AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Sarah Bloom Raskin

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Sarah Bloom Raskin conducted by Callie Naughton on February 17, 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.

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Interviewer: Callie Naughton

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Callie Naughton: I'm Callie Naughton, a graduate student at Duke University and a member of the Bass Connections American Predatory Lending and the Global Financial Crisis team. Today is February 17. I'm at Duke's Fuqua School of Business for an oral history interview with Sarah Bloom Raskin who has joined us via phone. Thank you for joining me today.

Sarah Bloom Raskin: Happy to be here.

Callie Naughton: I'd like to start by establishing a bit about your background. I believe that you went to Amherst College for your Bachelor's and Harvard University for your JD Is that right?

Sarah Bloom Raskin: Yes, it is.

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

Sarah Bloom Raskin: I am a banking lawyer by training, so I found myself doing quite a bit of work related to residential lending markets in the run-up to the financial crisis. I did bank policy work as banking counsel for the Senate Banking Committee, formally known as the Committee on Banking, Housing and Urban Affairs of the U.S. Senate. I subsequently represented banks in their portfolio activities and was focused on looking at the sustainability and durability of the residential mortgage market. I became banking commissioner in Maryland in 2007, which was right when we were beginning to see real challenges in housing and in residential mortgages at the state level. I am from Maryland and wanted to give back to my state by joining the front lines of people who are focused on trying to forestall the increasing stem of foreclosures which were occurring in vast parts of our state.

Callie Naughton: When you became Commissioner for Maryland, the boom was, already mostly played out then – and the bust, well, the crash was kind of already starting?

Sarah Bloom Raskin: Well, the way we were seeing it was …, there were waves of foreclosures that were occurring. So later on, as we tried to make sense of what was happening, we saw that those waves of foreclosure actually corresponded to a payment shock that was happening on various tranches of different mortgage loans. So for example, if a set of mortgages all became reset at a certain period of time, that reset amount would in essence trigger a higher payment for homeowners and those higher payments when they … could not be paid, would in essence move that homeowner closer into a foreclosure kind of situation. So it looked as if it might just be kind of one wave, but it turned out that there were several, and they were really beginning – I would say, we were starting to make sense of them really after 2007 when we started to see certain patterns emerging.

Callie Naughton: When you say mortgages were resetting, are you talking about the mortgage interest rates being reset or the payments themselves?

Sarah Bloom Raskin: The monthly payments that were due by homeowners is what I mean, which consisted of various components. It consisted of the mortgage payments and it consisted sometimes of a tax or escrow payment. The monthly bill was a composite of different payments and one payment, one component of it, was the principal and interest that was due. Another component could be the taxes, another component could be some kind of insurance. So, there were different components to it.

Callie Naughton: You were representing banks and counselling banks in the period leading up to the crash before you became commissioner. How would you characterize the key changes in the Maryland mortgage market that you saw during that period?

Sarah Bloom Raskin: I was focused really on what was happening in the state of Maryland. So I did have reason to talk to people who had my position in various states in the country. So we were comparing notes regarding what we were seeing in terms of changes in people's ability to pay their mortgage back – I should say make their monthly mortgage payments… Pretty much every state was getting confronted with this issue and we did find the opportunity to talk to each other to determine how different states were handling things. So we compared notes for sure and we compared techniques so that we could forestall the increasing stem of foreclosures.

Callie Naughton: I want to just step back a little bit from your experience. Before you were commissioner, I believe you worked as a Managing Director at Promontory Financial Group between 2003 and 2007. Could you describe the nature of this work?

Sarah Bloom Raskin: Sure. So as a financial services consulting firm, the clients tended at the time to be lenders of various sizes: large, medium, small. Many of my clients, and [my] client focus, were institutions that were on the mid-size and smaller size realm. So a lot of them were institutions that had mortgage portfolios and that started to be concerned about those portfolios, how they were performing, and we're starting to see delinquencies and even defaults rising in those portfolio classes.

Callie Naughton: How early were they confronting these issues or identifying these issues?

Sarah Bloom Raskin: Before 2007 I would say we were seeing, or I was seeing, certainly increasing concentrations of loans that could be characterized as subprime. But again, we didn't really see much in terms of foreclosures at that early date. What we started seeing were more underperforming asset classes, which were of concern.

Callie Naughton: What kind of asset classes would that include?

Sarah Bloom Raskin: Those would be the asset class of a mortgage, just residential mortgages.

Callie Naughton: Were there certain sections within the mortgage market that were underperforming more than others, be that low-income borrowers, high-income borrowers? Borrowers of color? …

Sarah Bloom Raskin: I don't remember getting into that level of detail at the time. What I thought prior to 2007 was just the residential mortgage class more generally starting to have challenges.

Callie Naughton: And then, just to what extent, if at all, did others in your firm express concerns about the changing nature of credit extension before 2007?

Sarah Bloom Raskin: I don't know. I don't know what the firm was doing about this at the time. I think they were still focused on the extent to which the lenders, their clients, were thinking about [it]. I think the firm was starting to point out to the client, to their lender clients, that there were parts of their portfolio which were not performing well.

Callie Naughton: And did any of these concerns lead to significant internal debates about business practices, directions that the clients were going to take strategically? Or was it just sort of a concern that was felt and then not acted on?

Sarah Bloom Raskin: I don't know what happened. I left in 2007 and that was before the financial crisis really got underway, or people even knew that it was… even a downturn. So I don't recall what was happening after 2007 at the firm.

Callie Naughton: Just to transition now to your work as Commissioner of Financial Regulation for Maryland, I believe you served as commissioner from 2007 to 2010?

Sarah Bloom Raskin: That's right.

Callie Naughton: And can you describe some of your official responsibilities and how they related specifically to the market of residential mortgages?

Sarah Bloom Raskin: So the Commissioner of Financial Regulation in the state of Maryland is the top regulator for all of the state chartered institutions in Maryland, as well as credit unions, trust companies, mortgage brokers, mortgage lenders, different entities that are state licensed. So, the universe of institutions are all Maryland institutions or institutions with significant Maryland presence and licensing operations in the state that engage in lending. So my responsibilities included regulating those institutions. So supervising them, licensing them if it was a licensing regime, examining them if there was an examination focus, and figuring out really how that set of institutions were serving the people of the state.

Callie Naughton: And then what was it like to have a public position during this time? Because you've become commissioner in 2007, right as the crash is really beginning. And you talked earlier about I'm starting to see the patterns of payment shock happening. What was it like to be an officer during that time?

Sarah Bloom Raskin: So in the early days, again, it was hard to compare it to anything prior because things were just, you know, we were just starting to see patterns, starting to see things that were emerging. So, one way we started to see trouble on the horizon was through calls, phone calls, people calling in and being confused about certain payments that they needed to make or certain actions that were being taken by entities that they were unfamiliar with. So, I would say the first set of indicators was really a set of phone calls. You know, just increased phone volume from people who had questions. That struck me, that one of the first things I saw when I came into that position was that that office that took in the consumer calls was a very important office that we needed to make sure it was being responsive to people and we needed to get answers to people. So I think that that turned out to be an important source of very good information about what was happening statewide. And it struck me that it was a kick up in terms of usual call volume. So there were things happening for sure.

Callie Naughton: And you have these kind of alerts going off with these phone calls coming in. How else did you learn about what consumers were experiencing during this period? Did you work with community advocates or lobbyists at all?

Sarah Bloom Raskin: Yes. So at the same time that increased calls were coming in, I had certainly a whole network of people who I knew who followed these issues. And so, institutions that do things and groups that do things that stay very close to what homeowners are going through were people I would call and find out what was going on, particularly in different parts of the state. So, there are groups that are focused on helping homeowners who are trying to figure out what to do, how to deal with a servicer, for example. Those kinds of groups were making calls to me and I was making calls to them to determine what it is they were seeing and what they were hearing. Because again you have to — hindsight is 20-20 — but when you are in the middle of it and you — I haven't yet had the crisis completely hit with its full force – but you're only seeing initial signs, you know, you don't quite know whether this is aberrational, whether it's short-lived, whether it's an omen for something much bigger. So you have to talk to as many people as you can.

Callie Naughton: And how did you and your team start putting together that this wasn't just, you know, an issue in one neighborhood, or an issue with one servicer, but a more extensive problem?

Sarah Bloom Raskin: Because we started seeing this problem emerge in different parts of the state. So we saw it emerge in Prince George's County. Even more affluent counties, we were starting to see signals of it. I would have neighbors who would stop me, and say: "By the way, you know, I just got a new mortgage servicer and I don't quite know what it means, but my monthly payment just went way up. Why?

I'm not going to be able to stay in my house if this is going to be my monthly payment going forward." And so, there were all sorts of signals for people who were more sensitive and willing to talk and listen to others that something was clearly going on.

And we knew then … I saw it going on in Maryland, but was obviously able to call my counterparts in other states and say, "By the way, are you seeing this happening? You know, are you seeing it in Massachusetts? Are you seeing it in North Carolina? Are you seeing it in Virginia? In Illinois? How far does this go? What's going on in Arizona?" So we really started to see it emerge as a nationwide set of issues, which is both concerning and comforting. It's concerning to the extent, like you're thinking—oh my gosh, this is much bigger than just here in my state. This is going on in every state. That's what makes it much more concerning. On the other hand, I realized I wasn't alone. It wasn't just up to me to try to figure this out because there were going to be 49 other people like me, arguably, who were dealing with the same set of issues. And so, it wasn't just something that I had gotten wrong in Maryland or that we were somehow aberrational. We would have a whole team of people who could provide ideas and sources of strength for getting through this period.

Callie Naughton: And how were the experiences of other states different or similar to what was going on in your own state, especially in ways that you could learn from?

Sarah Bloom Raskin: There were states that were more hard-hit. Nevada — very hard-hit. We started to see very big numbers coming out of different population centers in California. We started to try to figure out what the characteristics were of the kind of mortgages that were leading to foreclosure and the kind of state laws that were keeping the foreclosures from being resolved quickly. So we started to really dig into context, both the context of the kind of mortgages; [but] it was [also] the terms of the mortgage, and the context for the kind of laws that were in the state.

I started to make connections between unemployment rates in various states and the foreclosure process. So for example, I started to see that states that had higher rates of unemployment — those states tended to be states that also … I can't say it's necessarily causation — but we would see correlation with people having a harder time moving. They weren't able to move to other jobs because they maybe couldn't get other jobs because the unemployment rate was overall high in their states, and couldn't move sometimes to other states. When they couldn't move, they couldn't sell their house, sometimes when they couldn't sell their house, that would prolong the pain of the foreclosure.

So we saw all sorts of different factors that were – again, we didn't know enough to know exactly which states were going to get hit the most in terms of certain characteristics. But we started to study this and tried to figure out what it was that was bringing this about. We had at the time, I should say, very, very, very little help from the federal government. This was all state work. This was state effort. These were regional relationships and affiliations that were helping us get through this and try to figure out what to do. It was not coming from any of the federal regulators.

Callie Naughton: That's one of my next questions. I wanted to ask a little more about state law context and mortgage context. Just take state laws first. What were some state law contexts that you feel correlated with higher or lower mortgage failure or delinquency?

Sarah Bloom Raskin: So there were states that had judicial processes and nonjudicial processes. So, we saw that states that had judicial processes took a longer time to resolve. The courts were getting very bogged down. So, the foreclosures were not moving as quickly. That wasn't necessarily predictive of whether a homeowner would go into foreclosure or a house would go into foreclosure, but it would tend to mean that, I have to say, foreclosures were longer in judicial states. So that was one contextual factor that we were picking up.

And then we started of course to think through whether there was the ability of state law to permit a modification of mortgage terms. If there was an ability to modify a mortgage in a state law, that would, in essence, we thought would actually help homeowners and lenders come to new arrangements regarding a more sustainable payment stream. So that would be another factor that some states might have. By the way, I think very few, if any, actually had that feature in law.

We started to think about whether there was correlation between the kind of regulation that existed in the state. The robustness of their regulatory regime over mortgage brokers. We started to think about, was that relevant to what the foreclosure rate was? So there were all sorts of legal contextual features that we started to think about. At the same time we're thinking about this, of course we have to ask. I mean, there was an urgency that really started to accelerate in 2008, 2009, where we're kind of learning at the same time that we're trying to fix stuff.

So for example, in Maryland, one thing that I realized I needed to do was to put in place a much more rigorous set of supervisory expectations over non-bank mortgage lenders. And I needed to do that like, right away. And so, especially when we saw that there were new foreclosures coming down the path, that it hadn't ended. You still had these waves of foreclosures. I needed to do something besides just contemplate what had happened. I had to act to keep new cases from emerging. And a lot of states have part-time legislatures. So you can't just come up with your idea and then bring it to the legislature and just get a law passed. And you have to really think through how you're going to work with their legislative schedules to come up with a set of new laws that are going to get passed within a short period of time, again, they’re not in a session all year.

And the way we did that in Maryland was to work closely to build our deals and consensus really ahead of the legislature. So before the legislature came into session, we would pretty much have our legislative packages ready to go and to get those packages ready to go, we needed to engage in a lot of collaboration with all different parts of it, all different parts of the set of interested and knowledgeable people. So the advocates, as well as the banks, as well as the lenders, as well as the homeowners, all sorts of collaboration needed to get done ahead of time.

Callie Naughton: And what kind of additional supervision were you seeking over non-bank mortgage lenders?

Sarah Bloom Raskin: Well, we realized in Maryland that there was a very light regime that existed somewhere between registration and licensing, When you talk to anybody who's an examiner, or banker, or lending or credit supervisor, they'll tell you that there's a spectrum of types of oversight. On the very end, you can have just the registration, which means you just tell all the people doing business in the state, "All you have to do is fill out a registration and register with the state." That's very light. On the other end, you have full oversight and examination authority where you, at the state level, go in regularly and you examine institutions, even institutions that aren't in trouble, you examined them regularly. What we found in Maryland was that where we were on the spectrum for non-bank lenders was somewhere in between registration and licensing. That struck me as too light for what was ahead of us, so I needed to figure out ways in which we strengthen that regime. And when I say strengthen it, I mean figure out what kind of laws and provisions need to be amended in the law to get us to a place where we're having much more meaningful oversight over these entities.

Callie Naughton: And just for some Maryland context, do you have a sense of how many of your mortgage loans were coming from non-banks, or state-chartered banks, or federally-chartered banks — do you have a sense of that distribution?

Sarah Bloom Raskin: The distribution of home mortgages among those various Maryland entities? Is that what you asked?

Callie Naughton: Yes.

Sarah Bloom Raskin: Let me think if I remember. Well, let's see. We had in Maryland at the time, I would say about 50 state chartered … maybe 50 state-chartered banks. And I would say most of them engaged in some form of mortgage lending. But we had myriad numbers of mortgage lenders and mortgage brokers, that we're not seeing— so I guess I don't have an exact answer for you, Callie, but I think most were not banks. I just remember going back and forth between all the entities. Like I couldn't write off anybody. Everybody had something. I don't recall who had more, or where I was spending more time.

I can tell you during my tenure, we didn't have any banks fail. So, it's not as if I had to put any bank into receivership or any trust company or credit union into receivership during the time I was there by virtue of their portfolios. So, I just remember kind of bouncing between … the bank lenders and the non-bank lenders and realizing there was a lot of work to do all around.

Callie Naughton: …Just to shift a little bit to this idea of mortgage context. You had talked earlier about certain features of mortgages, certain types of mortgages correlated potentially more with delinquency or foreclosure. Could you speak a little bit about that?

Sarah Bloom Raskin: So, clearly we started to see that there were terms, particular mortgage terms, that created much more hardship for borrowers. So we started to see, obviously, that it turned out to be the constellation of features that constitute a subprime loan. So we started to see provisions that banned prepayment penalties, provisions where monthly payment increases would go up, would get raised every year based on what the going interest rate was, a very aggressive price, interest rate hikes built into terms. We saw obviously things like balloon mortgages and interest-only mortgages and terms that, as we uncovered them were quite challenging for most people – really, most people, not even just low- and moderate-income people –to be able to afford. So the nature of what these mortgage products were looking like became increasingly more evident as being quite dangerous and quite often predatory.

Callie Naughton: Were these types of terms new to the market? Had they been around for a long time? What is the historical context in some of those terms?

Sarah Bloom Raskin: So the historical context for the variation in products was a long time ago we used to just have fixed rate mortgages and we didn't have anything adjustable. Everything was fixed rate and they were essentially mortgages that had very, very, plain vanilla kind of terms. Nothing quite you know, nothing exotic or complex about them. What you started to see probably in the '90s was a proliferation of products that essentially had all sorts of complex terms. At the time, people would argue, “Oh, this is great because it's giving more and more people the ability to access a house and have a mortgage. This was the American dream, right? This is the way of building wealth and as long as there is a mortgage product for you, you can be part of it.”

And you had the proliferation of way, way, way far [away] from the plain vanilla kind of mortgages that used to exist into adjustable rate mortgages (ARMs) and two-year ARMs, one-year ARMs, five-year ARMs, interest only ARMs, all sorts of complex products. So this all was building, building, building, building and ultimately contributed to the financial crisis. So yeah, this didn't just happen overnight. It was building slowly and then you had entities like Fannie Mae and Freddie Mac buying. They would buy these mortgages and they would fund them. So there turned out to be not many standards in terms of what kind of rules apply to the secondary markets for these products. And that also turned out to be a massive failure in oversight over what was going on.

Callie Naughton: Were you noticing or seeing any patterns of particular types of borrowers being targeted with these more innovative products?

Sarah Bloom Raskin: Yeah, in Maryland we have a big county, Prince George's County, which is historically black and heavy minority neighborhoods. And that turned out to be a real ground zero for some of the foreclosures and for heavy foreclosure activity we were seeing. So yes, there was – in essence, what we later uncovered – steering going on. So you could be a white mortgage owner and you would qualify for certain terms. If you had exactly the same credit profile but you weren't white, we were seeing that you had more egregious, predatory, challenging terms on your mortgage for no other reasons, but for the fact that you weren't white. And that was clear – people were being steered into different types of mortgage terms. And those terms we were seeing were less sustainable than having a prime rate loan. You were getting a subprime rate loan, even though you had exactly the same credit profile as somebody who was qualifying for a prime rate loan.

Callie Naughton: And as Commissioner of Banks for Maryland and in that regulatory world, did you have the tools you needed to respond to this, or were you not able really to deal with the issue?

Sarah Bloom Raskin: So, it's a yes and a no. What I had was an Attorney General in the state who I could refer cases to. So I had the ability to enforce: send matters over to an Attorney General who would look at these issues and I could also send things to the FBI [Federal Bureau of Investigation] and to law enforcement as well. What I then needed to do – I had enforcement tools so I could go after lenders who I knew were engaged in these activities and take action. And that was something I did quite a bit. We had quite a number of enforcement actions and we also used them to signal to new players that this was not going to be acceptable to engage in this kind of activity going forward. So we tried to bring a certain amount of publicity to the cases that we brought as well. And then of course I wanted to clean up the law, put in place provisions that prohibited steering – what we call steering – so that going forward this kind of practice would not be permitted again to create these large swaths of loans with predatory terms that were going after particular minority populations.

Callie Naughton: Just looking back on the Crisis now, what do you see – you've mentioned a couple things you wish you could change or you did change about the policy – but what are some of the most important lessons for originators and policy makers for a more sustainable mortgage market?

Sarah Bloom Raskin: Well, there are so many, so many lessons. I mean, one overriding one is that the federal government needs to be engaging in much more oversight. It can't just be left to the state players, not that the states didn't do an incredibly honorable and as effective a job as they could, but they were thwarted, not only were they ignored by the feds, but they were thwarted. If you think about what was done in the world in terms of the preemption argument. Even when the states brought the fact of some of these high interest loan features to the federal government, to the federal agencies, the federal agencies — they didn't just ignore it — they actually thwarted any ability of the states to regulate at the state level some of these terms. That cannot be permitted to happen again. The federal regulators cannot be permitted to simply ignore and then thwart solutions to what is happening locally and regionally.

So that was kind of one set of lessons and another set of lessons has to do with the institutions themselves. Lenders themselves should realize that even in the absence of meaningful federal regulation, lenders of all sorts at the regional and local levels, need to think about themselves, what the sustainability is of the mortgages that they're creating. They cannot engage in such short-term thinking that permits this kind of practice to go unchecked. They need themselves to set forth what their own policies are going to be and they need internal controls within their institutions, because I'm talking about the firms and the banks and the non-bank lenders themselves, to be touching these problems. This kind of phenomenon is – I mean it's certainly not good for homeowners – but it's not good for the lenders either. And so if they see that the federal players are asleep at the switch, they should be engaging themselves in setting up the right guard rails for themselves. That was, I think, also missing and it is an important lesson coming out of the Crisis.

Callie Naughton: Let's go back to preemption for a second. Why do you think federal regulators either actively or passively chose to undo the work of states? Were they getting different information and data about the mortgage market? Did they have a different philosophy about regulation?

Sarah Bloom Raskin: I think they had a different philosophy about regulation. Yeah. I don't think they were getting — I mean, maybe. I had not ever heard that they were getting different information from the states. I think they saw very clearly what was coming in from the states and they thought that it would be better for the states not to interfere in setting any kind of limits around what a safe and secure mortgage looks like. And I think that's a regulatory philosophy. I think it's a regulatory philosophy that's proven to be completely wrong as we now have gone through a financial crisis to prove. But that was, it was more a distinct regulatory philosophy. And they challenged it in courts. We have preemption cases that went all the way to the Supreme Court. So these were cases brought by the federal regulators, the Comptroller of the Currency in particular. So they knew exactly what they were doing. They were attempting to put forth a regulatory philosophy that essentially would prohibit the states from curbing or in any way controlling these kinds of dangerous terms.

Callie Naughton: Do you think there are other structural changes that should be made to the mortgage market? You mentioned there are certain lessons learned from states.

Sarah Bloom Raskin: Yeah, another lesson has to do with something that regulators really need to do a much better job of, which is dealing with issues before they get out of control. These are the so-called transitional risks. So, it's so much easier to fix your roof when it starts to leak, than waiting for the whole roof to fall in. The expense of a cleanup is so much greater when you wait for the damage to occur. So similarly, when any kind of government authority or, I would say, responsible lender starts to see issues that are starting to emerge, it is much better, it's going to be more affordable, but it's just overall more effective, to deal with the problem early. Do not wait for it to get worse. Do not pretend it will not get worse. You have to figure [it] out, you have to be cognizant at an earlier stage.

And this is very challenging, like really challenging because of course most people, especially in the US, we really just wait for things to blow up and then we would go in and remediate. We very rarely get called to action prior to the ultimate set of catastrophic events. I think that, to me, is one of the biggest challenges facing us because we now have other risks developing. You know, you're focused on, and a lot of my career was focused on, the risk to financial stability that comes from these unsafe and unsound mortgages, residential mortgages.

But we have new risks. And so, one of the lessons that I think needs to be applied isn't even focused primarily on the risk, any risks that would come from mortgage markets again, but just risks that are developing, that are building up in the system. How do we deal with them really early before they blow up into huge catastrophes? And I think that is a challenge. And when we have it, we're seeing it now in terms of climate change, the sustainability of so much lending in the face of a changing climate. How are those risks being handled? Are we just going to wait until some kind of super-duper flood that occurs? What exactly are we waiting for? This kind of stuff is very hard for the regulators in the US in particular to deal with. They tend to wait too long.

Callie Naughton: What are some tools that you felt that you had as Commissioner to respond to what you were seeing in Maryland? Or some tools that could help new regulators anticipate new risks potentially?

Sarah Bloom Raskin: I mean it's really kind of basic. It's just, to me, it's like bearing witness, like just keep your eyes open, see what's going on. I mean I would drive in, I actually didn't live in Baltimore, but I live in Maryland and I would drive into the city every day to my office and I kept my eyes open and I couldn't believe what I was seeing. I mean, every day I played this little game where every Thursday at 9:00am I would count how many “for sale” signs I saw passing on my usual route. A little kind of private challenge in every week. For a while, I would count six “for sale” signs. Next week, same route, eight “for sale” signs. Next week, same route, twelve “for sale” signs. Like what is that all about?

But to me one of the basic tools of just, it's like keeping your eyes open. I've been both a state regulator and worked at the federal level. When you work at the federal level, it's a little bit harder. You actually get engrossed in a different set of silos where you sometimes stop keeping your eyes open, and then you don't see what's going on. So, I think a lot of it is just like common sense, like can you just stay aware, just bear witness to what is happening. And when you do, you realize you're an observant, smart, articulate thinker and person, and after, you can figure out things that you might not otherwise see or understand. So part of it is a tool of just being an observer and not closing your eyes to things that you're seeing around you.

And it was interesting, most of the other commissioners in my situation, in my era, were doing exactly the same thing. They would say exactly the same things that they were observing, things that were starting to be distressing. It was the same thing, as I said about getting the phone calls, you know, started like, "Oh my gosh, like our receptionist is really busy, getting busier and busier," and he's telling us that actually the calls are like, he actually can't keep up with the calls. What's that all about? You see; so just being observant I think is just the start.

And then of course, you know, figuring out what to do with the information you're seeing, because it is anecdotal. Figuring out like what does it mean? How do I catalog it? How do I talk about it? What kind of data collection do I need to make sure this is something that's happening? And then what am I going to do to fix it? What does it mean? So anyway, sometimes it just comes down to that.

Callie Naughton: Of course, sometimes the hardest thing to see is what's right in front of you. Just to move us towards some concluding questions, over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused that crisis?

Sarah Bloom Raskin: So, there were a number of causations – threads that were involved in the financial crisis. The unfortunate thing was that it became an opportunity to politicize essentially what was a multifaceted set of factors that brought it about. I tend to not be in the school of thought that blames only the regulators. And I'm not in the school of thought that blames only the lending institutions. I'm also not particularly in the school of thought that says that this is pure greed. I think that there are a host of factors that actually brought about what we ended up experiencing.

You're focusing on developments in the residential mortgage market. There were other things going on as well that also contributed to the depth and duration of the crisis. Things having to do with liquidity and wholesale funding markets. All of these other factors kind of correlated with other things going on that made the financial crisis something that was not short lived and was not localized. It was something that because of our interconnected markets created the conditions for contagion that brought about a much more massive and costly and debilitating economic scenario.

And the sad thing about it all is that we still live with the effects of it. That essentially, while a lot of people think, "Oh wow, we bounced right back out of it." We actually didn't fully bounce back out of it. We are on a different trajectory in our country. The costs in terms of how new generations of people coming up through the economy, experienced home ownership and experience debt was all shaped by those years. Unemployment was extremely high, people's wealth was wiped out. People in low- and moderate-income communities and minority populations had most of their wealth just demolished from the crisis. So, there are effects of it that we still grapple with today. Some would argue even that our political situation that we currently have was a response in part to what came, and what did not come, out of the financial crisis. What was addressed and what was not addressed. I think there are a lot of important legacies.

And one final thing I would leave you with is that the Financial Crisis was viewed at the federal level from the perspective of: if we fix the financial sector, we will fix the economy. And that turned out, I think, to be inappropriate; we did have to fix the financial sector, but we also needed to do more to really help homeowners. And I think a lot of really good efforts were going on at the state and regional level to help homeowners – much less on the federal side in terms of getting people back on their feet. It's a multifaceted set of explanations and it's not a simple story, but it is a real one and it is one that I think doesn't absolve anybody, or any real institutional actor, of responsibility.

[END OF SESSION]