# AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

# ORAL HISTORY PROJECT

Interview with

Stella Adams

Bass Connections

Duke University

2020

# PREFACE

The following Oral History is the result of a recorded interview with Stella Adams conducted by Sean Nguyen on March 24, 2020. This interview is part of the Bass Connections American Predatory Lending and the Global Financial Crisis Project.

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

Transcriber: Maria Paz Rios
Interviewee: Stella Adams
Interviewer: Sean Nguyen

Session: 1
Location: By phone
Date: March 24, 2020

Sean Nguyen: I'm Sean Nguyen, a University of North Carolina at Chapel Hill undergraduate junior, and a member of the Bass Connections American Predatory Lending and the Global Financial Crisis team, and it is Tuesday, March 24, 2020. I'm on the phone for an oral history interview with Stella Adams, currently a Principal at SJ Adams Consulting. Thank you Ms. Adams for joining us today.

Stella Adams: Thank you for having me.

Sean Nguyen: I'd like to start by establishing a bit about your background. I believe that you grew up in Durham, North Carolina, and went to the University of North Carolina at Chapel Hill for college. Is that right?

Stella Adams: That's correct.

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

Stella Adams: I became involved in the residential mortgages as a civil rights investigator with the Durham Human Relations Commission. It was right after the S&L Crisis, the Savings and Loan Crisis, which was the first financial crisis involving residential mortgages. As a fair housing investigator, there were three cases where people alleged that race was a factor in their not being able to secure a housing option through the Resolution Trust Corporation. And so, I had attended training on mortgage lending investigation conducted by the John Marshall Law School and had received a request for information document, or discovery document, from an attorney named Steve Dane. And as part of my investigation, I sent the document request to the banks and they immediately settled the cases for significant funds at the time, and folks were allowed to purchase the homes through the auction process. This made me somewhat of an instant mortgage lending expert in the state and across the nation in terms of civil rights investigations of mortgage lending cases. The truth is, that while I knew what the right questions were, I wouldn't have known what the answers were at that time. Having earned this reputation, somewhat fraudulently, I really went to work to actually learn the craft and know what the right answers were.

And so when the second crisis occurred, I started seeing cases in North Carolina, I would say around '98, we started seeing some cases that just didn't look right and it started against the elderly, in terms of trying to take their land and it started in USDA [U.S Department of Agriculture] properties because we're a very rural state. And then, it just got progressively worse. We were able to bring attention to the issue, and I think there were just so many schemes.

The first one… where we were really successful was getting rid of credit insurance. That was the first predatory practice that we eliminated. And we did that without lawsuits. We did that through negotiation and using CRA [Community Reinvestment Act] and using other tactics we were able to get rid of credit insurance on these mortgages. The credit insurance was built into the mortgage in terms of the price of the mortgage. So, the cost of credit insurance was on the lifetime of the loan, but the credit insurance itself only lasted five years. And so, when the recession in 2002 happened, and people started needing that credit insurance, it wasn't there for them. And so that was like the first thing; we were able to get the Federal Trade Commission and the Federal Reserve and [others] to ban that practice. So we're pretty proud of that. Unfortunately, I see it coming back. Everything I thought we had killed in the previous thing is coming back on steroids. Some practices people haven't seen in almost 20 years.

Sean Nguyen: …[W]hat organization were you with at that time when you first targeted banning the credit insurance practice?

Stella Adams: With the North Carolina Fair Housing Center. I was the Executive Director of the North Carolina Fair Housing Center. So, I worked at the Durham Human Relations Commission and because of my reputation, I was hired to run the North Carolina Fair Housing Center from its inception. I was its first executive director and I worked in partnership at that time. It was part of the Legal Aid network and then it spun off because of changes to the legal services program at the federal level. We spun off along with the Community Reinvestment Association in North Carolina, which is now Reinvestment Partners. And working in tandem using CRA and fair lending laws, we were able to attack these predatory lending issues.

Sean Nguyen: When you were [working] as the Executive Director of the Fair Housing Center in North Carolina, what processes or actions did you all take to be able to outlaw predatory practices such as credit insurance? Was it speaking to lawmakers, drafting letters? How exactly did that process occur?

Stella Adams: We attacked them [through] the regulatory process. We… filed administrative complaints with the Federal Trade Commission, with the FDIC [Federal Deposit Insurance Corporation], with the Federal Reserve, with the [state] insurance commissioner. We used every tool. We did not use litigation, because we just didn't have that kind of money, but we did use advocacy and we used regulatory strategies. So few people used the regulatory process at that time. So few people were using the regulatory process. Now, any complaint got the attention of the regulators because they were unaccustomed at that time to receiving complaints from the public. So, when they did receive a complaint, they actively investigated it, and in order not to have the regulators in their business, the companies would settle with the regulators quickly. And so we were able to secure some victories that way. We also, as you know, went after predatory lenders: The Money Store, Associates [First Capital]. Associates [First Capital] was one of the worst predators, and they were being bought by Citigroup. And so, we went after them really, really hard. And we filed a complaint with the North Carolina Attorney General's Office, and North Carolina was the first state to investigate Associates [First Capital] and get a settlement. And North Carolinians got a settlement of $20 million, and then the rest of the country later. The federal government shut them down as part of a settlement so they could merge with Citigroup, it was like another $100 million, I think. But… I think Mike Easley was the Attorney General at that time when that settlement came through. It may have been Roy Cooper, but I'm not sure, but that was the first big settlement against the predator, and it was the biggest predator, that was Associates [First Capital]. But again, we did that through an administrative enforcement process as opposed to a litigation strategy.

Sean Nguyen: A big focus of our project is investigating and exploring predatory lending. How would you describe the behavior or actions of Associates First Capital and Citigroup, that merger that you're referring to, what made that behavior predatory and what compelled you and your advocacy group to step in?

Stella Adams: So, Associates [First Capital] had a number of things. They would send hot checks to people in the mail. And a hot check is a check that you didn't ask for, but you can cash and then you owe them money. And then the interest rates on that money would be exorbitant. And the fees that they would charge, they would charge fees for the credit insurance. … You would think that you were in a 30-year fixed-rate mortgage, but you weren't; you were in an adjustable-rate mortgage and the loan was flipped in a year or 18 months. So then, the loan would be due in full and then they would flip the loan and say, "Oh, don't worry about it. We'll put you in another loan." And then they'd put you in another loan and they'd take the process away. They'd take away fees and, again, eating into your equity. Eventually, the interest rate would be so high, and the payments would be so high, that you couldn't make the payments. There was no ability to repay requirement at that time. And so, they would have elderly people on fixed incomes [and] when the loan ballooned or when the payment adjusted, couldn't make the payments. And then they would take the property, take the equity out. They were equity strippers. They found ways.

If you were elderly, they targeted… recent widows. Back at that time, women were not on mortgages because the right for women to actually make a mortgage didn't happen until the 1970s. So, most of these widows inherited the house, the house was paid for primarily, pretty much paid for, and Associates [First Capital] and other predators, just equity stripped and just kept coming back. "Do you want to go on vacation? Here, here's some money", and they'd send them a check. And then they'd [say], "Do you want to do this?" And they would just keep stripping the money out. Through equity lines of credit, they would strip the money out until there was nothing left and the bills were so high that the people couldn't pay it. It was varied, and it was not against the law. There was no law against what they were doing. And so, you had to be creative through the administrative process, try to show how this was unfair and deceptive and then describe the deceptive nature of it, and hope that you found somebody who was open to the argument.

We were able to do that successfully in a number of cases, but as you know, our true success was in getting North Carolina to be the first state to pass an anti-predatory lending law. We caught them sleeping and we were able to get the law through. I went on a 30-day hunger strike over the merger of NationsBank with Bank of America because at that time, NationsCredit had become the worst predatory lender in the country. And they were just terrorizing folks in North Carolina with their products. And so, I went on a 30-day hunger strike, brought the issue to the attention of the Federal Reserve, but more importantly, it got the attention of state legislators. And at that time, the Speaker of the House was Speaker [Harold] Brubaker who was a Republican, but he was also an appraiser. And he was seeing a lot of improper appraisals where NationsCredit was inflating or deflating appraisals in order to get the mark that they wanted. And so we had support. Roy Cooper and Brad Miller, and believe it or not, Patrick McHenry were leaders in the General Assembly at that time, in getting the anti-predatory lending bill passed. And when other states tried to do it, like I said, we caught the industry off guard. They were not prepared. But when the state of Georgia and Ohio attempted to pass similar bills, Wall Street stepped in and stated that they would not purchase any mortgage backed securities out of those states if they passed the bill. And then as you know, through the financial crisis, S&P [Standard and Poor's] and Moody's were equally complicit in the wealth stripping that occurred and in creating the deception that caused the financial crisis.

Sean Nguyen: Could you speak more to the role that you and the North Carolina Fair Housing Center played in the passage of the North Carolina Predatory Lending Law of 1999?

Stella Adams: We were one of the lead nonprofits in doing the advocacy work with the state. I would say that the North Carolina Fair Housing Center, the Community Reinvestment Association in North Carolina, and Legal Aid of North Carolina were the strongest advocates for the bill and did a great deal of work. Self-Help created the Coalition for Responsible Lending that was headed up by Susan Lupton; she organized a lot of the nonprofit groups. The NAACP [The National Association for the Advancement of Colored People] played a major role, and I would say those are the organizations that really led the fight to get the bill passed.

Sean Nguyen: You spoke a moment ago about the thirty-day hunger strike that you participated in in 1998. Could you speak a little bit more about that event and how that event has affected your perspective on community advocacy?

Stella Adams: It showed me, I guess, that one person could make a difference, I think. We had gone to a CRA meeting, a Community Reinvestment Act advocacy meeting, with NationsBank to talk to them about NationsCredit and its predatory practices and to try to negotiate with them during the merger process, because that's when community roots have the strongest ability to influence banks, is through the community comment period… when there's a merger. And so, we had gone to the meeting, and Monica McDaniels with the company came in and basically said, "Look, here's the deal. We're not going to do anything. We don't care. And you all can go home because … we're not going to negotiate and we're not going to make any changes." It was so ugly. A process that on the way back, there was just a lot of anger amongst the community members who had gone to the meeting and it brought back memories of the civil rights era for some of them and how things were done. And then it just, I don't know what possessed me, but I thought, "I'll go on a hunger strike" and I talked it over with my husband and a couple of friends and we announced that I was going to do the hunger strike to bring attention to the issue of predatory lending and the role that NationsCredit was playing.

And we were successful in getting public hearings from the Federal Reserve. So that was the first win, when they set a date. They held a hearing in San Francisco and one somewhere else, but they didn't hold one in North Carolina or anywhere close. We had to go out to San Francisco to the public hearing and we had been negotiating with NationsCredit and then they ended up doing, I want to say, $350 billion CRA commitment with $100 million committed to North Carolina. Self-Help had been trying to get them to fund their secondary market program for years, and they made a $50 million commitment to that process. They made commitments to the initiative and the association of CDCs [community development corporations, and I think the rural center too. And so, community groups called me and said that I needed to stop, that it had been successful and that they were more than happy with the outcome of the negotiations. And so, I ended the hunger strike and we ended up with some really great institutions as a result of that process. So, Self-Help is now the strongest, and the Center for Responsible Lending, they're one of the strongest advocates in the nation around these issues. And much of that came from that struggle. So that's a pretty good outcome for 30 days' work.

Sean Nguyen: When you made that decision [to go on a hunger strike], what was your primary motivation… in taking a very public-facing and bold stance against predatory lending?

Stella Adams: … I don't like one offs, just as a human being. I don't like winning things one person at a time when there's a global need. You know, when it's something that can be done, a rule that can be passed, something that can be done to… help a larger percentage of people. And our CRA advocacy had done so much. We had really been successful using CRA and using the regulatory strategy, that we were dismissed that way by NationsBank was just— it just didn't sit right. It just didn't sit right at all. And they had brought in an outsider organization to come and say, "No, we're the true CRA group and we think they're a great company," and all like that. So, it just didn't sit right for a lot of reasons. And, like I said, I just woke up the next morning I think, and just decided this was a tactic I was going to use.

Sean Nguyen: You've mentioned Community Reinvestment Act advocacy. Could you speak a bit more to how you imagined your CRA advocacy going and what were your priorities in advocating for the CRA… back in the late 1990s and early 2000s?

Stella Adams: So the Community Reinvestment Association in North Carolina and the Fair Housing Center worked in tandem with a lot of community groups. The CRANC [CRA North Carolina] was a coalition of community development corporations and CDFIs, Community Development Financial Institutions, across the state that were doing work in communities but really needed resources to be able to build more houses, to deal with homelessness, and to deal with the economic issues facing minority and rural communities across the state. So CRANC was an organization that was composed of maybe sixty other smaller organizations across the state with the goal of increasing housing, affordable housing, creating financial literacy, doing economic development in rural areas and in cities as well, to fight discrimination in housing and lending. And so, these organizations were partners with the Fair Housing Center. And, again, the NAACP, the state conference, was a strong advocate during this period. So that brought the branches as troops, if you will, when needed. And so, we were able to bring to the table for negotiations with the various lenders, fifteen to twenty organizations that were speaking to the interest of the community needs; because that's what CRA is about. It’s that: Are you meeting the community needs, of folks, where you take deposits? And the answer at that time, and the answer today, is clearly no. And so, at that time, we were one of the few coalitions and organizations, that partnered fair housing law and fair lending law with CRA. And that was a unique relationship that gave us a lot more strength when we approached the bankers and the regulators.

Sean Nguyen: For your work as Executive Director of the North Carolina Fair Housing Center, could you describe for us your role at the organization and what it was like to work there? And what were your priorities during your time there?

Stella Adams: So, we were probably one of the most efficient and effective fair housing organizations in the country at that time, but we were a small shop. We were at maximum, I think we had five employees. Near the end of our organization, there were actually only two of us. Yet, we processed over 660 predatory lending cases a year… using the regulatory process, we filed administrative complaints. We brought one of the biggest FHA [Federal Housing Administration] fraud cases involving $19 million in FHA loans, [and] the predator was prosecuted and actually went to jail. So, we recovered for the federal government $19 million. We saved and preserved the homes of over 100 families in Henderson, North Carolina, through that one case. The state Attorney General's Office investigated and filed the lawsuit, and then the U.S attorney also filed the criminal complaint against those folks. We understood that individuals couldn't necessarily understand the nuances of their complaints, and so we would file administrative complaints with the appraisal boards, with the real estate boards, with the banking commission, with any governmental agency that had an administrative complaint process for fair housing, fair lending or unfair and deceptive practices.

We filed the complaint, because that was the easiest way that we could help individuals who came into our office, and then once the complaint was filed, [the lenders] would negotiate, because they didn't really necessarily want those folks in there really looking at their books. So, we were pretty successful. I'm pretty proud of the work that we did. We, in fact, worked ourselves broke because we took on more than we could chew once we got down to two employees.

Sean Nguyen: And I believe you served as Executive Director of the North Carolina Fair Housing Center from 1995 to 2007. Is that correct?

Stella Adams: Uh-huh.

Sean Nguyen: And you mentioned a bit earlier about how your organization maintained relationships with the state and the federal government… how would you describe your relationship with those other government stakeholders?

Stella Adams: Well, I served on the Federal Reserve's Community Advisory Council for three years, from 2003 to 2006. I served on the Federal Reserve's Community Advisory Council where we discussed, where we shared our concerns with the Federal Reserve governors, with the Board of Governors, our concerns about predatory lending practices and how we thought that the level of fraud was such that it would have economic consequences that would extend far beyond the current situation. Because at that time… it had gotten just outrageous, where they had pick-and-pay loans all over the country, where you could get a loan at zero interest for one year, but in the fine print, it was deferred interest. And then, the interest rates would go up, and you could pick your payment. So, you could pick the minimum payment, or you could pick an interest only payment, or you could pick a fully amortizing loan. And I was like, "So you're telling me [that] my minimum payment is $600. If I pay the interest only rate, it's $850. If I pay the fully amortizing rate, it's like $1,000. Which rate do you think I'm going to pay?" Right? I'm going to pay that rate that is deferred interest. And then what happens is when the interest rate adjusts, so when you get so far behind, and the interest rate adjusts, you had just exploding notes and people couldn't pay them and then they would refinance. [Lenders would say,] "Oh, don't worry about it. We'll refinance." And then they just kept refinancing until… there was no basis for people being able to pay them back. It wasn't possible for those loans to be repaid because the income wasn't there.

And it exploded. It started out in California, and then it went to other major cities. And then it just was everywhere. It was just a mess. And we tried to explain that. The records of the Fed meetings will show you that we tried to warn and share with them what was going on. And there was no action taken until Chairman Bernanke came into power and then he started holding hearings, but by the time he started holding hearings and trying to make changes, it was too late. It was way too late. And, you know what resulted from that.

So, I had good relationships with the regulators. I had good relationships with the OCC [Office of the Comptroller of the Currency] and with the Federal Reserve. I had a great relationship with the North Carolina Banking Commissioner and with the state attorney general. We worked those relationships, and we also had really good relationships with Congressmen Brad Miller [D-NC] [and] [Mel] Watt [D-NC] They introduced legislation at the federal level that was based on North Carolina's law, and that national negotiation on the federal law was pretty interesting. But what ended up being known as Dodd-Frank started out as Miller-Watt-Frank in the House. And then because [Chris Dodd D-CT] was the chairman of the committee, it ended up being called Dodd-Frank. But that bill started out in the House as the Miller-Watt-Frank bill, written by Brad Miller and Mel Watt.

Sean Nguyen: You mentioned how Chairman Bernanke, when he came into power, started having hearings. Do you recall what year or time period that was?

Stella Adams: It was while I was serving on the committee. It was like, maybe the third year, the second or third year I was on the committee. He was the representative on the Board the entire time I was there, but when he became chairman, he ordered changes, and he held hearings in Atlanta. We went and testified in Atlanta. But I can't remember the year.

But, he held a number of hearings and he did a number of administrative processes to curb some actions that were being taken at the time. He was really interesting because his wife was a school teacher and so he had some real world understanding of what the Crisis was doing at the street level because he had access to actual information. Some of the governors just lived in their little Wall Street cocoon and they looked at everything through their economic lens and they didn't believe that such a little share of the economy — which it was — could do the damage that it did. Because they really weren't conscious of the level of deceit that was going on to the investor class: $100,000 house was being sold on Wall Street [for] $300,000 or $400,000. And then it was being sold off to Germany in mortgage backed securities. And then once the bottom fell out, it just quickly fell apart.

Sean Nguyen: Earlier in the interview, you mentioned how people around you working on predatory lending advocacy issues felt [there were] parallels with [the] civil rights movement. In your experience, how did you feel that lending issues, specifically predatory lending, intersected with racial issues in the state of North Carolina, or at the federal level?

Stella Adams: It was very clear that the targeting of these abusive products was at minority communities. At that time, and today, minority communities have a hard time getting loans from regular financial institutions. That's part of the reason for the advocacy around CRA to get them to make loans to folks. They weren't making FHA loans, they would not engage and people felt uncomfortable. Whereas these companies were coming to them and saying, "Oh, you know, we'll lend you money. Oh, we'll help. You can own a home. You can own a home!" And putting them in these predatory products. And people wanted home ownership, [it] was such a valued thing, that folks just gullibly went for, "Can you make this payment?" "Yes, I can make this payment," rather than understanding the whole process. And then, the understanding about what an adjustable-rate mortgage was, was different under the Crisis than it had been in previous years. Under previous things, if the interest rate went down, your mortgage went down. But under these predatory practices, it says the interest rate would never be lower than it is now, but it could go up forever. And so, people got caught in all these little schemes and they targeted these loans to minority communities and they initially start advocating that, "We're making mortgages available to minority communities. We're not discriminating against them. We're making these loans available."

And we had to come up with a whole new theory of green lining where they would take these communities of color that had been denied loans by the banks and they would target them for these predatory products because the desire for homeownership was so high, and the desire for access to capital was so great in the minority communities. They targeted the Hispanic community, the Asian community, the African American community. Depending on where you were, they had a target just for you. It was clearly a fair housing issue, but I will tell you that it was a struggle to get the fair housing community to see it that way.

…We had to work to make them see that if you … have the same credit score and you want a loan from Citibank, the [branches] are only in the Northeast. And if you wanted — if you had the same credit score — you could get a CitiMortgage in most of middle America. But if you had the same credit score in the South, you only have access to CitiFinancial and you were paying predatory interest rates versus the interest rate you would get at CitiMortgage or at Citibank. And so, this was in my view, racial discrimination and we were able to show that. John Relman was able to bring a case that showed that in Washington DC. It was targeted, clearly targeted, to minority communities across the nation.

Sean Nguyen: Over the last decade, we've seen a number of different narratives emerge to explain the 2008 Financial Crisis. From your perspective, how do you understand what caused that crisis?

Stella Adams: It was a crisis of greed from Wall Street investors and from banks and allowing… the subprime loans and lending, so they were able to get big returns because of the predatory nature of their products. And then, the lenders and bankers were buying that paper to get access to those returns. And it created a cycle where the greed of Wall Street and the need for immediate returns and larger returns as opposed to what had been the way the mortgage market worked, which was, you bought mortgage backed securities because they were safe. The returns were guaranteed, or pretty much guaranteed by the full faith and credit of the United States. This was your safe paper.

But then, there was pressure put on Fannie and Freddie to get involved. We were able, through advocacy, to keep them out of it, but they invested in it. So, it wasn't the loans they made that got them in trouble. It was the investment in the predatory products in terms of the paper, buying the paper, that got them in trouble. And then they blame the victims by saying, "Well, people got in these loans that they couldn't afford." But they had been told by the lender that they could afford it, and they could afford to be homeowners, and they believed them, and they got trapped. And so, their blaming of the victim is not the narrative. The blaming [of] CRA, is just not true. The strongest performing portfolio during the Crisis were CRA loan portfolios. Those loans didn't go bad, because those people had housing counseling, because those people were put in good loan products. The low-income people who got CRA loans were successful and still are successful. CRA didn't cause this, CRA wasn't part of this. This was corporate greed.

Sean Nguyen: Looking back on the Crisis over a decade later, what do you see as the most important lessons for mortgage originators and state level policy makers?

Stella Adams: Not to forget lessons of the past. We're already starting to see sort of the return of the predatory products I thought we had killed, and killed them dead. But they are popping up again. The only good news is that the COVID-19 virus may have killed that industry, because it had just started.

After Dodd-Frank passed, they made a level of qualified mortgages, these were safe and sound mortgages, what were the basics of safe and sound mortgages. Those were considered qualified mortgages. But in the last four years we've seen a rise in non-QM loans, there had been no appetite for non-QM lending after the Crisis. But we started seeing it trickle back, and then we start seeing these kind of bad practices creeping back in, even some that are worse than that, of course. They even call it — the worst product I've seen — is called an "asset depletion loan." They're not even hiding what they're doing, and they're going in, and they're raiding retirement savings as well as mortgage savings. It's a horrible product, but hopefully the COVID-19 is killing that product. Because with the dip in assets, the 30% loss of assets in the retirement pool, we're going to start seeing those cases soon. But the thing is not to forget the lessons of the past. And I will say in my career, we're about to enter the third phase of predatory products. I started out with the Savings and Loan Crisis, then the 2008 Crisis. And I believe we're on the verge of another crisis in the next two or three years.

[END OF SESSION]