AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Richard Swerbinsky

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Richard Swerbinsky conducted by Olivia Wivestad on February 15, 2021. 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.

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Olivia Wivestad: I'm Olivia Wivestad, an undergraduate student and member of the Bass Connections American Predatory Lending and the Global Financial Crisis team. It is February 15th. I am in Durham, North Carolina for an oral history interview with Richard Swerbinsky, currently the President and Chief Operating Officer at the Mortgage Collaborative, who is joining me via Zoom. Thank you for joining me today.

Richard Swerbinsky: My pleasure.

Olivia Wivestad: When and how did you first become involved with residential mortgages?

Richard Swerbinsky: I was working at a very young age for just a local credit union as a teller, kind of the consumer loan guy, and I was there for about a year. I put together a resume, had sent it out to some area banks in the Cleveland, Ohio area where I live, and ended up getting a call back from Metropolitan Bank and Trust – which subsequently was bought by Sky Bank, which was then bought by Huntington Bank – about an opening that they had in their secondary marketing department. Honestly, I had no clue what secondary marketing was, even that it was involved with residential mortgages—I showed up to the interview, was intrigued and, long story short, ended up taking the position, kind of an entry level position processing rate locks, mortgage purchase and refinance loans, and just ended up kind of working my way up the ladder from that point on.

Olivia Wivestad: What was the nature of your role at Metropolitan Bank and Trust company?

Richard Swerbinsky: It was very a first entry level position. It was really processing rate locks[1] that came in from mortgage loan originators and borrowers that were purchasing or looking to purchase or refinance a home. And then really at that point, throughout my time at Metropolitan, just kind of worked my way up the ladder in the secondary marketing division. The head of the division kind of took me under his wing, a couple people that were ahead of me in that department ended up leaving to seek other employment. So, my role there became more involved, more reporting and hedging, and kind of next level capital markets roles within the residential lending division.

Olivia Wivestad: Can you describe what secondary marketing is?

Richard Swerbinsky: All mortgage loans that are originated by either a financial institution or a mortgage company end up going one of a few places. If it's a financial

[1]A mortgage rate lock is an agreement between a borrower and a lender that allows the borrower to lock in the interest rate on a mortgage for a specified time period at the prevailing market interest rate. A loan lock provides the borrower with protection against a rise in interest rates during the lock period.

institution, sometimes they'll originate mortgage loans for their balance sheets, so they'll keep their asset and the servicing as an earning asset in their portfolio, on their books. But the majority of mortgage loans that originated are sold into the secondary market, Fannie Mae and Freddie Mac—I'm sure we'll talk about them in this interview, [Fannie Mae and Freddie Mac] have been the two chief purchasers of residential mortgage loans in the secondary market in America for a long time now. So, the term secondary market, I guess, refers to that entire stratosphere, Fannie, Freddie, and many others that purchase loans from institutions that originate them.

Olivia Wivestad: While you were at Metropolitan Bank and Trust, how did the mortgage market change ?

Richard Swerbinsky: Rates dropped— I want to say when I was first there that interest rates 30 year fixed rates were like the high fives to sixes, which historically was very low. At the time, you know like "Oh my God, rates are so low right now— it was starting to inspire refinance activity. Throughout my time at Metropolitan [from 1996 until 2002], rates continued to drop for a number of different reasons, and that was really the run-up to the financial crisis— You started to see some loosening of credit. I think to that point, the secondary market, as I just described it, was very different than what it turned into and what it is now even— lenders were using common sense underwriting, manually underwriting loans. I think we started to see the advent of automated underwriting systems that were rendering decisions on loans, and just more mortgage activity and volume in general. So that would classify I think, the evolution of the industry in my time in Metropolitan.

Olivia Wivestad: What prompted you to move to Home Savings and Loan in 2002? Can you describe the nature of your role there?

Richard Swerbinsky: It was a community bank that was a little smaller than Metropolitan Bank and Trust that was looking for their first full-time secondary marketing person. They were starting to get more involved in residential mortgages. In the past they had put a lot of those [mortgage loans] on their balance sheet— they wanted to start to originate Fannie and Freddie and FHA loans that could be sold into the secondary market to satisfy borrower request and need, and bring in some additional fee income. As a lender, they just didn't want to put a lot of loans on their balance sheet. So, they were looking for a full-time secondary marketing person. I was still pretty young at the time, but I had some history with the senior vice president over all of lending at Home Savings who had worked in Metropolitan the past— he knew me, asked me if I wanted to interview, explained that they were looking to bring somebody in full-time to head their secondary marketing initiatives. And I ended up getting the job and taking the role.

Olivia Wivestad: Did being at a savings and loan entity restrict the type of business you could do compare to your old role at Metropolitan Bank and Trust?

Richard Swerbinsky: They were both commercial banks— savings and loan institutions— Metropolitan was bigger. Also what helped prompt my move to Home Savings was at the time Metropolitan had sold to Sky Bank, and I didn't know what the future was, the bank's view of residential lending, especially in acquisition situations. I felt like they may be changing their focus in residential, and I had the opportunity at Home Savings. So, at the time the Home Savings was a smaller bank in terms of asset size and also in terms of their mortgage acumen. It was a very conservative bank— it was a good situation for me to go into, because I was young to kind of take the bank from crawling to walking in the mortgage space. So, in terms of restricting activity, yeah, I think that they wanted me to put in place some of the things that we were doing at Metropolitan, but not all of them, just due to the conservative nature of the bank.

Olivia Wivestad: How would you describe the key goals of Home Savings and Loan in the years before the housing boom of the 2000s really took off, did those goals change in any way during the boom?

Richard Swerbinsky: I think they saw the housing and mortgage lending appetite from their bank customers that they were looking to do good by was increasing, right? Home values were increasing, the general premise of buying a home had more appeal. The government was very invested in increasing the home ownership rates in America. So, I think Home Savings, as a community bank, they felt like they owed it to their bank customers, to help provide solutions in that area. So I think when they brought me on, it was to build out the financial infrastructure of something that could be more "How are we pricing our loans? Do we need to set our rates on a daily basis? Do we need to develop some new products? If we can start to sell more loans into the secondary market and increases our liquidity as a bank and our ability to do make-sense loans, if it's a construction loan or some other type of non-conforming loan in the bank portfolio, for bank customers." So, I think they were aware of the momentum in housing and wanted to be a bigger part of it, but in a conservative way.

Olivia Wivestad: Were there any noticeable differences in Ohio's housing and mortgage market compared to other states you were doing business in?

Richard Swerbinsky: I think that home values in the Midwest and in Ohio, they don't go up and down as violently as they do on the coasts, [and] other more densely populated areas. Certainly, throughout the mortgage meltdown, Ohio had the same issues that California had and Florida had. But we did a fair amount of business in Florida when I was at Home Savings as well, so it was two different markets for sure. The run-up in home values that we saw that played a big part in ultimately the mortgage meltdown in the financial crisis— it was much more exaggerated in Florida where we were doing a lot of business than it was in Ohio. So, that was the biggest difference, I would say, just the ebbs and the flows and the ups and the downs in Ohio were not as violent as they were in other parts of the country.

Olivia Wivestad: Did Home Savings and Loans have relationships with any specific mortgage investors?

Richard Swerbinsky: When I got there? No. One of my first goals upon getting on board was to establish relationships with Fannie Mae, Freddie Mac to get the bank what's called their Eagle, the ability to underwrite and originate FHA loans. So that was a big part of my first year or two at Home Savings, was establishing those relationships based on having set those relationships up in the past in Metropolitan and having some contacts there that helped make that process easier.

Olivia Wivestad: Were the loan products different in any way than they were at Metro? And how did they change, if at all, while you were at Home Savings?

Richard Swerbinsky: Not really. I think that the vast majority of loans that both financial institutions originated were conventional loans that were sold to Fannie Mae and Freddie Mac, FHA loans that were kind of guaranteed by the U.S. Government, HUD [The United States Department of Housing and Urban Development], and ultimately sold in the secondary market to a myriad of non-Fannie and Freddie investors. And then some portfolio loans— to this day financial institutions still do, if it's a construction lending loan, or some other loan with characteristics that don't make it as liquid in the secondary market to a Fannie or Freddie, both were doing some of those loans as well. I'd say the one big difference is, during my years at Home Savings, which really— I was at Home savings until September of 2008. So, certainly the last couple years of my time in Home Savings, a lot started to change— the advent of all the exotic loan products that really played a big role in the meltdown ultimately.

Olivia Wivestad: Could you explain a little more what those products were?

Richard Swerbinsky: I think it really started with reduced documentation loans. It was really— we had a decades long period in America of home values appreciating, credit slowly loosening, government became more desirous of increasing the home ownership rate in America. So all these things led to a loosening of credit standards in the residential mortgage industry. It began really with reduced documentation loans— we would refer to them as NINAs (No Income/No Asset Mortgage) and CSOs (Credit Service Organization) and stated income, stated asset [mortgage], or a no income, no asset [mortgage]. So borrowers that had a certain credit score, maybe if you had a 700 credit score, you would qualify for the CSO loan where you could just state your income and your assets, and you didn't have to verify them. And then maybe if you were above a 740 credit score, and it may not be exact here with the numbers, it's been awhile, maybe you would qualify for a NINA loan— a no income, no asset loan. So I think it started there.

Then the federal government started to get involved as well. Fannie Mae and Freddie Mac as part of their— they had goals on affordable housing that were given to them by Congress, where they wanted to put more low to medium income borrowers in homes, make them able to get mortgage loans to buy homes. So, Fannie Mae and Freddie Mac had started to develop and curate programs that were really sub-prime programs. I mean, they were like the top of sub-prime, but they were certainly sub-prime. Even conservative banks like Home Savings, right— this is Fannie and Freddie, government sponsored enterprises, viewed as safe institutions, they're guaranteeing their bonds in the secondary market— so even a bank like Home Savings, we had no hesitation in originating these 3% down mortgage loans and programs for borrowers with less than good credit.

Then of course, you just had straight sub-prime loans where you could— there were people that were buying loans for borrowers with really horrific credit and putting little to nothing down. And you stop and think like "Why would that happen?" You had decades of little to no default, homes continued to appreciate for years and years at a very healthy clip, so I think the mindset of lenders that were doing a lot of sub-prime lending— and ultimately the entities that were buying them, hedge funds and investment banks— ultimately, the demand to buy these loans has to come from somewhere for banks and mortgage companies to originate them. And I think the people that were buying and originating these products, the mindset was, say we do a $200,000 loan and maybe we get no down payment, "Even if this loan goes bad in two or three years, the home's going to be worth $220,000. Even if we have to foreclose on it, we'll still be able to come out okay." It was that false belief in the continued and abnormal historically appreciation of homes that inspired a lot of the confidence that led to the purchase and ultimately the origination of a lot of these toxic mortgage products.

Olivia Wivestad: How did the mortgage market change at all while you were at Home Savings?

Richard Swerbinsky: In the beginning years, a lot of these NINA and CSO programs— there's a non-bank by the name of Countrywide that I think had evolved at one point to the largest mortgage lender in America. They had a program called the "Countrywide Fast and Easy" that was really known in the industry. It was one of these reduced documentation loans— if you had a credit score over 680 or 700, it was like "boom." I mean, they'd close these loans in 15, 20 days, because a lot of the back and forth on the underwriting side wasn't necessary. It was appealing. So those products really started to become a big part of the fabric of the residential lending industry, ultimately [in] the sub-prime programs, the Fannie and Freddie sub-prime programs.

And then the meltdown really started to happen. You could start to see the seedlings of it in the early part of 2007— it really culminated in the late summer/fall of 2007, and widespread continued repercussions throughout the industry and the American financial system throughout 2008. I ended up leaving Home Savings in September of 2008. That was right around the time that Fannie and Freddie got put fully under government conservatorship, before they were like quasi, publicly traded companies. Another part of what led to this, that Fannie and Freddie were trying to satiate shareholder demands for increased profits, led to decision-making that contributed to the meltdown. But my last year at Home Savings was really crazy. We were not involved in these products really at all outside of the ones we sold to Fannie and Freddie— we sold some of the NINA and CSO stuff to the Countrywide's of the world, but on a smaller scale basis and very conservatively.

The bank wasn't in trouble. And then in September of 2008, I ended up taking a position with First Federal Lakewood, which was a bank that had been around forever, was completely un-involved in the mortgage space during all these years of all these problems and made a contrarian play to enter in a very responsible way, the residential mortgage market, when everybody else was kind of getting out of it in September of 2008. They brought me in at first to run secondary market, build out that framework and infrastructure as I did at Home Savings, and I ultimately ended up taking over the entire residential lending division there. But to answer your ultimate question, the last couple years of my time at Home Savings, I'll never forget because it was crazy. We're just talking about it today, still. I think that's evidence of it.

Olivia Wivestad: During your time at Home Savings was investor appetite linked to specific products or mortgages as a whole?

Richard Swerbinsky: Mortgages as a whole. The products that I mentioned— I think [they] had even more appeal on the Fannie and Freddie side, I think it was based on home ownership goals that they wanted to meet. I think on the investor side, if you're a Bear Stearns, Lehman Brothers, the two that kind of famously crashed and started this, or other hedge funds that were involved with those firms or others, there was more return, there was more yield, in exchange for a no income or no asset loan. It was a little bump to the rate— you got an extra eighth [of a percent] in the rate from the borrower, which might not sound like a lot, but the secondary market community that was purchasing these loans, they viewed these loans just as safe and liquid and sound as any other mortgage.

So, they were chasing yield. The sub-prime loans that ultimately ended up really destroying the mortgage market, they produced a lot more yield. Almost all the sub-prime products were adjustable-rate mortgages that adjusted in most cases annually based on financial indices. So, if you're a purchaser of that loan, just for getting the credit risk that people had a blind eye to, that ended up imploding things—from a yield standpoint, they were highly attractive because if interest rates in general started to move up, so would the rates on these products. So, it was the chasing of that yield that caused the financial institutions that imploded to get too greedy.

Olivia Wivestad: Do you think that investor appetite for specific product affected the types of products marketed to consumers?

Richard Swerbinsky: Without a doubt, there's no question about it. I mean, there was an appetite for these products. So, we didn't get into sub-prime lending at Home Savings when I was there leading into the crash, and we tiptoed into the stated income and the no income loans. They weren't considered sub-prime, but they weren't considered low doc or all doc. We tiptoed into them and, ultimately, bank customers were coming to our branches, like everybody else was doing them. We never got into sub-prime, we never went there, but with some of these reduced documentation loans, they were so commonplace that if you weren't doing them, your customers viewed you really as a dinosaur and "We're going to go to the bank next door or the mortgage company next door." But that was ultimately fueled by the secondary markets demand to buy these products.

Olivia Wivestad: To what extent, if at all, did figures within Home Savings express concerns about the changing nature of credit extension during the 2000s? Did those concerns lead to any significant internal debates or changes in business practices?

Richard Swerbinsky: Absolutely. We talked about it constantly. I was the head of capital markets and the bank, to their credit, was very steadfast in not going past or even really to a line that could have really destroyed the bank. But it was a constant topic of conversation amongst senior leaders at the bank in the years that led to the mortgage meltdown and the financial crisis. In a nutshell it was the sales side of the bank saying, "Hey, there is great demand for these products from our customers and from our loan originators. If we don't offer some sort of alternative programs with reduced documentation for just the most credit worthy borrowers, we're going to lose our sales team, we're going to anger bank customers that have banked with us their whole life and want to do their mortgage with us, and ultimately it'll have a big impact on our residential lending operation." And then we were selling all these loans too. So it's not like we were originating no doc or reduced doc loans and putting them on the balance sheet as a held-for investment loan. We were immediately selling these into the secondary market with reps and warranties. So as long as these loans didn’t go bad in the first 120 days, we were in the clear, as long as we underwrite the loan correctly and there was no fraud— so, there was a lot of talk about it.

Olivia Wivestad: Were you ever party to any conversations with regulators and if yes, what were those conversations like?

Richard Swerbinsky: Well, prior to the mortgage meltdown, really prior to the implementation of Dodd-Frank in 2010, there were bank regulators, for sure. We were regulated by the OTS, the Office of Thrift Supervision at Home Savings. When I was at First Federal Lakewood that ended up, I think, transferring over— the OTS kind of went away and it went to the OCC. Prior to 2010 when Dodd-Frank was implemented, I had limited interaction with regulators. It was more like the C-suite of the bank— Chief Financial Officer, Chief Lending Officer, the Assistant Vice President and the Vice President of secondary marketing.

When I went over to First Federal Lakewood in 2008, I think even leading up to the implementation of Dodd-Frank that called for a lot of increased regulation of financial institutions and new rules that we had to play by, it changed dramatically. And really from 2010 to the end of my time at First Federal

Lakewood, many convenings with regulators— I mean, you had your normal annual, regulatory audit, then we had specific fair lending audits, and we had our internal audit. Those efforts were ramped up. So, I was really the last four or five years of my banking career constantly interacting with regulators.

Olivia Wivestad: What was your initial experience like at First Federal Lakewood in September, 2008?

Richard Swerbinsky: It was crazy times. I remember being in my orientation at First Federal Lakewood when the news broke that the government was seizing control of Fannie Mae and Freddie Mac, which I think people speculated that that's what was going to be happening at the time. But that was really huge news, that the government was taking over conservatorship and complete control of those two organizations. So, the industry was far from out of the woods. It was still very volatile times. At the time, I was being brought in to create a residential lending division for a bank that was completely insulated from any of the madness that had occurred previously. It's kind of like a little sleepy mutual bank that smartly chose to make a contrarian play to start offering responsible, conservative residential mortgages. It was a smart move because there was so much— companies were going out of business, we were able to grow quickly, we had salespeople and operational people, they were good people that just happened to be employed by organizations that got caught up in all this madness and imploded. So, it was a really smart strategy. It was exciting times. It was crazy times, but exciting times my first couple of years, because so many of the people I knew in the industry were still at organizations that were crippled or winding things down, and I was in an organization that was going in the opposite direction. So, it was an exciting but busy first couple of years.

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

Richard Swerbinsky: There were so many things that caused it. I think that depending on who you're talking to, certain people latch on, maybe, to more blame one entity than others, but in my mind there was a lot of blame to go around. I think generally speaking, we had a decades-long climate of very little default on residential mortgage loans and very aggressively appreciating home values that just, in general, was the biggest, probably, reason that things happened. Because the demand in the secondary market started to grow, lenders started to get more confident, lender and investor confidence just continued to increase in the years leading into 2007. That was kind of the underpinning of why all this other stuff happened. Then you had the government. At first it was both the Clinton and the Bush administration. Both administrations had placed increased home ownership percentages as a priority, in different ways, but both did.

And their vehicle through which they did that was the government, at the time, sponsored entities, GSEs, Fannie Mae and Freddie Mac, and FHA. So, the federal government played a big role in it, because the credit standards loosened at Fannie and Freddie, and FHA. Even conservative banks, like the ones that I worked for, a big part of the mindset was like, "Hey, if Fannie and Freddie are buying this, it's got to be okay to do." Then there is a lot of blame also on just home buyers. Home values were appreciating so greatly— people were treating homes like they are the stock market right now. I see a lot of parallels between what was happening on the retail consumer side with homes like I see now with stocks. People are making so much money that you have people that had never owned a home were buying one. People that owned one home were buying investment properties— it was like a slot machine. That's how people viewed housing.

Everybody knew so many people that were making so much money on houses, that bought a home for $200,000 and sold it four or five years later for $300,000, or had these investment properties and they were making so much money on. So, that fueled it as well. Then ultimately, though it was the demand for the products— when mortgages are originated, the vast majority are packaged up in the mortgage-backed securities and sold in the secondary market, some through Fannie and Freddie, some FHA, but then there's non-conforming loan pools. So then Wall Street started to get involved— these hedge funds that are just chasing after yield for their customers, pension funds, people they're representing the investment community— then they started to get involved in this frenzy, this desire to buy these mortgage-backed securities that were producing incredible yield filled with sub-prime mortgages, where the rates adjusted annually, secured by homes that were appreciating greatly, which in their mind insulated some of the risks, some of the credit risk of the borrowers. So, it was all those things, honestly. And they all contributed heavily.

Olivia Wivestad: How would you define predatory lending?

Richard Swerbinsky: I'd define predatory lending as a lender putting a home buyer or any mortgage client in a product that one isn't the best product for them, because you can make more money on it— or giving somebody a loan that you know that they can't pay. I mean, I would define it as those two things, either intentionally steering a home buyer or refinancer into not the best product for them, because you can make more money on it, or putting somebody in any product that you don't feel like is setting them up for success or that they're going to have a hard time fulfilling the terms of.

Olivia Wivestad: 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 2008?

Richard Swerbinsky: I've had a unique path. I'm really glad to have been a part of that. I mean, this is going to be forever a part of the financial history of America, a big part of it. For me, it was very interesting to be a part of it. At first I was a young, kind of coming up through the banking world, guy that was thrown into the middle of all this— and working with the C-suite at banks in my mid-twenties, trying to make the right decisions on this demand that was out there not only in the secondary market, but from our bank customers and our sales people that were interacting with them on a daily basis, like balancing that against what is right— and at Home Savings, I felt like we walked that line appropriately— and then getting a chance to go over to First Federal Lakewood and build a new operation that ended up ascending to over a billion dollars a year in mortgage lending volume annually, kind of when everybody else was getting out of it. It was a very interesting experience yet to the extent that just like being a part of that boots on the ground, cog in the machine of all that happening— hopefully that perspective is helpful to people that are trying to understand what happened and why.

Olivia Wivestad: And looking back on the crisis over a decade later, what do you see as most important lessons for mortgage originators?

Richard Swerbinsky: My history in the mortgage industry— the credit pendulum never stays in the middle. It swings like wildly to one end, which led to the crisis and swung to the other end, which credit was probably too tight for a lot of years. Let's maybe start to come back a little bit towards the middle, but at the end of the day, I'm a firm believer that— with Fannie and Freddie, there's been a lot of talk about wanting to privatize them and have them outside of government control. I wouldn't classify myself as a big government person in general, but with the residential mortgage market, it's too integral to the American financial system, just American resident wealth— it needs to be watched and regulated. I think honestly that if Fannie Mae and Freddie Mac were to be privatized and run by shareholders, ultimately shareholder demands drive the actions of any public company. I feel if there's any lesson to be learned from that, it is that Fannie Mae and Freddie Mac should stay, to some degree, kind of “under the government thumb” in that they play a vital role in American housing finance system.

Another lesson would be the historical perspective of the housing system in America— people's accelerated belief that homes would continue to appreciate at levels that they had not in the past led to a lot of bad decision-making. And I add that here because I'm starting to see that now again. We've had an inventory crisis problem, depending on who you talk to in America now, for some years, four or five, six years, where you want to buy a house and it's tough. They're going immediately for asking price or greater. What is that doing? It's boosting up home values. Home values overall in America, I think, are 9% higher today than they were a year ago. Historically homes appreciated at 2% to 3% clip. So, what is happening now is not normal and nor should it change the behaviors or the expectations of people that are buying or originating mortgages in America.

Olivia Wivestad: Is there anything else I should have asked or that you'd like to add?

Richard Swerbinsky: No, I can't think of anything. I honestly, I think that the line of questioning that you laid out— I think it led to a good oral timeline of what happened and why and how to prevent it from happening again.

Olivia Wivestad: Thank you.

[END OF SESSION]