages and the Road to Financial Ruin."

The Center for Public Integrity also created a series of charts and graphs to help tell the story, including information on the hefty lobbying and political contributions to members of Congress by the companies involved. To illustrate the project, Multimedia Editor Ariel Olson Surowidjojo was instrumental in gathering the charts, graphs, photos, and company logos. The Center also shared its subprime mortgage data with the innovative, Palo Alto-based Palantir Technologies, which used its network analysis software to create more than a hundred "heat maps" showing where each of the Subprime 25 companies made their home loans.

# Project Credits

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# About the Center For Public Integrity

## Investigative Journalism in the Public Interest

The Center for Public Integrity is a nonprofit, nonpartisan, and independent digital news organization specializing in original investigative journalism and research on significant public policy issues.

Since 1990, the Washington, D.C.-based Center has released more than 475 investigative reports and 17 books to provide greater transparency and accountability of government and other institutions. It has received the prestigious George Polk Award and more than 32 other national journalism awards and 18 finalist nominations from national organizations, including PEN USA, Investigative Reporters and Editors, Society of Environmental Journalists, Overseas Press Club, and National Press Foundation.

In 2007, the Society of Professional Journalists recognized three Center projects with first-place online awards — the only organization that year to be recognized with three awards. The Center has been honored with the Online News Association's coveted General Excellence Award, and a special citation for the body of its investigative work from the Shorenstein Center on the Press, Politics and Public Policy at Harvard's Kennedy School of Government.

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# The Mega-Banks Behind the Meltdown

## HOW WALL STREET'S GREED FUELED THE SUBPRIME DISASTER

**Commentary by Bill Buzenberg**
Executive Director of the Center for Public Integrity

THERE is something of a myth surrounding the current economic crisis, how it unfolded, and the precise role of the world's largest financial institutions in the global meltdown. That myth suggests these banks and investment houses were somehow surprised "victims" of unscrupulous subprime mortgage lenders, and that they could not have anticipated the damaging toxic assets that have so infected their balance sheets.

What's missing from this story is the fact that this was a self-inflicted wound for which the rest of us are picking up a massive tab. The largest American and European banks and investment houses were not the unwitting "victims" of an unforeseen financial collapse, as they have so often been portrayed. The mega-banks not only invested in subprime lending institutions — they were the enablers, bankrollers, and instigators driving high-interest lending, and they did so because it was so lucrative and unregulated.

Worse, in many instances these are the same financial institutions the government is now bailing out with tax revenues. How these bottomed-out banks helped cause the financial meltdown can be clearly seen in a new study by the Center for Public Integrity. The

Center ran a computer analysis of every high-interest loan reported by the industry to the U.S. government from 2005 through 2007, a period that marks the peak and collapse of the subprime market. From this pool of 7.2 million loans, our investigators identified the top subprime lenders. The "Subprime 25" were responsible for nearly a trillion dollars of subprime lending, or 72 percent of all reported high interest loans.

The "Subprime 25", which are mostly no longer in business, were largely non-bank retail lenders that needed outside financing to make their subprime loans. So where did that financing come from? The Center's study found that at least 21 of these Subprime 25 lenders were either owned outright by the biggest banks or former investment houses, or had their subprime lending hugely financed by those banks, either directly or through lines of credit. In other words, the largest American and European banks made the bubble in subprime lending possible by financing it on the front end, so they could reap the huge rewards from securitizing and selling mortgage-backed securities on the back end. The demand was insatiable, and the backing excessive. Between 2000 and 2007, underwriters of subprime mortgage-backed securities — primarily Wall Street and European investment banks — poured $2.1 trillion into the business, according to data from trade publication Inside Mortgage Finance.

Did these major financial institutions not understand what kind of lending was taking place? The poor quality of these loans was no secret. Many of these subprime lenders, the Center found, were forced to pay billions of dollars to settle government charges of abusive or predatory lending practices. This was a period of some of the worst mortgage lending in American history, in which regulators were nowhere to be seen, and normal income documentation and loan standards were thrown out the window. In many cases, though, the big banks really didn't care if the loans were bad. That's because they'd bought "insurance" against them — those infamous "credit default swaps." The swaps sounded good, except they were unregulated, and those selling them — like American International Group Inc. — didn't have to maintain reserves to guard against unforeseen losses.

It was all a house of cards, and some tried to sound the alarm. A look at the historical record shows that Washington was warned repeatedly over the last decade — by consumer advocates and a handful of regulators and lawmakers — that these high-cost loans represented a systemic risk to the economy. It is hard to believe the major banks were unaware of what was going on, or what the consequences might ultimately be.

A typical warning came from William Brennan, an attorney with the Atlanta Legal Aid Society. Brennan had watched as subprime lenders earned enormous profits making mortgages to people who clearly couldn't afford them. The loans were bad for borrowers — Brennan knew that. He also knew the loans were bad for the Wall Street investors who invested in these loans, and then bought the shaky mortgages by the millions. "I think this house of cards may tumble some day, and it will mean great losses for the investors who own stock in those companies," Brennan told a Senate committee. That was in 1998. Many other unheeded warnings followed.

Despite such warnings, Congress, the White House, and the Federal Reserve all dithered while the subprime disaster spread. Long forgotten congressional hearings and oversight reports, as well as interviews with former officials, reveal a troubling history of missed opportunities, thwarted regulations, and abject lack of oversight. Instead, the financial industry supported more deregulation, along with an extraordinary disregard for the damage being done. This was accompanied by millions of dollars in political contributions to leading lawmakers of both parties from the same financial industry that is in such trouble today.

The truth is these mega-banks invested trillions, made billions, and took risks with their eyes wide open. Now, because they are deemed "too big to fail," they need trillions in government bailouts and guarantees to solve problems they helped create. But let's look at it another way: perhaps these mega-banks are simply "too politically connected to fail." Their unbridled political contributions and massive lobbying created the lack of regulation and oversight that led to this crisis. Where is the accountability — of management and boards, of auditors and regulators — for what has happened? It is time to set aside the myth of the mega-bank as victim. ■

# The Roots of the Financial Crisis: Who Is To Blame?

## BANKS THAT FINANCED SUBPRIME INDUSTRY COLLECTING BILLIONS IN BAILOUTS

**By John Dunbar and David Donald**

**THE TOP** subprime lenders whose loans are largely blamed for triggering the global economic meltdown were owned or bankrolled by banks now collecting billions of dollars in bailout money — including several that have paid huge fines to settle predatory lending charges.

These big institutions were not only unwitting victims of an unforeseen financial collapse, as they have sometimes portrayed themselves, but enablers that bankrolled the type of lending that has threatened the financial system.

These are among the findings of a Center for Public Integrity analysis of government data on nearly 7.2 million "high-interest" or subprime loans made from 2005 through 2007, a period that marks the peak and collapse of the subprime boom. The computer-assisted analysis also reveals the top 25 originators of high-interest loans, accounting for nearly $1 trillion, or about 72 percent of such loans made during that period.

The Center found that U.S. and European investment banks invested enormous sums in subprime lending due to unceasing demand for high-yield, high-risk bonds backed by home mortgages. The banks made huge profits while their executives collected handsome bonuses until the bottom fell out of the real estate market.

Investment banks Lehman Brothers, Merrill Lynch, JPMorgan & Co., and Citigroup Inc. both owned and financed subprime lenders. Others, like RBS Greenwich Capital Investments Corp. (part of the Royal Bank of Scotland), Swiss bank Credit Suisse First Boston, and Goldman Sachs & Co., were major financial backers of subprime lenders.

According to the Center's analysis:

- At least 21 of the top 25 subprime lenders were financed by banks that received bailout money — through direct ownership, credit agreements, or huge purchases of loans for securitization.
- Twenty of the top 25 subprime lenders have closed, stopped lending, or been sold to avoid bankruptcy. Most were not banks and were not permitted to collect deposits.
- Eleven of the lenders on the list have made payments to settle claims of widespread lending abuses. Four of those have received bank bailout funds, including American International Group Inc. and Citigroup Inc.

The Center also conducted a computer analysis of more than 350 million mortgage applications reported to the federal government between 1994 and 2007, and found that the amount of money spent by homeowners on their mortgages as a percentage of their income spiked sharply during the peak of the subprime boom.

## The Subprime Universe

Subprime does not mean "lower than prime." In fact, it's just the opposite. Subprime lenders charge rates that are higher than prime, the rate offered to a bank's most creditworthy customers — sometimes much higher. Subprime borrowers are generally people with poor credit who may have a recent bankruptcy or foreclosure on their record, according to the Federal Reserve.

Each year, under the Home Mortgage Disclosure Act, the federal government collects reams of data from lenders in an effort to determine whether they are adequately serving their communities and whether there is discrimination against minority borrowers. Some smaller lenders and some that do business in rural areas are not required to report. The government estimates the data account for about 80 percent of all home mortgages. In 2004, the Federal Reserve began requiring lenders to indicate when borrowers were being charged three percentage points or more above the rate of interest earned on U.S. Treasury bonds of a similar maturity.

The objective was to gather data encompassing "substantially all of the subprime mortgage market while generally avoiding coverage of prime loans," according to the Federal Reserve.

**Countrywide Financial Corp., which made at least $97.2 billion worth of subprime loans from 2005 through the end of 2007, ranked No. 1 among subprime lenders nationally. The company was purchased by Bank of America in 2008.**

The Center analyzed these loans from 2005 through the end of 2007 to come up with its top 25 list of high-interest lenders. (The 2004 data were excluded due to poor compliance and other factors.) The market for these loans, driven by Wall Street investors, grew through the early 2000s, peaked in 2005, and crashed in 2007. The top 25 subprime lenders represent nearly 5 million loans. [See table on next page. Details of the Subprime 25 can be found in Article 5.]

There are multiple definitions of what constitutes a subprime loan. [For the Center's criteria and to learn how the list was created, please see the Methodology in Article 6.]

Most of the top subprime lenders were high-volume, "non-bank" retail lenders that advertised heavily, generated huge profits, and flamed out when Wall Street benefactors yanked their funding. Nine of the top 10 lenders were based in California — seven were located in either Los Angeles or Orange counties. At least eight of the top 10 were backed at least in part by banks that have received bank bailout money.

# The Subprime 25

The top 25 "high interest" or "subprime" lenders from 2005 through 2007 comprised 72 percent of all such lending. Details of the Subprime 25 can be found in Article 5.

| Rank | Lender | Loan Volume |
|---|---|---|
| 1 | Countrywide Financial Corp. | $ 97,202,850,000 |
| 2 | Ameriquest Mortgage Co./ACC Capital Holdings Corp. | 80,659,534,000 |
| 3 | New Century Financial Corp. | 75,966,191,000 |
| 4 | First Franklin Corp./National City Corp./Merrill Lynch & Co. | 68,009,685,000 |
| 5 | Long Beach Mortgage Co./Washington Mutual | 65,263,503,000 |
| 6 | Option One Mortgage Corp./H&R Block Inc. | 64,754,504,000 |
| 7 | Fremont Investment & Loan/Fremont General Corp. | 61,725,784,000 |
| 8 | Wells Fargo Financial/Wells Fargo & Co. | 51,887,522,000 |
| 9 | HSBC Finance Corp./HSBC Holdings plc | 50,368,364,000 |
| 10 | WMC Mortgage Corp./General Electric Co. | 49,655,812,000 |
| 11 | BNC Mortgage Inc./Lehman Brothers | 47,618,868,000 |
| 12 | Chase Home Finance/JPMorgan Chase & Co. | 30,027,847,000 |
| 13 | Accredited Home Lenders Inc./Lone Star Funds | 29,000,898,000 |
| 14 | Indymac Bancorp Inc. | 26,475,227,000 |
| 15 | CitiFinancial/Citigroup Inc. | 26,327,651,000 |
| 16 | Equifirst Corp./Regions Financial Corp./Barclays Bank plc | 24,464,765,000 |
| 17 | Encore Credit Corp./ECC Capital Corp./Bear Stearns Cos. Inc. | 22,379,670,000 |
| 18 | American General Finance Inc./American International Group (AIG) | 21,832,938,000 |
| 19 | Wachovia Corp. | 17,605,460,000 |
| 20 | GMAC LLC/Cerberus Capital Management | 17,228,006,000 |
| 21 | NovaStar Financial Inc. | 16,017,194,000 |
| 22 | American Home Mortgage Investment Corp. | 15,367,310,000 |
| 23 | GreenPoint Mortgage Funding Inc./Capital One Financial Corp. | 13,143,409,000 |
| 24 | ResMae Mortgage Corp./Citadel Investment Group | 13,016,239,000 |
| 25 | Aegis Mortgage Corp./Cerberus Capital Management | 11,538,877,000 |
| **TOP 25 TOTAL** | | **$ 997,538,108,000** |
| **ALL HIGH-INTEREST LENDERS** | | **$ 1,379,831,861,000** |

NOTE: Data from 2004 were excluded due to poor compliance and other factors.
Source: Home Mortgage Disclosure Act data and Center for Public Integrity research.

No. 1 was Calabasas, California-based Countrywide Financial Corp., with at least $97.2 billion worth of loans from 2005 through the end of 2007. Countrywide was bought by Bank of America last year, saving it from probable bankruptcy. Second was Ameriquest Mortgage Co. of Orange, California, now defunct, which originated at least $80.6 billion worth of loans. Third was now-bankrupt New Century Financial Corp. of Irvine, California, with more than $75.9 billion in loans.

## Non-Bank Lenders Dominate

Independent mortgage companies like Ameriquest and New Century were among the most prolific subprime lenders. Since they were not banks, they could not accept deposits, which limited their access to funds. At least 169 independent mortgage companies that reported lending data in 2006 ceased operations in 2007, according to the Federal Reserve.

Some of the nation's largest banks have subprime lending units, including Wells Fargo & Co., which ranked No. 8, JPMorgan Chase & Co. at No. 12, and Citigroup Inc. at No. 15. The big banks' mortgage business was less reliant on subprime lending than that of the non-bank lenders. But most of the big investment banks also purchased subprime loans made by other lenders and sold them as securities.

Several other lenders among the Top 25 were subsidiaries of Wall Street banks or hedge funds. Encore Credit Corp. (No. 17), for example, was a subsidiary of Bear Stearns, and BNC Mortgage Inc. was part of Lehman Brothers (No. 11).

The lending totals in the survey include subsidiaries owned by the parent companies. British bank HSBC Holdings plc (No. 9) owned American subsidiary HSBC Finance Corp., which in turn owned subprime lender Decision One and also operated under the names Beneficial and HLC.

Two of the top subprime lenders were seized by the government. IndyMac Bank (No. 14) and Washington Mutual (owner of Long Beach Mortgage Co., No. 5) were each taken over by federal banking regulators after big losses on their portfolios of subprime loans.

American International Group (AIG), better known for insurance and complex trades in financial derivatives, made the list at No. 18, thanks to subsidiaries like American General Finance Inc., MorEquity, and Wilmington Finance Inc.

The five banks on the list that are still lending are Wells Fargo, JPMorgan Chase, GMAC LLC, Citigroup, and AIG. All have received billions from the government's bank bailout programs.

## Bailout Recipients

On Oct. 3, 2008, former President Bush signed the $700 billion Emergency Economic Stabilization Act of 2008 into law. The legislation created the "Troubled Asset Relief Program" — or TARP, as it is known — to buy up mortgage-backed securities and hold them, ideally, until they recovered some of their value and could be auctioned. By removing the so-called "toxic" assets from the banks' balance sheets, it was hoped they would begin lending again. The administration later changed direction and opted instead to buy shares of stock from the banks.

In addition to the $700 billion bailout, the Federal Reserve began committing hundreds of billions of dollars to guarantee against losses on failing mortgage assets of AIG, Citigroup, and Bank of America.

Among the lenders on the Center top 25 list, seven have received government assistance. Citigroup has collected $25 billion through the TARP program, $20 billion through the Treasury Department's "targeted investment program," and a $5 billion Treasury backstop on asset losses. It has also been guaranteed protection from losses on $306 billion in assets. Wells Fargo has collected $25 billion in TARP funds, and Bank of America, which bought Countrywide and Merrill Lynch before their immi-

**President George W. Bush signs the Emergency Economic Stabilization Act of 2008 in the Oval Office.** *(White House/Eric Draper)* nent collapse, received another $45 billion in TARP money. Also on the list: JPMorgan Chase (owner of Chase Home Mortgage), Regions Financial Corp. (former owner of EquiFirst), GMAC/Cerberus Capital Management, and Capital One Financial Corp. (former owner of GreenPoint Mortgage). And the bailout of insurance giant AIG may go as high as $187 billion and includes a combination of loans, direct investment by the government, and purchases of shaky assets.

Center researchers attempted to reach every CEO and corporate owner on its list of the top 25 lenders with mixed success.

A call and e-mail to Bank of America were not returned. A Wells Fargo spokesman said the bank carefully reviews a borrower's ability to pay. "That's why 93 out of every 100 of our mortgage customers were current on their payments at the end of 2008," the bank's Kevin Waetke wrote in an e-mail.

Capital One spokeswoman Tatiana Stead responded that GreenPoint's loans were considered Alt-A, which generally do not require documentation of income but whose borrowers have good credit. Such loans are not considered subprime, she said, and added that the bank closed GreenPoint shortly after it was acquired.

Since the confusion and panic of 2008 has receded, angry taxpayers have been looking for someone to blame for the mess. Subprime lenders that originated loans they knew were likely to fail are widely cited as a good place to start. But the subprime lenders could never have done so much damage were it not for their underwriters — those giant investment banks in the U.S., Germany, Switzerland, and England.

## Wall Street Cash Pours In

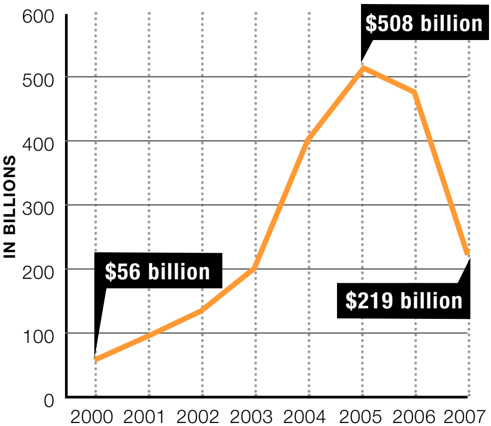
During the boom years, investment banks provided a staggering amount of cash to subprime lenders so they could make loans.

Between 2000 and 2007, backers of subprime mortgage-backed securities — primarily Wall Street and European investment banks — underwrote $2.1 trillion worth of business, according to data from trade publication Inside Mortgage Finance. The top underwriters in the peak years of 2005 and 2006 were Lehman Brothers at $106 billion; RBS Greenwich Capital Investments Corp., at $99 billion; and Countrywide Securities Corp.,

## Total Financing of Mortgage-Backed Securities (2000-2007)

Banks and other investors poured more than $2 trillion into the mortgage-backed securities market between 2000 and 2007.




Source: Inside Mortgage Finance

**TOP UNDERWRITERS IN PEAK YEARS: 2005-2006**

(TWO-YEAR TOTALS)

| | |
|---|---|
| Lehman Brothers | $106,444,600,000 |
| RBS Greenwich Capital | $99,346,200,000 |
| Countrywide Securities | $74,533,600,000 |
| Morgan Stanley | $74,275,800,000 |
| Credit Suisse First Boston | $73,367,000,000 |
| Merrill Lynch | $67,550,600,000 |
| Bear Stearns | $60,816,100,000 |
| Goldman Sachs | $52,810,200,000 |
| Deutsche Bank | $51,567,800,000 |

a subsidiary of the lender, at $74.5 billion. Also among the top underwriters: Morgan Stanley, Merrill Lynch, Bear Stearns, and Goldman Sachs.

When New Century filed for bankruptcy, it listed Goldman Sachs Mortgage Co. as one of the 50 largest unsecured creditors. Other New Century creditors include Bank of America, Morgan Stanley, Citigroup, Barclays, and Swiss bank UBS.

New Century earlier reported to its shareholders that it had lines of credit totaling $14.1 billion from those five banks, plus Bear Stearns, Credit Suisse First Boston, Deutsche Bank, and IXIS Real Estate Capital, a French banking firm (since taken over by a company called Natixis) that frequently worked with Morgan Stanley.

An investigative report prepared for the U.S. Trustee overseeing the bankruptcy case described a "brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy" at New Century. It said the company made loans "in an aggressive manner that elevated the risks to dangerous and ultimately fatal levels."

In December 2006, Citigroup pooled $641 million-worth of mortgages to sell to investors as securities, one of several major offerings the bank had packaged for Wall Street. Sixty-three percent of the mortgages were originated by New Century, according to the lengthy prospectus. Eighty-one percent of the loans were adjustable rate mortgages.

Despite their massive investment in subprime loans, some of the nation's most powerful bankers continue to deflect responsibility.

"Demonizing the bankers as if they and they alone created the financial meltdown is both inaccurate and short-sighted," Citigroup chairman Richard Parsons told reporters recently. "Everybody participated in pumping up this balloon and now that the balloon has deflated, everybody in reality has some part in the blame."

A lawyer for former New Century CEO Robert K. Cole said he would have no comment.

Attorney Bert H. Deixler, who represents another former New Century CEO, Brad Morrice, was reached by e-mail. He was asked to comment on New Century's ranking as well as the contention that subprime loans originated by banks like New Century led to the collapse of the financial industry. Deixler described the Center's conclusions as "ludicrous." Several calls and e-mails asking him to elaborate were not returned.

Ameriquest, according to Center research of prospectuses, had relationships with virtually every major Wall Street investment bank. The lender sold billions of dollars in loans to Lehman Brothers, Bear Stearns, Goldman Sachs, Citigroup and Merrill Lynch. Some of its other financial supporters included Morgan Stanley, JPMorgan Chase, Deutsche Bank, UBS Securities, RBS Greenwich Capital, Credit Suisse First Boston, and Bank of America.

Countrywide, in addition to capital from shareholders, also had credit agreements with Bank of America, JP Morgan Chase, Citicorp USA (part of Citigroup), Royal Bank of Canada, Barclays, and Deutsche Bank.

Some investment banks owned subprime lenders. Merrill Lynch bought First Franklin Corp. (No. 4 on the Center list) in late December 2006 for $1.3 billion — just before the bottom fell out of the market. Bear Stearns bought Encore Credit Corp. in February 2007.

The British banking giant HSBC got into the U.S. mortgage business in a big way when it bought Household International in 2003. It also purchased Arizona-based Decision-One Mortgage, and operated under the Beneficial and HLC brands. An HSBC spokeswoman said HSBC Finance was primarily a portfolio lender, meaning it did not sell mortgages to third parties. HSBC, however, did package loans from its subprime subsidiaries into securities, according to SEC filings.

Lehman Brothers, now bankrupt, ranked No. 11 on the subprime list. The bank was a pioneer of sorts in investing in subprime lending. It owned several subprime lenders, including BNC Mortgage, Finance America, and Aurora Loan Services LLC.

Even banks that managed to dodge much of the carnage created by the subprime meltdown — like Goldman Sachs — were invested in the subprime mortgage business. Goldman in May 2005 submitted a prospectus so that it could sell more than $425 million in securities known as "mortgage pass-through certificates."

Those securities were sold from an underlying pool of 9,388 second-lien loans that Goldman Sachs bought from Long Beach Mortgage Co., a company that ranks No. 5 on the Center's list of the top 25 subprime lenders. Long Beach was a subsidiary of Washington Mutual, which collapsed in 2008 thanks largely to losses in the subprime mortgage market. It was the biggest bank failure in U.S. history.

Included in the prospectus for those Goldman Sachs securities was a boiler-plate warning to investors considering buying subprime mortgages. It says the borrowers, "for one reason or another, are not able, or do not wish, to obtain financing from traditional sources" and that the loans "may be considered to be of a riskier nature than mortgage loans made by traditional sources of financing." Goldman eventually received $10 billion from the government TARP program, a sum the bank says it would like to pay back as soon as possible.

Goldman has been more conciliatory than some banks as far as accepting responsibility for the economic collapse. "Much of the past year has been deeply humbling for our industry," bank spokesman Michael DuVally wrote the Center. "As an industry, we collectively neglected to raise enough questions about whether some of the trends and practices that became commonplace really served the public's long-term interest."

Morgan Stanley owned a subprime mortgage company, but its volume wasn't high enough to make the Center's top 25. The investment bank, which has also received a $10 billion TARP investment, was far more active as an underwriter. It backed $74.3 billion of subprime loans during the peak years of 2005 and 2006, according to Inside Mortgage Finance, ranking it fourth for that period.

In 2006, Morgan and French banking firm IXIS Real Estate Capital Inc. (now part of Natixis) hoped to sell $1.3 billion in subprime mortgage-backed securities to investors, according to a prospectus. It included 6,755 loans originated by 20 different lenders, including First NLC Financial Services LLC, Accredited Home Lenders and Countrywide.

In addition to Wall Street, the Federal National Mortgage Corporation (Fannie Mae) and the Federal Home Mortgage Corporation (Freddie Mac) also fed the subprime monster. Fannie and Freddie were created by the government to promote home ownership by buying mortgages from lenders and selling them to investors, thus freeing up cash for banks to make more loans.

With investment banks buying more and more loans themselves each year, Freddie and Fannie began buying a huge volume of mortgage-backed securities from Wall Street as a means to foster affordable housing goals.

As of the end of February 2009, Fannie and Freddie held a combined $292.1 billion in private mortgage-backed securities in their portfolios, according to monthly statements from both companies. On September 7, 2008, the government took control of the two entities.

## Abusive Lending

The subprime lending business has had its share of public relations problems. Subprime lenders say they serve an important function — offering credit to people who have been snubbed by traditional mortgage lenders. But regulators and consumer advocates say some are "predatory" lenders who take advantage of people with little knowledge of how the financial system works and few options when it comes to borrowing.

Indeed, subprime lenders have paid billions to settle charges of abusive lending practices. At least 11 of the lenders on the Center's list have paid significant sums to settle allegations of abusive or predatory lending practices.

Two of the largest settlements ever reached for lending problems were with AIG and Citigroup, two financial institutions that have received billions in federal aid. Citigroup has a history of subprime lending, dating back to its purchase of Associates First Capital Corp. in 2000. Citigroup at the time was building a global banking empire thanks to its success in convincing the government to deregulate the financial services industry the year before.

Associates had been criticized by some as a predatory lender, and in 2002, Citigroup paid a price for it. The bank agreed to pay $215 million to resolve Federal Trade Commission charges that Associates had engaged in "systematic and widespread deceptive and abusive lending practices."

In 2004, the bank was hit again, this time by the Federal Reserve. The Fed levied a $70 million civil penalty against CitiFinancial, Citigroup's subprime lending unit, for abuses during 2000 through 2002.

A Citigroup spokesman said the bank does not sell or securitize its loans. It does a small portion of adjustable rate mortgages, but does not offer "teaser rates" that so often get borrowers in trouble. Citigroup has caught heat from other big banks for supporting a bill, backed by consumer advocates, that would give judges more leeway in reworking mortgage loans of people in bankruptcy. The bill died in the Senate on April 30.

AIG settled claims of abusive lending practices in 2007. AIG subsidiary Wilmington Finance Inc. agreed to pay approximately $128 million in restitution after the Office of Thrift Supervision found the lender had failed to consider the creditworthiness of borrowers and charged large broker and lender fees. AIG also agreed to donate $15 million to "financial literacy and credit counseling."

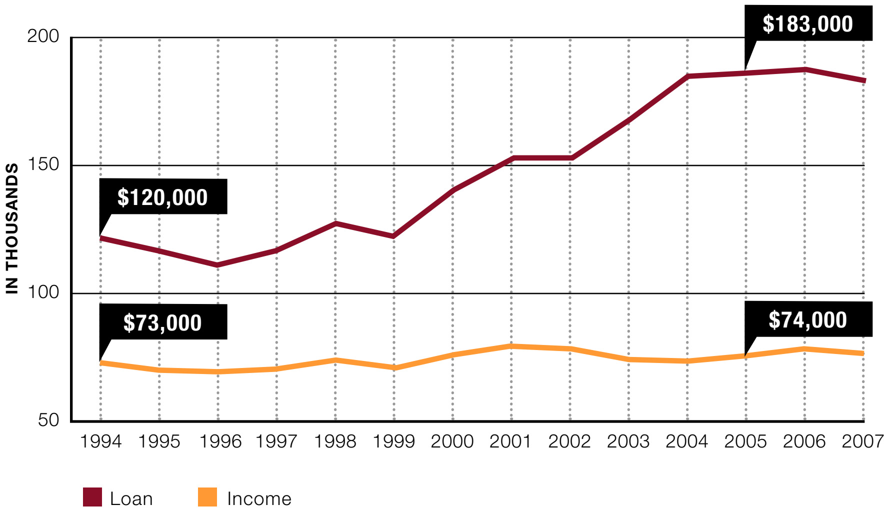
The company did not respond to a Center request for comment.

The British bank HSBC got into the subprime business in the

## Increasing Percentage of Income Goes to Housing

In 1994, $73,000 was the annual median income for a loan of $120,000. By 2005, as subprime lending peaked, nearly the same median income could get a $183,000 loan.




* Inflation adjusted. Totals include all first-lien mortgages, not just subprime. Salary and loan numbers reflect the median, or midpoint, of all salary and loan data analyzed.

Source: Analysis performed using federal Home Mortgage Disclosure Act data acquired from the National Institute for Computer-Assisted Reporting.

United States with the purchase of Household Finance in 2003. Prior to the purchase, Household paid a $484 million settlement encompassing customers in all 50 states for unfair and deceptive lending practices.

Ameriquest was the subject of at least four settlements involving predatory lending since 1996, including charges of excessive fees and misleading poor and minority borrowers.  In 2006, Ameriquest and its holding company, ACC Capital Holdings Corp., agreed to a $325 million settlement with the District of Columbia and 49 states over allegations that the company misled borrowers, falsified documents, and pressured appraisers to inflate home values.

Countrywide, No. 1 on the Center's list, signed off in 2008 on the mother of all predatory lending settlements. After being sued by 11 states, the company agreed to provide more than $8.6 billion of home loan and foreclosure relief.

The Center contacted an attorney for former Countrywide CEO Angelo Mozilo, but did not receive a response.

## Deeper and Deeper in Debt

There's no question it has become easier over the last few decades to buy a home. Keeping it, however, is a different matter. One of the key measures of whether borrowers can afford a home or not is to compare their income to their loan amount. In its analysis of the lending industry, the Center tracked the loan-to-income ratio of borrowers between 1994 and 2007. The Center did a computer analysis of more than 350 million mortgage applications reported to the federal government during this time.

In 1994, the median loan after adjusting for inflation was $120,000 — meaning half of loans approved were greater than that amount and half were less. The median income of borrowers was $73,000. That's a loan-to-income ratio of 1.65. So borrowers were taking out loans that amounted to 165 percent of their salary.

The ratio remained relatively steady through the rest of the 1990s, but by 2000, it began to shoot upward. By 2005, the peak of the subprime lending boom, the median loan grew to $183,000 while borrowers' median income remained roughly the same. That amounts to a loan-to-income ratio of 2.46. That meant the typical loan amounted to 246 percent of annual income.

Borrowers, in other words, were spending a much higher percentage of their income on housing during the subprime lending boom. Many of the lenders coaxed them along by lowering lending standards, failing to require documentation of income on loans, and providing adjustable rate loans with low two-year teaser rates that reset to much higher levels. Ultimately, that fed a wave of foreclosures, leading to trouble for borrowers, lenders, and eventually taxpayers — lots of it. And digging out will be no easy task. ■

# Predatory Lending: A Decade of Warnings

## CONGRESS, FED FIDDLED AS SUBPRIME CRISIS SPREAD

**By Kat Aaron**


**Some 2.26 million people may lose their homes to foreclosure in the next two years due to subprime lending, says a recent report by the Pew Charitable Trusts.** *(© iStockphoto.com/fstop123)*

A LITTLE MORE than a decade ago, William Brennan foresaw the financial collapse of 2008.

As director of the Home Defense Program at the Atlanta Legal Aid Society, he watched as subprime lenders earned enormous profits making mortgages to people who clearly couldn't afford them.

The loans were bad for borrowers — Brennan knew that. He also knew the loans were bad for the Wall Street investors buying up these shaky mortgages by the thousands. And he spoke up about his fears.

"I think this house of cards may tumble some day, and it will mean great losses for the investors who own stock in those companies," he told members of the Senate Special Committee on Aging in 1998.

It turns out that Brennan didn't know how right he was. Not only did those loans bankrupt investors, they nearly took down the entire global banking system.

Washington was warned as long as a decade ago by bank regulators, consumer advocates, and a handful of lawmakers that these high-cost loans represented a systemic risk to the economy, yet Congress, the White House, and the Federal Reserve all dithered while the subprime disaster spread. Long forgotten Congressional hearings and oversight reports, as well as interviews with former officials, reveal a troubling history of missed opportunities, thwarted regulations, and lack of oversight.

What's more, most of the lending practices that led to the disaster are still entirely legal.

## Growth of an Industry

Congress paved the way for the creation of the subprime lending industry in the 1980s with two obscure but significant banking laws, both sponsored by Fernand St. Germain, a fourteen-term Democratic representative from Rhode Island.

The Depository Institutions Deregulation and Monetary Control Act of 1980 was enthusiastically endorsed by then-President Jimmy Carter. The act, passed in a time of high inflation and declining savings, made significant changes to the financial system and included a clause effectively barring states from limiting mortgage interest rates. As the subprime lending industry took off 20 years later, the act allowed lenders to charge 20, 40, even 60 percent interest on mortgages.

The other key piece of legislation was the Alternative Mortgage Transaction Parity Act, passed in 1982. The act made it possible for lenders to offer exotic mortgages, rather than the plain-vanilla 30-year, fixed-rate loan that had been offered for decades.

With the passage of the Parity Act, a slew of new mortgage products was born: adjustable-rate mortgages, mortgages with balloon payments, interest-only mortgages, and so-called option-ARM loans. In the midst of a severe recession, these new financial products were seen as innovative ways to get loans to borrowers who might not qualify for a traditional mortgage. Two decades later, in a time of free-flowing credit, the alternative mortgages became all too common.

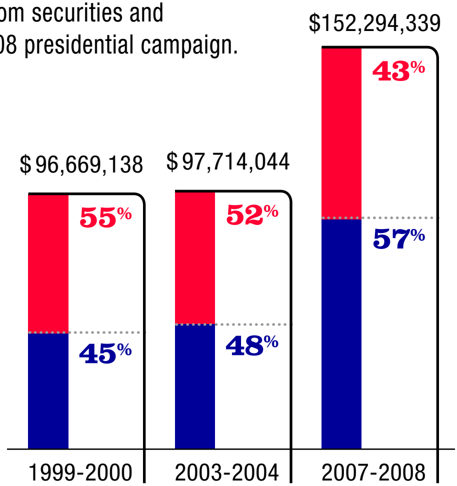
The Parity Act also allowed federal regulators at the Office of Thrift Supervision and the Office of the Comptroller of the Currency to set guidelines for the lenders

## Political Contributions By Securities and Investment Companies

Despite a worsening economy, contributions from securities and investment firms spiked sharply during the 2008 presidential campaign.

| TOP CONTRIBUTORS IN 2008 | |
|---|---|
| Goldman Sachs | $ 5,752,921 |
| Morgan Stanley | $ 3,532,477 |
| UBS AG | $ 2,968,425 |
| Merrill Lynch | $ 2,807,297 |
| Credit Suisse Group | $ 2,311,410 |




Republicans Democrats

Source: Center for Responsive Politics.

Totals include contributions from political action committees, soft money doners, and individuals giving $200 or more.

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they regulate, preempting state banking laws. In the late 1990s, lenders began using the law to circumvent state bans on mortgage prepayment penalties and other consumer protections.

In the late 1980s and early 1990s, subprime loans were a relatively small portion of the overall lending market. Subprime loans carry higher interest rates and fees, and were supposed to be for people whose bad credit scores prevented them from getting a standard — or prime — loan. Consumer advocates at the time were mostly concerned about reports of predatory practices, with borrowers getting gouged by high rates and onerous fees. Congress responded in 1994 with passage of the Home Ownership and Equity Protection Act, or HOEPA.

The act, written by former

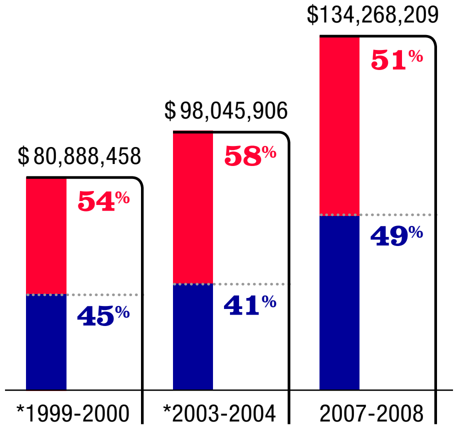
## Political Contributions By Real Estate Companies

Contributions from real estate interests increased sharply in 2008 compared with the previous presidential election.

**TOP CONTRIBUTORS IN 2008**

| | |
|---|---|
| National Assn. of Realtors | $4,265,045 |
| Fannie Mae | $1,119,781 |
| Natl Assn Real Estate Investment Trusts | $1,075,175 |
| Realogy Corp. | $835,948 |
| The Villages | $808,975 |

Republicans    Democrats




* For this election cycle nearly one percent of contributions went to third party or independent candidates and political action committees.

Source: Center for Responsive Politics.

Totals include contributions from political action committees, soft money doners, and individuals giving $200 or more.

Representative Joseph P. Kennedy, a Democrat from Massachusetts, created restrictions on "high-cost" loans, which were defined as having an interest rate that was more than 10 percentage points above rates for comparable Treasury securities. If points and fees totaled more than 8 percent of the loan amount, or $400, whichever was higher, the loan was also considered high cost.

High-cost loans were still legal, but contained some restrictions. Prepayment penalties and balloon payments before five years were banned or restricted. Also prohibited was negative amortization, a loan structure in which the principal actually grows over the course of the mortgage, because the monthly payments are less than the interest owed. But the bill did not include a ban on credit insurance — an expensive and often unnecessary insurance product packed into loans, creating substantial up-front costs. Nor did it ban loan flipping, in which a borrower's loan is refinanced over and over again, stripping equity through closing costs and fees.

At the time of HOEPA's passage, the subprime lending industry had two main elements: small, regional lenders and finance companies. The regional lenders specialized in refinancing loans, charging interest rates between 18 and 24 percent, said Kathleen Keest, a former assistant attorney general in Iowa who is now an attorney with the Center for Responsible Lending, a fair-lending advocacy organization. HOEPA sought to eliminate the abusive practices of the regional lenders without limiting the lending of the finance companies — companies like Household, Beneficial, and the Associates — viewed then as the legitimate face of subprime, Keest said.

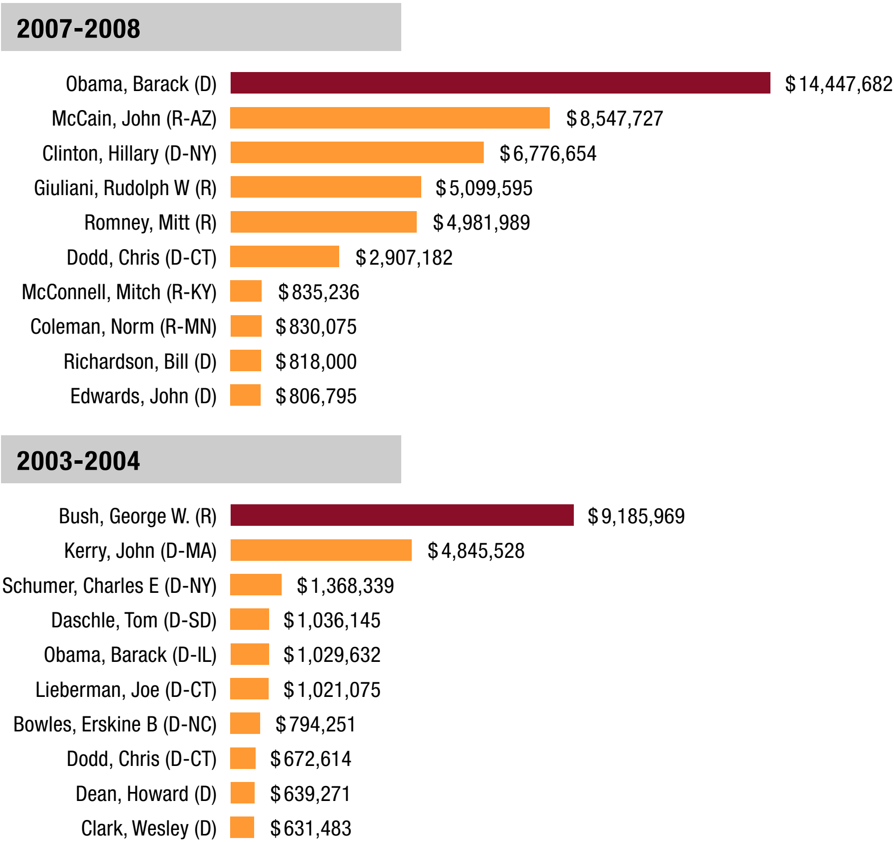
HOEPA did largely succeed in eliminating the regional lenders. But the law didn't stop subprime lending's rapid growth. From 1994 to 2005, the market ballooned from $35 billion to $665 billion, according to a 2006 report from the Center for Responsible Lending using industry data. In 1998, the CRL report said, subprime mortgages were 10 percent of all mortgages. By 2006, they made up 23 percent of the market.

The loans themselves also changed during the 2000s. Adjustable-rate mortgages, which generally begin at a low fixed introductory rate and then climb to a much higher variable rate, gained market share. And over time, the underwriting criteria changed, with lenders at times making loans based solely on the borrower's "stated income" — what the borrower said he earned. A 2007 report from Credit Suisse found that roughly 50 percent of all subprime borrowers in 2005 and 2006 — the peak of the market — provided little or no documentation of their income.

As the subprime lending industry grew, and accounts of abusive practices mounted, advocates, borrowers, lawyers, and even some lenders clamored for a legislative or regulatory response to what was emerging as a crisis. Local legal services workers saw early on that high-cost loans were creating problems for their clients, leading

# Top Recipients of Securities and Investment Company Contributions

Sen. Barack Obama far outraised opponent Sen. John McCain among investment banks, hedge funds, and other investment firms in the 2008 presidential election.




State affiliation indicates a sitting member of Congress.

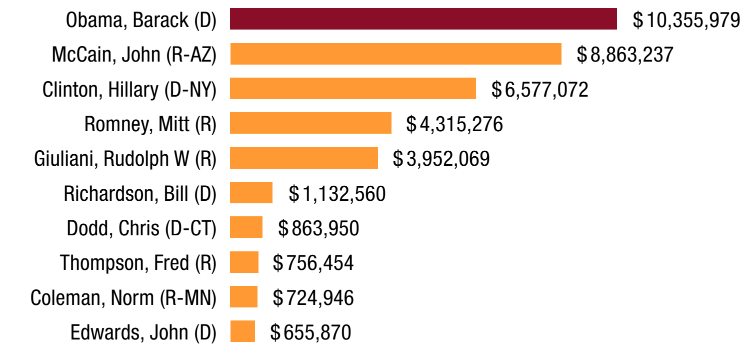
Source: Center for Responsive Politics.

Totals include contributions from political action committees and individuals giving $200 or more.

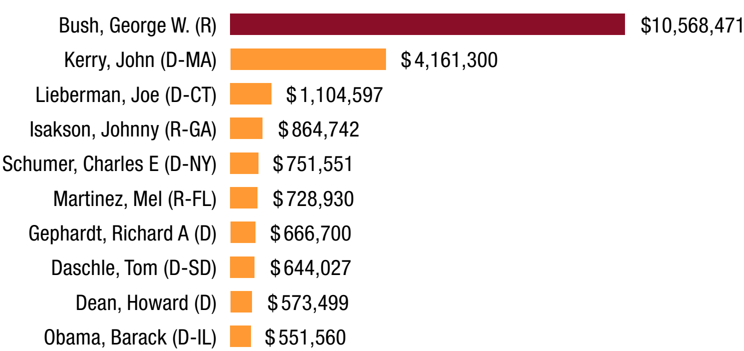
# Top Recipients of Real Estate Company Contributions

The real estate industry favored Sen. Barack Obama over Sen. John McCain in 2008, and then-President George W. Bush against Sen. John Kerry in 2004.

## 2007-2008




## 2003-2004




State affiliation indicates a sitting member of Congress.

Source: Center for Responsive Politics.

Totals include contributions from political action committees and individuals giving $200 or more.

to waves of foreclosures in cities like New York, Philadelphia, and Atlanta.

## Wall Street Changes Dynamic

Subprime loans weren't designed to fail. But the lenders didn't care whether they failed or not.

Unlike traditional mortgage lenders, who make their money as borrowers repay the loan, many subprime lenders made their money up front, thanks to closing costs and brokers fees that could total over $10,000. If the borrower defaulted on the loan down the line, the lender had already made thousands of dollars on the deal.

And increasingly, lenders were selling their loans to Wall Street, so they wouldn't be left holding the deed in the event of a foreclosure. In a financial version of hot potato, they could make bad loans and just pass them along.

In 1998, the amount of subprime loans reached $150 billion, up from $20 billion just five years earlier. Wall Street had become a major player, issuing $83 billion in securities backed by subprime mortgages in 1998, up from $11 billion in 1994, according to the Department of Housing and Urban Development. By 2006, more than $1 trillion in subprime loans had been made, with $814 billion in securities issued.

Among those sounding an early alarm was Jodie Bernstein, director of the Bureau of Consumer Protection at the Federal Trade Commission from 1995 to 2001. She remembers being particularly concerned about Wall Street's role, thinking "this is outrageous, that they're bundling these things up and then nobody has any responsibility for them. They're just passing them on."

The FTC knew there were widespread problems in the subprime lending arena and had taken several high-profile enforcement actions against abusive lenders, resulting in multi-million dollar settlements. But the agency had no jurisdiction over banks or the secondary market. "I was quite outspoken about it, but I didn't have a lot of clout," Bernstein recalled.

Speaking before the Senate Special Committee on Aging in 1998, Bernstein noted with unease the big profits and rapid growth of the secondary mortgage market. She was asked whether the securitization and sale of subprime loans was facilitating abusive, unaffordable lending. Bernstein replied that the high profits on mortgage backed securities were leading Wall Street to tolerate questionable lending practices.

Asked what she would do if she were senator for a day and could pass any law, Bernstein said that she would make players in the secondary market — the Wall Street firms bundling and selling the subprime loans, and the investors who bought them — responsible for the predatory practices of the original lenders. That didn't happen.

Instead, over the next six or seven years, demand from Wall Street fueled a rapid decline in underwriting standards, according to Keest of the Center for Responsible Lending. Once the creditworthy borrowers were tapped out, she said, lenders began making loans with little or no documentation of borrowers' income.

"If you've got your choice between a good loan and a bad loan, you're going to make the good loan," Keest said. "But if you've got your choice between a bad loan and no loan, you're going to make the bad loan."

If the loan was bad, it didn't matter — the loans were being passed along to Wall Street, and at any rate, the securitization process spread the risk around. Or so investors thought.

## Signs of a Bigger Problem

Even as subprime lending took off, the trend in Congress was to approach any issues with the new mortgages as simple fraud rather than a larger risk to the banking industry.

"In the late 1990s, the problem was looked at exclusively in the context of borrower or consumer fraud, not systemic danger," recalls former Representative Jim Leach, a Republican from Iowa. Leach served as chair of the House Banking and Financial Services Committee from 1995 through 2000.

Some on Capitol Hill tried to address the problems in the subprime market. In 1998, Democratic Senator Dick Durbin of Illinois tried to strengthen protections for borrowers with high cost loans. Durbin introduced an amendment to a major consumer bankruptcy bill that would have kept lenders who violated HOEPA from collecting on mortgage loans to bankrupt borrowers.

The amendment survived until House and Senate Republicans met to hammer out the final version of the legislation, under the leadership of Senator Charles Grassley, the Iowa Republican who was the principal Senate sponsor of the bankruptcy bill. The predatory lending clause, along with other consumer protections, disappeared. (Staffers for Sen. Grassley at the time say they don't remember the amendment.) Faced with opposition from Durbin as well as President Clinton, the new version of the bill was never brought to a vote.

More calls for action surfaced in 1999, when the General Accounting Office (now the Government Accountability Office) issued a report calling on the Federal Reserve to step up its fair lending oversight. Consumer groups, meanwhile, were raising concerns that mortgage companies owned by mainstream banks — so-called non-bank mortgage subsidiaries — were making abusive subprime loans, but these subsidiaries were not subject to oversight by the Federal Reserve. In fact, the Federal Reserve in 1998 had formally adopted a policy of not conducting compliance examinations of nonbank subsidiaries. The GAO report recommended that the Federal Reserve reverse course and monitor the subsidiaries' lending activity.

The Fed disagreed, saying that since mortgage companies not affiliated with banks were not subject to examinations by the Federal Reserve, examinations of subsidiaries would "raise questions about 'evenhandedness.'" According to GAO, the Federal Reserve Board of Governors also said that "routine examinations of the nonbank subsidiaries would be costly."

In 2000, Congress revisited the subprime issue. Again, the concern was more about predatory lending practices than systemic risk. But, as in 1998, there were warnings about larger problems.

Ellen Seidman, director of the Office of Thrift Supervision, testified that predatory lending was an issue of serious concern to the OTS in part because it raised major safety and soundness concerns for banks. Seidman, speaking before the House Banking and Financial Services Committee in May 2000, said investors needed more education about mortgage-backed securities, because "predatory loans are not good business, not simply because they are unethical, but because they can damage reputations and hurt stock prices."

Cathy Lesser Mansfield, a law professor at Drake University, presented the House committee with specific and alarming data on the interest rates and foreclosure rates of subprime loans nationwide. "Probably the scariest data for me personally," Mansfield testified, "was a single pool foreclosure rate." Mansfield had looked at the foreclosure rate for one pool of loans that had been bundled and sold on Wall Street. About a year and a half after the pool was created, almost 28 percent of the loans were in delinquency or foreclosure, she said.

"That means in that single pool, if that is symbolic for the industry, that means there might be a one in four chance of a borrower losing their home to a lender," she told the committee.

Representative Ken Bentsen, a Democrat from Texas, found the high default rates worrying, particularly because the nation was enjoying a healthy economy. "I think you could argue that, assuming we have not repealed the business cycle and there is a downturn at some point," he said, "you could experience even astronomical default rates … That would spill over into other sectors of the economy, both in deflating the real estate market, as well as impact the safety and soundness of the banking system."

## Unimpressed Regulators

While acknowledging the safety and soundness concerns, banking regulators expressed only lukewarm support for new legislation to bar predatory practices. They suggested, instead, that the problem could be addressed through stepped up enforcement of existing laws and industry self-regulation.

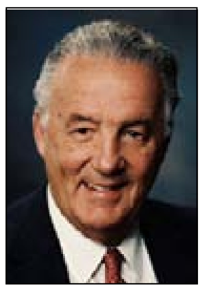
Representatives from the lending industry said they were troubled by reports of predatory practices. But they, too, opposed new legislation, arguing that new laws would cut off credit to impoverished communities. The abuses were the actions of a few "bad actors," said Neill Fendly, speaking on behalf of the National Association of Mortgage Brokers at the 2000 House hearing.

Still, concern was substantial enough to prompt the introduction of new legislation in early 2000 — not one but two competing bills, from Representatives John LaFalce, a Democrat from New York, and Robert Ney, a Republican from Ohio. LaFalce's bill proposed to fill in what he called "gaps in HOEPA." It would have lowered the interest rate and fee thresholds for HOEPA protections to kick in, and restricted loan flipping and equity stripping. The bill would also have barred lenders from making loans without regard for the borrower's ability to repay the debt.

Ney — who years later would plead guilty to conspiracy charges in connection with the Jack Abramoff lobbying scandal and spend 17 months in federal prison — pushed a "narrowly crafted" solution to problems in the subprime lending market, calling abusive mortgage lending practices "rare." Ney's bill would have provided some restrictions on subprime lending by strengthening some of the thresholds under HOEPA, but would have also taken away the power of individual states to enact tougher restrictions.

While the chances of Democratic-backed, pro-consumer legislation passing in the Republican Congress seemed slim, forces from the mortgage banking and brokerage industries were taking no chances, ramping up their political contributions to federal candidates and national parties. After having given $4.2 million in contributions in the 1998 election cycle, industry contributions doubled for the 2000 campaign to more than $8.4 million, according to data from the Center for Responsive Politics. Those contributions would balloon to $12.6 million in 2002. A coalition of subprime lenders sprang into action to fight LaFalce's bill and other attempts to impose tough restrictions.

The tougher LaFalce proposal had the support of Leach, the powerful Republican chairman of the House banking committee.



**Paul Sarbanes**

But even with Leach's approval, the bill went nowhere in a Congress run by conservative Republicans. Increased regulation, recalled Bentsen, "was against what they [the Republican House leadership] believed in."

With that political reality as backdrop, neither LaFalce's bill nor any other lending reform proposal came up for a vote in committee.

Two years later, Democrat Paul Sarbanes of Maryland, then chairman of the Senate Committee on Banking, Housing, and Urban Affairs, introduced another bill to curb abusive high-cost lending. The bill failed to attract a single Republican co-sponsor, and, like the LaFalce bill, never saw a committee vote. Wright Andrews, a leading lobbyist for the subprime industry, said that the LaFalce and Sarbanes proposals in this period were "never really in play." The bills were introduced, but no one was seriously pushing for them, he explained. "The industry could and would have blocked [those proposals], but we didn't really have to."

## States Act — And Get Shut Down

In the absence of new federal legislation, efforts to combat predatory lending were moving at the state level. North Carolina had passed the first state law targeting predatory loans in 1999, and consumer advocates were pushing state laws from Massachusetts to California. The North Carolina law barred three common provisions of predatory loans: loan flipping, prepayment penalties, and the financing of up front, "single-premium" credit insurance. In essence, the law sought to eliminate incentives for making unaffordable loans. With lenders unable to strip equity through high up-front charges and unable to churn loans through flipping, they would have to make money the old-fashioned way, through borrowers' monthly payments.

Two men working at the state level were in attendance at the 2000 House hearing: Andrew Celli, with the New York state Attorney General's office, and Thomas Curry, the Massachusetts banking commissioner.

The state officials told the House committee that they were forced to push consumer protection in their states because the federal regulators were not doing enough to protect borrowers, and HOEPA was ineffective. The threshold for high cost loans to trigger HOEPA's protections was an interest rate 10 percent above comparable Treasury securities. But "as important as this prohibition is, its powers in real world relevance are diminishing," Celli said. Lenders were evading HOEPA, and the consumer protections it afforded, by making loans just under the law's definition of a high-cost loan.

"In response, many state laws set the trigger lower, at five percent, affording consumer protections to a broader swath of borrowers. But the efforts soon came to naught - at least when it came to federally regulated banks. The wave of anti-predatory lending laws was preempted by federal banking regulators, particularly by the Office of Thrift Supervision and the Office of the Comptroller of the Currency. OCC and OTS had effectively told the institutions they regulated that they did not, in fact, have to comply with state banking laws, thanks to the agencies' interpretations of the Parity Act.

"With state protections limited, and federal regulation lax, the boom in subprime mortgages continued. And so did the warnings."

In 2001, Congress heard yet again about the potentially devastating impact of subprime lending, at a hearing before the Senate Banking Committee. In Philadelphia, subprime loans were devastating entire communities, Irv Ackelsberg, an attorney with Community Legal Services, told the committee. "I believe that predatory lending is the housing finance equivalent of the crack cocaine crisis. It is poison sucking the life out of our communities. And it is hard to fight because people are making so much money."

"There is a veritable gold rush going on in our neighborhoods and the gold that is being mined is home equity," Ackelsberg added.

And like William Brennan and Jodie Bernstein in 1998, and Cathy Mansfield, Ellen Seidman, and Ken Bentsen in 2000, Ackelsberg warned that bad subprime loans could hurt not just homeowners, but the broader economy. The ultimate consumers of the high-cost loans, he told the committee, were not individual borrowers, taking out loans they couldn't pay back. "The ultimate consumer is my retirement fund, your retirement fund," he said.

## The Laissez-Faire Fed

Congressional inaction didn't have to leave borrowers unprotected, say experts. The Federal Reserve could have moved at any time to rein in subprime lending, through the Home Ownership and Equity Protection Act. Under the original 1994 law, the Federal Reserve was given the authority to change HOEPA's interest rate and fees that would trigger action under the act, as well as to prohibit certain specific acts or practices. "Clearly, the Fed should have done something on the HOEPA regs," said Seidman, the former OTS director. "I think there is little doubt."

The Fed's reluctance to change the law, Seidman said, reflected the philosophy of the Federal Reserve Chairman, Alan Greenspan, who "was adamant that additional consumer regulation was something he had absolutely no interest in." Jodie Bernstein, who had tackled abusive lenders at the Federal Trade Commission, agreed. Greenspan, she said, was "a 'market's going to take care of it all' kind of guy."

Consumer advocates had pushed for lower HOEPA triggers since the law's passage, hoping to include more loans under the law's protections. But one problem with changing the law was that no one seemed to agree on how well it was working. In 2000, the Federal Reserve acknowledged that it did not even know how many home-equity loans were covered by HOEPA — the main federal law preventing abuses in high-cost lending.

Three government agencies said that the law was protecting staggeringly few borrowers. A joint report from the departments of Treasury and Housing and Urban Development, released in June 2000, found that during a sample six-month period in 1999, less than one percent of subprime loans had an interest rate exceeding the HOEPA trigger. The Office of Thrift Supervision estimated that based on interest rates, the law was capturing approximately one percent of subprime loans.

The American Financial Services Association, a lenders' trade association, had very different numbers. George Wallace, the general counsel of AFSA, told the Senate in 2001 that, according to an AFSA study, HOEPA was capturing 12.4 percent of first mortgages and 49.6 percent of second mortgages.

After a series of national hearings on predatory lending, the Fed made modest changes to HOEPA's interest rate trigger in 2001. The late Ed Gramlich, a governor on the Federal Reserve Board and early critic of the subprime industry, said that in setting the new triggers the Board was "heavily influenced" by survey data provided by the lending industry — data showing that a significant percentage of mortgages were in fact just below the triggers.

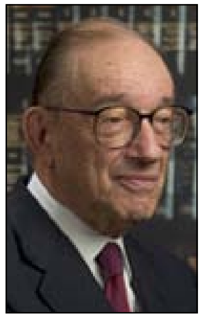
The 2001 changes to HOEPA set the threshold for what constituted a high-cost first mortgage loan at 8 percent above comparable Treasury securities, down from 10 percent, but for second mortgages it was left unchanged. The Fed also added credit insurance to the law's definitions of points and fees, meaning that lenders could no longer pack expensive insurance into loans and still evade HOEPA's triggers.

For the first time, lenders making a high-cost loan had to document a borrower's ability to repay the loan. The Fed also barred high-cost lenders from refinancing mortgages they made within a year.

But Margot Saunders, of the National Consumer Law Center, said the 2001 changes had little impact. Lenders simply undercut the law's new, lower triggers, she said, continuing to make loans at just below the thresholds. Advocates said another provision, designed to stop loan flipping, also did little, because lenders could simply flip borrowers into a new loan on the 366th day, or a new lender could flip the loan at any time.

William Brennan, who is still at the Atlanta Legal Aid Society, said the Fed's failure to act more forcefully on HOEPA was a key missed opportunity. "That bill had potential to put a stop to all this," he said. "That one bill in my opinion would have stopped this subprime mortgage meltdown crisis.

Former Federal Reserve Chairman Alan Greenspan declined to be interviewed for this story, but his recent congressional testimony gives some insight into his perspective on the meltdown and its origins.



**Alan Greenspan**

In October 2008, Greenspan appeared before the House Committee on Oversight and Government Reform to answer questions about the financial crisis and his tenure at the Fed. In his testimony, Greenspan wrote that subprime mortgages were "undeniably the original source of [the] crisis," and blamed excess demand from securitizers for the explosive growth of subprime lending.

Greenspan also acknowledged that after forty years, he had "found a flaw" in his ideology. "Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity, myself especially, are in a state of shocked disbelief," he said.

In other words, in this case, the market proved unable to regulate itself.

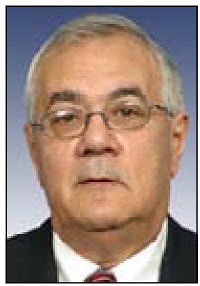
## The Aftermath

Eight years after the Fed failed to step in, skyrocketing foreclosure rates have wrecked the banking industry, requiring a $700 billion bank bailout. Investors that bought mortgage-backed securities, including many retirement funds, have lost untold billions.

One in 33 homeowners in the United States, 2.26 million people, may lose their homes to foreclosure in the next two years — a staggering foreclosure rate directly attributed to subprime mortgage loans made in 2005 and 2006, according to a recent report from the Pew Charitable Trusts.

Had the legislative efforts to curb abusive practices in the high-cost lending market succeeded — at the state or federal level — those loans might never have been made. But the proposals didn't succeed, and many of the troubling mortgage provisions that contributed to the foreclosures are still legal today.

"Prepayment penalties, yield spread premiums, flipping, packing, single premium credit insurance, binding mandatory arbitration — they're all still legal under federal law," said Brennan. Some of those provisions are prohibited under July 2008 changes to HOEPA's implementing regulations, but lenders can still include them in loans below that law's thresholds.



**Barney Frank**

A bill now moving through the House would change that. The bill, sponsored by Democratic Representatives Brad Miller and Mel Watt, both of North Carolina, and Barney Frank of Massachusetts, includes a ban on yield-spread premiums — which reward brokers for steering borrowers into costly loans — and lending without regard for a borrower's ability to repay the mortgage. The bill would also create what are known as "assignee liability provisions," which would make mortgage securitizers more responsible for abuses in the original mortgages. The bill was approved by the House Financial Services Committee on April 29, and is expected to receive a vote on the House floor.

Keest, of the Center for Responsible Lending, said assignee liability provisions could have helped to avert the crisis. The provisions would not just have given borrowers the ability to defend themselves from foreclosure, Keest said, but would have protected investors as well.

Several state laws included the assignee liability provisions, but were preempted by federal regulators. If those provisions had stayed in the law, investors might have been more attentive to the questionable actions of lenders and brokers. When investors are responsible for abuses in the loans they buy, Keest said, "they have some skin in the game," and are more likely to closely scrutinize the loans in a securitized pool. Investors might have noticed sooner that the subprime loans they were gobbling up were going bad, fast.

As it was, the demand for securities backed by subprime loans was insatiable.

"The secondary market, it was Jabba the Hutt — 'feed me, feed me,'" Keest said. It was a "two-demand market," she said, with borrowers seeking credit on one side, and investors clamoring for securities on the other.

Ira Rheingold, executive director of the National Association of Consumer Advocates, asserts that the financial industry's lobbying power shut down efforts to help consumers, both during the early 2000s and more recently, when advocates were pushing for foreclosure assistance in the bailout bill. "People were making lots of money," Rheingold said. "Congress was dependent upon their money."

The industry is, indeed, among the biggest political forces in Washington. Between 1989 and 2008, the financial services sector gave $2.2 billion in federal campaign contributions, according to the Center for Responsive Politics. Since 1998, the sector spent over $3.5 billion lobbying members of Congress — more than any other single sector, again according to the Center.

Meanwhile, Brennan worries about his city, which he said sees 4,000 to 7,000 foreclosures filed each month in the metropolitan area, concentrated in African-American communities.

"Atlanta is a disaster," he said. And the same might be said for the American economy. ■

# Meltdown 101

## SUBPRIME MORTGAGES AND THE ROAD TO FINANCIAL RUIN

**By John Dunbar**

**JUST HOW** did we get into this economic mess? The answers are both complex and troubling. Blame greed, irresponsibility, lax government oversight, conflicts of interest and especially blind faith in a housing boom that seemingly had no end. But end it did, setting off a chain reaction that has left the economy in tatters and stuck the American people with the tab.

Thus far, the government has committed $1.75 trillion to buying or propping up a portfolio dominated by devalued real estate assets — and this may be just a down payment. The Obama administration has a new plan that will commit more government cash to rid the financial system of the toxic assets that have wrecked the economy.

### Roots in an Earlier Collapse

The origins of the current crisis can be found in an earlier calamity — the collapse of the technology industry in 2000. The Federal Reserve responded to that downturn by lowering interest rates. Ideally, lower rates trigger more borrowing and spending, which in turn lead to economic growth.

In May 2000, the Federal Reserve's federal funds rate — the rate banks charge one another for overnight loans — was 6.5 percent. By August of 2001, it was 3.5 percent. The Fed further lowered rates after the attacks of September 11, to 1.75 percent by December. By June 2003, the rate had been cut to 1 percent and the average monthly rate on a 30-year, fixed mortgage, according to the Federal Home Mortgage Corp. (Freddie Mac) survey, dropped to 5.23 percent, the lowest level since the mortgage buyer started tracking rates in 1971. And so everyone, it seemed, was looking to buy a home.

At the same time, investments known as "mortgage-backed securities," were becoming increasingly popular. Created in the 1980s, the securities work like this: Let's say Jack takes out a mortgage loan on a home. His lender sells the loan to an investment bank that combines it with a thousand other loans into a pool. The pool is cut into pieces and sold to investors as mortgage-backed securities, or bonds, with varying degrees of risk. The interest Jack pays on the loan, rather than going to his bank, now goes to the owners of the securities.

The bottom line? Investors have bought the right to receive Jack's interest payments.

Not all securities in a particular pool are rated the same. Some segments of the pool (known as tranches) contain riskier loans than others. Securities from risky tranches pay higher interest to investors but lose their value first if the underlying mortgages go bust. Securities from safer tranches don't pay as high a return.

Initially, it seemed like a pretty good system. The mortgage-backed securities were considered secure and brought solid returns — better than U.S. treasuries. The bonds created from the pools were blessed as safe by ratings firms like S&P and Moody's. Those ratings firms were later criticized for being too lenient because their fees come from the same institutions that sell the bonds. But at the time, their seal of approval created investor faith in the bonds.

Last October, the House Oversight and Government Reform Committee released an instant message exchange between two S&P employees who were criticizing the model being used to evaluate one particular security offering, noting that it shouldn't be rated.

"It could be structured by cows and we would rate it," wrote one employee. Since then, S&P executives have been instituting safeguards against conflicts of interest, S&P president Deven Sharma said in hearing testimony.

Exacerbating the mortgage problem was a form of insurance known as a "credit default swap." Swaps work like this: Remember Jack's mortgage? Maybe Jack's credit rating isn't so great. The buyer of the mortgage-backed security is concerned — if enough people default on their mortgages, the investment becomes worthless.

So the investor buys a swap from a company like American International Group Inc. to protect against losses. AIG is a giant insurance company. But these contracts are not insurance, not exactly, because there are no requirements that the sellers maintain reserves to guard against unforeseen losses — losses that did indeed come back to haunt AIG. And the swaps business itself is largely unregulated — the contracts do not trade on any public exchange the way stocks do.

The swaps helped fuel the demand for the mortgage-backed bonds. Conservative institutional investors like pension funds and insurance companies lined up to buy the seemingly safe securities, while yield-hungry hedge funds bought securities from the riskier tranches. The Wall Street sellers of the securities had ready buyers thanks to a global savings glut. China and oil-producing nations, flush with cash, were looking for places to invest it.

## Chain Reaction

The prime lending rate is what banks charge their best customers. Subprime does not mean "less than the prime rate." In this case "sub" actually means "worse" — higher interest rates, not lower. Such loans generally start out with a low interest "teaser rate" that remains in place for a couple of years and increases — sometimes by a lot. Ultimately, those types of loans and others like them proved to be ticking time bombs.

But no one worried about that at the outset. Wall Street's insatiable appetite for mortgages to "securitize" was satisfied largely by subprime lenders that specialized in volume, earning their money off fees and commissions. Many of the originators — most based in California, now out of business — used a computerized process that sped the approval process dramatically. Lender profits increasingly became dependent on quantity, not on quality. Pretty soon, those in the business were joking about "NINJA" loans — as in loans made to borrowers with "no income, no job and no assets."

As demand increased for the bonds, so too did demand for large numbers of mortgages. As a result, "subprime" loans became much more popular. The Federal Reserve reported subprime loans accounted for about 19 percent of all home loan originations in 2004, up from less than 5 percent in 1994.

Lenders were often unconcerned about the creditworthiness of the borrowers because they planned on selling the mortgages to Wall Street. And Wall Street wasn't wor-


**Fannie Mae and Freddie Mac bought risky mortgages and mortgage-backed securities, and by doing so created an air of legitimacy around a troubled business.** *(Ariel Olson Surowidjojo/CPI)*

ried because the housing market was booming and credit default swaps had been purchased to protect against losses. And so even though risky subprime mortgages were becoming an increasingly larger component of these loan pools, there were still plenty of buyers for the securities created from them. Probably the two most influential were Freddie Mac and the Federal National Mortgage Corporation (Fannie Mae).

Fannie and Freddie were created by the government to basically do the same thing Wall Street was doing, just years earlier, and more safely: Buy loans (not subprime), convert them to securities, and sell them to investors. The goal was to make more money available for lending and thus spur the American dream of home ownership. These securities were desirable investments because Fannie and Freddie guaranteed the underlying loans against losses. There was also the presumption that if they ever got into trouble, the government would bail them out. (That presumption was in fact correct.)

By 2004, Fannie and Freddie had begun buying billions of dollars worth of "private label" mortgage-backed securities created by investment banks as a means to further affordable housing goals. Fannie and Freddie's participation gave the whole business an air of legitimacy and safety.

With interest rates so low and so much money available for lending, home prices soared. Real estate speculators had a field day. Increasing property values led to a surge in refinancing. Homeowners converted equity in their homes to cash, bought more homes and "flipped" them for a profit. It all seemed too good to be true.  And indeed, it was.

Just as lower interest rates marked the start of the boom, rising interest rates signaled the beginning of its end. In June 2004, the Federal Reserve, fearing an increase in the rate of inflation, made the first of 17 consecutive quarter-point interest rate increases. The federal funds rate topped out at 5.25 percent by the summer of 2006. The monthly average fixed rate on a 30-year mortgage had risen to 6.76 percent by July.

Those higher rates led to a cooling housing market. Property values leveled off and eventually began to drop. Around the same time, millions of subprime mortgages with those low, two-year teaser rates were resetting upward, causing what federal regulators call "payment shock."


**Merrill Lynch was among the many institutions that lost billions in mortgage investments.** *(Ariel Olson Surowidjojo/CPI)*

Borrowers who rode the wave up and took out loans they couldn't afford — especially those who relied on selling their homes at a profit, or refinancing them to make future house payments — were in trouble. Foreclosures for the second quarter of 2007 hit a record, with residential delinquency rates encompassing 5 percent of all loans, according to the Mortgage Bankers Association.

Between 2000 and 2007, underwriters of mortgage-backed securities — primarily Wall Street and European investment banks — poured $2.1 trillion into underwriting subprime mortgage backed securities, according to Inside Mortgage Finance, and the loans had spread far and wide — to bank portfolios, hedge funds, pension plans, and more. Alarmed by the corresponding drop in the value of their portfolios, the big firms cut off credit to subprime lenders and forced some of them to buy back mortgages that were immediately going into default. By the summer of 2007, the subprime industry, starved for cash, had all but disappeared.

The real estate crash was followed — inevitably — by the banking crash. Bear Stearns was the first U.S. bank to fall. In March of 2008, JPMorgan Chase & Co., agreed to buy Bear thanks to a financing arrangement created by the Federal Reserve Bank of New York. The bank basically bought $29 billion of bad Bear assets and moved the portfolio to a newly formed corporation, clearing the way for the sale.

On September 7, the government seized control of Fannie and Freddie, pledging $200 billion in support from the Treasury. A little over a week later, Merrill Lynch, staggered by $45 billion in losses on mortgage investments, agreed to be sold to Bank of America. In the same week, investment banking icon Lehman Brothers filed for bankruptcy protection and the government agreed to an $85 billion bailout of AIG.

Banks, concerned about the financial health and unseen liabilities of other financial institutions, stopped lending. It was time for the government to do something drastic.

## The Bailout Bill

On October 3, 2008, then-President Bush signed the $700 billion Emergency Economic Stabilization Act into law. The legislation was presented to the public as a way to use taxpayer money to buy so-called "toxic" mortgage assets from banks so they could start lending again. It was hoped the government could use the "Troubled Asset Relief Program" — or TARP, as it is known — to buy the mortgage-backed securities, and auction them off when they recovered some of their value.

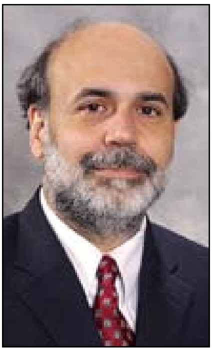
But instead, the Bush administration changed course when it decided not to buy those toxic assets, but to buy shares of preferred stock in banks themselves. The toxic asset problem was in some ways taken on by the Federal Reserve, whose financial commitment has far exceeded the $700 billion TARP program.

In addition to the $29 billion committed to smooth the sale of Bear Stearns by the Federal Reserve Bank of New York, the government has guaranteed against losses of $118 billion in real estate and other assets held by Bank of America and $306 billion in similarly described assets held by Citigroup. The New York Fed has also financed the purchase of $52.5 billion in mortgage securities and credit default swaps from AIG.

In addition, the Federal Reserve has committed to buy up to $1.25 trillion-worth of Fannie, Freddie, and Ginnie Mae mortgage-backed securities. All told, since the real estate crash, the government — including the Treasury Department, the Fed and the Federal Deposit Insurance Corporation — has committed to purchase or guarantee against losses a total of $1.75 trillion in poorly performing assets — and that doesn't include the TARP or a host of Fed programs created to jump-start lending.

**Timothy Geithner**

And there's more to come. On March 23, new Treasury Secretary Timothy Geithner unveiled a plan to convince private investors to buy "legacy" assets, a more agreeable description than "toxic." Geithner wants to lure private investors into buying the assets by providing matching funds and government financing. So how much will this cost? Initially, it will require somewhere between $75 billion and $100 billion in TARP money, according to Geithner. The plan is complex, and so it will be awhile before it's clear whether it helps the economy. Wall Street, however, was impressed. The Dow Jones Industrial Average — led by financial stocks — jumped nearly 500 points — almost 7 percent — on the day details of the program were released.


**Ben Bernanke**

Meanwhile, the government is trying to figure out what went wrong. Federal Reserve Chairman Ben Bernanke in April of this year argued for greater government oversight of financial institutions, "especially large and interconnected ones like AIG." Bernanke said oversight of the insurance company's activities was limited, which allowed it to take "dangerous risks largely out of sight of federal regulators."

Such oversight was clearly not a top priority when Congress passed a law "modernizing" the financial services industry in 1999. Many believe the deregulatory Financial Services Modernization Act set the stage for the current financial meltdown. The legislation knocked down the Depression-era barriers between insurance, investment banking and commercial banking. It allowed financial service companies to expand into other lines of business, but failed to create a sufficient guardian to oversee systemic risk to the economy. The bill passed Congress overwhelmingly, and was signed into law by former President Clinton.

Not everyone was in favor.

Michigan Democratic Rep. John Dingell, in a speech on the floor of the House, warned that his colleagues were passing a bill "written in the dark of night, without any real awareness on the part of most of what it contains." Dingell said the law was creating a group of institutions which will not just be "big banks" but "big everything."

"And under this legislation, the whole of the regulatory structure is so obfuscated and so confused that liability in one area is going to fall over into liability in the next," he continued. "You are going to find that they [financial institutions] are too big to fail, so the Fed is going to be in and other federal agencies are going to be in to bail them out. Just expect that." ■

# The Subprime 25

**THESE TOP 25 LENDERS** were responsible for nearly $1 trillion of subprime loans, according to a Center for Public Integrity analysis of 7.2 million "high interest" loans made between 2005 and 2007. Together, the companies account for about 72 percent of high-priced loans reported to the government at the peak of the subprime market. Securities created from subprime loans have been blamed for the economic collapse from which the world's economies have yet to recover. [For the Center's criteria and to learn how the list was created, please see the Methodology in Article 6.]

## 1. Countrywide Financial Corp.

**Total high-interest loans 2005-2007:** At least $97.2 billion

**Founder/CEO:** Angelo R. Mozilo

**Most recent salary:** (2006) $2,866,667 salary; $48,133,155 total compensation

**Parent/subsidiary companies:** Full Spectrum Lending, subprime lending subsidiary. Bank of America bought Countrywide in July 2008.

**Location:** Calabasas, California

**Year founded:** 1969

**Profile and summary history:** Since its founding, Countrywide grew to be one of the nation's largest mortgage lenders. When the housing bubble burst, Countrywide was among the first to feel the pain. In 2007, losses prompted the lender to draw down an $11.5 billion line of credit, which raised concerns about the stability of the entire U.S. housing market. Mozilo, after leading Countrywide for 39 years, resigned in June 2008. Bank of America bought Countrywide for $4 billion in July 2008.

**Current status:** SOLD. Countrywide was acquired by Bank of America. The "Countrywide" brand is being retired.

**Settlements over lending practices:**
In 2008, the company agreed to provide more than $8.6 billion of home loan and foreclosure relief after being sued by 11 states for predatory lending practices. The settlement was reached after Bank of American acquired the lender, but was related to Countrywide loans.

**Financial backers:** Countrywide relied on credit agreements with a variety of parties, including Bank of America, JPMorgan Chase & Co., Citicorp USA, Royal Bank of Canada, Barclays, and Deutsche Bank.

**Federal bailout money received:** None. Countrywide's new owner, Bank of America, has been given government protection against losses on $118 billion in assets and has received $45 billion in federal assistance.

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $1,277,937

**Top recipients:**

| | | |
|---|---|---|
| 1. | Mortgage Bankers Association PAC | $50,000 |
| 2. | National Republican Congressional Committee | $41,000 |
| 3. | Representative Ed Royce, R-California | $37,500 |
| 4. | Representative Spencer Bachus, R-Alabama | $27,000 |
| 5. | Financial Services Roundtable PAC | $25,000 |

**Lobbying, 1999-2008:** Countrywide reported $9,274,588 in lobbying expenses. ‡

## 2. Ameriquest Mortgage Co./ACC Capital Holdings Corp.

**Total high-interest loans 2005-2007:** At least $80.6 billion

**Founder/co-chairman:** Roland Arnall (deceased)

**Most recent salary:** Not available

**Parent/subsidiary companies:** ACC Capital Holdings (parent); Argent Mortgage Co., Town & Country Credit Corp., AMC Mortgage Services (subsidiaries of ACC). Location: Orange, California.

**Year founded:** 1979

**Current status:** CLOSED. Argent and AMC were sold to Citigroup Inc. on Aug. 31, 2007.

**Profile and summary history:** Created in 1979 by Roland Arnall, Ameriquest – "sponsor of the American dream" – began as Long Beach Savings & Loan, a California-based thrift, and became a pure mortgage lender in 1994. Arnall was a major contributor to President George W. Bush as well as the Democratic Party and served as Bush's ambassador to the Netherlands from 2006 until 2008, shortly before his death. Ameriquest spent lavishly on advertising, including naming rights to the Texas Rangers baseball park. In May 2006, Ameriquest was among the first in the subprime industry to show signs of collapse. The lender stopped making loans in August of 2007.

**Settlements over lending practices:**

In 1996, the company paid $4 million to settle charges by the Justice Department that its brokers charged higher fees to women, the elderly and minorities.

In 2000, it agreed to make $360 million in low-interest loans available following a complaint to the Federal Trade Commission that claimed the company misled poor and minority borrowers about interest rates and fees.

In 2005, the company agreed to pay more than $7 million to settle Connecticut Department of Banking allegations that it charged excessive refinancing fees.

In 2006, Ameriquest and its parent company agreed to a $325 million settlement with the District of Columbia and 49 states to settle claims that it had misled borrowers, falsified documents, and pressured appraisers to inflate home values.

**Financial backers:** Underwriters of Ameriquest's asset-backed securities included Morgan Stanley, JPMorgan Chase & Co., Deutsche Bank, UBS Securities, Citigroup, Greenwich Capital Markets (part of the Royal Bank of Scotland Group), Credit Suisse First Boston, and Banc of America, the investment banking subsidiary of Bank of America.

**Federal bailout money received:** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $3,713,788

**Top recipients:**

| | | |
|---|---|---|
| 1. | Democratic National Committee | $1,576,250 |
| 2. | Democratic Congressional Campaign Committee | $540,000 |
| 3. | George W. Bush | $263,600 |
| 4. | Democratic Governors Association | $220,708 |
| 5. | Democratic Majority 2002 Nonfederal | $210,000 |

**Lobbying, 2003-2008:** Ameriquest and its parent company reported $60,000 in lobbying expenditures. But lobbying firms working for the companies reported $960,000 in expenditures. ‡

## 3. New Century Financial Corp.

**Total high-interest loans 2005-2007:** At least $75.9 billion

**Founder/CEO:** Robert K. Cole (Brad Morrice replaced Cole in 2006 and led the company until his termination in June 2007.)

**Most recent salary:** (2005) $569,250 salary; $1,070,235 bonus

**Location:** Irvine, California

**Year founded:** 1995

**Current status:** CLOSED. Filed for bankruptcy protection April 2, 2007. New Century's mortgage billing and collections unit was sold to Carrington Capital Management, LLC, for $188 million.

**Profile and summary history:** Founded by three subprime industry veterans, New Century went public in 1997, survived the subprime crash of the late 1990s, and rocketed to the top in less than a decade. Its collapse was swift. On February 7, 2007, the company announced it would be restating its earnings for the first three quarters of 2006. On March 2, the company said it would not file its annual report on time. New Century stopped accepting loan applications on March 8 and the New York Stock Exchange delisted its securities on March 13. On April 2, it filed for bankruptcy protection. An investigative report commissioned by the United States Trustee overseeing the bankruptcy case described a "brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy." It said the company made loans in "an aggressive manner that elevated the risks to dangerous and ultimately fatal levels."

**Financial backers:** Goldman Sachs Mortgage Company, Morgan Stanley Mortgage Capital, Bank of America, Citigroup Global Markets Realty, and Residential Funding Corporation are among the firms listed in the top 50 unsecured creditors in New Century's bankruptcy petition. In an SEC filing, New Century said it was supported by $14.1 billion in credit from banks including Bank of America, Barclays, Bear Stearns, Citigroup, Credit Suisse, Deutsche Bank, Morgan Stanley, and UBS to finance its loan originations.

**Federal bailout money received:** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $924,967

**Top recipients:**

| | | |
|---|---|---|
| 1. | National Republican Congressional Committee | $61,300 |
| 2. | Democratic Congressional Campaign Committee | $50,000 |
| 3. | Former Representative Robert Ney, R-Ohio | $46,900 |
| 4. | Representative Paul Kanjorski, D-Pennsylvania | $44,095 |
| 5. | Representative Joseph Crowley, D-New York | $42,542 |

**Lobbying, 2004-2008:** New Century reported $1.9 million in lobbying expenditures. ‡

## 4. First Franklin Corp./National City Corp./Merrill Lynch & Co.

**Total high-interest loans 2005-2007:** At least $68 billion

**President/CEO (First Franklin):** L. Andrew Pollock

**Most recent salary:** Not available

**Parent/subsidiary companies:** Merrill Lynch acquired First Franklin Financial Corp. and affiliated lending units NationPoint and National City Home Loan Services Inc. in late 2006.

**Location:** San Jose, California

**Year founded:** 1981

**Profile and summary history:** Founded by brothers William and Steve Dallas, First Franklin Financial transformed from a small retail brokerage to a national full-service mortgage lender. The lender was acquired by Cleveland-based National City Corp. in August, 1999. It advertised "flexible, purchase-friendly mortgage solutions," which included mortgages with low rates for the first two years. Merrill Lynch, in an attempt to vertically integrate its mortgage originating and securitizing operations, bought First Franklin for $1.3 billion on December 30, 2006, just as the market was going bust.

**Current status:** CLOSED. In March 2008, First Franklin and NationPoint closed all wholesale and retail loan operations.

**Financial backers:** First Franklin partnered with investment banks such as Goldman Sachs and Bank of America to issue securities from its loans, according to financial statements. Other banks, such as Deutsche Bank's HSI Asset Securitization Corporation Trust, pooled First Franklin loans.

**Federal bailout money received:** None. However, Bank of America's purchase of Merrill brought with it $10 billion from the Troubled Asset Relief Program. In addition, PNC Financial Services Group reportedly used a portion of the $7.6 billion in TARP money it received to buy National City in 2008.

**Federal campaign contributions, 1994-2008 (National City) †**

**Total contributions:** At least $1,737,922

**Top recipients:**

1. Former Senator Mike DeWine, R-Ohio $80,575
2. Former Representative Deborah Pryce, R-Ohio $74,973
3. Representative Steven LaTourette, R-Ohio $60,950
4. Republican National Committee $50,650
5. Senator George Voinovich, R-Ohio $49,250

**Lobbying, 1999-2008:** National City Corp. reported $1,979,432 in lobbying expenditures. ‡

## 5. Long Beach Mortgage Co./Washington Mutual

**Total high-interest loans 2005-2007:** At least $65.2 billion

**CEO (Washington Mutual):** Kerry K. Killinger

**Most recent salary:** (2007) $1,000,000 salary; $5,250,770 total compensation

**Parent/subsidiary companies:** Long Beach Mortgage Co. became part of Washington Mutual in 1999.

**Location:** Anaheim, California

**Year founded:** 1979

**Profile and summary history:** Originally a California-based savings and loan, founded in 1979, Long Beach Bank became a federally chartered thrift institution in 1990. In October 1994, it became Long Beach Mortgage Co. Washington Mutual (which has, in some form, existed since 1889) purchased Long Beach Mortgage in October 1999 and used it as its subprime lender. Long Beach stopped making loans in the fourth quarter of 2007. In September 2008, after billions of dollars in losses, skittish depositors made a run on Washington Mutual (known widely as WaMu) and it was seized by the Office of Thrift Supervision. It was the largest bank failure in U.S. history. The Federal Deposit Insurance Corp. "facilitated" the bank's sale to JPMorgan Chase & Co. which paid $1.9 billion.

**Current status:** CLOSED. Long Beach was closed by Washington Mutual in 2007

**Settlements over lending practices:**

In 2001, a Mississippi jury awarded $71 million in damages – later reduced to $54 million – when Washington Mutual Finance Group was found to have refinanced loans for customers repeatedly in order to collect excessive fees.

In 2004, Long Beach settled with the California Department of Corporations over allegations that the company was charging interest on certain mortgages for an extra day before the loans closed; the firm agreed to pay $800,000.

**Financial backers:** Long Beach issued its own securities underwritten by Washington Mutual in partnership with Wall Street banks like Lehman Brothers and Goldman Sachs. It also sold loans to firms like Goldman Sachs and Bear Stearns.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008†**

**Total contributions:** At least $3,678,928

**Top recipients:**

| | |
|---|---|
| 1. Democratic Congressional Campaign Committee | $172,900 |
| 2. Democratic Governors Association | $145,000 |
| 3. National Republican Senatorial Committee | $105,000 |
| 4. Democratic Senatorial Campaign Committee | $93,700 |
| 5. National Republican Congressional Committee | $87,650 |

**Lobbying, 1999-2008:** Washington Mutual reported $5,873,000 in lobbying expenditures. ‡

## 6. Option One Mortgage Corp./H&R Block Inc.

**Total high-interest loans 2005-2007:** At least $64.7 billion

**President/CEO (Option One):** Robert E. Dubrish

**Most recent salary:** (2008) $392,308 salary; $1,906,507 in total compensation

**Parent/subsidiary companies:** Option One was a subsidiary of tax preparation firm H&R Block Inc.

**Location:** Irvine, California

**Year founded:** 1992

**Profile and summary history:** Option One began as a subsidiary of Plaza Home Mortgage Corp. and was sold to Fleet Financial Group in 1995. H&R Block bought it in 1997. An ad on Monster.com for Option One once bragged "Our goal at Option One is not to be the biggest mortgage lender, but to be the best." The company stopped originating loans during H&R Block's third fiscal quarter, which ended January 31, 2008. On April 30, 2008, American Home Mortgage Servicing Inc., an affiliate of private equity company Wilbur Ross & Co., bought Option One's loan servicing business for $1.3 billion.

**Current status:** CLOSED. Option One stopped originating loans in December 2007.

**Settlements over lending practices:**

In 2005, the U.S. Attorney's Office found that the company had funded fraudulent loans for Pennsylvania brokers. Option One agreed to pay $100,000 to several Philadelphia-area community lending groups and reform its lending practices.

**Financial backers:** Option One maintained billions of dollars in lines of credit from companies including Citigroup, UBS, Bank of America, and Lehman Brothers.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $1,368,386

**Top recipients:**

| | | |
|---|---|---|
| 1. | National Republican Congressional Committee | $82,850 |
| 2. | Democratic National Committee | $51,281 |
| 3. | Republican National Committee | $39,050 |
| 4. | Senator Tim Johnson, D-South Dakota | $38,000 |
| 5. | Democratic Senatorial Campaign Committee | $30,250 |

**Lobbying 1999-2008:** H&R Block Inc. reported $2,184,000 in lobbying expenditures and listed legislation affecting mortgage regulation among its issues. ‡

## 7. Fremont Investment & Loan/Fremont General Corp.

**Total high-interest loans 2005-2007:** At least $61.7 billion

**Chairman/CEO:** Murray Zoota

**Most recent salary:** (2005) $475,000 base salary; $700,600 bonus; $125,900 other

**Parent/subsidiary companies:** Fremont General Corp., parent

**Location:** Brea, California

**Year founded:** 1937

**Profile and summary history:** Founded in 1937 as Investors Thrift & Loan, the company was acquired by Fremont General Corp. in 1990. Fremont was renamed "Fremont Investment and Loan" in 1993. Under its new ownership, the firm evolved from primarily a consumer loan operation into a subprime lender operating mainly in western states. It continued to be a major player until March 2007, when the FDIC ordered it to stop making subprime loans. The banking regulator said Fremont was offering subprime mortgage loans in a way that "substantially increased the likelihood of borrower default or other loss to the bank." On June 18, 2008, Fremont General Corp. filed for Chapter 11 bankruptcy protection.

**Current status:** CLOSED. Fremont General filed for bankruptcy June 18, 2008 and the following month sold the bank branches and deposits of Fremont Investment & Loan to CapitalSource Inc.

**Financial backers:** SEC filings show Fremont maintained lines of credit of at least $500 million each with Greenwich Capital Financial (part of the Royal Bank of Scotland), Goldman Sachs Mortgage Co., and Credit Suisse First Boston. It also held a $500 million master repurchasing agreement (an obligation to buy back loans if they soon become delinquent) with Lehman Brothers.

**Federal bailout money received:** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $48,253

**Top recipients:**

| | | |
|---|---|---|
| 1. | Representative Spencer Bachus, R-Alabama | $12,000 |
| 2. | Jim Pederson, D-Arizona | $9,400 |
| 3. | California Republican Party/Victory 2006 | $3,700 |
| 4. | Senator John Kerry, D-Massachusetts | $3,623 |
| 5. | Former Representative Andrea Seastrand, R-California | $2,500 |

**Lobbying, 1999-2008:** Fremont did not report any lobbying expenditures, but lobbying firms working for Fremont reported $120,000 in expenditures. ‡

## 8. Wells Fargo Financial/Wells Fargo & Co.

**Total high-interest loans 2005-2007:** At least $51.8 billion

**President/CEO (Wells Fargo & Co.):** John G. Stumpf, CEO (still in that position as of May 2009) since June 2007; he took over from longtime chairman and CEO Richard Kovacevich.

**Most recent salary:** Stumpf (2008) $878,920 salary; $13,782,433 total compensation. Kovacevich as CEO (2006) $995,000 salary; $29,846,883 total compensation.

**Parent/subsidiary companies:** Wells Fargo Financial, Inc. of Des Moines, Iowa, is the subprime lending division of Wells Fargo & Co.

**Location:** San Francisco

**Year founded:** 1852

**Profile and summary history:** Originally founded in 1852 as a banking and delivery company serving the western United States, Wells Fargo's banking division separated in 1905 and expanded into a national financial institution. In 1998, Wells Fargo merged with Norwest Corp. Norwest would maintain control, but the new institution took the Wells Fargo name and moved to San Francisco. The Norwest merger included a modest subprime business within Norwest, which became Wells Fargo Financial in 2000. Wells Fargo remains one of the nation's more successful banks, though it posted its first quarterly loss since 2001 in the fourth quarter of 2008. Wells Fargo stopped originating loans with initial two-year teaser rates in July 2007.

**Current status:** ACTIVE

**Financial backers:** Wells Fargo & Co.

**Amount of federal bailout money received (if any):** Wells Fargo & Co. received $25 billion from the Troubled Asset Relief Program for purchase of preferred stock.

**Federal campaign contributions, 1994-2008†**

**Total contributions:** At least $5,450,427

**Top recipients:**

| | | |
|---|---|---|
| 1. | National Republican Congressional Committee | $230,771 |
| 2. | Barack Obama | $201,030 |

3. National Republican Senatorial Committee $161,320
4. Democratic Congressional Campaign Committee $130,750
5. Senator Hillary Clinton, D-New York $121,989

**Lobbying, 1999-2008:** Wells Fargo reported $12,240,740 in lobbying expenditures. ‡

## 9. HSBC Finance Corp./HSBC Holdings plc

**Total high-interest loans 2005-2007:** At least $50.3 billion §

**Group chief executive:** M.F.Geoghegan (Still in that position as of May 2009.)

**Most recent salary:** Not available

**Parent/subsidiary companies:** HSBC Holdings plc is a British banking giant with numerous global subsidiaries including HSBC North America Holdings Inc. and its subsidiary, HSBC Finance Corp. in the United States. HSBC has operated several mortgage subsidiaries including Decision One Mortgage Co. LLC, Beneficial, and HFC.

**Location:** Mettawa, Illinois

**Year founded:** 1865

**Profile and summary history:** HSBC, one of the world's largest banks, made a big bet on the U.S. subprime mortgage market. It lost. HSBC bank traces its origins back to the Hongkong and Shanghai Banking Corporation Limited, established in 1865, which is how it got its name. In 2003, HSBC acquired Household International, which became HSBC Finance Corp. in December 2004. The deal included Charlotte, N.C.-based Decision One, which was bought by Household in 1999. HSBC Finance announced on March 2, 2009 that it would discontinue loan origination of all products by its consumer lending business but would continue to service its outstanding loans. An HSBC Finance spokeswoman told the Center via email that the bank was "primarily a portfolio lender," meaning it held its mortgages rather than sold them to third parties.

**Current status:** STOPPED LENDING. In March 2009, HSBC Finance Corp. discontinued loan origination of all products by its consumer lending business.

**Settlements over lending practices:**

In 2002, prior to its buyout by HSBC, Household International agreed to a $484 million nationwide settlement with state attorneys general and banking regulators for deceptive lending practices.

**Financial backers:** HSBC was largely a "portfolio lender," the company told the Center, meaning it held on to its loans rather than sell them to third parties. However, it did securitize loans from its own subprime subsidiaries.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $6,437,927

**Top recipients:**

| | | |
|---|---|---|
| 1. | National Republican Senatorial Committee | $303,272 |
| 2. | Republican State Leadership Committee | $200,295 |
| 3. | National Republican Congressional Committee | $197,805 |
| 4. | Democratic Senatorial Campaign Committee | $186,000 |
| 5. | Democratic Congressional Campaign Committee | $144,130 |

**Lobbying:** HSBC reported $21,150,000 in lobbying expenditures since 1999. ‡

## 10. WMC Mortgage Corp./General Electric Co.

**Total high-interest loans 2005-2007:** At least $49.6 billion

**CEO (WMC Mortgage):** Amy Brandt left as CEO of WMC at the end of 2006 and was replaced by Laurent Bossard.

**Most recent salary:** Not available

**Parent/subsidiary companies:** GE Money Bank, part of General Electric Co., was the parent company.

**Location:** Woodland Hills, California

**Year founded:** 1955

**Profile and summary history:** Originally Pacific Western Mortgage Company, WMC went through several mergers and name changes, going by Par West Financial and later Weyerhaeuser Mortgage Company. WMC became the sixth-largest subprime lender in the country before it was purchased by General Electric in 2004 and became part of the GE Money division. When the subprime bubble burst, GE tried to sell the company. It eventually laid off most of its staff and shut down lending operations in the fourth quarter of 2007. The company reported to the SEC that it sold what was left of its U.S. mortgage business in December 2007.

**Current status:** CLOSED

**Financial backers:** An SEC filing shows that in the year before being acquired by GE, WMC financed the funding of its loan originations using credit from Lehman Brothers, Credit Suisse First Boston, Merrill Lynch, Residential Funding Corp., and CDC Mortgage Capital.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $11,676,506

**Top recipients:**

| | | |
|---|---|---|
| 1. | Republican Governors Association | $523,000 |
| 2. | Democratic Senatorial Campaign Committee | $391,450 |
| 3. | National Republican Congressional Committee | $366,201 |
| 4. | Democratic National Committee | $363,940 |
| 5. | Democratic Congressional Campaign Committee | $348,750 |

**Lobbying:** No lobbying activity for WMC was found. General Electric, which lobbied on numerous issues, is not included in that analysis. ‡

## 11. BNC Mortgage Inc./Lehman Brothers

**Total high-interest loans 2005-2007:** At least $47.6 billion §

**CEO:** Richard Fuld (CEO of Lehman Brothers since 1994.) Steven Skolnik replaced Kelly Monahan as CEO of BNC Mortgage in December 2006.

**Most recent salary:** Richard Fuld (2007) $750,000 salary; $34,382,036 total compensation

**Parent/subsidiary companies:** BNC Mortgage Inc. was the primary subprime lending subsidiary for Lehman. Others included Finance America LLC (which merged with BNC in 2005) and Aurora Loan Services LLC (acquired in 1997).

**Location:** Irvine, California

**Year founded:** 1995

**Profile and summary history:** Lehman Brothers took an ownership stake in BNC in 2000 and acquired the lender in 2003. Founded in 1995, BNC Mortgage had its initial public offering in 1998. Two years later, BNCM Acquisition, a group including the company's top managers, took the company private. In 2004, one of its partial owners, Lehman Brothers, bought it. In addition to owning subprime lenders, Lehman was also a top underwriter of subprime mortgages for other businesses. In August 2007, Lehman announced it was closing BNC Mortgage, though it would continue to make loans via its subsidiary Aurora Loan Services LLC, which is not part of the company's September 15, 2008 bankruptcy filing. Lehman CEO Richard Fuld, in congressional testimony following Lehman's collapse, did not mention the firm's huge investment in subprime lending and said the bank was a "casualty of the crisis of confidence" in the banking system.

**Current status:** CLOSED. Aurora is still active, however.

**Settlements over lending practices:**

In 2003, Lehman Brothers was ordered by a jury to pay $5.1 million in civil damages to about 4,500 borrowers who used mortgage lender First Alliance. The company was accused of distributing deceptive, high-fee subprime mortgage loans, which Lehman was funding. The $5.1 million was 10 percent of a $51 million verdict. A $2 million settlement was reached.

**Financial backers:** Lehman brought its considerable assets to bear in originating subprime mortgages through its subsidiaries as well as underwriting loans for other companies. According to *Inside Mortgage Finance*, Lehman sunk $221 billion into subprime lenders between 2000 and 2007.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 (Lehman Brothers)** †

**Total contributions:** At least $8,026,228

**Top recipients:**

| | |
|---|---|
| 1. Democratic National Committee | $756,550 |
| 2. Republican National Committee | $510,212 |
| 3. Democratic Senatorial Campaign Committee | $444,160 |
| 4. Senator Hillary Clinton, D-New York | $343,050 |
| 5. Barack Obama | $338,816 |

**Lobbying:** Lehman reported $5,930,000 in lobbying expenditures since 1999. ‡

## 12. Chase Home Finance/JPMorgan Chase & Co.

**Total high-interest loans 2005-2007:** At least $30 billion

**Chairman/CEO:** James "Jamie" Dimon (still in that position as of May 2009) became CEO on December 31, 2005, replacing William B. Harrison Jr. Harrison held the position from 2001 through the end of 2005.

**Most recent salary:** Dimon (2008) $1,000,000 salary; $19,651,556 total compensation, which includes $16,841,799 in stock awards and $1,413,200 in option awards.

**Parent/subsidiary companies:** In 2001, Chase bought Advanta Corp.'s mortgage business. Chase Home Finance was the consumer lending unit of JPMorgan Chase & Co.

**Location:** Iselin, New Jersey

**Year founded:** 1799

**Profile and summary history:** JPMorgan Chase & Co. is one of the nation's largest banks and its CEO, James "Jamie" Dimon has gotten good press for keeping it largely out of the subprime mess. In 2001, Chase bought the mortgage business of Advanta Corp., which serviced a $15.8 billion "nonprime" lending portfolio. Chase Home Finance did its share of subprime, though it was a relatively small portion of the bank's overall lending. In 2006, in a letter to shareholders, Dimon wrote, "The subprime business is a great example of what happens when something good is taken to excess." Dimon said when done right, "subprime is good business" but that a recession would be "the only thing that will make it a lot worse." JPMorgan bought Bear Stearns in May 2008 with help from a $29 billion government guarantee against losses on Bear assets. JPMorgan also bought the remnants of Washington Mutual in September 2008, a bank whose failure was the biggest in U.S. history.

**Current status:** ACTIVE

**Financial backers:** JPMorgan, in addition to originating subprime mortgages, was also a major underwriter of subprime mortgages for other lenders.

**Federal bailout money received:** JPMorgan benefitted when the Federal Reserve Bank of New York guaranteed against losses $29 billion in shaky Bear Stearns assets, clearing the way for the company's sale. JPMorgan has also collected $25 billion in funds from the government's Troubled Asset Relief Program.

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $14,995,087

**Top recipients:**

| | | |
|---|---|---|
| 1. | Democratic Senatorial Campaign Committee | $755,229 |
| 2. | Barack Obama | $551,408 |
| 3. | Democratic National Committee | $439,116 |

4. National Republican Senatorial Committee $429,035
5. Democratic Congressional Campaign Committee $413,680

**Lobbying, 1999-2008:** JPMorgan and subsidiaries reported $62,024,099 in lobbying expenditures. ‡

## 13. Accredited Home Lenders Inc./Lone Star Funds V

**Total high-interest loans 2005-2007:** At least $29.0 billion

**Chairman/CEO:** James A. Konrath

**Most recent salary:** (2005) $411,410 salary plus $514,263 bonus

**Parent/subsidiary companies:** Home Funds Direct (subsidiary)

**Location:** San Diego

**Year founded:** 1990

**Profile and summary history:** Accredited Home Lenders, Inc. quickly grew into a national subprime lender. In 2003, it had its initial public offering, a year after being named one of *Inc.*'s 500 fastest-growing privately held companies. Accredited acquired Aames Investment Corp., another large subprime lender, effective October 1, 2006. Aames originated $5.2 billion in high-priced loans in 2005. Lone Star Funds V, a private equity firm, promised to buy the lender just as the subprime market was crashing. Lone Star tried to back out of the deal and eventually bought Accredited for a much lower price in October 2007.

**Current status:** STOPPED LENDING. The lender stopped originating loans in 2007, according to published reports.

**Financial backers:** When Accredited announced cash problems in 2007, it had lines of credit totaling more than $4 billion with Goldman Sachs, Merrill Lynch, Morgan Stanley, IXIS Real Estate, and Lehman Brothers, among others. Accredited sold loans to companies such as Lehman, Morgan Stanley, JPMorgan Chase, GMAC RFC and Goldman Sachs.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $21,950

**Top recipients:**

1. Former Representative Robert Ney, R-Ohio $7,950
2. National Home Equity Mortgage Association PAC $7,000

3. Former Governor Mitt Romney, R-Massachusetts $2,000
4. Ohio Association of Mortgage Brokers PAC $1,200
5. (tie) George W. Bush $1,000
5. (tie) Republican National Committee $1,000

**Lobbying:** None found. ‡

## 14. IndyMac Bancorp, Inc.

**Total high-interest loans 2005-2007:** At least $26.4 billion

**CEO:** Michael W. Perry

**Most recent salary:** (2007) $1,000,000 salary; $1,396,769 total compensation

**Parent/subsidiary companies:** Originally affiliated with Countrywide (until 1997), IndyMac Bank was the principal subsidiary of IndyMac Bancorp, Inc.

**Location:** Pasadena, California

**Year founded:** 1985

**Profile and summary history:** IndyMac was founded in 1985 by the founders of Countrywide as an offshoot (Countrywide Mortgage Investment) but spun off on its own in 1997. The bank was seized on July 11, 2008 by the federal Office of Thrift Supervision, which blamed its collapse in part on a letter from Senator Charles Schumer, D-New York, questioning its solvency. Depositors withdrew more than $1.3 billion following his comments. OTS Director John Reich told reporters that Schumer's letter sparked a run on deposits that "pushed IndyMac over the edge." Schumer blamed the OTS and said everything in his letter was already known to the public. The FDIC took over IndyMac, at a cost to the FDIC's insurance fund estimated at $10.7 billion, according to a Treasury Department Inspector General report. At the time of the closing, the bank had customers with about $1 billion in uninsured deposits.

**Current status:** SEIZED and SOLD. After the FDIC's 2008 seizure of IndyMac, it operated as IndyMac Federal Bank under FDIC supervision. OneWest Bank Group, a newly formed thrift, purchased IndyMac on March 19, 2009.

**Financial backers:** IndyMac issued billions of dollars-worth of subprime mortgage-backed securities underwritten by Wall Street investment banks such as Goldman Sachs. Firms such as Goldman and Lehman Brothers also issued their own securities composed in part of IndyMac loans.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $88,220

**Top recipients:**

| | | |
|---|---|---|
| 1. | Mortgage Bankers Association PAC | $38,225 |
| 2. | American Success PAC | $10,000 |
| 3. | National Association of Real Estate Investment Trusts PAC | $6,075 |
| 4. | Representative David Dreier, R-California | $3,000 |
| 5. | Senator Chris Dodd, D-Connecticut | $2,800 |

**Lobbying, 2007-2008:** IndyMac did not report any lobbying, but lobbying firms working for the company have reported $40,000 in expenditures. ‡

## 15. CitiFinancial / Citigroup Inc.

**Total high-interest loans 2005-2007:** At least $26.3 billion

**CEO:** Vikram Pandit (Citigroup Inc., still in that position as of May 2009.)

**Most recent salary:** (2008) $958,333 salary; $10,815,263 total compensation

**Parent/subsidiary companies:** Parent company Citigroup Inc. bought Argent Mortgage Co. LLC and AMC Mortgage Services on August 31, 2007. The companies were subsidiaries of ACC Holdings, which owned Ameriquest, one of the nation's largest and most criticized subprime lenders.

**Location:** Baltimore

**Year founded:** 1912

**Profile and summary history:** CitiFinancial was created as Commercial Credit in 1912. The company is the subprime lending unit of the global banking giant Citigroup Inc., which was created with the $140 billion merger of Citicorp and insurance firm Travelers Group in 1998. The deal was contingent on the elimination of Depression-era restrictions on one firm owning insurance companies, investment banks, and commercial banks. Congress complied with the passage of the Financial Services Modernization Act in 1999, a law pushed hard by Citigroup's creator, Sandy Weill. Citigroup purchased Associates First Capital in November 2000, a company often accused of predatory lending practices. Citigroup was involved in virtually every aspect of the subprime business, including supplying funding for other mortgage companies. CitiFinancial did not, however, sell its loans to be used as securities, according to the company. The crash of the market hit the bank harder than most and its share of government assistance has been considerable. It includes a $306 billion government guarantee against losses on shaky mortgage assets.

**Current status:** ACTIVE

**Settlements over lending practices:**

In 2002, Citigroup agreed to pay $215 million to resolve Federal Trade Commission charges that Associates First Capital Corp., prior to being acquired by Citigroup in 2000, had engaged in "systematic and widespread deceptive and abusive lending practices."

In 2004, the Federal Reserve levied a $70 million civil penalty against CitiFinancial for subprime lending abuses committed from 2000 through 2002.

**Financial backers:** Citigroup originated its own subprime loans, bought loans from other subprime lenders and created mortgage-backed securities for sale on Wall Street.

**Federal bailout money received:** Citigroup has received federal guarantees on $306 billion in assets as well as $45 billion in direct investment and a $5 billion Treasury backstop on losses in the asset pool.

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $16,150,379

**Top recipients:**

| | | |
|---|---|---|
| 1. | Democratic Senatorial Campaign Committee | $1,088,877 |
| 2. | Republican Governors Association | $940,000 |
| 3. | Republican National Committee | $875,546 |
| 4. | Democratic Governors Association | $732,094 |
| 5. | Barack Obama | $592,136 |

**Lobbying, 1999-2008:** Citigroup and its subsidiaries reported $57,760,000 in lobbying expenditures. ‡

## 16. EquiFirst Corp./Regions Financial Corp./Barclays Bank plc

**Total high-interest loans 2005-2007:** At least $24.4 billion

**Chairman/CEO:** Jeffrey Tennyson

**Most recent salary:** Not available

**Parent/subsidiary companies:** EquiFirst was a wholly owned subsidiary of Regions Bank until April 2007, when EquiFirst was purchased by Barclays Bank of Great Britain.

**Location:** Charlotte, North Carolina.

**Year founded:** 1989

**Profile and summary history:** Founded in 1989, EquiFirst began what it dubbed "controlled growth" from North Carolina to dozens of other states. On March 30, 2007, Regions Financial Corp. sold the lender to Barclays Bank Plc of Great Britain for $76 million, far less than was originally offered.

**Current status:** CLOSED. EquiFirst stopped making loans on February 17, 2009.

**Financial backers:** In addition to primary backing from Regions Financial Corp. and Barclays Bank, EquiFirst also sold its loans to issuers of mortgage-backed securities such as Residential Funding Corp.

**Amount of federal bailout money received (if any):** $3.5 billion (Regions)

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $945,792

**Top recipients:**

| | |
|---|---|
| 1. Representative Spencer Bachus, R-Alabama | $59,500 |
| 2. National Republican Congressional Committee | $45,000 |
| 3. Republican National Committee | $38,960 |
| 4. Financial Services Roundtable PAC | $38,000 |
| 5. Mortgage Bankers Association PAC | $28,000 |

**Lobbying, 2001-2008:** Regions did not report any lobbying expenditures, but firms working for the company reported $720,000 in expenditures. ‡

## 17. Encore Credit Corp./ ECC Capital Corp./Bear Stearns Cos. Inc.

**Total high-interest loans 2005-2007:** At least $22.3 billion

**Chairman/CEO (ECC Capital):** Steven G. Holder.

**Most recent salary:** (2005) $437,500 salary plus $506,250 bonus

**Parent/subsidiary companies:** Encore Credit Corp. was a subsidiary of ECC Capital. In February 2007, ECC closed the sale of its mortgage banking business to Bear Stearns, which also owned subprime lender EMC Mortgage.

**Location:** Irvine, California

**Year founded:** 2001

**Profile and summary history:** Formed in 2001, Encore Credit Corp. operated from 2002 to 2006 as a "brand new national non-prime lender." Bear Stearns bought the company in February 2007. Bear would become the first major U.S. investment bank to collapse in 2008 thanks largely to its investment in mortgage-backed securities. Bear folded Encore's Irvine office into Bear Stearns Residential Mortgage (Bear Res) in October 2007 and stopped making loans out of the office in December.

**Current status:** CLOSED

**Settlements over lending practices:**

In September 2008, EMC Mortgage and Bear Stearns agreed to pay a $28 million fine to settle Federal Trade Commission charges that the companies misrepresented the amounts borrowers owed, charged unauthorized fees, and engaged in "unlawful and abusive collection practices."

**Financial backers:** Prior to being acquired, Encore Credit disclosed credit agreements with Countrywide Warehouse Lending, UBS Real Estate Securities, IXIS Real Estate Capital, Wachovia Bank, and Credit Suisse First Boston.

**Amount of federal bailout money received (if any):** None. However, JPMorgan Chase & Co. was able to buy Bear Stearns with the help of a $29 billion guarantee by the Federal Reserve Bank of New York against losses on shaky mortgage assets held by Bear.

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $7,151,923

**Top recipients:**

| | |
|---|---|
| 1. Democratic National Committee | $529,771 |
| 2. Democratic Senatorial Campaign Committee | $355,000 |
| 3. National Republican Senatorial Committee | $340,605 |
| 4. Senator Chris Dodd, D-Connecticut | $329,800 |
| 5. Republican National Committee | $295,873 |

**Lobbying, 2005-2006:** ECC did not report any lobbying, but lobbying firms working for the company reported $35,000 in expenditures. Bear Stearns, which lobbied on numerous issues, is not included in the total. ‡

## 18. American General Finance Inc./American International Group Inc. (AIG)

**Total high-interest loans 2005-2007:** At least $21.8 billion §

**CEO (AIG):** Maurice "Hank" Greenberg was CEO for more than 35 years prior to his March 2005 resignation.  He was replaced by Martin Sullivan, who left in June 2008.  Sullivan's successor, Robert Willumstad, headed the company for just three months before he was replaced by current CEO Edward Liddy (still in that position as of May 2009).

**Most recent salary:** Sullivan (2007) $1,000,000 salary; $14,330,736 total compensation

**Parent/subsidiary companies:** Since 2001, American General Finance has been owned by American International Group (AIG). In addition, Wilmington Finance Inc. and MorEquity were both subprime lending subsidiaries of AIG.

**Location:** Evansville, Indiana

**Year founded:** 1920

**Profile and summary history:**  Founded in 1920 as Interstate Finance Corp. to underwrite sales of Inland Motor Truck vehicles, American General Finance has been making loans for more than 80 years. In August 2001, American International Group (AIG) acquired the company. AIG is known as an insurance company and dealer in complex credit derivatives, but it has also been a steady originator of subprime mortgages.

**Current status:** ACTIVE. Wilmington's wholesale lending operation was shut down in June of 2008. American General is still lending.

**Settlements over lending practices:**

Wilmington Finance Inc. and other AIG subsidiaries agreed in 2007 to provide $128 million in restitution after the Office of Thrift Supervision found that WFI had failed to consider the creditworthiness of borrowers and had charged large broker and lender fees. AIG also agreed to donate $15 million to "financial literacy and credit counseling."

**Financial backers:** In addition to primary support from AIG, subprime loans originated by Wilmington Finance were securitized by Wall Street investment banks such as Morgan Stanley and Merrill Lynch.

**Amount of federal bailout money received (if any):** The government has thus far approved for AIG about $187 billion in various forms of federal loans, guarantees, and direct investments.

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $3,231,689

**Top recipients:**

| | | |
|---|---|---|
| 1. | Republican National Committee | $326,468 |
| 2. | Democratic Congressional Campaign Committee | $257,500 |
| 3. | National Republican Congressional Committee | $132,290 |
| 4. | Democratic Senatorial Campaign Committee | $92,940 |
| 5. | National Republican Senatorial Committee | $69,100 |

**Lobbying, 1999-2008:** AIG and its subsidiaries reported $69,837,300 in lobbying expenditures.‡

## 19. Wachovia Corp.

**Total high-interest loans 2005-2007:** At least $17.6 billion

**CEO:** G. Kennedy "Ken" Thompson (2000 to June 2008)

**Most recent salary**: (2006) $1,090,000 salary; $23,846,282 total compensation

**Parent/subsidiary companies:** Wachovia is now owned by Wells Fargo & Co.

**Location:** Charlotte, North Carolina

**Year founded:** 1879

**Profile and summary history:** Wachovia was formed as Wachovia National Bank in 1879 in North Carolina with $100,000 of capital. The bank grew steadily over the years and helped make Charlotte the banking capital of the South. In 2001, Wachovia merged with First Union Corp. and First Union changed its name to Wachovia. In October of 2006, Wachovia paid $24 billion for Oakland, Calif.-based Golden West Financial, owner of World Savings, the nation's second-largest savings and loan. World Savings' "Pick-a-Pay" loans allowed borrowers to make very low payments that did not cover the minimum interest owed.

Such loans were widely blamed for losses that sunk Wachovia, a claim that is disputed by World Savings bank founder Herb Sandler. Federal mortgage data analyzed by the Center shows that Wachovia originated the vast majority of its high-priced loans after it had taken possession of the California thrift.

**Current status:** SOLD. Wachovia was bought by Wells Fargo & Co. on December 31, 2008.

**Amount of federal bailout money received (if any):** None. However, Wells Fargo has received $25 billion from the government's Troubled Asset Relief Program.

**Total contributions:** At least $6,108,867

**Top recipients:**

| | |
|---|---|
| 1. Senator John McCain, R-Arizona | $280,421 |
| 2. Republican National Committee | $268,510 |
| 3. Barack Obama | $267,888 |
| 4. Erskine Bowles, D-North Carolina | $241,800 |
| 5. George W. Bush | $227,260 |

**Lobbying, 1999-2008:** Wachovia reported $5,971,000 in lobbying expenditures. ‡

## 20. GMAC LLC/Cerberus Capital Management

**Total high-interest loans 2005-2007:** At least $17.2 billion §

**CEO (GMAC Financial):** Alvaro G. de Molina (still in that position as of May 2009) was appointed CEO effective April 1, 2008. The position was held by Eric Feldstein from 2002 to 2008.

**Most recent salary:** Not available

**Parent/subsidiary companies:** GMAC is 51 percent owned by an investor group led by Cerberus Capital Management, with the rest held by General Motors. GMAC has several lending subsidiaries including GMAC-RFC Holding Co. LLC, Residential Funding Co. LLC, and Homecomings Financial LLC.

**Location:** Minneapolis

**Year founded:** 1982 (GMAC established in 1919)

**Profile and summary history:** GMAC was created to fund the purchase of General Motors vehicles and later expanded into mortgage lending. GMAC Mortgage was created in 1985, and five years later GMAC purchased Residential Funding

Corporation, which became GMAC-RFC. GMAC also formed Homecomings Financial in 1995 from the purchased assets of another company. In 2005, ownership of GMAC Mortgage, GMAC-RFC, and Homecomings was transferred to a newly formed holding company, the Residential Capital Corp. (ResCap). In April 2006, GMAC announced it was selling a 51 percent stake to a capital investment group led by Cerberus Capital Management. Other investors included Citigroup Inc. GMAC, stung by the collapse of the real estate market and slow auto sales, turned to the government for help in late 2008. The Federal Reserve approved GMAC's application to become a bank holding company, thus allowing it to receive a $5 billion investment from the Treasury Department.

**Current status:** ACTIVE

**Settlements over lending practices:**

In 2004, GMAC-Residential Funding Corp., along with several other institutions, agreed to a $41 million settlement of a class-action lawsuit filed in federal court in Pittsburgh over predatory lending claims.

In 2005, Homecomings Financial Network Inc. (a GMAC subsidiary) and Fairbanks Capital agreed to forgive $11 million in debt and give a total of $773,000 in restitution, account credits, and refunds to West Virginia homeowners.

**Financial backers:** GMAC's Residential Funding Co. was one of the industry's top 10 issuers of subprime mortgage-backed securities in 2006 and 2007, packaging its own loans and partnering with investment banks to underwrite or sell certificates to the public.

**Federal bailout money received:** GMAC received $5 billion from the government's Troubled Asset Relief Program.

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $5,893,576

**Top recipients:**

| | | |
|---|---|---|
| 1. | Republican National Committee | $445,730 |
| 2. | Representative John Dingell, D-Michigan | $223,850 |
| 3. | Democratic Congressional Campaign Committee | $185,704 |
| 4. | National Republican Congressional Committee | $183,356 |
| 5. | National Republican Senatorial Committee | $153,435 |

**Lobbying, 2007-2008:** GMAC reported $6,080,000 in lobbying expenditures.‡

## 21. NovaStar Financial Inc.

**Total high-interest loans 2005-2007:** At least $16 billion

**Chairman/CEO:** Scott F. Hartman

**Most recent salary:** (2007) $663,204 salary; $1,115,025 total compensation

**Location:** Kansas City, Missouri

**Year founded:** 1996

**Profile and summary history:** Founded in 1996, NovaStar Financial was a real estate investment trust and subprime lender. Having weathered near bankruptcy and legal challenges, the publicly traded company is no longer originating mortgage loans. It sold its servicing business to Morgan Stanley affiliate Saxon Mortgage Services in 2006.

**Current status:** STOPPED LENDING. NovaStar stopped making mortgage loans in 2007.

**Settlements over lending practices:**

In 2004, NovaStar was fined $80,000 by the state of Nevada for failure to renew its licenses to operate in the state. It was also fined $22,500 by state authorities in Massachusetts for operating an unlicensed location.

In 2007, NovaStar agreed to pay more than $5 million to settle a 2005 class action lawsuit filed in Tacoma, Washington, federal court involving 1,600 plaintiffs accusing the company of overcharging them on loan fees.

**Financial backers:** NovaStar defaulted on a credit agreement with JPMorgan Chase in 2008 and also maintained a credit agreement with Wachovia. SEC filings show NovaStar also sold loans for securitization by Wall Street firms such as Goldman Sachs and JPMorgan Chase.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $18,448

**Top recipients:**

| | | |
|---|---|---|
| 1. | National Republican Congressional Committee | $3,200 |
| 2. | (tie) George W. Bush | $2,000 |
| 2. | (tie) Representative Paul Kanjorski, D-Pennsylvania | $2,000 |
| 2. | (tie) Senator Harry Reid, D-Nevada | $2,000 |

| | | |
|---|---|---|
| 5. | (tie) Senator Hillary Rodham Clinton, D-New York | $1,000 |
| 5. | (tie) Republican National Committee | $1,000 |

**Lobbying:** None found.‡

## 22. American Home Mortgage Investment Corp.

**Total high-interest loans 2005-2007:** At least $15.3 billion

**Founder/CEO:** Michael Strauss

**Most recent salary:** (2006) $907,185 salary plus $2,637,000 bonus

**Location:** Melville, New York

**Year founded:** 1987

**Profile and summary history:** American Home Mortgage rapidly rose to $1 billion in annual loan volume within about a decade. By October 2006, it claimed to be the tenth largest retail lender in the nation. It stopped lending and closed its doors in August 2007 and filed for Chapter 11 bankruptcy protection the same month.

**Current status:** CLOSED. Billionaire investor Wilbur Ross Jr. purchased the servicing unit of the company.

**Financial backers:** Bankruptcy filings show the company's top creditors included Deutsche Bank, JPMorgan Chase, Bank of America, Citigroup, Morgan Stanley, Wells Fargo, and Bear Stearns.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $46,676

**Top recipients:**

| | | |
|---|---|---|
| 1. | Representative Roy Blunt, R-Missouri | $5,000 |
| 2. | Representative Peter Roskam, R-Illinois | $4,900 |
| 3. | Governor Bill Richardson, D-New Mexico | $4,600 |
| 4. | National Republican Congressional Committee | $4,350 |
| 5. | The Desert Caucus (PAC) | $4,200 |

**Lobbying:** None found. ‡

## 23. GreenPoint Mortgage Funding Inc./Capital One Financial Corp.

**Total high-interest loans 2005-2007:** At least $13.1 billion

**Chairman/CEO:** S.A. Ibrahim was president and CEO of GreenPoint Mortgage from 1999 to 2005. He was replaced by Steven M. Abreu.

**Most recent salary:** Ibrahim's 2003 salary, $389,423; bonus, $1,145,250

**Parent/subsidiary companies:** Capital One bought GreenPoint parent company North Fork Bancorp on December 1, 2006.

**Location:** Novato, California

**Year founded:** 1868

**Profile and summary history:** Originally a community bank in Brooklyn, New York, GreenPoint Savings Bank was first chartered in 1868. In 1995, GreenPoint acquired Barclays American/Mortgage Corp. and moved aggressively into the no-documentation mortgage market. The loans are also known as "Alt-A" loans, which are not considered by the industry to be subprime because the borrower's credit score is usually high. At least $13.1 billion of GreenPoint's loans, however, were considered "high interest" by the Federal Reserve, fitting the definition of subprime as used in the Center's survey. North Fork Bancorp acquired GreenPoint Financial in October 2004 for $6.3 billion in stock. In December 2006, Capital One purchased North Fork. Capital One shut down GreenPoint by the third quarter of 2007 at an after-tax loss of $1 billion.

**Current status:** CLOSED. Capital One shut down GreenPoint in the third quarter of 2007.

**Settlements over lending practices:**

GreenPoint agreed to pay $1 million in 2008 to settle charges from the New York State Attorney General's Office of discriminatory lending practices to minorities.

**Financial backers:** GreenPoint sold loans to Lehman Brothers, Citigroup, and Morgan Stanley to create securities out of mortgage pools.

**Amount of federal bailout money received (if any):** $3.6 billion

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $3,692,100

**Top recipients:**

| | | |
|---|---|---|
| 1. | Democratic Senatorial Campaign Committee | $214,550 |
| 2. | National Republican Congressional Committee | $100,650 |
| 3. | National Republican Senatorial Committee | $97,000 |
| 4. | Senator John McCain, R-Arizona | $62,951 |
| 5. | Representative Eric Cantor, R-Virginia | $59,700 |

**Lobbying, 2000-2008:** Capital One reported $7,998,000 in lobby expenses. Prior to its acquisition, GreenPoint did not report any lobbying, but firms working for the company reported $40,000 in expenditures. ‡

## 24. ResMAE Mortgage Corp./ Citadel Investment Group

**Total high-interest loans 2005-2007:** At least $13 billion

**Co-founder/president/CEO (ResMAE):** Ed Resendez led the company until its assets were sold to Citadel in 2007.

**Most recent salary:** Not available

**Parent/subsidiary companies:** ResMAE Mortgage Corp. was a subsidiary of ResMAE Financial Corp. Its financial partner was TH Lee Putnam Ventures, a private equity firm connected to Thomas H. Lee Partners and Putnam Investments. On March 6, 2007, ResMae said it agreed to be sold to Citadel Investment Group.

**Location:** Brea, California

**Year founded:** 2003

**Profile and summary history:** Founded in 2003 as the Residential Mortgage Assistance Enterprise, LLC, by former executives of Long Beach Mortgage Co., "ResMAE" called itself "a specialty finance company engaged in the business of originating, selling, and servicing subprime residential mortgage loans." ResMAE filed for Chapter 11 bankruptcy protection in February 2007. The company announced a month later that its remaining assets and liabilities would be sold to Citadel, a Chicago-based hedge fund, for $22 million. After emerging from bankruptcy, ResMAE announced an end to new loans the following November.

**Current status:** CLOSED. The company stopped funding new loans on Nov. 6, 2007.

**Financial backers:** ResMAE's bankruptcy filing lists its largest unsecured creditors, including: CIT Group, Barclays, Merrill Lynch, Lehman Brothers, Deutsche Bank, Bear Stearns, JPMorgan Chase, Nomura Credit & Capital, and Morgan Stanley.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008** †

**Total contributions:** At least $880,754

**Top recipients:**

| | | |
|---|---|---|
| 1. | Barack Obama | $145,350 |
| 2. | Democratic Congressional Campaign Committee | $134,650 |
| 3. | Senator John McCain, R-Arizona | $83,650 |
| 4. | Republican National Committee | $77,533 |
| 5. | National Republican Senatorial Committee | $67,500 |

**Lobbying, 2003-2008:** Citadel did not report any lobbying, but firms working for the company reported $2,030,000 in expenditures. ‡

## 25. Aegis Mortgage Corp./Cerberus Capital Management

**Total high-interest loans 2005-2007:** At least $11.5 billion

**Founder:** Rick Thompson founded the company in 1993 and led it through 2006.

**CEO:** Dan Gilbert was appointed CEO in 2007 and held the job only a few months before the company filed for Chapter 11 protection in August 2007.

**Most recent salary:** Not available

**Parent/subsidiary companies:** Cerberus Capital Management (parent)

**Location:** Houston.

**Year founded:** 1993

**Profile and summary history:** Aegis Mortgage Corp. was founded in 1993 in Houston. Private equity firm Cerberus Capital Management bought the firm in 1998. Cerberus, which along with other investors owns 51 percent of General Motors Acceptance Corp., was unable to keep Aegis in business through the subprime crisis. Aegis filed for Chapter 11 bankruptcy protection in August 2007, one week after ceasing all new home loans.

**Current status:** CLOSED. Filed for bankruptcy, August 2007.

**Settlements over lending practices:**

In 2007, Aegis agreed to pay $475,000 to settle charges filed with the Department of Housing and Urban Development that it denied loans on American Indian reservations, row homes, or group homes for the disabled located throughout the United States.

**Financial backers:** In its bankruptcy filing, the company listed unsecured claims owed to Morgan Stanley, Countrywide, and Goldman Sachs. The company also sold hundreds of millions of dollars in loans to investment banks such as Morgan Stanley and Merrill Lynch.

**Amount of federal bailout money received (if any):** None

**Federal campaign contributions, 1994-2008 †**

**Total contributions:** At least $926,375

**Top recipients:**

| | | |
|---|---|---|
| 1. | (tie) Democratic National Committee | $101,000 |
| 1. | (tie) National Republican Congressional Committee | $101,000 |
| 3. | Democratic Senatorial Campaign Committee | $83,000 |
| 4. | Defend American PAC | $69,500 |
| 5. | Majority Leader's Fund (former Representative Dick Armey, R-Texas) | $50,000 |

**Lobbying:** Cerberus reported $5,360,000 in lobbying expenditures since 2005. ‡

† Contribution grand total includes employee and soft money contributions from the lender and its subsidiaries. Top recipient totals include employee and political action committee contributions. Data provided by CQ Money Line, analysis by the Center for Public Integrity.

‡ Lobbying totals calculated by the Center for Public Integrity using data from the Senate Office of Public Records.

§ Total includes subsidiaries

# Methodology

## HOW THE CENTER INVESTIGATED 350 MILLION LOAN APPLICATIONS

**By David Donald**

**FOR ITS** mortgage analysis, the Center used federal data collected under the Home Mortgage Disclosure Act (HMDA), enacted by Congress in 1975. The data included more than 350 million mortgage applications covering 1994 through 2007, the most recent year available. The loan-to-income analysis encompassed data from these years. The top 25 high-interest lender list is based on data for the years 2005 through 2007.

The act requires lenders to submit mortgage data to the Federal Financial Institutions Examination Council under rules devised by the Federal Reserve Board. While some small lenders are exempt, more than 8,500 lenders currently report details of the mortgage applications they receive, allowing researchers to track such items as the amount of money requested, the income of the borrower, whether the lender approved the loan, and what the loan was used for. Lenders report loans mostly originated in metropolitan areas, leaving out rural lending, and federal researchers estimate the data capture about 80 percent of all home mortgages. HMDA also requires collection of demographic information such as the race and sex of the borrower — data designed to track and expose discriminatory lending practices. The Center acquired its HMDA data from the National Institute for Computer-Assisted Reporting, a non-profit organization that supports the data needs of journalists.

In choosing its data and methodology, the Center relied on a study by Chris Mayer of the Columbia Business School and Karen Pence, a Federal Reserve economist. In their work Subprime Mortgages: What, Where, and to Whom?, they examined — among other research questions — which data sources likely cover most of the subprime market.

One of those sources dates from 2004, after the Federal Reserve

Board changed the rules for reporting HMDA data. With the growth this decade in high-interest loans, including those labeled "subprime," the Fed began requiring lenders to report a "spread" on their interest rate for approved loans if the rate was three or more percentage points above Treasury securities of comparable maturity at the time the loans were originated. Research showed that at least 98 percent of subprime loans would be captured by the three points and above requirement. The objective, according to the Fed, "was to cover substantially all of the subprime mortgage market while generally avoiding coverage of prime loans." Thus, for the purpose of this report, the Center defined "subprime" as a spread of three points or higher in the HMDA data.

The Center also examined two other sources in its efforts to document the universe of subprime lending. One of those sources is a list of subprime lenders prepared annually by Randy Scheessele, director of the Mortgage Market Analysis Division at the U.S. Department of Housing and Urban Development. The HUD list, combined with the HMDA data, captured much of the subprime lending in the 1990s, when most of the subprime lenders were primarily engaged in that category of lending. But the subprime market changed this decade, which meant the HUD list might under report the subprime volume, as Scheessele indicated in an e-mail message. "The subprime lender list is a list that identifies subprime lender specialists," Scheessele wrote. "There are prime lenders who do a significant number of subprime loans but it is not their specialty. Therefore, HMDA data could potentially underestimate the number of subprime loans."

The Center also looked at data collected privately and sold for use in the real estate industry. Private data collectors rely on self-reporting by the lenders, whose definitions of what is a "subprime" or even a high-interest loan can vary significantly.

Mayer and Pence compared results using the HUD list, private vendor data on securitized mortgages, and the HMDA spread data. "The HMDA higher-priced measure may provide the most comprehensive coverage," the authors concluded.

Relying on Mayer and Pence's study, the Center analyzed high-interest, first-lien conventional loans with a spread of three points or higher from 2005 through 2007 for its top 25 list. Only loans collateralized by one-to-four-family properties were included, dropping loans collateralized by manufactured housing. Data from 2004 — the first year that the spreads are reported in the data — were not included because of a suspected high amount of noncompliance with the new HMDA reporting rule and an interest rate yield curve making that year's spread data less reliable. With much better compliance and the yield problem diminishing, the 2005 through 2007 data have proved much more reliable. That time period captured the height of the subprime lending boom and its collapse, and the spread data allowed the Center to track and quantify the volume of high-interest loans for each lender and rank them.

To look at risks borrowers have taken on through the years — and the lenders who have stoked those risks — the Center looked at first-lien conventional mortgages from 1994 through 2007. Although lien status was not added to the data until 2004, the Center followed Mayer and Pence's methods and dropped mortgages with loan amounts of less than $25,000, adjusted for inflation each year to 2006 dollars. The Center then calculated a median loan amount backed by median income for each year to reduce the effect of outliers.

The heat maps for each of the top 25 subprime lenders were generated using Palantir Government software from Palantir Technologies on the sample of 2005 through 2007 high-interest mortgages from HMDA. This software mapped the census tract of each subprime loan based on the latitude and longitude derived from the mapping files of the U.S. Census Bureau. It placed a grid over the map and aggregated all the loans in each box of the grid. Then it computed the maximum and minimum number of loans in any box. Each box on the grid is colored according to its position on this scale as shown in each map legend. Colors are keyed using a "heat" scale, with red showing the highest subprime lending and blue showing the lowest. Visual interpolation is used to smooth the transition between the colors of the boxes on the map.

To calculate Federal campaign contributions, the Center used the CQ Money Line database to compile all reported expenditures, from the 1994 through 2008 cycles, identified as being from the parent company or its major subsidiaries, employees of those companies, or political action committees affiliated with those companies. For the overall totals, we removed any contributions from employees to their own corporate PACs, but included contributions from those PACs to other candidates and committees.

To document federal lobbying by individual firms, the Center compiled all lobbying expenditures reported by the company (and major subsidiaries) and separately by its contract lobbyists, in the Lobbying Disclosure Act Database, hosted by the Senate Office of Public Records.

Center reporters attempted to obtain comment from every CEO and company named in the profiles. For firms still active, we reached out to their corporate communications departments. In all, the Center contacted 13 companies (or their successor companies) and more than two dozen former CEOs, their attorneys, or spokespeople. Four CEOs and three companies offered no comment; five companies sent statements.

In its reporting of the project's main findings, the Center contacted banks that received federal bailout funds and financed subprime lenders. Staff members also contacted the Department of the Treasury and the Federal Reserve. Neither responded to a request for comment. ■

# A Glossary of Terms For the Subprime Era

**By Kat Aaron**

**SUBPRIME LENDING:** As noted in a 2007 Federal Reserve publication, What is Subprime Lending?, "a precise characterization of subprime lending is elusive." In fact, the specific meaning of subprime lending has been the source of considerable debate among regulators, legislators, lenders, and advocates for low-income communities.

Webster's dictionary defines subprime as "having or being an interest rate that is higher than a prime rate and is extended especially to low-income borrowers." According to former Federal Reserve Governor Edward M. Gramlich, "Subprime lending can be defined simply as lending that involves elevated credit risk."

Subprime loans should be for people whose credit scores prevent them from getting access to a regular — or prime — loan. Borrowers with low credit scores can still get a mortgage, but they will have to pay a higher interest rate, and often higher fees. That's because the credit score reflects the borrower's debt history. If a borrower has a track record of not paying back loans, the lender will quite reasonably think he or she is a riskier bet than someone with a good track record, and will charge more for the loan, hedging against default.

In this project, the Center for Public Integrity used a definition employed by the Federal Reserve Bank to capture most subprime loans reported to the government. For that purpose, subprime loans are those at three percent points or more above the rate of comparable U.S. Treasury securities. (For more on the Center's criteria, please see the Methodology page.)

**PREDATORY LENDING:** Definitions vary, but a 2000 joint report from the U.S. Department of Housing and Urban Development and the Treasury Department described predatory lending as "engaging in deception or fraud, manipulating the borrower through aggressive sales tactics, or taking unfair advantage of a borrower's lack of understanding about loan terms." The report noted that the practice "generally occurs in the subprime market."

The report found four main categories of "too-frequent abuses" in the subprime lending market. These were loan flipping, excessive fees, and "packing", lending without regard for the borrower's ability to repay, and outright fraud and abuses. Other tactics may include making unaffordable loans, balloon payments, and high prepayment penalties.

**MAKING UNAFFORDABLE LOANS:** Lending without regard for the borrower's ability to repay is the most basic form of abusive lending. "Some predatory mortgage lenders purposely structure loans with monthly payments that they know the borrower cannot afford," wrote Atlanta Legal Aid attorney William Brennan, "so that when the homeowner is led inevitably to the point of default, she will return to the lender to refinance the loan, and the lender can impose additional points and fees."

Overcharging on rates, points, and fees: Interest rates on subprime loans were typically 2 to 3 percentage points higher than on prime loans. While that higher rate may be appropriate for borrowers with blemished credit, some subprime borrowers could have qualified for prime loans with lower rates. In prime loans, a borrower might pay discount points in exchange for a lower interest rate. In abusive subprime lending, borrowers were charged points but were not given a lower rate in exchange. Those points were then financed into the loan itself rather than paid through cash up front, adding to the total loan amount.

**MORTGAGE BROKER FEES AND KICKBACKS:** Many subprime lenders relied heavily on brokers to sell their loans. Lenders sometimes paid kickbacks to brokers for bringing in borrowers, including fees if the borrower took out a loan at an interest rate higher than the rate they qualified for. The difference between the rate the borrower could have gotten and the rate she paid would be passed on to the broker, a fee known as the yield spread premium. Borrowers often thought the broker was working to find them the best deal — but in a predatory loan, he was working to get himself the biggest possible fee, regardless of the costs to the borrower.

**BALLOON PAYMENTS:** Some subprime loans featured so-called balloon payments several years into the loan. Borrowers would pay a relatively low monthly fee for a specific period — as short as a few years — but then have to come up with a lump-sum payment for the balance of the mortgage. If they were unable to cover the big payment, the lender would refinance the loan, adding a new round of closing costs, brokers' fees, and credit insurance.

**HIGH PREPAYMENT PENALTIES:** In some abusive subprime loans, borrowers would have to pay a fee to the lender if they paid off the loan early. So, if borrowers realized they were getting gouged by a high-rate loan, and found another, more affordable mortgage, they would be forced to pay the original lender in order to refinance at the lower rate.

**INSURANCE PACKING:** Abusive subprime lenders would add credit insurance to almost every loan, usually without telling the borrower, as described by John Dough, an anonymous broker who testified at a 1998 Senate hearing.

**LOAN FLIPPING:** Flipping was a shorthand term describing repeated refinancings. Each refinancing would include closing costs, brokers' fees, credit insurance, and other expensive products, which would strip equity from the home.

**MANDATORY ARBITRATION CLAUSES:** Some abusive loans featured mandatory arbitration clauses, which prevented borrowers from seeking redress in court if they felt the loan terms were abusive — or for any other reason, for that matter. While these clauses denied borrowers access to the judicial process, the lenders did not have to arbitrate claims against borrowers, and could initiate foreclosure proceedings if a borrower defaulted on the loan without engaging in arbitration first. ■

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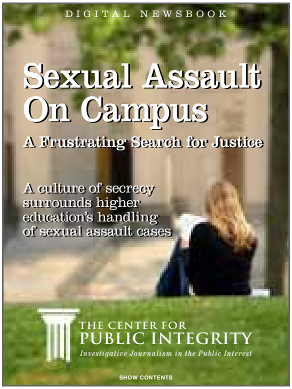


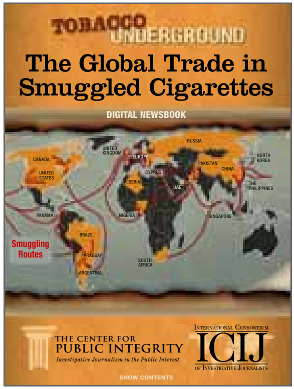


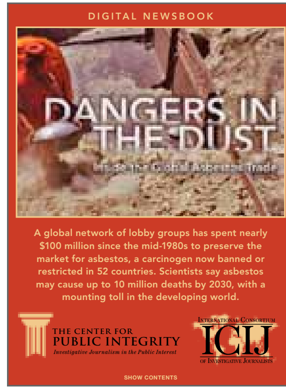


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