AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Faith Schwartz

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Faith Schwartz conducted by Clare Holtzman on July 8, 2020. This interview is part of the Bass Connections American Predatory Lending and the Global Financial Crisis Project.

Readers are asked to bear in mind that they are reading a transcript of spoken word, rather than written prose. The transcript has been reviewed and approved by the interviewee.

Transcriber: Clare Holtzman	Session: 1
Interviewee: Faith Schwartz	Location: Virtual
Interviewer: Clare Holtzman	Date: July 8, 2020

Clare Holtzman: I'm Clare Holtzman, a J.D. Candidate at the Duke University School of Law. I'm also a research assistant for the Global Financial Market Center's American Predatory Lending Project. . . . [I]t is Wednesday, July 8th, 2020. I'm conducting an oral history interview with Faith Schwartz, currently President of Housing Finance Strategies who has joined me through Zoom. Thank you for joining me today.

Faith Schwartz: Sure. It's nice to be here.

Clare Holtzman: I'd like to start by establishing a bit about your background. I believe that you received your Bachelor's in Science and Business Administration from Shippensburg University of Pennsylvania. Is that right?

Faith Schwartz: Yes.

Clare Holtzman: After college, you then completed an MBA at the University of Pittsburgh, correct?

Faith Schwartz: Yes.

Clare Holtzman: In the context of your work life, when and how did you first become involved with residential mortgages?

Faith Schwartz: So I've been involved in residential mortgages most of my life, most of my career life anyway, since 1983, where I started out working for a bank-owned company called Dominion Bank Share's Mortgage, where I ran, kind of, their secondary and capital markets securitization group, as well as their wholesale purchase programs where I would actually buy loans from other banks or mortgage companies. And that was the first 10 years of my career. And then I either worked for small growing companies, some of my clients, I was a limited partner in a few of them. And then [I] ended up at Freddie Mac, after some of those efforts, where I got quite involved in kind of advancing the anti-predatory lending mantra…. So, I became quite familiar with market standards, use cases, and those types of things.

Clare Holtzman: Going back a little bit, can you talk about what TMC Mortgage and Fieldstone did?

Faith Schwartz: Sure. TMC was a small builder-owned company that reconstituted itself, and I used to buy all of their Fannie, Freddie, and Ginnie Mae loans. So, when I left Dominion, I was their COO and kind of set up the company, grew it and originated or purchased up to about a billion dollars a month—or actually a year I think, it was a long time ago. But it was my second real job and we sold the company four years after we grew it— myself and the CEO and some limited partners—and kind of merged it with two other big mortgage companies. I'm trying to think of the dates, but it was the early nineties—so probably 1994 or 93. And I was recruited by Michael Sonnenfeld to work for Fieldstone, which was an aggregator from Wall Street, a conduit-related company to enter into the subprime market, the alternative markets. And I was there for gosh, about two years. I again was over on the capital market side, kind of a COO role of operations and capital markets. But it was my first exposure to HOEPA [Home Ownership and Equity Protection Act] and high cost mortgages and different things. And frankly, I didn't like it too much. So, I ended up being recruited to go to Freddie Mac to help them understand the broader markets. So, I was there for a fairly short time, but I learned a lot, which is very helpful to understanding how really bad things could be in the manufacturing of a loan, but also the wide variety of what was going on outside in the marketplace. So that was . . . more of a conduit, it had set up some branches, but the idea was to sell to Wall Street, you know WaMu (Washington Mutual) or even Household [Finance] at the time was an aggregator of mortgages, a handful of kind of outlets who this company ended up selling to.

So, I believe I was there for maybe two years, but I was pretty clear I didn't want to be there. That was probably of all my jobs, the one I least enjoyed, but I learned a lot. And so then I went to Freddie Mac to set up a pilot on alternative markets or the subprime market to understand the sourcing risk, the different products, what was different about aggregated deals, and what kind of loans were packaged in these securities that were not typical Fannie Mae, Freddie Mac mortgage backed security loans….

Clare Holtzman: Now I know that on your resume, I saw that you talked about working with alternative markets. Could you describe what alternative markets were?

Faith Schwartz: Yah, it was just another way to say if it didn't fit into a Fannie Mae kind of general underwriting guideline, it started slipping out. And in the nineties, there was not a lot, I'd say it's in this 10% to 12% range, maybe, where mortgages were being made outside of traditional Fannie Freddie, FHA (Fair Housing Act), VA (Veterans Affairs) guidelines. In fact, FHA had fallen to a very low percentage, but mostly because of their manufacturing process and how they insured loans back then, they were losing a lot of share—and even the GSEs (Government Sponsored Entities) were [losing market share]— to private label securitization. So, the GSE at that time, Freddie Mac wanted to study that more and understand the risk that they would take if they ever made those credit risks, because they were loans, and at the time it appeared they were performing well. But with the constant increase in house values and other things, if people got in trouble on the mortgages, they would just refinance into yet another mortgage, as you well know.

So, we studied that for a little over three years, it was a pilot. And what we did was we picked a number of different aggregators and originators in the market and we took a credit investment grade risk where we'd wrap the security with a Freddie Mac, we called it a "T deal." And then we would study the data. So, the people that issued the securities would actually need to share with us the loan level data, so that we could study and understand what the loan was, how it was originated. So, it was kind of captured in the securitization, but we went deeper. We studied, kind of like a rating agency would, we studied the origination and servicing risk of the counterparty, so we had an audit team. We got to know the segment of the market and why these loans would fall into this segment versus a standard Fannie and Freddie loan, like what they'd call A or even a slightly A-minus, they might have had a credit blemish but they fell immediately into this other segment of the market.

So, this was early on, this was in the nineties. So, this was quite different than even the collapse of the subprime market, believe it or not, in that it was more cashflow, it was more—it's just a different time. And while it wasn't dominant, it was growing, and so, everyone was paying attention. And so, it really was a pilot. And we did that and decided not to take credit risk for the loans themselves at Freddie Mac during this time—meaning low level credit risk— it was much higher level. And, [we] actually backed out away from that market, and then I spent my time with some of the banks, because I [had] kind of grown up in the prime side of the business. So, I was working with a lot of the big banks on the East Coast after that at Freddie Mac.

But what's most interesting and probably relevant to what you're doing is we learned something really important. And I think it's important to get into your research. I was very proud to lead their anti-predatory lending efforts, which meant we had to step back and say, what are we doing to promote practices in adding liquidity through our securitization. And by the way, this is on prime loans or subprime, right, it wasn't just subprime. And what we realized is they had things going on that we didn't like. And we said, well, we shouldn't buy securities if the originators are doing things that aren't consistent with what should be done across the whole mortgage market. So, we announced three pretty big policy changes that frankly, the prime market, the banks, and others didn't love at the time because we found that, even in rural markets or different places, people were using products and programs that were not suited for consumers.

So really my awakening and engagement to fight predatory lending really is the result of that research and the work we did at Freddie Mac. So, reporting borrower's credit, good or bad, on a regular basis so that brokers can't churn them. Like people didn't report them because they thought it was a refinance barrier and people would look at the borrowers so that a lot of subprime people never were reported to the credit bureaus. So, if they were making their payments, they never got credit for it in the credit bureaus. So, you may be aware of that. Well, that was a pretty bad practice. And so . . . in my role at Freddie Mac, we announced we will not offer any liquidity, we won't work with any company that does not report all loans to the credit agencies. We had several companies that had to change their practices.

So, we felt influential and positive about what we were doing for borrowers in that place, and we thought it was predatory if they weren't reporting that. Another thing we did was we felt mandatory arbitration was a bad thing, so we worked hard to eliminate mandatory arbitration. Prepayment penalties of five years were another really difficult issue, which meant if you had a two-year adjustable rate mortgage and it adjusted upward in two years, you typically got a big interest rate shock. And so, often you had to pay this enormous penalty, of a five-year prepayment penalty, when the average life of these loans was often two years, because when it was going to adjust, they would refinance into yet another mortgage. So, without getting into too much detail here, that became kind of an equity stripping issue. If you're paying an $8,000 fee or a $10,000 fee every time you refinanced to pay off the prepayment penalty, it's highly likely you're going to owe—that's just another way to strip equity and take away from the borrower's wealth.

So, what was not obvious to me then [but] became more obvious to me over the years is that constant refinancing. I mean, I refinance often in the low interest rate market, but I'm a savvy mortgage banker so I can do that. But people were losing a lot of fees, spending a lot of money. So that house that was a hundred thousand [dollars], that got up to $150,000, you'd see them over the years, spending forty thousand on just fees and refinances so that they never had equity because even with the growth in equity, it got stripped away. . . .No the biggest thing— so, we never got rid of mandatory arbitration, but the next company I went to, we did get rid of it because it really was a bothersome issue and it seemed silly that anyone would have that in their deals and their requirements.

So, we got rid of credit life insurance and I do credit Martin Eakes with Self-Help [Credit Union] and the Center for Responsible Lending. I got quite educated from them, and it became my champion cause way back when to get rid of [credit life insurance]. And we started with the banks and the prime business. There was a lot of rural properties being charged credit life insurance. And a little anecdote for you is … I could not get one company—and I talked to CEOs of a lot of companies—to show me their pay history on how many people used the credit life versus the huge, enormous fees they were financing on top of their loan balances on credit life. My other memory of this is Freddie Mac at the time, they didn't even know they had that on top of their mortgages. So, it's a good example, when you've securitized something, you think that principal balance is X, well, you might be surprised that twenty-five thousand [dollars] of it is credit life insurance or whatever the numbers were—I don't quite remember—and they were financed into the mortgage. So, every month you're paying interest on credit life insurance. Well, I was educated by CRL (Center for Responsible Lending) on that, and I was very stunned over that, not knowing that that was already prevalent in a lot of portfolio products. Then of course, in the subprime market it became an actively used product as well.

When I left Freddie Mac, I was recruited by Option One, an H&R Block subsidiary and I played the role of working with industry advocates to bring them into the mainstream of prime lending, believe it or not. And they were a big subprime lender, but they had a lot of the culture things right. They weren't a showy one, believe it or not. And they also, like I asked them my first month there, I said, “You have mandatory arbitration, can you please eliminate that?” And they said, “Well, you know what? We should eliminate that.” So, at the time their General Counsel said, “No, no, no, we have that as protection,” but within a week they eliminated it. And then we looked at all their adjustable-rate mortgages and said, well, if you want a prepayment penalty, that's fine but if it's a two-year adjustable rate mortgage, then make it a two-year prepayment penalty, but don't go beyond that. Don't go to three years, don't go to five years. So, they eliminated those. So, they were an interesting company who had pricing and everything that was really close to prime, but those 2-28 [adjustable-rate] loans were still always going to get refinanced. So that still doesn't take away from this constant refinanc[ing], when a housing market reverses, you're really stuck with no equity because there's nowhere to refinance.

But it was a good experience. And of course, during that time, we started seeing signals of first payment defaults and in a market that was happening at a more rapid pace. And so, I was recruited to run the Hope Now Alliance, which is the crisis-era effort, because I knew both the prime world quite well, but I was pretty knowledgeable about subprime and what the differences were and what was happening in that market. So, when I decided to do that, of course, it's the best thing I really ever did. I felt like I've made a difference and tried to bring people together and do what we're doing, like kind of talk through: “Okay, borrowers need help, don't foreclose on them rapidly, I know there are all these different interests.” And so, it was bringing together both Wall Street, investors, banks, and government agencies to pull together, to get us through this crisis. We couldn't fix everything overnight, right. And as we well remember, we spent many years digging out of that, but it had long-lasting effects. But I do think we're in a better place today and there's a lot better lending across the board and I'm quite involved still with all of these things. . . .

Clare Holtzman: . . . Could you talk about what it was like to work as a woman in the mortgage industry [in the mid-nineties]?

Faith Schwartz: Oh, sure. Gosh. Well, so I grew up in the securitization kind of capital markets side in a small company that grew, at a wonderful company called Dominion Bank Shares. And that was in the eighties to the early nineties, and then had a great role, a COO role for a small but growing company. And I've never been overly challenged with not wanting to sit down with a bunch of men versus a bunch of women. So that's probably a helpful part of my personality that I had brothers and that wasn't it. But I must say that I, for a long, long time, including not that long ago, I was often the only woman in the room. Certainly, trading securities, certainly knowing a lot about those kinds of things. [T]here were women in the business, but they were maybe loan officers or at HR or whatever.

So, I can't tell you early on I had great role models, I had a few. But because the industry is so interesting and there's just so much to do and learn about it, and I'm still involved in housing as you can see. And it wasn't a big challenge for me, I rather enjoyed it. I became kind of a leader at the MBA [Mortgage Bankers Association], I chaired a lot of their committees. And I just was someone who always looked outside of the organization I was with to get a little bit of stimulation and education about the business. And I think if people do that, they can really thrive in whatever they're doing instead of just kind of thinking of your own company, your own profitability, how are your processes going. But I was given a lot of opportunity almost everywhere I went. And so, I have really pretty good stories and not everyone has those stories, but the mortgage industry is a forgiving, in a kind of a flexible industry of collegiality, if that makes some sense. So, people do tend to generally get along well and try to work through things.

Clare Holtzman: …[Y]ou talked a little bit about this earlier as well, but can you talk a little bit more about what led you to switch from the private sector to working with Freddie Mac?

Faith Schwartz: Well, they had just a great general reputation and they wanted me. I remember when they interviewed me, they said, Listen, we want to look into these markets. We're going to run a pilot. We have, you know, $50 million we can fund this project with. So you can kind of hire some people, you can go work across Freddie Mac and you can pull together kind of a skill set almost as if you have your lawyers, your quality control groups, but they're all going to report up to their areas. But you can kind of own the initiative and then bring everyone together. And so, we're going to research, we're going to learn, we're going to transact and those things. So that was very exciting to me. . . . I like managing the whole deal, I like big picture.

I was reminded in that interview and I said, well, "Are you thinking of buying loan by loan from people?" They said, “Oh Faith, we're talking billions.” And so way back then that was huge. Right? So, what attracted me about them, and I reflect positively on my Freddie Mac days was, they're all so professional there. There's a lot of noise about the GSEs. Let me tell you, there are a lot of smart people that they might not have the same market background I have of working in the industry and understanding mortgage company issues, even bank issues, but they're very, very big macro thinkers about risk and about how to assess things. And so, I learned so much by being part of them. I think I'm the manager I am today and the thinker I am today because of my years at Freddie Mac. I thought a lot bigger after spending time with them and being around all these people at lower levels than me that had PhDs in economics, you know what I'm saying? They just had reams of smart people. And that makes for a really nice environment to work in.

Clare Holtzman: …[G]oing into Option One, how do you think that work impacted your perspective?

Faith Schwartz: You know, first of all, they were one of those clients—you remember I said we had the whole market covered—so I mean, to be honest with you, I had names covered that are less attractive than an Option One. Option One had—and it was probably because it was part of H&R Block—but the leadership and the management team didn't want to be predatory, they weren't trying to, they weren't fast talkers, they weren't boiler room salespeople, . . . they didn't even pay the way everyone else did. So, it wasn't a rah-rah company. It was a very thoughtful company. So, I really loved that experience. And I think I wouldn't have run Hope Now had I not had that experience because I got to know the whole senior team, I reported into the top executives, I asked a lot of questions, I tried to bring them into the Fannie-Freddie world to just diversify their interests, because their loans were not really that different than a prime loan, but they had maybe a blemish or two. So, I felt that jump into prime would have been a good move for them, but it's interesting. I couldn't get their interest in… they didn't have people [with] the background that I had to really bring that fully around.

But I think it helped my perspective. And really believe it or not, I liked H&R Block too. Again, they were in a little bit of a different business but at the time Mark Ernst and Jeff Yabuki, they're excellent leaders—they were always trying to do the right thing. So, I mean, I was always in kind of a good role because mine was, “Hey, we not only need to get rid of mandatory arbitration and trim down prepayment penalties, every product we have has to be looked at for our margin, for our adjustments, our teased interest rates.” And so, I kind of had fun with that and people were so respectful of me. Honestly, we adopted all of those new things when I left Freddie Mac. So, I was feeling pretty good about it, but then, you know, 2007 came along. So, I would say, it was a good experience. I think I learned a lot. I don't regret it. I think I helped them actually. And they had some really good people, so no regrets. I think I knew enough to be dangerous and I knew what to avoid, and I helped the market move forward afterward. And so, I'm very proud of that of course.

Clare Holtzman: I know you talked about [how] with Freddie Mac, that there were . . . three policies that you really focused in on. How did you select those three policies specifically?

Faith Schwartz: Well, so this is interesting and it's a very good question because if you look now, you might say, well, those weren't the main issues, but back then they really were. And the other one being mandatory arbitration which I had tried to get rid of anyway in a different way. But so, Freddie Mac and Fannie Mae had been criticized, believe it or not, over the years for trying to change markets, because what they do is if they make a change, they can stop liquidity in anything; “You're going to mandate credit reporting to all credit bureaus [or] don't sell me a loan, you're not the kind of party I'll deal with.” That means people will figure out how to report borrower's credit on every loan. That was a fantastic example of doing the right thing. I liked Leland Brendsel and David Glenn, and they were very much about doing the right thing. And of course, Freddie went through a rough time, as did Fannie, but they worked hard to make sure we were always doing the right thing and didn't want any blemishes on why we're doing it. So, they would embrace all of these things. So, I was with a small group of the top risk managers and we would say, we need to do X, Y, and Z. They said, let's go do it. And I was appointed to be the head of that anti-predatory lending taskforce by all of the executives. So, I felt probably very proud of it. And, I think the teased ARM (adjustable rate mortgage), we picked that because we said my Lord, if people are prepaying in two years or three years, and they have a five-year prepayment penalty, nine times out of ten, they're paying big fees that they never would have stayed in anyway.

So, we did the low hanging fruit, obvious things. And I think we pushed to get rid of mandatory arbitration in securitization, I don't think we got there, but when I got to Option One, I got them to remove it. So, there are a handful of companies that still do it, think of credit cards, they have some of that mandatory arbitration and that's always been a controversial issue. As you certainly look further, and you look at Dodd-Frank and what's happened post 2008, I would say asset-based lending is gone forever. Ability to pay, QM loan (Qualified Mortgage loans)—it's here to stay. So, I do think there's much better lending in place today, that a lot of protections are in place that were not in place then. And I was on the Federal Reserve Board's Consumer Advisory Committee during some of this as well. So, it was a wild time to be there because we were seeing negative—we didn't do this at Freddie Mac—but the negative option ARMs, negative amortization. Those were also very predatory. That's just my view. And I've never worked with them, but I just believe that product was about as bad as it gets.

Clare Holtzman: Can you talk a little bit more about your work with the Federal Reserve?

Faith Schwartz: Yeah, I was on the Consumer Advisory Committee for them. And. . . a couple of years, it was with . . .Chairman Bernanke was there and the Board Governors. And I think it was when I ran Hope Now, it might've been Option One, but it overlapped when I ran Hope Now. So, that was fantastic. So, . . . I was on the board with some consumer advocates. I was of course trying to be a neutral broker helping with the consumer advocates, but also the industry to do better. And I mean, I just loved my time with the Federal Reserve Board because we took it seriously. I think they did too. We were in a very dark time in the industry, so our meetings were significant. We would have public hearings—I testified at some of those hearings —and they got to the bottom of what predatory lending issues were in the business. And we had a lot of testimonials, certainly from the consumer advocate side on— I think mandatory arbitration was one of them that was often [discussed] and neg AM ARMS (negative amortization ARMs), those kinds of things. But the Board of Governors were all really good and Chairman Bernanke as well. And it was a kind of serious time, but people really enjoyed being on that committee. So, I think it was two years that I was on the committee, but I really loved it.

Clare Holtzman: …[A]s you got closer to the housing bubble peak in 2006, what changes were you seeing in the marketplace in terms of mortgage lending practices and the types of entities that were making mortgages?

Faith Schwartz: Yeah. Well, what was happening—and all you have to do is reverse engineer what happened after it—but what was happening is you were seeing more and more securitization, including companies like Option One, New Century, AmeriQuest, and Saxon, and all the kind of Morgan Stanley's group doing more and more business. And, I would say, it was more of the Alt-A if that makes sense, the no income no asset, which is not your traditional subprime loan. Believe it or not, I think the traditional subprime loan was more: "Well, that's a big down payment, 30%, and they can cash flow, they don't report all their income because they have three jobs." And it almost was, if you think of the nineties—remember I said I studied that market—well, each loan was kind of hard to figure out, but then when you saw the cashflow they had, it was kind of: "Oh, well, they cashflow pretty well, they have an extra $3,000 a month, every month and they have for 12 months or 24." So at least there was some thoughtful approach to it. But I think when you got into 2006, you had the run-up in the business that was, all of the businesses were running-up, but the prime market was losing share to kind of this easy securitization, easy money, no income no asset, low verifications. And I would just say that wasn't really just the subprime guys; that was like more of the bigger shops that were doing it in the prime business, that even the GSEs were wrapping [credit guarantees around] those Alt-A securitizations as well.

So, it became easy lending, easy money, low rates, and global liquidity was coming into the market. They had nowhere else to put their dollars. [A]nd then you had appraisals that were very inflated, you know, the industry lived with hundreds of billions of dollars of buybacks through Fannie and Freddie and some of the government agencies who just went and did forensic reviews of the appraisers and the valuation, so as that asset bubble started reversing—and some would say it peaked in 2006 and started reversing in 2007 and '08 and '09 and '10—you saw that 30% decline. Well, the whole housing market couldn't sustain that. So, it locked up everything. It was frothy. It was crazy. And loans were just being made right and left and attention to detail was nothing like it is today, and nothing like it was when I started out in the business, because you had very prescriptive underwriting and there was easy money, easy access to people owning more than one house. I wish I could tell you I thought that [*The Big Short*] and some of those shows were exaggerated. I don't think they all were. I think there's some real truth in some of those shows and you know it was obviously a scary precursor to what went on.

Clare Holtzman: And can you talk a little bit about what your transition was like from working on the mortgage lending/servicing side to working at Hope Now?

Faith Schwartz: Yeah, so didn't work on servicing at Option One I ran their public affairs. And I kind of did some other operational enterprise risk things for them. So, Hope Now was quite a personal professional challenge, I had to learn early on not to take things too personally, because everyone was mad at everyone. So, you had the banks and the mortgage companies—well, the banks were not thrilled with the mortgage companies, but banks *and* mortgage companies were both in trouble because there was usually a subsidiary somewhere that did a lot of subprime or Alt-A business. You had the regulators just up in arms, the Fed, OCC [Office of the Comptroller of the Currency], the FDIC [Federal Deposit Insurance Corporation], and then you had— it started with the Bush administration, Hank Paulson, Ben Bernanke, I worked quite closely with all of the administration during the first two years, year and a half, of 2007 through 2008. And we had a lot of intense meetings with CEOs flying in sometimes once a week, from all over, just to meet on what are we going to do, this is what we have to commit to, those kinds of things. And we'd have a lot of insights from Treasury, HUD (U.S. Department of Housing and Urban Development), and the Fed was quite involved too.

So, I would just say it was a real kind of firehose learning experience. I really did try to tap being a good leader without overreacting to anything. And I tried to testify for both the Republicans and the Democrats, I was asked by both a lot and I did. And, then I would kind of be tough on all parties and say: “We aren't doing enough, we don't have enough 1-800 numbers, let's do this and why are you doing this?” “Well, let's just say we're not going to do this.” And then we started up a portal, I started a nonprofit because I didn't want anyone to own it. And it was to just deliver the documents because at this time…, some of the banks, some of my good friends who worked there just said, “Faith our mail room has FedEx boxes to the ceiling in two rooms,” and they couldn't get to all the information, couldn't hire fast enough. And remember, there's no money coming in when people are defaulting. So, you also have skyrocketing costs, you have people going out of business that were the non-banks, not all of them. You had BofA [Bank of America] buy Countrywide who really had to power through all of those difficult years and just get saddled with a whole bunch of stuff.

So, it was a pretty tense time, but I will say I was really proud to be doing it. I really felt exhilarated. We worked 24 hours a day. I'm telling you it was just amazing effort and everyone chipped in. And so, I had very high-level people, whether it was from WaMu, from Chase, whatever, running committees for me. So, I used the resources of everyone else, but actually invited in the advocates. [I]t was always quite open, I tried to be transparent, we would issue standards, those kinds of things. And the public was mad. The public was mad, and they were mad at the banks. They didn't trust anyone. So, we just had to dig out and it's great to talk about, but honestly you had to act it out. So, we built reporting. Good or bad, we reported every month, everything that went on.

And that was a really smart thing to do because over time you could really start seeing a curve of support and foreclosures going down, more than the people that were being helped. And I think we had to do that, that had to be a public report. And so, I was proud of that. We pulled that together with a lot of smart people who helped us get the data, Black Knight, some others who really stepped up and helped support us with all that servicing data. So, I was quite proud of it, I still really am, and it has changed who I am today because even every job, anything I do— I'm on boards now, I do some other things—I'm always about “just start with a consumer, try to do it right, and if you can figure out that way to do it right, you know your own answer, some kind of issue that might come up.” And I just think corporate America had gotten away from that. I think they still could use a little bit of nudge on that. But I think you do the right thing usually when you kind of always keep [the consumer] in the center of your thing, it's your client, it's your customer. Right? [B]ut it was pretty transformational, I'd say for me

Clare Holtzman: Going back a little bit, you said you started a nonprofit just to clarify, do you mean with Hope Now? Or is it a separate nonprofit?

Faith Schwartz: No. So, during Hope Now I started something called Hope Loan Port, which was a tech based—this is just kind of funny, it was to build a website—we already had someone who had built it—to say, “I'll take your income docs, your tax return, let's say your pay stub, maybe it's, what else?” But that was probably it. And whatever else you owed to show your servicer what you were up to. Because remember they couldn't talk to each other, they wouldn't talk to each other. People weren't even communicating. We mailed millions of letters to customers across the country to just reach their loan servicers. So, I was tired of testifying to Congress to say, “But they didn't get that package from the borrower. They didn't get their latest pay stub or their credit report that shows they were within the ninety days— like they got lost.”

Now, truth is, they probably did get lost in a fax machine or in— remember it's all paper, and those FedEx boxes I told you about, well, if they're not opened in a timely way you can't get that loan modification, you're about to go to a sheriff sale. So, communication was a big deal. Technology was not that existent in servicing. So, we started a web portal and it's called Hope Loan Port—and they just transitioned and ended it—but I was on their board for several years, chairman at the end. And I asked Chase to loan us a project manager, and we didn't have resources, right? So, we had the technology donated by the tech provider, IndiSoft, and then I had to get the banks and servicers to say they would check every day for information on that website, so we kept the data safe so they could pull it.

That was a heavy lift, whenever I would just say, “Well, what is it you are worried about?” “This is what you want, you want information from your borrower.” And by the way, they're going to do it through a loan counselor so that nonprofits can help them get it together. They can get their budgets together, they can get whatever. So, it felt a little clunky, some people actually integrated well with it. Others just checked the data. And so that was something that kept going on for years. And it was just another way to communicate with borrowers who had said, I can't get through to them, their 1-800 numbers take me 10 minutes. Those kinds of things. So that's why I did start that. And I was going to pay for it myself, but we ended up finding a way to get it funded.

Because it was not about a big, expensive thing. It was about getting the documents to the servicers.

Clare Holtzman: And so, Hope Now brought together lenders and servicers. What were the incentives to bring loan servicers to the table?

Faith Schwartz: Well, I will just tell you if you read the history book, you'll remember who Hank Paulson was. And he was a big giant man who would lean forward and say, get these lenders and servicers on board and to the trade association, Financial Services Roundtable, and the Housing Policy Council, which is where I kind of was career recruited into before. And so, I virtually called every one of their CEOs and said, "Listen, we're forming this thing that—the country's in crisis da da da." I'd say over half, right away, were fine doing it. But we had others like Wall Street that [said], "Yah I don't think we need to be part of that, that's really just for subprime guys." Well, of course they'd have a subsidiary or something. So, we did have the nudge from Treasury to make the call if we weren't making progress.

So, I will just say that everyone was at the table. And it was helpful because all of a sudden, it turned into a pretty well-oiled machine. We started running and said, we need your data every month, we need to collect and report and we'll do it in aggregate. And instead of saying, "We're not going to share our data with you,"… we almost skipped over those protocols. I also would have them fund outreach events across the country. We started, we did hundreds of them and we went to where the borrowers lived in those communities. And I mean, if you ever felt like that was a tough time, just reflecting on it, I remember going up to the FedEx Field up in Massachusetts, Barney Frank was there, all the legislators [were] there, the Attorney General from Connecticut came over and there were about 2,000 families in line, quietly standing outside that stadium to march in and just talk to their loan servicer, talk to the lawyer's committee if they had a claim against their servicer. So, we would invite the lawyer's committee, we'd invite NeighborWorks America, we'd invite all the counselors, and then the loan services were in a different room. And so, they could kind of spend time with the nonprofits and advocates and then together go in or just go on their own. And people would have boxes of information. It was quite something. And it was very, I mean, it's one of those things. Does it move the dial? I don't know. It might've, maybe 200 people got helped out of those 2,000. I don't know that—we used to track that—but I would just say it was meaningful because they had never even talked to their loan servicers. So, it was very, I mean, those were the kinds of things that I take with me on what did we do. We did a lot.

Clare Holtzman: And so how did you connect with nonprofits and other organizations?

Faith Schwartz: Well, I had spent a lot of my career already being connected to them and that helps a lot. I don't think it's easy to go sit with the civil rights groups unless you know them pretty well. My Freddie Mac experience had me really getting to know that world. And, because when I ran that pilot, we learned, remember I said from Martin Eakes and others. So, I became quite entrenched in the civil rights groups while I was at Freddie Mac in the nineties. Not that long ago, I was on the board of the National Fair Housing Alliance, one of the premier civil rights groups out there, they're fantastic and protect the rights of those who have been discriminated against. It's a slightly different issue than what we're talking about, but I'm fortunate I've had good relationships. And I'm on meetings twice a week with most of the advocates in the country that are represented in Washington. So, I stay quite connected to them.

Clare Holtzman: Were there any challenges in creating relationships between nonprofits and the servicers?

Faith Schwartz: Oh, sure. I mean, that's ongoing. I think the challenge there is— and people still don't quite understand that—but servicers follow the rules that investors set for the contracts they service first, they outsource. So even in this latest crisis, which I'm involved with, Fannie Mae and Freddie Mac set the rules on how the borrower has to repay the debt that they're forgiven, right? Not forgiven, it's deferred. And so, you can be upset with a loan servicer all day long. And this has never been easy to understand, but their job is to service on behalf… they're an agent of Fannie Mae and Freddie Mac, they outsource their work. If those agencies—so I'm tough sometimes on them—if those agencies don't give enough direction and a borrower is in limbo over something, it's their job to tell that servicer, or the servicer really can and should do what they think is in the best interest of that borrower.

But then that gets into all kinds of penalties and interests, so then you get in trouble when you do things that are not prescriptive. I think that was hard, and I understand it because people would probably say, “Well, that's crazy, these guys have to forgive the debt, they have to do this and that.” So they're not the ones who have the balance sheet, they're not the ones who have the capability to do all of that. However, I've got to tell you, I'm quite impressed with where we've come to, because servicers are giving enough latitude that they've been quite nimble, even in this crisis of being more on top of those issues and making sure their scripts are right and pushing the agencies to get back to them on what they're going to tell their consumers, because at the end of the day, it's the risk that Fannie and Freddie take, it's the credit investor that owns that risk, not the loan servicer. They service on behalf of them and they get paid a fee to do it. So, it's a very different concept. If you're a bank and you're servicing it and you own it in portfolio, you own all that risk, that's different and you can kind of set up the best practice that you think you can, or you can point to the GSEs. So that's the difference, kind of.

Clare Holtzman: [W]hat strategies then did you utilize to foster collaboration between these different groups when you were working at Hope Now?

Faith Schwartz: Well, you know, I used a lot of moral authority of just “let's do the right thing and keep powering through and not do this all the time.” And I'm not perfect, I'm sure I didn't always do as well as I could have, but I felt pretty good about it.

I'd be on calls sometimes for two hours just listening to the back and forth, you know. Or the other thing is trying to be proactive to come up with practices people could agree to, and in the early days we put out servicing practices, guidance, that kind of said, we're going to do this. And that was kind of unheard of, because it was like, if you have escrows, we're going to do this, if you don't, we're going to do this—it was almost like a 101 on, what do you do in loan servicing that no one understands what you do. What are your SLAs [Service Level Agreements] to say, we worked to keep our abandonment rate below one minute, all those kinds of things.

So, we worked together to get those put out in the airwaves and we'd have press announcements with Fannie and Freddie on breakthrough things that we did. And Fannie and Freddie were great, they worked with me and Hope Now—Freddie Mac actually got a grant and ended up funding Hope Now, I'm not sure people know that, they ended up getting some kind of grant that they in turn gave to Hope Now and some other nonprofits. And what was helpful about that is, they helped us kind of stay in business and not really have to worry about the operational overhead of myself and some of the others for a couple of years. So, I would just say it was such a dark time, but people generally were leaning toward a lot of goodwill. Even the advocates, there were definitely some that probably always didn't like it, but I think Hope Now truly was a coming together of disparate groups of people who had different interests. Wall Street had different interests, maximize profits. Well Fannie and Freddie, they're kind of a quasi-government agency, it's not all about profits. HUD, that's an explicit government agency, that's not all about profits, that's mission driven. So, the Federal Reserve Banks, they wanted their banks to have liquidity, it goes on and on. There were a lot of different interests. The advocates wanted the consumer always to keep their home. And we had to find a graceful way for them to exit it if they had to exit the home.

Clare Holtzman: [Y]ou're talking about putting together these guidelines, were these made as a collaboration?

Faith Schwartz: Yes.

Clare Holtzman: And were there . . . any that were harder to negotiate than others?

Faith Schwartz: Well I mean, I think part of this is the technology wasn't nimble. So, you can say you're going to do things, but if you don't have a—and it starts at 1-800 numbers, no one even had that, so, I made everyone agree to have an 800 number for people to call. They didn't have it, most did not. That's how long ago that was. So, I don't, thinking through it was really, it's the technical jargon of what it is and what it isn't and what you could do. [W]e had a lot of lawyers on the calls. We had some of the experts, Vicki Vidal from the MBA was good, helping us kind of with the technical language. And, anyway, I was proud of the document.

Then the next chapter of Hope Now was when the Obama administration came in, there was some realization that this was bigger than just industry working its way through the issues. And so, they said, we're going to need some government incentives, because we were just announcing things, we'd come to terms with Wall Street and Fannie and Freddie and curbed the modifications to bring down the rates and things like that. But what the next administration did with Tim Geithner and Obama—we still had Ben Bernanke at the Fed, which was helpful by the way because he was a pretty strong steward through a lot of this—was they decided to give an incentive for the HAMP [Home Affordable Modification Program] mods [modifications] where they would pay the servicers extra money to do it. And then the push towards the HARP [Home Affordable Refinance Program] refinances, which I would just tell you was the best execution of how to give stimulus to people who had a higher loan to value. They were trapped into kind of high value houses, but if you could bring it [the interest rate] down to 3%, from 5% or 7% or 4% and save them hundreds of dollars a month, you weren't forgiving the debt, you were virtually just bringing their financing down. That was a big, big deal, just a big deal. So, hundreds of billions of dollars got done that way. And I think that was a helpful stimulus for a very bad time.

So, the government engagement—Hope Now was still very instrumental, it was helpful making homes affordable, we were always at the table—but that was a transition because that wasn't where the first administration was. And it caused some disruption, we slowed down on all the modifications for up to nine months in this to put everyone in trial mods. And without getting into too much detail, that just held up everything and maybe it stopped foreclosures, but the paperwork wasn't there, you had to get all the paperwork and people weren't paying on their mortgages on some of this. So, it was becoming kind of a—or they're paying a much-reduced rate, but they didn't know if they qualified because they had no documentation on it. So, it was messy, but you know, we powered through it. And of course over the number of years, I was there five years, at the end it was really back down to kind of a small but persistent group of troubled homes and delinquencies and consumers, but we'd gotten through the worst of it and I was kind of feeling like I needed to look for the new adventure. So, I decided to step down from that. So that was [the] end of my career there at that. But I'm still pretty involved in all of those types of things even today given the latest crisis.

Clare Holtzman: … Over the last decade, we've seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused the crisis?

Faith Schwartz: Well, I'm sure you've heard this cliché, it was a perfect storm. I think easy money, easy global money into the U.S. financial system was part of it. I think we did not have the protections we now know needed to be in place in that situation—you know, we had HOEPA loans, but they're very, very high price, we didn't have product protection. And I'm not sure my industry colleagues would agree with me, but the CFPB (Consumer Financial Protection Bureau) is probably one of the best things that happened when it comes to just having more structure in the market around consumer protection. So, I'm a big believer that that's been a good thing for the market in Dodd-Frank. We clearly needed it, without question. So, I would say it certainly—you don't blame the consumers because everyone made it easy for them to get the loans.

I think the complexities of the derivative market, like who really owns the risk—and I love securitization, but securitization got something that I should be able to tell you exactly what happened in it, and even I, who grew up in securitization with an MBA, and spent my first half of my career trading securities and being over that risk, still couldn't today tell you about the repackaging, and splicing and dicing of the risk issues. So, risk got kind of disintermediated, you had no skin in the game all the way through. And we had this overvalued—I think valuations are a big part of this, appraisals, I still think appraisals are a problem, still think they need to be—they're subjective. We need to have much more objective analysis on appraisals, not they all match every sales contract you ever got.

So that's a part of the problem that still exists. And what else? I think we have more capital in the system. We did not, it was very leveraged, and I just think one and done, when you make a loan and it's gone and you don't have to ever remember you made that loan, that [there] was a lot of that going on. So, consumers, sure they had an appetite, they're optimistic, they want to do five things or think they're immortal. You know, there's a little bit of that consumer buy-in and certainly some of the consumers propelled it as well, but you just can't blame the victims who also got, I mean it's just too easy, I think. I'm not a big believer that it was because people wanted the American dream, and this is the only way to get to homeownership. I don't buy into that. I think home ownership is a wealth building opportunity and we need to find ways to get more people into home ownership. So, I don't buy that that drove everything. I think it was about money, follow the money and that's all.

Clare Holtzman: And to what extent do you see your personal experience as adding something important to our understanding of what happened in the run up to 2007 and '08?

Faith Schwartz: Well . . .I have a pretty good knowledge of all the players. And . . .I will say in all the roles I've had, I've always tried to be the one on the right side of the conversation. I certainly learned that I wasn't always right. I didn't know that things weren't performing quite as well as I thought they were, and it's because they were refinancing out of problems and the home price appreciation came up. And I'd say that one was. . . I should have gotten savvier about that earlier. I will say I was one of the few to call the alarm early in the mortgage business because I was meeting with these CEOs of the Housing Policy Council. And that's why they asked me to run Hope Now, because . . . of Option One and seeing some of the early payment defaults and not understanding what was going on. So, I think having standards is a good thing. And so, I hope some of my history is always promoting a better market. I work right now, I'm spending a lot of time in the modernization issues of the market, trying to take out the high cost of origination, the thousands of dollars borrowers ended up paying just to get a loan. It's silly. So, there's good work still to be done.

Clare Holtzman: Looking back on the crisis over a decade later, what do you see as its most important lessons for mortgage lenders, brokers and state level policy makers?

Faith Schwartz: Well, I'm not a huge believer that we need a different role on the states on all the different issues. I think not degrading our product protection, such as, not making asset-based loans, that's an excellent one, you have to document income, that's an excellent one. You have kind of the judgment, that's regulated now, so it's impossible, it's illegal to make a loan that isn't right. So that's huge. Keeping those protections in place is going to be very important to the health of the market. I do think we have to innovate a little more and embrace ways to make an easier loan than we have today. I think it's still pretty clunky and difficult. . . .

If we can find a way for the incentives to continue to incent[ivize] people to make good loans that perform—and it doesn't mean make a perfect loan because then you don't take any risk and you don't get people in who are good paying credits, but might have some blemish. I've always been like, "Well, who are we missing? Where's that 6 million borrowers that just disappeared from the market. I know they pay their bills. They might sometimes miss something, but they could be [paying] instead of $2,000 a month … rent, they could be paying $1,500 for a mortgage." So, I think we have to find ways to continue looking for getting people into home ownership who want it and who are committed, have the capacity and character to do such things. So, I am not a buyer, I don't buy the lack of homeownership—only if people don't want the responsibility, that's one thing, but the wealth in our country is usually through homeownership and we see a lot of economic disparity today over that issue. So, I'm a big believer in homeownership. That's why I work on it.

Clare Holtzman: And then is there anything that you think I should have asked or that you would like to add?

Faith Schwartz: No, I think you hit, you did a good job. I think now, I don't see a lot of quote "predatory lending." I'm really more worried about too much perfect lending and not enough diversity and disparity. When I see average FICO scores last month of 760, I'm bothered by that a little. One, I mean, I don't even think my own score is always that. But I guess my point is we have to be making loans for people to get into homes. We have to be building homes. We have to be looking at shelter for people and first-time home buyers in a smarter way. States need to be helping on the regulatory side on that. So, we keep our zoning reasonable. And that's all I have. I think you hit all the good things. I'm not seeing, you know, terrible practices today that I see. I know there's probably some going on, there usually are, but anyways, so that's that.

[END OF SESSION]