AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

David Andrukonis

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with David Andrukonis, conducted by Maria Paz Rios on April 5, 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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Interviewee: David Andrukonis
Interviewer: Maria Paz Rios

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Maria Paz Rios: I'm Maria Paz Rios, an undergraduate student and member of the Bass Connections, American Predatory Lending and the Global Financial Crisis team, and it is April 5, 2021. I'm currently in Durham for an oral history interview with Mr. David Andrukonis, who has joined me via Zoom. Mr. Andrukonis, thank you for joining me today.

David Andrukonis: My pleasure.

Maria Paz Rios: I'd like to start by establishing a bit about your background. I understand you received your bachelor's degree in economics from Virginia Tech in 1979, and then continued on to get an MBA from Virginia Tech as well.

David Andrukonis: That's correct, I did. I actually did it while I was working at Freddie Mac [Federal Home Loan Mortgage Corporation] because I thought about going back to get an MBA, and I just didn't want to leave. I was working with some really, really smart people, and I felt like my real education was happening at the job. So, I did my MBA at night, and I worked during the day, and I got married, had some kids. I was just crazy busy, but I think it was the right decision, in hindsight.

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

David Andrukonis: I started working at Freddie Mac in 1980, and I worked in the research area because economics was my degree. I worked in the financial research area, which was doing a lot of economic analysis of mortgage markets in the country more broadly. And eventually, that didn't interest me that much. To do economic research, you have to have a PhD for anyone to listen to you, at least that was my experience. And I didn't want to go that route, but I was much more interested in transactions and deals and customer relationships and things like that. So I moved into corporate finance in about 1985. And when I got into corporate finance, we started doing these structured transactions with customers buying a loan, putting them into securities, packaging those up, and selling them on Wall Street.

And that was just really fun for me because it was like you could see what was happening, whether you thought you were making good deals or bad deals. It was so different from research, which was long-term non-transactional. This was transactional, kind of short-term, and math and finance were just getting integrated together in a big way. So there's all this options pricing theory, which was just starting to jump into or be implemented along with mortgage pricing. I got lucky and was there at the front-end of that. So, just really smart people analyzing mortgages in new ways, and then I got on the transaction side of that, which was the most fun for me.

Maria Paz Rios: When you got involved in this [in the] mid-‘80s, how would you describe the state of the secondary market…?

David Andrukonis: So, when I started there in 1980, I think Freddie Mac purchases of mortgage sales and securities was about $3 billion. Six years later, I think it was over $100 billion. It eventually got bigger than that. We became this enormous. [When] I started there, we were just this little pipsqueak company. I think we were called the mortgage company. We bought a few billion in mortgages. That's all we did. And then we sold pass-through securities. We developed a new structure of a mortgage-backed security that Wall Street had helped create, and we just started buying portfolios from S&Ls [Savings & Loans] in a big way. So, our business went up almost a hundred times. We had years—I've been a little removed from it now—where we did well over $100 billion dollars of purchases annually. We were the thirtieth biggest company, I think, in the United States at one time. So, it just went from little to big in no time.

The one thing that was different that I think is important is that to that point, most lenders made loans and they held onto them in their portfolios. So, they underwrote and cared about what they created. Once the secondary market got big, the little risk was they bought it with the intention of never owning it, [and] of selling it. And I think what you'll see happen later on when you get to the financial crisis is [that] the underwriting just went down the drain. It was because the people who were creating the mortgages, for the most part, didn't have a long-term stake in how they performed. But in the mid-‘80s there, it was a cool time. If you ever get a chance, this is slightly off subject, but [to know] what the secondary mortgage market was like, there's a book called *Liar's Poker*...It explains Wall Street. [It's by] Michael Lewis. Some of his books, I think, are better than others, but *Liar's Poker* is still the best book to explain what Wall Street was like. And the guys who were at Salomon [Salomon Brothers, Inc.] at the time were the guys I worked with.

Maria Paz Rios: ... At this time we also see the advent of automated underwriting. How did this impact what you were doing in the secondary market?

David Andrukonis: Freddie Mac and Fannie Mae [Federal National Mortgage Association] were, in a loose sense, kind of a duopoly. We both had really, really similar charters. We could buy conventional mortgages, package them, and sell them. It's a funny thing when you're a duopoly that sometimes the competition is cut [down]. But you just keep, in our case, lowering guarantee fees to get more business, and then they would lower them. And so, the business was actually highly competitive. Savings & Loans would also create loans and hold them. So, we were looking for different ways where we could gain a competitive advantage. And for our business, we had two businesses. One was we held onto them in the portfolio and financed them with debt, but the bigger part was we bought loans and we financed them with pass-through securities. So, we're really acting like an insurance company. And if you're an insurance company, your risk is the risk of the borrower defaulting.

So, we use what we had learned from options, models, and things like that to build an underwriting system that we thought would give us a competitive advantage, not just versus Fannie Mae, but versus private originators, etc. And [it was] also that we could really quickly decide whether we liked the loan or not. At that point, there were human underwriters everywhere, and they would go through loans, and we would do samples. This way we could look at every loan. Data was being automated in a big way. It's hard to imagine that now, but when automated underwriting happened, we could get access to credit scores and appraisals, borrower characteristics, and put them all together and get an answer in minutes as opposed to hours and days or whatever. So it became a huge competitive weapon for us.

Maria Paz Rios: How would you describe the culture at Freddie Mac when you first arrived in the mid-'80s, and did it change or did you notice any changes to when it became investor-owned?

David Andrukonis: ... It was pretty sleepy when I first got there. Although I would say when I got there, everybody was going to school at night and trying to make themselves better, which was good for me to see because [when] I got out of college, I wasn't sure what I wanted to do exactly. And I got out around a lot of these kinds of competitive people who were doing school at night, and we had, really, a pretty high level of employees that only got stronger in the mid-'80s. There wasn't really much of a change in it when we became a shareholder-owned corporation because the guy who was the CEO, Leland Brendsel, was CEO throughout that time period. Where the cultural change would be in about 2003 or so, where the old Freddie Mac—my boss Leland Brendsel, who was chairman and CEO, and the president David Glenn—when those guys left, the culture changed a lot.

But when I was there, even before and after being shareholder-owned, it was really a strong sort of risk management culture. Pay attention to credit risk—really conservative about interest rate risk. The people thought about it as their own company. We didn't need to own stock to feel like if something bad happens, we're going to feel bad. I think that sort of changed later, but at that point, I don't think there really was a change. It wasn't new to have a board of directors. I think that actually made us sharper. We actually got a really good board of directors, not these rubber stamps, which is what a lot of companies have. They come in, they sit around, and they get paid well. They don't do anything. These guys were paying a lot of attention, and I think they made us sharper. So I would say [with] the culture, we became a little sharper, more process-focused. David Glenn was really good at helping us out. He became the president. But I would say from mid-'80s to 2000, it was about the same.

Maria Paz Rios: … What were some of the changes or internal policies that this board of directors advocated for, and that created this sharper culture?

David Andrukonis: So, it's a funny thing. The company was kind of run by economist-types… We got much sharper with our goals, objectives, standard reports. So, there became five things that were critical to the business that you would pay attention to and you would measure and have plans against them. We sort of did that loosely before, but when you were meeting with the board, you'd have these standard reports they would expect to see, and we would want them to look at. Whatever we thought were our important goals and objectives, we would monitor them. We'd have plans against how are we going to get better at it? And then we would report to them how we were doing. So, we were just much better about measuring and monitoring the things that were important to us and doing it in a way that was auditable and trackable. The key phrase at the time was: people being accountable for outcomes. So you'd have the authority and the accountability and you wanted to get those lined up. If somebody was going to be accountable for something, they had to have the authority to go with it. We just got much better at making sure we had people who were on point for making things happen.

Maria Paz Rios: As the secondary market started expanding and Freddie Mac started to be more active, what sort of regulators did Freddie Mac interact with the most, and how would you describe the regulation framework at that time within the secondary market?

David Andrukonis: You could think about [it like] we had a period that you would call the board of directors and shareholders. One of our big shareholders was Warren Buffet, who was the biggest, probably, investor at the time. Those people are keeping their eye on you, and they have access to management. They'd call in and ask what's going on. It was a little different than it is now. A big shareholder could just call you and say, "I want to come in and talk about what's going on." They don't do that so much anymore. So, we had a board of directors and shareholders that were oversight. And then we had a regulator. Its name has changed about a hundred times— OFHEO [Office of Federal Housing Enterprise Oversight] was an office of economic and financial housing oversight. They were the government regulators that followed us.

So, I would describe it this way. Without being too harsh on these guys, for the most part, the regulators tended to be like the JV in a sport. The people who are good are actually doing the transactions are trying to make deals— they're trying to buy things and sell things, etc. The regulators were never quite, I don't think were ever really, up to speed as to what we were doing. I don't think we got much oversight there. In fact, after that financial crisis, I got called in to talk to the SEC [U.S. Securities and Exchange Commission], FBI, the Justice Department, the new regulator [Federal Housing Finance Agency, i.e. FHFA]. And I said, "You guys were nowhere when all this stuff was really heating up, and the financial markets were overheating and ultimately melting down." I tried to say it in a nice way, but the regulators, and certainly Freddie Mac's regulators, for the most part, were watching things happening, and they didn't have a lot of authority to make things happen. So, I'd say we had a lot of what I would call business oversight—shareholders. People who had money invested in the company cared a lot.

And then we had this third odd regulator, which was Congress. And Congress looked at us because they had a perspective of what our mission should be. And depending on whether they were Republicans, Democrats, or anything in between, they all had slightly different perspectives on it. For the most part, I think they would have said they started creating mission goals around affordable housing targets, low and moderate-income targets, neighborhood targets, things like that. That became sort of a third regulator, if you will. And that third regulator was important, and the shareholder regulator was important, but I don't have a lot of positive things to say about any of the government oversight that I saw. The Treasury—those people were, I think, sort of asleep at the switch.

Maria Paz Rios: How would you describe the key goals of Freddie in the U.S. before the housing boom of the 2000s really took off? Did those goals change in any way during the boom?

David Andrukonis: So, our goals were typically—we had a market share floor—we wanted to at least get 40% of the business or higher vis-a-vis Fannie Mae. Typically, it was 43% or 44%. We had profitability objectives, always. So we had these shareholder targets. We typically would have things like cost targets, G&A [general and administrative expenses] targets. We would want to manage our costs. And we would have generally some kind of personal development goal as well. If you were to say, "What was the most important of those?" The one we would be the happiest to do well in would have been returns-to-shareholders. And the constraints would have been: we want to manage our costs really well, and we want to have a decent market share.

And then I'd say, kind of in the late or maybe early-'90s, the affordable housing goals. If we missed those, that became a big deal because the chief advantage Freddie Mac had was its charter. If that became at risk, then a lot of other things would have been at risk. So we paid a lot of attention. And oftentimes towards the end of the year, we would really have to hustle and make sure we bought all the different loan types we were supposed to buy. Those were low and moderate income, in certain neighborhoods and things like that. And sometimes that was really hard because those goals were set just, almost out of thin air. Like the regulators would say, "Well, if you did this much last year, do more next year. If you hit that, do more next year." And that's not quite the way the business actually works, but that's a little bit of what we were up against. They just kept getting harder.

Maria Paz Rios: How do you think these affordable housing goals affected the run-up to the financial crisis?

David Andrukonis: When I was supposed to testify to Congress, I had a lawyer. You were supposed to have a lawyer, otherwise you get killed, but anyway. So I had this lawyer, and I said, "I see lots of blame to go around." And he was like, "You do not want to go in front of Congress and tell them all the people you think are at fault here because at that point, you'll have no allies. They're just going to try to cream you." So if you were to talk to, I'd say the more conservative types, they'll tell you that Freddie Mac and Fannie Mae trying to do a bunch of affordable loans helped precipitate the crisis. You'll hear that from a lot of people. But the stuff that blew up the mortgage market was not really affordable [loans].

I mean, they were swept up in it, but that market's not big enough to take down the mortgage market. It was a relatively small [part]—not that small—but it wasn't big enough to do what happened. So Freddie Mac definitely took risks it wouldn't take to do affordable loans. No question. They'll say they didn't, but they did. The underwriting would be more accommodating. It got to a point where I was concerned that it was too accommodating when I was a chief risk officer. But the government was watching it, and we would do all we could do. And Fannie Mae was just trying to buy loans away from us.

It was a funny game where there's a certain pool of affordable loans, and Freddie Mac and Fannie Mae can both get it, but if Fannie Mae steals them away from us, they look good. We look bad. So there was all this stuff going on, but definitely, if you were a bank or you were Freddie Mac or Fannie Mae, you paid attention to the affordable housing goals. That was a big deal, and there were bad loans made, but what I'm leading up to [is that] there was this other thing that happened called no income/no asset, NINA loans.

So, here's a funny thing. They started making those loans because Wall Street figured out how to make them. What had happened was, we'd had ten years of really low credit losses. And then Wall Street is figuring out it can make a lot of money by packaging up low document loans and selling them. They started buying loans away from us. And Freddie Mac's management and Fannie Mae's management panicked because they saw the market going towards Wall Street, away from the GSEs [government-sponsored enterprises], through these high-risk loans.

But if you don't get the documentation on a loan, you don't get credit for it as a low and moderate-income loan, if you see what I mean. If somebody doesn't tell you what your income is, you can't count them as an affordable housing loan. So those loans that we started making and Fannie started making were just risky loans that really didn't have an affordable housing benefit. Wall Street did those loans, and they did them in spades. I mean, they were everywhere. Fannie then copied them. Fannie lowered their underwriting standards. And then we lowered our underwriting standards. And then you saw as we started clawing back market share, and finally in about '05, '06, market price, which was just going up and up, start to flat map and then drop because there was a glut of mortgage credit. And then borrowers became speculators.

It wasn't just to buy a house to be in your neighborhood. It was like, "I'll buy this house. I'll flip it in two years. I'll flip that. I'll flip that." And people were making a lot of money. Actually, a lot of my relatives got caught up in this. And so, you had this weird game where everybody, if you put it in a nutshell, is trying to get rich. Everybody's trying to get rich. Wall Street is getting rich because they're making these new securities. They're selling them to investors who couldn't spell mortgage. They don't understand the role of underwriting in producing mortgages. Wall Street, who Michael Lewis would say is the terrible characters—they ended up holding a bunch of these loans. So they blew up. People don't make loans to blow up. They just got fooled too. And the way they got fooled is instead of mortgages backing houses people buy to live in, there was a whole bunch of speculation. And people were buying things. They didn't have any equity in them—no income, no assets. People had very scanty credit. They didn't document anything. If house prices didn't continue to go up, they're upside down.

So some of that was loans, truly, to people who are affordable housing typical clientele and tougher neighborhoods with less income. But a lot of it was just speculating on house prices continuing to go up... We wouldn't have even gotten credit for them as affordable housing because they didn't give us our income. They don't give you their income, you can't call them affordable housing. Now you might say they came from a certain neighborhood. We had these central city goals too, and we would try to get those loans. But a whole bunch of what was done has nothing to do with poor people. But it also is not just— it's partly Wall Street greed, but Wall Street believed in this stuff enough that they held onto the product. They held onto some of it at least. That's how they all blew up.

Maria Paz Rios: Moving to the 2000s, how did lending practices change during this time?

David Andrukonis: One of the things that you never saw when I was coming along was—only FHA [Federal Housing Administration] did 5% down payment loans. The conventional markets would do 10%. They would do at least 5% and above. We started seeing 3% down payment loans. We started to see loans with low down payments that weren't particularly well-documented. We saw adjustable-rate mortgages where the rate would change, the down payments weren't very big, and they weren't documented. Almost everything. You've probably heard this by now, based on who you've talked to, these three Cs of mortgage lending. There was the collateral, like the loan-to-value ratio. There was the creditworthiness. They call it different things, but it would be around your credit score. And then there was your capacity, which was your income. You generally looked at how they had a decent credit score, decent income and decent down payment. All three Cs vanished during that time period. Instead of being backed by three Cs, there were no Cs: little down payment, borrower income not even documented, and credit scores going down.

Maria Paz Rios: I understand during this time you were chief risk officer. What were some of the key indicators that you used to evaluate trends in this changing housing market, and did the reliability of these indicators fluctuate?

David Andrukonis: We had a thing we called the red tail. It was the high risk tail of the distribution. Those loans had low credit scores, generally low down payments, and they might be underwritten fully or they might be partially documented. And my recollection of it in the early 2000s was that it just kept going up and up and up. I went to the CEO, Dick Syron [Richard Syron], and said, "Here's what's going on, and here's the kind of loans we're being asked to make." And he felt like we couldn't say no to anybody. So you could see the riskiness of the loans going up and up and up. I came to him with a report on these NINA loans and said, I think at the time—this is in, by the way, the congressional database because this was files they took from me when they did the Financial Inquiry Commission [Financial Crisis Inquiry Commission] several years ago. But I had a memo to him that said, "Look, Dick. About 6% of the loans we do are to Hispanic Latinos. 18% of the no income, no asset loans are going to Latinos. Of those, the performance is not very good. In fact, it was really bad." And I said, "This has the potential to blow up, and it's going to look really bad." And his view at the time was [that] we didn't have the market clout to shut down a program because lenders wanted to sell us those loans. And we could say no to the lenders, but then we'd lose a bunch of their other business. And so, he and I didn't get along particularly well, but kept buying.

And eventually in—so just for background— in '05, he fires me. And then I leave, and I go off to do my teaching thing. And then in '07, the company completely collapsed. A lot of those loans that went bad were these affordable housing loans that they made that were risky. But when they tried to say that we were just trying to do our mission, that just wasn't true. Because they were doing all these loans with no documentation—non-affordable housing loans, as far as you could tell. They were just chasing Wall Street and trying not to become irrelevant. You hear about—let's just take a step back. If you were at a homebuying age in '05, you'd have been looking at house prices going up, and somebody might've been said, "You should buy a house, because even though you don't think you can afford it, you're going to get rich doing it." And like I said, a lot of my young relatives at the time did that, and they lost. House prices can go up and down.

I think to me, what I would always say, don't buy a house as a speculative investment. It's a place to live. It's a place to raise your family. It's place to be in community. But people thought they could get rich there. So if you were saying, "So, what happened?" Borrowers flooded into markets and increased demand. Wall Street found capital for those guys. Underwriting standards flopped. And you had a perfect storm of high demand, unlimited supply of capital, poorly underwritten standards. And as soon as that little bubble burst, it all comes out. And a whole bunch of people got hurt—mostly the people who had just bought because they didn't have the equity build up over years.

What I saw was [that] the new people who came into Freddie Mac, they didn't feel like, to me, they didn’t live and die with the company. Like to me, even though I lost my job over this thing—over buying risky loans and really losing our bearings—but you didn't have people who felt like if the company did something bad, they felt bad. Do you know what I mean? Freddie Mac didn't have that culture anymore. The people who watched it blow up now blame it on the fact that it only has one line of business and the affordable housing goals and that stuff. And that's just like the captain of the Titanic saying, "There are icebergs in the North Atlantic." Yeah, your job is to avoid them.

So, I guess what I would say is: at Freddie Mac and Fannie Mae, they brought in new management teams who weren't very good, stated bluntly. They weren't very good. They didn't have a long history in the business. There have been ups and downs of mortgage markets for thirty years, but the people who came in late? They didn't really know that. Wall Street is run by a bunch of twenty-somethings who are really good with math, and they didn't have the long-term perspective. And so, it was just like, gosh, how many dumb things can you do? But the way I looked at it was, Freddie Mac and Fannie Mae should've known better. They had all the business they did. Big banks should have known better. They didn't. They all were not willing to give up market share. Wall Street screwed up because it's not like they brokered all this stuff—they held onto it. So they blew up. AIG [American International Group Inc.] blew up.

All these big, sophisticated, smart companies blew up. They clearly bought the dope that their marketing guys were selling. It's not like they bought it, sold it to some unsuspecting dupe, and then watched them blow up. No, they blew up themselves. So Countrywide—any big name group you can think of—they all went down the drain, just about. And so, I think some of it was, it wasn't just greed. It was greed combined with stupidity. And it's much easier to see in hindsight, but you asked earlier about, did we have reports? I reported to the board regularly about this red tail going up. I reported about who was buying these loans, what the default rates were looking like. We kept buying. I think they knew almost up until they hit the iceberg that they were buying loans that didn't really have a good chance.

You didn't ask this question but let me throw this one at you which just made it a hard job. So there were affordable loans that should be made, and they're affordable loans that shouldn't be made. You shouldn't make a loan to somebody who really does not have a decent chance of making the payments over time. So, what I remember saying to the president and the new president and CEO is, "What's going to happen is these loans are going to go— all these congressional types: Congress, both sides, Democrats and Republicans. No use for either of them. They'll encourage you to make them, and then when they blow off, they'll come at your door and say, "Why are you foreclosing on all these people?"" It's like a fool's game. You'll make the loans. If they perform, they'll take credit for it. If they go bad, they're going to say, What are you doing? This is my district here you're foreclosing on.

So at some point, you get paid enough, you ought to make the decision that's right for the company and your customers, if you will, including the borrowers. But I don't think too many people did that, really. I think a lot of people just wanted to keep their jobs. And so, you'll do almost anything to keep your job. And that's sort of a sad story, I think.

Maria Paz Rios: ...Were there any debates internally regarding the extent to which Freddie Mac should increase its risk exposure during this time?

David Andrukonis: ...Yes, and the people for restraining risks substantially lost. Although there was a lot of gnashing of teeth, they ended up coming up with this slogan. It wasn't a strategy. It was a slogan called "touch every loan" where they said, "Oh, well, we want to make any loan. We want to be able to facilitate any loan anybody wants to make. We may not hold it. We'll just be able to buy it and sell it." And I thought that was really dumb because first of all, Freddie Mac was not good with technology. To buy every loan, you'd have to really have a good underlying technology base, which we didn't have. But too, some of those loans were just trash, and we shouldn't be doing them. And so, even if it's just marketing them it didn't make any sense.

So, they kind of got to the point where loans are neither good, nor bad. They're just loans. We want loans. We want to be able to buy everything and sell off the loans we don't want. I thought that was just the stupidest thing, even though it sort of sounds reasonable. Nobody was just going to sell us loans so we could sell them to somebody else. We didn't have that much market clout, but at some point you can't be a libertarian and say, "Well, we'll buy whatever the market will produce." When you have federal in the first name of your four names. It's like, what the heck? How can you just say, "We'll do anything."

And the affordable markets are different than what Freddie Mac was used to, at least the markets we started getting into. And it's like, you're not in Kansas anymore. You really have to understand those markets better. And I don't think they ever got particularly smart at that. They might be smarter at it now, but what I saw was lots of arguments. Lots of we can't afford to do anything. We've got to hit the goals. You do whatever it takes to hit the goals. And my perspective would have been, no you go miss the goals and say, "I'm not going to make loans to people who can't afford to pay them back. And you're going to have to make me do that at gunpoint. I'm not going to make those loans. And you can go through all our files and look at the loans we're making."

But that didn't happen. And the consumer advocate groups were in kind of a funny position there too. There were a lot of really good ones, but a lot of them would just say, "You need to make those loans." And it was kind of like, well, who are we trying to help here? We can get them in the house, but you can't increase their income, or you can't increase the amount of down payment they have. The first time a roof leaks, you're screwed… I just thought so many people made mistakes actually in judgment that they are more people to point fingers at than you have fingers.

I don't think anybody performed well in that. I don't think anybody did. I remember we tried to show to Standard and Poor's, to the rating agencies who were rating the stuff AAA, and it was like," Do you know what crap is in these pools?" And we sent them a note saying, "You're rating these— do you know that they're not documenting what all these loans look like?" But people didn't know what the front end of the business actually looked like. When you see that movie, if you've ever seen it, *The Big Short*, at the front, the brokers are just making any loans that they could make. If you want to buy a house, you can get a broker and their only job is to get you in. They have no stake in how that loan [performs].

So, they're out making any loan they can. Freddie Mac and Fannie Mae have automated underwriting, but they're willing to waive it for certain customers, for certain loans. But what they had seen up until that point—I remember having this conversation. Somebody said we had seven basis points built in, 0.07% for default losses. And one of the senior officers said, "When are we ever going to see that? We've never seen losses that big." Well, all we've had is house prices go up and up and up for years. And they would [go] up and up in every hamlet in the country until they didn't. And that's when you know, as [Warren] Buffet would say, who's swimming naked. You only know it when the tide goes out. The tide goes out, it's like: ah, we've got all these bad loans here.

So, there were a fair number of arguments, but in general, production typically wins. And that's what happened in this situation. I've seen Fannie Mae people, and they were like, “Oh, we thought you guys were doing all this high-risk stuff.” This is years later, and I'm like, "We didn't do it until you guys did it." "Oh, our sellers—people told us you were doing it." No. And so, those production guys, they're there to make loans and that's what they do. And they'll make them regardless of anybody's ability to pay. So, the government? Useless. Any regulator you can name? Useless. Rating agencies? Useless. Freddie Mac and Fannie Mae, significantly under-performed. Big banks? Useless. Congress? Useless. All of them did not do their jobs. They all started just pointing the finger at all these other groups now. You had one part of the government suing another part of the government. You'd have the Treasury and OFHEO, the housing regulator, at odds over what happened. It was just a mess, and nobody owned it when in fact everybody owned a piece of it.

Maria Paz Rios: ... How would you assess Dick Syron's and the other management team's performance during this time?

David Andrukonis: I thought it was terrible. Terrible. He didn't get [paid] based on a percentage of the company. He got a bunch of cash. And so, I think when you get paid a lot of money, you can afford to say no to people. You know what I mean? Just say, "Okay, fire me. I've got 20 million. I don't need to steer this into an iceberg to save this job." He doesn't think he did that, but I thought he was bad for lots of reasons. He governed based on fear. He never really took the time to understand the business. He just paid attention to the politics of it— thought that's what the business was. Bully. Not focused. He was just so much worse than what I'd seen before. I've seen people who sort of sweated the company, felt bad when the company looked bad. I thought he was only focused on his own image. And I think that was true of a couple of the other senior officers. They knew they were kind of late to the game, and they thought they were going to teach all these people how you run a company. And they didn't have a clue.

Maria Paz Rios: Do you think this cutting culture seeped its way down to the other ranks within Freddie Mac?

David Andrukonis: Yeah, I think I wrote a note to one of them—again, that was in the congressional file—that I think people played follow the leader. It's like, this is what he's saying, this is what I'm saying. And yeah, it creeps down. And you either get forced out or you go along with it. And so, I think it did. You look at the loans that were made in those last couple of years and you'd say, "How could you possibly make these loans? What were you thinking when you were doing this?"

Now, there's a lot of pressure for sure. I mean, shareholders and investors don't always understand what you're doing either. And if you started losing market share, they might say, “What do these guys know that you don't know?” So I'm not saying it's an easy job. I think what I'm saying is, when you're paid that much, you could do that. It's like, what the heck? That's why we don't have a dog doing the job. It's a hard job, yeah, but do it. You're paid a lot to do it. I just never felt like they sort of got that.

And I think the same thing would have been true from what I've heard at Fannie Mae—how those guys allowed that stuff to be made and really not have more of a corporate struggle than what they had. But when Dick Syron came in, and he brought in Patty Cook [Patricia Cook], and he brought in Gene McQuade [Eugene McQuade]—those guys just thought, “Okay, we know what we're doing.” And they didn't.

Maria Paz Rios: What was the dynamic between Freddie Mac and Fannie Mae, and how did it evolve as both of you tried to claw back market share?

David Andrukonis: Let's just pretend we're playing a game here, and you're Freddie Mac and I'm Fannie Mae, or vice versa. And we have this enormous market. We could do this like [a] little game theory… But what you would think about was, if there’s just two of us—I'm not saying the companies ever did this—but what you might do is come to a place where you sort of agree upon a reasonable price and then beat each other up over price, drive prices down. You know what I mean? We're both going to end up about 50%. We can end up there at a price of $1 or a price of $2 or a price of nothing. Why don't we split it $2 instead of zero? Do you see what I'm saying? They didn't operate that way, much to borrowers' benefit, until they got too far. The share GSEs took for insuring mortgages, the price share, just kept going down and down and down. The whole time I was there guarantee fees did nothing but go down. A couple of times we tried to raise them a little bit, but they just generally went down. Fannie Mae [went] right down with us, generally in front of us.

And so it was kind of like a duopoly that functioned as pure cutthroat competition. You take one of our customers, we'll take two of yours. There was no conversation, but that's what the behavior was like. And so, it's a funny thing. You have this government behind these two things and it's kind of on the hook for what they're doing. But the government—it looks like they're making a lot of money when house prices are just going up and up and up. Freddie Mac and Fannie Mae are not losing money then. But their guarantee fees, what they're charging for their new business, is going down. And the riskiness of the net new business is much higher than what they just bought.

So they're actually baking in the future for potentially big losses, but nobody sees it yet. Treasury was writing things about "Oh, their guarantee fees are too high." I would say, "No, they're way too low because you're just looking at ten years of steady house price appreciation." At any event, they fought and clawed forever. They acted like there were a thousand companies and it was cut-rate competition. Fees went down more than they did… After the crisis, they went way up. The government came in and said, "What are you doing charging these?" They went way up. But no, it was dog-eat-dog almost the whole time I was there.

Maria Paz Rios: As your client base expanded, in terms of lenders that you were purchasing mortgages from, how did it change? How would you treat due diligence and controls in terms of expanding this client base?

David Andrukonis: Our first clients were Savings & Loans associations back in the '80s. And we were spared lots of work. I don't know that we thought about it that way, because we were buying loans that the S&L had originated to hold in their portfolio. So they had underwritten it. They cared about it. It was a good loan. Then we switched in the later '80s to mortgage bankers. Mortgage bankers were buying loans and servicing them but selling that cash flows. And so, you had to be a little bit more careful with mortgage bankers, which we learned about and made some mistakes with. But we eventually got smarter, and you get smarter about doing quality control checks, re-underwriting loans once we got them. Every time a loan goes bad, you pull the file and look at it and see what happened. So, we got smarter about re-underwriting loans and ultimately developing our own automated underwriting capabilities in the later '80s.

Then when Wall Street got involved, that was another step. And Wall Street not only could help with the origination process, but they had places to deliver the loans to. And that was normally our job. So then we ended up getting to a place where I'd say we could look at those loans and know what they roughly were, but we had to decide then whether we wanted a piece of them or not. And when you buy a loan that's not very well documented, you're really not sure how it's going to perform. And so, you're taking a lot of risk.

So, we went from Savings & Loans—really easy to underwrite, [to] mortgage bankers—harder, and then the Wall-Street-driven mania in the mid-2000s. And that just led to a lot of new supply that we hadn't seen. So, I was writing notes saying, "We're now entering into stuff that we don't have in our database. I can't tell you how this stuff is going to perform. We've never seen it before. We've never seen no income, no asset, no down payment before. What possibly do we know how that's going to perform? We don't have any history on it." So, we eventually got to stuff that—I would say we moved to the outer edge of what we knew and then stepped over that. And it was like, who knows? And you combine that with a little bit of bad luck and you get a disaster.

Maria Paz Rios: As the client base was expanding and these new products were coming in, how did you adapt your risk models?

David Andrukonis: Well, the first thing you would try to do—it's almost like if you imagine having your own investment portfolio. What we thought about is the share of product we don't understand we want to keep to a certain amount, say 5% of your assets. You might have 5% of your assets in risky bonds or high risk stuff, but you want to limit to that. So we had a sense that we wanted most of [our portfolio] to look good, but we would take some risks with that. And so if you don't really understand something, you just have to limit how much exposure it is. When we got into multifamily, when we got into more affordable housing, we put position limits on it. Position limits is a way you sort of protect yourself from if you make a mistake, at least your position is limited. We started with position limits, and the positions just kept getting bigger.

Maria Paz Rios: And did they get bigger because of pressure from management or?

David Andrukonis: Pressure from the market, which led to pressure from management.

Maria Paz Rios: Do you think Freddie's organizational and governance model provided for potential conflicts in incentives or challenges in governance?

David Andrukonis: You know, it's funny. I think it does. I'm not sure what the best—I used to feel like I had a solution for this, but here's what I think the problem with Freddie Mac and Fannie Mae's arrangement was. It was sort of like heads, the companies win, and tails, the government loses. So, you kind of had an incentive to make big bets, or to make bets. I would say certainly the later groups felt that way, I'm not sure that—so here's what's risky about it.

If you have the right manager, I think incentives take care of themselves. I think if you don't get the right people, even incentives aren't going to get to help you very much. I would say for a long time, we had the right kind of people and it worked. But if you get the wrong kind of people, even if you did have the right kind of incentives, I'm not sure it would have worked. But I think what you had is, if we buy and are a bigger share of the market, our stock price will go up, we'll make more money, etc, etc, etc. I think when you're making that much money... you think you'd have a long-term perspective, but I don't think people who worked there at the end did.

So, I guess [what] I'd say to your question is: how do you get incentives lined up between the people who work there and the shareholders, and in the case of a Freddie Mac or Fannie Mae, the government backers? It's actually a really hard thing to do. I think you can restrict it to certain kinds of loans, and it can provide a little bit of value. And some people would say, “That's okay, just have Freddie Mac and Fannie Mae do loans with 20% [down payment] and leave the rest of the market because the government can't do that.” And others would say, “Yeah, but people can only put 10% down, we want to serve them too.” Well, then you have got to make sure that you underwrite the rest of that loan really well.

If you just get a government bureaucrat-type of person to do it, they might not be good enough to actually manage that risk. So you want to pay for good people. And you ended up sort of saying, "Okay, so, what happened with these Freddie and Fannie Mae people?" They came for a really lucrative job. Those guys were paid a ton of money—$20 million to come in for a year. I think it was something like that. A ton of money to come in and manage the company well. And the idea was, you've got to pay well to get a good manager. And they weren't any good. Could an incentive system have fixed that? I don't think so. I think a bad person can outsmart any incentive system. My view from a risk oversight perspective? I just want to see the people. I was interested in the policies and procedures, but the people are the ones who are going to protect you, ultimately.

And if you get people like some of the people we had, who would like lose sleep if they did something that wasn't really the right thing for the company. If they made a mistake, they'd feel bad about it. You want those people. And you have to try to find them. So I don't know. I think it's a really tough structure. If you give them a lot of responsibility, you're eventually going to get some dud. And if they could take enough risk to take down a huge—I mean, they lead to a great recession. The banks, Freddie Mac, Fannie Mae and Wall Street.

So what normally happened was [that] there would be a recession first, and then the housing market would suffer. This was the only time that I can remember that the housing market led to a recession as opposed to got burned by a recession. Early on in my career, there was a Texas oil bust, and we lost a bunch of money in Texas. And we had a California bust, but this one was a housing-led national economy bust.

And you had to have a lot of people do stupid things for that to happen. I don't think they set out to be stupid, but they just were. Could incentives have fixed that? I don't think so. You could say that that's an argument for having more smaller companies. This too-big-to-fail is another concern that I have, and we have it now in spades in the financial industry. There's so many groups that are too big to fail, and the government just bails them out. And when that happens, I think you're generally going to get people taking risks that maybe they wouldn't take if it was their own last dollar. But the government is going to come in there. Most people who worked at Freddie Mac and Fannie wouldn't have said—certainly the later people—wouldn't have described it that way. "We weren't doing anything like that." But they were doing stuff to preserve their current jobs and their vision of the franchise that I don't think made much sense.

Maria Paz Rios: You've mentioned people making a lot of mistakes, not necessarily exclusively because of greed. So then what were the primary drivers behind the mistakes?

David Andrukonis: I think the business is trickier than people generally would understand in this way. So, you can think of it as a short-term memory. Let's say I'm in the year 2000, and I'm looking at my credit losses. There's almost nothing there. And people go, "Gosh, you guys are really good. You've learned how to underwrite, etc." Well, if you tracked house prices, not nationally, but locally, even all the local areas, house prices were going up. This never happened before. You had national house price averages go up, but never in every region. Typically, what happens is you lose money in one place and it's offset by another. This was you couldn't lose money. So, memories tend to be short, and particularly like on Wall Street, Standard and Poor's, the rating agencies, where the median age might be twenty-five.

Not that they couldn't look back, but they haven't lived through a lot of like really lousy times. And so you have to be willing to do a lot of scenario analysis. Well, what if this happens? And what if this happens? And on the other side of that, there's always a market that's saying, "Make my loan. You need to loosen your standards. You guys are way too tight. You don't have any losses. Your fees are too high." And so you have that on the other side. I guess what I'm saying is, you need to have a fixed spine as well as the ability to imagine the bad things that can happen. And I guess what I'm saying to you is I think there was a combination of not particularly fixed spines, a combination of not really understanding the risk that was involved, and sort of a combination of— on Wall Street, the firm is more like a host, in a parasite kind of thought. This is where I'm living now, but it isn't my company, if you know what I mean. And I think all that stuff matters. It's really hard to get right.

So, I think that probably the biggest thing was just a sheer lack of intelligence first. Greed is always there, but I would extend greed to Freddie Mac, Fannie Mae, the banks, and all the way out even to the borrowers. If you said to me, "Hey David, I think my starting salary is going to be $100,000, and I see this house for $1,000,000 dollars that I'd like to buy." And you go through the numbers and I'm like, "Maria, if that roof leaks, what are you going to do?" And you say, "Ah, it's not going to leak. Besides, a year ago, it was $500,000. I'm thinking a year from now, it's going to be $1,500,000." I would say, "Maria's a speculator," which is fine. You've got a right to speculate. But you're not saying this is because I want to live. I like the community here. I like the area—whatever else it is. You're speculating. And so, I don't think you can view every borrower who got burned as victims of predatory lending, if you will. Some of them were just straight up speculators.

Some of them didn't understand what they were getting into. I mean, the adjustable-rate mortgages should have never been offered with these low down payment stuff. But when people [were] a year in default, that means they had no equity in the place. And so it's like if you said, "Yeah David, I bought this place for $1,000,000 and now it's $800,000. I am out of here." That happened too. Those are speculators. They're no different than the Wall Street companies that once their money's gone, they're out. That's where my lawyer said, "You do not want to go to Congress."

Maria Paz Rios: This is kind of like a chicken and the egg question. Do you think these speculators were driven by the excess access to capital in the markets, which was fueled by the growth of secondary markets and investor demand? Or was it the other way around?

David Andrukonis: That's a good question. I think, if I had to pick, I'd say the access to capital. Because there were loans being made that would never have been made years before. People at the company were like actually buying condominiums that they never planned to live in. They would get an early commitment while it's being constructed, and after it was finished they would just flip it. Who makes that loan?

So I think the access to capital did make it possible for people to do what I again would say is a really risky thing. It's really risky. I have kids— four who own homes now and one who rents. None of them bought a place that they thought, "Well, it's a hot neighborhood. I think in two years it'll be worth a lot more than it is." It's just like, "I want to live here, and this is all I can afford", and they're all over the spectrum. And so I think if they'd have had unlimited access to capital, maybe they would have done it. I think to answer your question is people got away with stuff that they would never gotten away with before. And mortgage brokers are just trying to keep the real estate agents happy by closing loans. So it's all pushed towards production. Everybody wants to make the loan. It's much more fun to make the loan than to say, "Yeah, so no."

Maria Paz Rios: ...Nearing the end of your tenure at Freddie Mac, when and how did you become concerned about the housing market? What were some of the stress signs that you were seeing at the time?

David Andrukonis: I became, I would say, increasingly concerned starting in about 2002 or '3. What I saw was primarily an increase in low and no documentation loans. What you have to ask yourself when you get those is, "Why does the borrower not want to provide any documentation?" And then what you saw is an increase in borrowers providing just one credit score. So, let's say it's a husband and a wife, but only one provides a credit score. That happens often times when they don't want to provide both because one of them has a banged up credit score. And we saw loans being made to people with high levels of debt going up. So, you might have unwillingness to put down much documentation, you're not putting big down payment and your credit score isn't very good. So, why would you make that loan?

Those loans were being made. And they were being wrapped by Wall Street, collateralized, and sold. We were buying the AAA pieces of this as if they were going to perform. But they would have only performed if house prices kept going up. If house prices kept going up, those people would have looked like geniuses. You make money in housing. But as soon as it turns around, then you have—if I'm tapped out of my lines, there's a whole bunch of stuff you could see in credit reports that will make you nervous or not. Like if I see you going around to lots of different places to borrow money, I'm worried. If I see your position to limit, like Maria has a $20,000 limit and she's at $19,000? I begin to worry. If I see Maria's been delinquent? There's a whole bunch of things that you say, "Okay, I might lend to her on certain terms, but I'm not going to lender her $500,000 or $300,000, whatever it is."

So you saw all three segments starting to go down. And we categorize them as high-risk red-tail mortgages, and that was just creeping up all through that time period. The percentage of loans going to non-occupiers was going up. That's another one. When you do get non-occupied home loans, they're basically investment choices that, if it doesn't perform, they'll just walk away from it. And so there was more of that stuff being done.

Maria Paz Rios: What steps did you take to express your concern? How was it received within management?

David Andrukonis: I would say generally, I think at some point I was probably viewed as an obstructionist. It was like, “We've heard this before. We understand there's risk here but you're just looking at the risks.” Do you know what I mean? You're not really paying attention to all of the business, which from my perspective, we should all be paying attention to whole business. But I think it was kind of like, you're not really thinking of this. So, I have this memo that I wrote that Congress got. So, here's a paragraph from it. And this was from me to Dick Syron and the rest of senior management.

"The NINA project—no income, no asset—we're being offered today differs substantially in the niche it's trying to reach. Today's NINA appears to target borrowers who would have trouble qualifying for a mortgage if their financial position were adequately disclosed. The best evidence of this is the first-year delinquency rates on these mortgages, which range from 18 to 13% depending on the lender." That's really high for first-year. Terribly high.

“We conducted a quality control review of NINA loans files and found that nearly two thirds of the time, the spouse was dropped from the note. This means that the borrower with the weaker credit score was probably not adequately considered in the underwriting process. Our underwriting system uses credit data for both spouses when available because we found the weaker borrower to be predictive of default. Typically, borderline borrowers need both incomes to meet minimum income thresholds. However, since by definition, NINA mortgages underwriting ignores income, originators can advise spouses with weaker credits to drop their score.

"An additional problem with these mortgages is that they appear that they are disproportionately targeted towards Hispanics. The potential for the perception or the reality of predatory lending with this product is great. In 2003, 5.5% of Freddie Mac's single-family loans were made to Hispanics. This compares with 18% of the NINA loans we sampled that went to Hispanics. The HMDA [Home Mortgage Disclosure Act] data paints a similar picture with 60% of no income documentation loans going to Hispanics versus 10% of the conforming market.

"Exiting the NINA market will be difficult and expensive, but there's also an opportunity. Certainly lenders would criticize us because our withdrawal might affect their margins in the business. Freddie Mac would stand to lose some annual profits. And since, NINA loans are minority rich, it will make it even harder to hit our affordable goals. On the other hand, what better way to highlight our sense of mission than to walk away from business that appears to be profitable but hurts the very borrowers we're trying to serve. What better way to highlight the problem with linking the assessment of our progress in hitting the HMDA data. In my judgment, matching the market production of undersold, the minority borrowers, will require us to engage in market practices that are at odds with our charter. If it requires us to make a market, you need new mortgages."

And I think that view was the minority view, ultimately. You could have people against it for lots of different reason— I don't even think that leadership actually picked the best reasons— but you could disagree with that. But that was my perspective, that those loans were going to harm the market they were supposed to be serving way more than they were going to help. And if we got beaten up for it, that's why we get paid a lot of money. I was paid a lot of money. I had no business saying those things made sense if they didn't. And we didn't do it. As a firm, we didn't do it. We talked about it and ultimately didn't do it until really late in the game. After I left, I talked to people who were still there and they were like, "We're still making these bad loans. We know they're bad, but we're still making them." Eventually they stopped, but it was too late.

Maria Paz Rios: As chief risk officer, one of your most important roles is to establish credit reserves, as I understand. Were you ever concerned about the soundness of Freddie Mac?

David Andrukonis: One of the last things I did there was look at the credit reserves. Historically, you'd say a strong company has a strong level of reserves. But the accounting— my previous two bosses were ultimately let go because of the accounting mistakes. I actually don't think they were moral mistakes, but they screwed up on the accounting. Well, here's your trick about the accounting. What the accounting said at the time was [that] you could only reserve for what you are pretty sure is going to default. If you try to build in a cushion, that's like hiding earnings, and you can get in big trouble for that. And people flopped around on this thing in the accounting profession, which also didn't distinguish itself in this.

Before, the board would say, “We want to have strong reserves.” That wasn't the accounting perspective at the time. When I say the accounting perspective, that was not federally accessible accounting principles. I can't remember what it is, anyway but there's initials for what are acceptable accounting standards.

Maria Paz Rios: GAAP?

David Andrukonis: Yeah. Generally Accepted Accounting Principles. Thank you for helping me out. I clearly have been out of the business for a long time. It wasn't GAAP. So I would say, "Yeah, I think we've got a lot of like toxic stuff in there. We should hold reserves for it." But if it's not on the way out, we can't just predict what's going to happen. We'd have to see. So, I was concerned about that. We had talked about adding more capital generally, but we wouldn't have held it in reserves. We talked about adding capital, but not in reserves.

And we did add some capital late. But even then, it was like— the regulators weren't banging on us to raise more capital, some internal people were. Wall Street wasn't really banging us to add more capital— although I think maybe some of them—but internally there were some people saying, “We need to add capital.” So, we didn't add reserves, [but] I think maybe right before I left, we added some capital to get healthier, but not enough. And this is the thing. When you get a scenario like we got in the housing market, which I think that industry sort of brought on itself, those were the ones where you're not going to have enough reserves to hold up to that. It was just a tidal wave.

The amount of reserves they had was like half a percentage point for loans. And when 30% of them go bad and you lose 50 cents on the dollar, that's 15 points against half a point. You are in deep trouble. You're not built to survive that. That would have helped some, but ultimately—and this is a tricky thing about mortgages— remember I was saying earlier about you have to think about all the bad things that could happen to you when you're trying to set up reserves or do business because you might get a really bad draw. And then, can you stand up? For a long time, we were ready to withstand a really bad draw, but not like the one we got. And the one we got, ultimately, was partly our fault. We didn't do anything to keep that from happening.

Maria Paz Rios: ...Over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused it?

David Andrukonis: Just one sort of obnoxious remark first, and then I'll answer that. In general, what I found was that people who know don't talk, and the people who talk don't know. So, I got in sort of big trouble in '07 because I talked to the *New York Times* about what had happened. And Freddie Mac threatened to sue me because they said I violated my performance contract, because you couldn't talk about it. I viewed it as I wasn't talking about anything [considered] inside information, if you will. It was just like, why did this happen? I said, "Well, we didn't pay attention." Anyway, so, you're under gag. Most of the people who are working for companies, they're not allowed to say anything because they had these arrangements with the company that they can't talk about things. Now, if it becomes a legal issue, then you have to talk. But in other words, everybody who talks, for the most part, they're peripheral. You didn't hear people from Countrywide saying here's what happened because they were all under gag orders. Almost everything I read I thought was not quite right.

What I think happened in a sense was, and you have to ask yourself, is...how did you ever get to a situation where you just had, like the tulip prices, a really overheated mortgage market. How did it happen that house prices got bid up so much? Normally that happens because people are able to buy on the margin. Why did you have the stock market crash? Because there was so much buying on the margin. Why did you have the tulip crash going a [few] hundred years earlier? Because it was too easy to get credit. I think we talked about this earlier, it's typically not that easy to get credit, and it wasn't that easy.

So I think there was just a ton of credit made available to the market. Once that credit was available, people had a choice to either participate in it, or not. And very few people could make the decision to not participate in it, because when you don't participate and you're wrong, you're let go. It's like, what the heck, everybody's buying this? Why aren't you buying this? What do you know that they don't know?" So it's hard to stand in the way of that. And nobody really did. So you had access to capital that really hadn't been there before. That's a really good thing and a really bad thing, because people were getting capital, and they were driving up prices.

You could argue by the way, what the heck is going on right now? When we're printing money like crazy and the stock market is still going up during a pandemic? That's really like hard to explain. And so, throw yourself back in time— and that's what the housing market looked like. The housing market looked like what the stock market looks like right now. I'm not saying there's going to be a crash, but it's going up, and people are saying, Oh yeah, there's all these reasons that it should be going up. And you're like, "Of course!" But the Fed [Federal Reserve] is just pumping tons of trillions of dollars into the economy. And Wall Street was funneling trillions of dollars into mortgages.

So if you can speculate on the place you live, you're at risk. Historically people didn't speculate about where they lived. It just wasn't available to them. And so, you had lots of turnover. People buying. And ultimately when it turned, they didn't have any equity. People just walked away in droves.

But just as a sidebar, when I was at Freddie Mac—I won't be precise with the numbers because they certainly have changed—but we had all sorts of borrowers with negative equity. They rarely defaulted. In other words, if you looked at your portfolio and you said, "Well, these houses are underwater because house prices have gone down in Denver, etc." People stayed there because they lived there. I lived in a house where I had negative equity. A) because I lived there, and B) because it was going to be hard to default. If I wanted to default, Freddie Mac actually, I think, owned my loan.

But people walked away from loans. It's like, if I'm not going to get rich on this house, I have no intention of living here. So I think greed is probably a human condition, and the people who are supposed to be smart enough to reign it in weren't smart enough to reign it in.

Maria Paz Rios: ... Looking back on the crisis a decade later, what do you see as its most important lessons?

David Andrukonis: That’s a really good question. The personal one for me, and then I'll give a broader one, because this one you won't care about as much. I got fired, and I sold all my stock at about $60 a share. Two years later, the stock was worth 60 cents a share. Even if you feel like you did all the right things, it's a lousy thing to get fired. It just doesn't feel good. But had I stayed with the company, I wouldn't be teaching middle schoolers and coaching baseball today. I'd be working. I mean, I'm working now, but I'd be working to make money, do you know what I mean? And I don't have any guilt about what happened. And if I had been there, stayed there, and watched that place fall apart? I'd feel bad now.

So, I think on a personal level, if you do what you think is right, even if you don't—like I've benefited from it financially like crazy. Now, it turned out the new people didn't hold a bunch in stock, but the old did. Most of my assets were in the company. I would have lost a ton of money. Instead, I saved it. And so, it's easy to say, “Well, do the right thing. It'll pay off.” It actually didn't pay off right away. It was sort of lousy to be fired. And it was lousy to think about what I'm going to do now. It just so happened that things collapsed, and I had sold when I did. And that was a good thing. But I guess I would say from a personal level, if you don't feel like you can walk away from a job, you shouldn't be in that job. And it sounds easy to say, but most people are in a situation where they say, "I just don't think I could quit this job." If you can't quit your job, you're not going to be any good at it. You're going to do things that you're going to later regret. And things just happen. Could you do this and show up in the front of the page of the *Wall Street Journal* or the *Washington Post*? I've been on the front page of every one of those newspapers. Every one. And it was about saying no to Dick. Had I said yes, I would have been on the other side of that. So I think it's a really big personal thing. It's good to make a lot of money. Your integrity is everything. The rest of it is just not that important. And it sounds like you think everybody would be wired that way…

The second thing I think is to be really mindful of this risk called moral hazard, which is if somebody doesn't have their own skin in the game, bad things are going to happen. It's best if everybody has a little stake in the outcome. It's why I got into housing in the first place. I thought from a national perspective, we'd be a stronger country if everybody owned something. And I believe that's true. And I think internationally too, we should be invested in each other so we all own pieces of— I'm not going to bomb something that I own a part of. And I would like people to own stuff, but that's true of risk too. We're all better off if we're sharing that to an extent. And I think you have to be really, really, really careful about things like moral hazard.

And I guess Maria I'd say, the tails of the distribution, I think, are almost always bigger than people think they are. The expression is, "risk moves to where it's not measurable." When you say somebody is all of a sudden getting bigger? First thing I think is, "Oh gosh." And I think from a regulatory oversight, from a government oversight, it's really paying attention to where capital's going and why it's going there is what you really have to be paying attention to. And ten years of data is nothing. A hundred years of data might be close to nothing. I mean, there's just a lot of weird stuff that happens. So I just would say, if you said something can't happen, it's just because you haven't seen it yet. At this point, everything that people thought wouldn't happen, happened— in the mortgage market at least.

Maria Paz Rios: Thank you very much, Mr. Andrukonis, for joining me today.

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