AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Paul Jaber

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Paul Jaber conducted by Andrew Carlins on April 23, 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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Andrew Carlins: I'm Andrew Carlins, an undergraduate studying economics and history and a member of the Bass Connections, American Predatory Lending and the Global Financial Crisis team. Today is April 23rd. I am conducting an oral history interview with Paul Jaber, former Executive Vice President of the Mortgage Banking Group at First South Bank and current partner at Third Millennium Group LLC. Thank you for joining me today Paul.

Paul Jaber: Thank you Andrew.

Andrew Carlins: I'd like to start by establishing a bit of your background. I believe that you went to Virginia Commonwealth University and graduated with a BS in Business Administration and Management. You also went to the University of North Carolina Chapel Hill's program to become certified by the American Institute of Real Estate Appraisers.

Paul Jaber: Well, I went to Virginia Commonwealth University and graduated, like you said, with a BS in Business Administration and Management, but I also graduated from the school of business with that degree. And then as far as UNC, I attended the University of North Carolina by taking the American Institute of Real Estate Appraisers course eight, which was their advanced course. And I never became a certified appraiser. I had the credentials to do that, actually I was in banking when my bank sent me to take the course at UNC.

Andrew Carlins: So in the context of your professional career, when and how did you first become involved with residential mortgages?

Paul Jaber: When I was at VCU, Virginia Commonwealth University, I became interested in real estate. My dad was a developer, a small developer, and I became interested in real estate and also the appraisal business. And I took a lot of courses in real estate. Principles of Real Estate, Appraisal, Principles, and Small Income Producing Properties. And when I got out of college, when I graduated from VCU—I'm originally from Virginia, from Clarksville, Virginia—when I graduated from VCU—both my parents originally were from Raleigh and Durham, North Carolina. My mom was from Durham, and my dad was from Raleigh. I decided to take a job with an S&L in Rocky Mount, North Carolina called United Federal Savings and Loan, which became United Federal Savings Bank later, as a loan officer, in March of 1979, as a mortgage loan officer. And that's where I started my mortgage career, being a mortgage loan officer in Raleigh. Our office was on Wake Forest Road, where our branch was. I was in a branch, a bank branch. We had a branch in Raleigh and one in Cary and I did mortgage loans. I was twenty-two years old, straight out of college. I didn't have any experience in mortgage banking, and I didn't have any experience in banking.

And quite frankly, it baffled my dad that I would go into banking because his parents lost everything they had in Raleigh during the Great Depression. So, like I said, my dad was from Raleigh. But I felt comfortable in Raleigh. I was successful as a mortgage loan officer, back then we were salary paid. It wasn't like it is today for mortgage loan officers that are commission paid for the most part. IBM was transferring a lot of people into the Triangle area. And I was doing mortgage loans for realtors that were selling a lot to the IBM people. Interest rates in 1979 for conventional mortgage loans were single digit. We were coming into the recession of the early 1980s, didn't realize that the housing market was shrinking, because I was doing quite well and filling my quotas every month; meeting my goals, meeting the bank's goals. But mortgage interest rates went into double digits after that in 1980, and you probably have studied the history of that. I lived it, where prime went to twenty-one and a half percent in '81 or '82 and mortgage rates were in the 14 to 15 percent rate range for adjustable rate mortgages and fixed rates were pretty much nonexistent. How far do you want me to go with my banking background?

Andrew Carlins: This is great. I guess I'm curious to know during the early part of your career at United Federal Savings Bank, what were your official responsibilities?

Paul Jaber: Savings and Loans back in those days did a lot of mortgage originations. We competed with Wachovia and First Union, which was then Cameron Brown, which was a large mortgage banking company that was a national, well-followed mortgage banking company. And NCNB [North Carolina National Bank] plus the local Savings and Loans like First Federal and Raleigh Federal back in that time, and I'm going back 40 years. And it was a lot of fun. It was a good business to be in.

We socialized with the realtors and the builders and we knew the appraisers. And the real estate market in Raleigh was fairly strong. It went down later in the early eighties because of interest rates going up. But IBM—and I was lucky that I was tied in with some realtors that sold houses to IBM—IBM was transferring a lot of people from White Plains, New York down to the Raleigh area. It was White Plains and I think Rochester, and I remember White Plains. And they would pay a mortgage subsidy. In other words, the employee—and a lot of these were managers and IBM was growing like crazy—if the employee had a mortgage in White Plains and the interest rate was say 8 percent or 7 percent and the loan that they received in Raleigh was 12 percent, then IBM would pay the difference in that mortgage rate, so that the employee would not suffer an increased interest rate, an increased payment. Their payment would be the same that they left, their interest rate would be the same that they'd left in White Plains, New York. That was kind of interesting and that really helped a lot with moving people to the Raleigh area.

But I was a loan officer in Raleigh until 1981 at United Federal, and we had branches all across North Carolina. And the reason why they hired me was because we were going to open a branch in Asheville. We had two branches in Charlotte, one in Greensboro, one in Wilmington, Louisburg, Raleigh, Cary, and the home office in Rocky Mount. We had a very visionary CEO, Mr. Henry Gregory. He had the first statewide savings and loan branch network. There was a law back then that you could not have a savings and loan branch over 50 miles from another branch, so he hopscotched across the state. I believe the Wilmington branch is probably a little bit of stretch, but that might've been the purpose for the Cary branch. But he hopscotched across the state. And he was one of the first people to come up with a variable rate mortgage, which we were offering in 1979. That quickly became illegal in North Carolina because it was an adjustable. They called it a variable.

Because here was the deal, Andrew. Here was the fallacy in lending out fixed-rate money for Savings and Loans. They lent the money out of their deposits, and their deposit rate and spread was quite well, if you're lending it out at 8, 9, 10 [percent] and rates are growing and your deposit, your CD [Certificate of Deposit] rates are 4 percent below that, you've got a pretty good spread. What happened was that fixed rates, really inflation, was so strong—and this is when Paul Volcker who became chairman at the Federal Reserve. I remember him, he was about 6’6’’. I believe he was from Texas[1] and smoked a cigar. We used to see him on some of the news conferences. And with news back then, you didn't have CNBC and Fox News and Bloomberg and all of these financial channels on TV. But I was in some conferences where he spoke and he starved inflation by raising interest rates, federal funds rates. And so the Savings and Loans got into a pickle when places like Merrill Lynch and the deregulation of investment bankers, places like Merrill Lynch, and Morgan Stanley and Goldman Sachs and so forth, could start offering deposit instruments. And they came out with the money market. And the interest rates in the money market skyrocketed, so the CDs had to follow that. And the Savings and Loans got squeezed because they're holding mortgage loans at interest rates below what they were attracting in their deposits.

And here's the fallacy of that system. They've been doing it since the thirties and it worked because interest rates didn't move very much. But when your long-term loans, you have a long-term asset —a long-term low interest rate asset – offset by a high interest rate liability, it doesn't work. In other words, if you're lending money out, we’re making 30-year mortgages, so there were some low interest rates in the portfolios out at 4, 5, 6, 7 percent, 8 percent, you really haven't attracted that many higher interest rate loans in that shorter period of time and your CD deposits are starting to make 8, 9, 10, 11, 12 percent in your CD rates, then you've got a negative spread. And economic wise, that does not make good business sense.

So we had a variable rate mortgage, but then the state said that was illegal and that we had to discontinue it, and people's interest rates would have adjusted. So we hired a guy from Stockton White, which was a company that was owned by First Citizens—it was a mortgage company—that knew the secondary market, how to package loans up and sell them. We became a seller of loans to

[1] New Jersey

Fannie Mae, Freddie Mac, and also formed our own Ginnie Mae securities that were made up of FHA and VA loans. And we sold them into the secondary market. And that's what saved our Savings and Loans, was that we were able to do that and get rid of those low interest rate loans or put them into securities and make an investment for the bank or sell them to Fannie and Freddie, and then the FHA, the government loans and to Ginnie Mae, securities, new productions, so the Ginnie Mae securities, and not hold back based on our deposits.

So that was the way that we survived that recession back in the early eighties. And I know you're not here to talk about that, it's just some of the experience. But I was transferred to Charlotte, North Carolina. In 1981, I was branch manager of two branches in Charlotte. And then we sold those branches in about '84, I think it was. I was doing mortgage loans there too. I was the mortgage loan officer, but I was the branch manager over two branches. I was called the City Exec. And we closed those branches, we sold those branches to a bank in Charlotte. I'm trying to think of the name of the bank. I think it was First Charlotte, but I'm not sure. I am not 100 percent sure of that. And we opened a mortgage operation in Charlotte in about '84, '85, and we teamed up with a builder.

We had already teamed up with a builder when I moved there in 1981, John Crosland Company, and we were doing a lot of his customers that were buying houses. We were offering the mortgage loans for them. And they were actually funding—back then there wasn’t any, there was not a limit on how many discount points the seller could pay for a mortgage. And, we were doing Ginnie Mae securities and most of this was FHA and VA stuff and Crosland was paying anywhere from 12 to 14 discount points to be able to buy the interest rate down to around 12 to 14 percent on a fixed rate loan. And they were selling houses, and these were mostly starter homes that were in the 70, 80, $90,000 range, which was a nice house back in the early eighties, the mid-eighties.

We were their mortgage finance engine for their customers, and John Crosland Company became a high-profile builder. He ended up building in five states throughout the Southeast. In fact, John Crosland, his dad started the building company in Charlotte right after World War II. This was John Jr., John Crosland Jr. He was one of the founders. He was very smart, very home ownership driven. And he was one of the founders of the North Carolina Housing Finance Agency, I think in 1983, something like that. I think it was in the eighties. So we were tied in with them and did quite well and grew our mortgage operations and we followed across the five states. I handled the production for all of our branches. I was promoted to senior vice president at twenty-seven years old. And I handled the production. The production reported to me and the underwriting, which is kind of unusual, but the underwriting reported to me.

And then when I was transferred to Rocky Mount at our home office in 1993, I took over the rest of the operations for mortgage, which would include the secondary marketing, the closing area, and the loan servicing area. So I was with

United Federal until we sold to Triangle Bank. Well, you have my resume, you saw my history. And then I joined First South Bank. We sold our bank to Triangle Bank who in turn sold to Centura Bank, and I was with our former CEO at United Federal when we started at Third Millennium Group right after [Hurricane] Floyd. And we developed subdivisions, built houses, and bought commercial properties, and that sort of thing. And we still have the company today. It's not as active as it was then. And my main focus was banking, going to First South Bank in 2002 as executive vice president and the head of the mortgage area. So I'll pause there. I was at First South Bank from the 2002 to 2008 period that you’re speaking of.

Andrew Carlins: So you were at United Federal Savings Bank for nearly twenty years before it was acquired by Triangle Bank in 1998. During your time at United Federal Savings Bank, can you go into more detail about how your responsibilities changed and how the mortgage market in North Carolina changed?

Paul Jaber: I can. Like I said, we were doing a lot of John Crosland’s—when they sold a house, the customer came to us for their mortgage. There was an interesting thing called a builder bond back then [and] Crosland grew into this. Crosland would actually—we would close the mortgage loans, put them in the Fannie Mae, Freddie Mac, and Ginnie Mae securities, and then sell it to John Crosland company who would then in turn put that into a builder bond, [for] which there was a tax loophole. It was called the installment debt loophole tax law, installment debt tax law. And they got a huge credit for those securities. Then they turned around and we sold it for them under their name in the secondary market. So we did a lot of business that way. In 1986, our little savings and loan, which was $300 million in assets, was the largest seller of mortgage loans to Freddie Mac in North Carolina. And that was more than the banks did and their mortgage companies did….

So, that's how much we grew. And we ended up, probably in the late eighties, we had over a billion dollars in mortgage-backed securities servicing, which is called servicing for others. This was a $300 million savings and loan out of Rocky Mount, North Carolina. So the mortgage operation was bigger than the bank. And back then, Savings and Loans did not do a lot of commercial loans. They grew into it later, which was a mistake too, because that ended up being the Savings and Loans Crisis of the late eighties, getting into commercial business that they really didn't know a lot about. But we do a lot of that mortgage banking and we were quite successful with it. And I grew with it. Like I said before, I was over production, and then I was over production and underwriting, and then I had the closing area and the secondary marketing. The secondary marketing part of it was probably the highest risk part, and then the servicing. And then when I was transferred to Rocky Mount in 1993, I'd only been married for six months. And my wife is from Charlottesville, Virginia. She used to live in DC and Atlanta, and then we were in Charlotte together. We met in Charlotte, married in Charlotte. And then six months later, when I was asked to transfer, I went to her and I said, "Hey honey they've asked us to move to Rocky Mount." And she was like, "Where is Rocky Mount?"

So we went from a big town to a small town. But I grew up in a small-town atmosphere. She did not. And we still live in Rocky Mount. She loves Rocky Mount now. But at first it was kind of a shock for her. Rocky Mount is a fine town. Anyway, we grew that bank, that savings and loan, the mortgage area, exponentially. And then in the early nineties, it slowed down; housing goes up and down in trends and in the early nineties it slowed down. And then, when I moved to Rocky Mount in '93, we built it back up, and again, the housing market moves in trends according to interest rates—it is pretty interest rate driven. And then we sold our bank to Triangle Bank back in '98.

They in turn sold to Centura Bank two years later in 2000. And that's where we, the former CEO of United Federal and I, started the Third Millennium Group. And then I got back—I had a two year non-compete per Centura Bank. I couldn't go back into banking for two years unless I moved over 150 miles away. So I stayed here in Rocky Mount, and we had a lot of fun building houses for mostly people that were flooded or lost their home during Hurricane Floyd. There was 52,000 homes in North Carolina, in eastern North Carolina, that were destroyed or damaged during Hurricane Floyd. It was devastating. And then First South Bank, I knew the CEO there real well, Tom Vann—the former CEO at United Federal, John Barker's a big mentor of mine. Again, he and I were starting this Third Millennium Group building houses, developing land and subdivisions and buying commercial property, and multifamily property too. And then we—Tom Vann came after me to come to work for them, when my non-compete was coming to an end. I had to wait a few more months before I could join them. And then I became EVP, Executive Vice President, over mortgage banking for First South Bank, until we sold that bank in 2017 to CresCom Bank out of Charleston, South Carolina.

I joined CresCom Bank, then in 2019, last year, last fall, I retired after forty years being in mortgage banking at a bank, serving on executive committees at the bank, leadership groups and that sort of thing. I retired. And now I am helping with the Third Millennium Group and serving on several state and local boards.

Andrew Carlins: Going back to 2002, when you went to work for First South Bank, can you go into a little more detail about what your responsibilities were there and how you'd characterize the state of the North Carolina mortgage market when you first started working there in 2002?

Paul Jaber: I can. I started July of 2002, and I was well connected with housing during my two years with the Third Millennium Group and noticed that things were appreciating. And when I left to go to First South Bank from the Third Millennium Group—the thing that we noticed the most was the appreciation of housing values in the coastal and mountain region resort areas, how much housing stock was being built and rehabbed in the coastal areas. Now, we are an eastern North Carolina bank, and First South had branches up and down the coast—but it was somewhat mind boggling at first to see in 2002 to 2006 how much housing was appreciating, which helped created the famous housing bubble: part of the financial crisis that we ended up in '07 and '08. And really, I think that the housing bubble burst in the fall of 2006, that's when I started noticing it: that sales started leveling off. We were making a lot of mortgage loans in areas such as the Outer Banks, Crystal Coast, the Wilmington area and so forth, and then I was doing some up in the mountains. We didn't have a branch there, but we had people that we knew that were building houses in the mountain areas and that sort of thing.

So this is what I think happened in my experience with the housing bubble. We had a lot of outside of North Carolina investors coming into this. Let's take the Outer Banks, for example. The Outer Banks is the first real beach you get to after you leave the North East. I mean as far as Atlantic Beach, or Atlantic City, they have a beach, it's cold. But when you cross into Virginia, you have the Eastern Shore, there's not a lot going on there. You got Virginia Beach, which is real crowded and then you come to the Outer Banks. A lot of people from up North, and from California, were buying property in the Outer Banks. And they were not buying them for second homes. Although, sometimes they tried to disguise them as second homes. But it was about the investment property. It was about renting the places out, and this is when the Outer Banks started building those McMansions up in Corolla and along Virginia Dare and Nags Head, Virginia Dare Avenue, and then the ten bedrooms, ten bath houses that would rent for over $10,000 a week.

That's when I think the bubble in our state and in that area really started happening was early 2000's until the financial crisis started, until the bubble burst. And to me it was in the fall of 2006; prices were increasing exponentially. And I even saw things that were happening that a home would be under construction and you'd have a homeowner, someone building it for a second home, again the guise was always, "We're building this for a second home", but they ended up in the rental market, which was part of the fraud that was the issue in these types of homes and in these types of products.

And the contract that they had with the builder, the homebuyer, the borrower—I call them borrowers because we're lending money to them. And we hadn't closed on the loan yet because the house isn't finished. They turned around and sold the contract to someone else at a higher price before the home is built. So they're selling homes before the home is finished, before the construction is complete. And I thought, this is not good. Now, during that time we, First South Bank, were very smart about it. Those kinds of loans, those big jumbo loans and so forth that we were doing—we weren't doing the construction loans on those big monstrosities, those big rentals, those 10-bedroom rentals. We were doing construction loans for some smaller stuff. But the big stuff we were very careful with. And if we did a construction loan, we felt like we really knew the customer, it was truly a second home, they had to wherewithal to be able to close it as a permanent loan and make the payments and that sort of thing. They didn't need to rent to qualify. But there was so much fraud I think in that kind of product, and because I think that people—well you've got to go back all the way back to the mid-eighties, the drive to increase home ownership, which I think played a big part in the housing bubble. Banks, Savings and Loans, but by this time there's not many Savings and Loans left. First South was originally started as a Savings and Loan but it was a commercial bank, when I joined them, they converted their charter.

They were under a lot of pressures through CRA [Community Reinvestment Act] and so forth to increase home ownership for low to moderate income home buyers. Well you're thinking, well that's not the home buyer we're talking about that are buying these huge houses. But it started then. It started during the Clinton Administration and it came all through the Bush Administration, and so forth. For CRA purposes, the Community Reinvestment Act mandated, really it mandated that we take high risks. We increased home ownership, not only for low to moderate income borrowers, but for all home buyers. But the low to moderate income borrowers, of course, were part of it. And we took a lot of risks and a lot more risk in those types of loans back before 2000. And you had delinquencies then that were growing.

And we sold those loans to Fannie Mae and Freddie Mac. All the stuff that I'm talking about, Andrew, that our banks did—that United Federal did and First South Bank—I didn't keep them. I was in charge of the secondary market. I was in charge of the mortgage division. We didn't keep these loans, these big jumbo loans and so forth. I sold them to reduce our liability and we still had reps and warranties. You still have liability because if there was fraud involved and so forth, you had to repurchase the loan, but I've always been a very ethical person and I made sure our loan officers were very ethical and our operations people were very ethical. We didn't play those games. A lot of companies did and got in trouble. That was part of the financial crisis. They didn't know what they had in their loans. They didn't know what they had in their securities, what the borrowers were really like. So it started back in the eighties, with the increase in housing and home ownership in the United States, which drove banks and your rating companies and so forth, taking higher and higher risk. Now when it hit the 2000s, everybody became a real estate speculator. You had people that were engineers for companies and worked for a contractor or a roofing company or any kind of industry, and on the side they're speculating on buying houses and flipping them. And this is where the great flip came from.

And it worked real well. I called it musical chairs. I remember speaking to a group in probably about 2005, and I said, "This is musical chairs, and, when the music stops, I don't know how many people are going to be left without chairs." And the music did start to stop in late 2006 and all those people that were speculating on houses or buying houses and flipping them and counting on that the house appreciation would continue, lost money. And you've got to blame the whole system. Fannie Mae, Freddie Mac were purchasing loans that probably would never ever, the borrowers would ever make payments on. Stated income loans, the no income loans, the no asset loans, a lot of them were so credit score driven, and it was also using automated underwriting systems to determine if they qualified or not.

And I can remember thinking that the debt to income ratio--when I started in banking, your debt to income ratio, your house payment shouldn't be over 25 to 28 percent of your gross monthly income and add all the other debts in with your house payment, it shouldn't exceed 33 to 36 percent of your gross monthly income. The automated underwriting systems for Fannie Mae, Freddie Mac and FHA and VA, well not so much VA, FHA—especially Fannie Mae and Freddie Mac—some FHA, they were approving loans with a DTI, debt-to-income ratio of 60 percent on gross income. Well, there's nothing else left to pay for anything else. You take out what somebody pays in federal and state taxes, [and] there's not a whole lot left for food and so forth. But they were approving these loans based on—and when I say "they," we were underwriting through these automated underwriting systems, because that's what we had to do to be able to sell them to Fannie and Freddie or FHA and VA, put them in Ginnie securities and we underwrote them very fairly; but they were accepting these higher debt to income ratios. The system was accepting stated income loans.

Now we were very careful with the stated income loans. Again, we were very ethical about what we did because that's the way I grew up. That was the way I was raised by my family, and that was the way I was raised in the banking business. Now, you have guidelines, you've got regulations to follow and by gosh you'd better follow them. But not everybody was like that. So you take those tools that helped create the housing bubble and increase that risk exponentially with people that were committing fraud and misrepresentation and so forth, it just exacerbates the whole housing bubble situation. I can remember talking to a loan officer that I was interviewing to hire in one of our areas and we were talking about stated income loans. In these days stated income loans were being purchased by both Fannie and Freddie—and I said, "How do you handle a stated income loan? I mean, what questions do you ask the borrower?" And of course, I instructed my loan officers to say, "What is your gross monthly income?" And whatever they stated is what they put on the application. She told me that she just kept inputting the income into the AUS [automated underwriting system] system, increasing the income in the AUS system until she got it approved.

I remember telling my CEO that, Tom Vann. And he said, "Are you serious?" I said, "Yes sir." And I don't think at first he believed it. Of course, we did not hire her and we didn't partner with her either. Going back to United Federal, we were one of the first banks or Savings and Loans in the country that created a correspondent relationship with other banks and Savings and Loans that were smaller than us and buying their paper and that sort of thing too. So it was really important that you underwrote your loans cleanly and the right way. Make sure that whatever you're doing you're verifying, you're following the guidelines, and you're not stepping outside of the box.

Now, my loan officers did not underwrite loans. They originated mortgage loan applications, but we processed and underwrote those and closed them in our operations center. We did not do that at the branches. I could remember at United Federal in the late eighties, we centralized our process and underwriting and closing. We used to have that at the branches, and I brought it in because I could see where there could be fraud and uneven guideline following, if you left it in fifteen locations. Bringing it to one location, we'll do it. That way we could keep an eye on it. So there was a lot of fraud, I think, in the early to mid-2000s that helped create the housing bubble. I'll pause there.

Andrew Carlins: I'm also interested in hearing more about the interactions with customers, people who were hoping to get mortgages and looking to borrow. What do you recall from any interactions that you or your coworkers had with people looking to receive loans, leading up to the financial crash?

Paul Jaber: A lot of times a loan officer—we would deny loans, we would reject the loan after it went through underwriting. And a lot we would look at and say this doesn't meet our guidelines and so forth. And my loan officer would go—and I lost loan officers because of this—and they would tell me: "Well so and so company will approve it." Or the customer went, the borrower went to so and so mortgage broker, and they approved it. And even some other banks. So the borrower, the customer then, I think felt like they were deserving of the loan no matter what their economic and credit profile is. And I can remember stated income loans coming in, and we had a way to be able to look at what people were making. We had a service that we used. You've got to remember that technology has grown since then. You're talking fifteen to twenty years ago. And your technology is a whole lot better now than it was back then. But we had a service that we could go and look to see what a programmer makes in Bethesda, Maryland. And actually, that happened. On a stated income loan, he said he made $150,000 a year and we went and looked at that job in Bethesda, Maryland and it was like $40,000 a year. See stated income loans was whatever the customer said they made you put it on the application and if their credit score met the guideline, you could close and Fannie Mae or Freddie Mac would buy it, but you had to warrant that you felt like it was reasonable, that the income was reasonable. In other words, if you were a college student, let's say you work at a bar on the weekends, but you've got some income and you want to buy a house. You come in and you say you make $150,000 a year, we know that's not correct. We would deny the loan. But we had the service that we used to kind of see, and it was a range that that income should be between $30,000 and $50,000. And people claim that they make three to four times that and so forth.

That was some of the reaction of the borrowers, the customers, because they heard you could do it. They heard that you could get a mortgage loan. You just had to play a certain game with it. We didn't play those games, but a lot of companies did. No income, no asset loans. We used to call them NiNa's: no income, no asset. You didn't have to state your income. You didn't have to prove your income, and you didn't have to prove you had a certain amount of assets to be able to close the loan. They were high interest rate loans. This is where your predatory lending comes in. And I hesitate to call it subprime, because I think it's more like non-prime. Subprime to me was very high interest rate loans and low credit scores, and high liquidity. You had to put some money down on the deal—well some of them you didn't have to put them down. When interest rates were in the 6 and 7 percent range, you could get an interest rate of 14 percent, a hundred percent financing and not prove your income. That was subprime.

Non-prime was, we used to call it A minus. Freddie Mac and Fannie Mae would buy A minus loans. They didn't quite meet their guidelines. They charged a little bit higher rate on them, a few more discount points, and they would purchase the loan. That helped create the housing bubble. A lot of it was credit score driven. If you had a really good credit score, even if you had a credit score over 720, and on that no income, no asset loan, you didn't need to say you had a job. But you had to put a certain amount down. You had to put 20 percent down, 25 percent down or whatever it may be for the down payment to qualify for that particular loan because you couldn't get private mortgage insurance. The MI [mortgage insurance] company wouldn't underwrite it, but the MI companies themselves too played an important role in insuring the loans. They insured loans that they probably should not have insured to.

I guess that's what you're asking me about the customer's reaction. The borrower's reaction was, how did they get these loans? How do they know about it? Well, the unscrupulous loan officers taught them how to get approved. They would guide them through the process. Mostly these mortgage brokers, some mortgage bankers, some banks, that had loan officers that didn't play by the rules. Is that your question?

Andrew Carlins: Yes. Thank you. Can you go into more detail about which regulatory agencies was First South Bank interacting with prior to the crisis and if any of these agencies were more stringent than others?

Paul Jaber: Sure. I've kind of divided it into two different areas. As far as regulatory agencies, we were FDIC insured, so we were examined by the Federal Deposit Insurance Corporation, the FDIC, that's the federal examination and then we were state chartered, North Carolina state chartered. So we had state examiners too—bank examiners. So we were well regulated from a banking standpoint. And probably they didn't know as much about mortgage banking as they should have because we'd laid our risk off. Again, we sold loans to Fannie Mae, Freddie Mac, we created Ginnie Mae securities for the FHA, VA stuff. And a lot of FHA, VA stuff, we also sold individual loans to companies like Countrywide, Taylor Bean, SunTrust, BB&T. Countrywide and Taylor Bean. You know what happened to them.

Do some research on Taylor Bean. I got caught with four loans from Taylor Bean that I had to turn around and sell to somebody else because they went out of business in one day. And I remember I had four loans that were FHA and I had to turn around and sell them to another company because they gave us one day notice that they were going out of business. They were run out of Florida. They actually ran into an issue with fraud in their warehouse line, with the bank. They took a bank down, Compass Bank in Alabama—I think it was in Birmingham, Alabama. You look that up on the internet and get a little history there. It's kind of an interesting deal. But we sold to Countrywide, you know what happened to them. Thornburg, we sold a lot of jumbo product to Thornburg. Thornburg was a jumbo conduit into the secondary market.

But I think that there were so many moving parts that had created the housing crisis, the housing bubble and then the housing crisis. The investors played a big role in it. The rating companies, you know, Moody's. The companies that rated these securities that these companies were forming after we would sell them the individual loans. So we were selling the individual loan to them. I'm talking about Countrywide, and Thornburg, and Taylor Bean, and these other companies and so forth. And then the rating agencies would put a rating on them, which would make it investment quality, I mean mortgage-backed security investment quality. It could be sold down on the secondary market as an MBS and then—or created in the secondary market as an MBS, then sold out to Main Street, as a highly rated security. They didn't know what was in those loans. They didn't know how they were originated, underwritten and closed. And it was all fine as homes were appreciating. Values were going up.

I took my spouse, to a movie—I think it was called the Big Short. I don't know if you've seen that or not. If you haven't, you ought to get on Netflix and see if you can find it, especially while you are quarantined. And she leaned over to me, and said, "Do you remember this?" And I said, "Yeah, I lived it." What was happening was that people were buying homes that didn't qualify. And again, we didn't participate in this, but they were showing loan officers and rating agencies and investors buying stuff. They just didn't know that they had a lot of fraud in it. You just didn’t know what was in it.

Reason why First South Bank survived is because we did it the right way, but again, we sold loans to Countrywide that met their guidelines. And I shook my head. I’m going, We’ve met their guidelines. They purchased the loan. They had no problems with that. And I thought, if these people have a slip in their job, if they lose their job for two months, lose their income for two months, they're not going to be able to pay. But there's a lot of those loans that were going into these securities that didn't qualify. And high loans qualified that didn’t qualify, because you had loan officers, underwriting departments that did not do their job properly and the rating agencies did not do their job properly either. Does that give you some color on that?

Andrew Carlins: Yeah. Thank you. And how would you—

Paul Jaber: Let me just tell you this real quick, Andrew, if I may. I served as the president of our regional mortgage bankers association. I actually was the president of the Charlotte Mortgage Bankers Association. I lived in Charlotte and then I became the—we have a two-state organization called the Mortgage Bankers Association of the Carolinas, and I was president of that in 1999 to 2000. And a lot of what we try to teach our member mortgage people was to be ethical. Be moral about what you do. Don't shortcut it. Follow the guidelines. Do not commit fraud.

And I think we were pretty successful with a lot of people, but some people just— when you're commission paid—when you're a loan officer, and you're commission paid, and if that loan doesn't close, you're not getting paid. And I look at the real estate market the same way sometimes—back then the realtors and so forth that were involved—it creates an environment for fraud. And I think a lot of that came from it. Mortgage loan officers would make a deal on commission, but at least you have technology and checks and balances, and we've been through this to say: "Okay, we learned from this. We've got to keep a tighter eye on what's going on. And we don't need to be doing these no income, no asset and stated income loans and blah-blah-blah and that sort of thing." Although, I have seen some of those products come back out, very limited. But they've got to have a huge credit score and a lot of liquidity. It's verified.

So there was a lot to learn from that. And I think that some of the trade organizations and so forth, we took it on ourselves to make sure that we followed the guidelines, we led by example, we were role models. And we tried to really instill that into people that were listening. And I probably should not state this, but I think a lot of the issues, we didn't allow mortgage brokers in our association. They had to be from banks or mortgage banking companies, always mortgage banking companies. And we didn't bring in the mortgage brokers. I think the mortgage brokers created a lot of the issues that we had. And then of course they went away. A lot of them went away. And then you had companies like Countrywide that got so big that they thought they were too big to fail. And then Bank of America bought them, and they had a tough time with them. And First Union bought, I think it was Western Mortgage, they offered a lot of adjustable rate mortgages and that helped take down First Union to the point that Wells Fargo bought them. And if you didn't know what you were doing, Countrywide knew what they were doing. The chairman of Countrywide, [Angelo] Mozilo, I remember being on an elevator with him one time, and I was talking about one of his products where you could pick four different payment plans, either a regular payment, interest only, or negative amortization. You didn't even have to pay all the interest.

And I refused to do some of their loans at Countrywide—I said, "Who are you selling these things to?" He said, "Paul, you'd be surprised at the number of people out there looking for yield, chasing yield, and the rating companies are rating them high." And he said, "We have no problems selling them." That was a major issue. And I said I was on the elevator with him. I actually introduced him at one of our mortgage bankers association conferences and he was one of our speakers. Angelo Mozilo. Look him up Andrew, you'll get a big kick on his background.

And then later that evening after dinner, I was on the elevator with him. I talked to him at the head table and so forth. I wanted to ask him that question when it was just he and I, and that was the surprising answer I got. "The rating companies know what they're doing."

Andrew Carlins: How did the shifts in the mortgage industry that you were mentioning impact work culture at First South Bank?

Paul Jaber: Well again, like I've been saying, we played by the rules and we didn't let unethical and unscrupulous actions happen. We did it with our underwriting. We did it with the loan officers reporting to me, and we did it with constant education and talking to them about what's right and what's not. And I think we were very successful with it.

During the financial crisis, when we ended up in 2007 and '08 and when things really started going downhill fast and hard, it was not just mortgage but commercial property. People were speculating on that, they were building that too. We call it the housing crisis, but it was really a real estate crisis. A lot of issues were in commercial property and that sort of thing. And I sat on the bank's loan committee, commercial loan committee, and we had the same level of ethics there, and First South Bank survived.

We were well-capitalized. We had a lot of liquidity. We lost money on some of our commercial loans, but we were one of the banks to survive. I forget, but you can look it up—Sheila Bair became the FDIC chair, the head of the FDIC. And I had a friend of mine who was a bank examiner. In fact, he still is a federal bank—an FDIC bank examiner. And he said in 2008 she told them at a meeting—he was one of the head guys—that, "We're going to take down the weak banks and let the strong survive." And I think they actually closed 250 some banks that one year in 2009. Fact check me, but it was a huge number. That was part of the issue. If she had worked with them, if the FDIC had worked with some of these banks, you wouldn't have had a number of banks fail, but their thing was: "Hey, we're gonna take you down." I lost some respect for the FDIC [federal deposit insurance] system because of that. And I've got friends of mine that do a great job in the FDIC. But it was that attitude of: "If you've got any blemish at all, we're going to make it hard for you to survive. And we're going to close you." And I think you'll see some of that coming up here in the next six months to a year. This is not a financial crisis but think about the unemployment claims coming out this morning. Another 4.4 million people lost their jobs. So that's over 20 million people that are unemployed. You're going to end up with, probably with the unemployment rate in the twenties. One in five people are not going to have a job. Employees do not have a job. I think it won't be a housing crisis as much as it will be businesses failing because of this pandemic. And just like the housing bubble, the Coronavirus crisis is creating issues with businesses being able to survive. And without businesses, you don't have jobs.

Andrew Carlins: I'm wondering to what extent, if at all, did people within your firm express concerns about the changing nature of credit during the early 2000s leading up to the crash, and did those concerns lead to any kind of significant internal debate or changes in business practices for you?

Paul Jaber: Yes. Our executive committee consisted of our CEO, our CFO, our Chief Banking Officer, our Chief Credit Officer and me. ~~A~~nd absolutely, we talked about it a lot. We knew that we wanted to stay high quality and we wanted to play by the rules and make sure that we followed regulation and not take too much risk. Lending money to somebody is risky. I don't care who it is. You could be an owner of a great company making a lot of money or have a high-level job at a company making a lot of money. You could lose your job. So lending is risky at best, but there's a level of risk that you have to quantify. And I think we did a good job at that. And not taking too much risk that was not necessary. So here's the other side of the tape, then your CRA ratings can decrease there too, if you're not taking—I'm going back to housing—if you’re not taking enough low to moderate income type fiscal risk, but we did a lot of loans with the North Carolina Housing Finance Agency, and I'm on their board as you know.

You didn't tell me if Bob Kucab is on this list, but he'd be a good one to interview. He provided a product for low to moderate income housing that was great and was very successful with it. But we followed their underwriting guidelines and back then they used to underwrite the loans after we underwrote the loans. So our bank did a great job in being ethical, being risk averse, to a point that we did not take undue risk. Again, anytime you lend somebody money, there's a risk involved. Nothing is a guarantee. But we also sold our loans in the secondary market, so when loans started to foreclose and you know what happened there, you know, tremendous amount of foreclosures and that sort of thing, most people started losing jobs. They called it the housing bubble burst, and it did; appreciation, houses started to depreciate, go down in value exponentially. Those big houses in the outer banks I was telling you about, those 10 bedrooms, 10 baths, they lost 50 percent of their value in one year, 2009.

By selling our product in the secondary market and to other companies and so forth, we alleviated a lot of our mortgage risk. On our commercial loans, they stayed in-house, and we just had to work with our customers that felt like they needed help. Here's another thing on the commercial side, you're not here talking about commercial, but on the commercial side you had a lot of joint ventures. Let’s say you and I and one of your buddies and one of my buddies, we get together, buy a piece of property—we're going to buy a couple of houses and rent them out. And I did a lot of those investor type loans—but let's say we are going to buy an apartment complex and rent that out. People start losing their jobs. They can't pay their rent. You start doing evictions. The vacancies increase. Let's say you and I are the strong partners in this. And we've got two other partners that maybe are not as strong as we are. Maybe they're in the real estate business and their real estate businesses goes downhill. They're not selling as many houses or properties or whatever it is, and they're not making as much money and they can't make their part of the payment. I saw a lot of that. You may have multiple partners in a partnership and one or two of the partners could not support the partnership. So the other two, or whoever's left, the other one or two or three that’s left in the partnership had to make their payments for them, which put more pressure on their cashflow to the point that depending on how long the crisis lasts, they would end up in foreclosure. Does that make sense?

Andrew Carlins: Yes.

Paul Jaber: And I was not at this meeting, but my CEO came back to us, and I think this was in the spring of 2009. Ben Bernanke had just become Chairman of the Federal Reserve the year before that and Greenspan had retired—and Greenspan probably had a lot to do with this too. And I like Greenspan. Alan Greenspan is very smart, but his one comment one time killed the stock market, when he said it was—what did he call it?—Something "exuberance," "extraordinary exuberance" or whatever. It killed it right then. Those guys, when they spoke, they could move the financial markets. It was pretty amazing. I had Al Broaddus one time come down to speak to us. He was the president of the Richmond Federal Reserve and he was a voting member of the FOMC, at the time. And I had him come to Rocky Mount to speak at a function we put together, our bank had put together—and the media was all over him. You had Bloomberg and C-SPAN here. And this was before we had CNBC and so forth. It was a pretty big deal. Those guys could move the market.

My CEO at First South was at a meeting they had in Charlotte at the Richmond Federal Reserve satellite offices in Charlotte. As part of the Richmond Federal Reserve, they had a satellite office there. There's a mint there, they make money. And it was the Executive Director of the North Carolina Bankers' Association, they had [Thad] Woodard put this meeting together and had Bernanke come, Ben Bernanke. In fact he's actually from Dillon, South Carolina, and, he used to work at South of the Border. I don't know if you've ever heard of that operation. It's a place on I-95, and he said he worked there in the summers and that sort of thing. He was telling this group of bankers. This is Charlotte, and you're not too far from the South Carolina line, but these were all North Carolina bankers, CEOs. Somebody asked him—this was in the spring of 2009—somebody asked him, and things were tanking, it was ugly.

We were thinking, well, we're probably going to go through this about two or three months more, we'll be out of it. Prices will turn around. People will start getting their jobs back. Jobs will be increased, blah blah that sort of thing. And you've got to understand too, jobs drive everything to me. If you have a job and you're able to pay, the economy is going to be great. Without a job, you can't pay your bills, can't buy food and then you become self-supported by the federal government. Then the economy just tanks. So anyway, people were losing jobs left and right. Companies were going under. Liquidity froze up; foreclosures everywhere. So one of the CEOs asked Bernanke, "If this were a baseball game, what inning are we in?" In other words, he was looking for when is this going to be over. This was in the spring of 2009, and Bernanke said, "They haven't finished singing the national anthem." Our CEO came back to our executive committee and told us that and I thought: "Oh my gosh, how long are we going to be going through this?" And we went through this really, I want to say, until 2014. '13, '14. We still had commercial loans that were still having issues. They still hadn't grown out of it. They struggled along, the borrowers did, the customers did, even in 2013 and ‘14, there were still issues with some of their loans and as a bank we wrote them down to fair value, according to the FDIC rules and so forth. But this crisis lasted a lot longer than what the recession calls it, which was just two quarters.

But I thought we did really well. We [our group] lost a lot of sleep over the financial crisis. But we pulled together and I think we did really well. We are a community bank and we had a strong CEO, and we had a strong executive committee and we had a good board, and we survived. Does that answer your question?

Andrew Carlins: Yes, it does. Thank you. I'm now going to go into some concluding questions. Looking back on the crisis over a decade later, what were some of the important lessons that you think mortgage bankers could take away?

Paul Jaber: Well, they took away the experience they had then. They know how to operate today. Underwrite and qualify every borrower, every homeowner. Everybody's going to refinance. Nothing should be just credit score driven. You can have a great credit score and still not have any liquidity, or the debt to income ratio [does] not make sense and so forth. Being ethical—don't commit fraud. And we have all these fraud detections now. Technology has really, really helped with detecting fraud. You think about ten years ago, fifteen years ago, and again, like I said, when things really started picking up was twenty years ago in 2000, 2001 is when it started.

Think about the technology we had then compared to what we have now. We have technology in our underwriting; we can see what the average value of a house is in the neighborhood. We can get the customer's tax returns online. It's called a transmittal, which we require to see if they're telling us the truth on tax returns. I had a customer one time, someone buying a home, I could look at the tax return on his Schedule C. He was self-employed and it looked like—the underwriter brought it to me and I was looking at it and I pulled out a magnifying glass to just really look at it. And this was the technology we had back then. And it looked like he added a zero to his net income on his business. So instead of making $16,000 in a year, he made $160,000. And another thing that we are taught is that if everything is even numbers it is probably not right. His income was 16, $160,000, if you add a zero in gross revenues. He had no expenses and his net income is $160,000. Well, you can kind of detect that and so forth. This is back before you could get the tax transcripts before the IRS offered that service. So I called the CPA [Certified Public Accountant] or the accountant—it wasn't even a CPA, it was an accountant that did the tax returns. I was talking to a lady and I told her who I was [and] that I was looking at these tax returns and I have some questions about the income and that sort of thing. And she told me, "I don't know what you're talking about." I said, "Isn't this a customer of yours?" She said, No. So he redid his own tax return, committed fraud, and signed the accountant's name to the tax returns. She said, "I know this person, but I did not do their tax return. I do not do their taxes."

So it's just that kind of mess that you had to deal with to make sure that you just really look at things very closely. And again, the biggest thing that I think has happened since that fifteen years ago is the technology, we have today to be able to double check, to verify the information that we're looking at. That's probably the biggest thing that's helped create a more viable mortgage. And nothing is ever fraudless—but less fraud in mortgage banking.

Andrew Carlins: Thank you for that. Is there anything you feel I should have asked or something you want to add to your response to any of today's questions?

Paul Jaber: I appreciate you doing what you're doing. It's not a simple task. I am not sure how the interview went with the person from Wachovia and if they had some of the same insight as I did.

I think what's as important as what happened then is what's happened since then. And we have learned to do our jobs a lot better, but everybody should have done their job well then, and not be so greedy. And I think a lot of this was driven by greed of companies, the investment bankers and your mortgage companies. A few of them I have named and that sort of thing. I used to tell my loan officers, and I knew that most of them appreciated this comment, but some of them probably didn't. "If you do the right thing, you'll be here tomorrow. If you don't do the right thing, you're not going to be here tomorrow. And I don't know where you're going to get a job unless you go to work for someone that supports fraud and misrepresentation and doing things not the right way and they're not going to be in business long."

So I always felt that even if you do it the right way, you're going to have issues, but at least you have less issues and nobody can come back and say that you were part of the problem. I tried to live my life that way. The mortgage banking industry was very important to me, and I was raised in a family that taught high ethics and morals and so forth. And I took great pride in being able to make the dream of homeownership come true for, I don't know how many people, tens and tens of thousands of people, homeowners, homebuyers, that I was involved in. And I took it very seriously. And it treated me very well. Financially I was successful, but it wasn't about the money or how much money I could make. It was about how many good mortgage loans I could make and how many people I could put in houses. And I still feel that way today. That's why I'm still on the board of the North Carolina Housing Finance Agency. I'm on the local board of the Rocky Mount Housing Authority, and I'm also the chairman of the board of trustees for our local community college, Nash Community College and these kinds of things. And I've done advisory committees with the North Carolina Bankers Association and Fannie Mae and Freddie Mac. And again, the Mortgage Banker's Association.

And these are the things that I think that are so important: being a student of your industry and taking it serious to the point that it's not just a job, it's a career. And if you want to last then you better dang-gone do it well. I'm a mortgage banker that always worked in a bank or an S&L financial institution. I was never a mortgage broker and I've never worked for a mortgage company. I always felt like I took a lot of pride in that too. Being a banker is very important. I used to show the clip of the movie at some of my meetings years ago with my loan officers: “It's a Wonderful Life” with Jimmy Stewart. He gets a run on his building and loan company, that’s a Savings and Loan company. And he—I don't know if you've ever seen this or not Andrew—this one dates you, it's an old movie. I didn't see it when it originally came out back in the forties or the thirties. It’s a pretty interesting movie. It's a Christmas time movie. And he's got a crowd standing there and they want some money out of the bank and he says, "Your money's not here. You know, it's in Fred's house and Sally's house and Bill's house." And that's the way the Savings and Loans started. And that is, the Savings and Loans built so much of the—they had so many of the mortgages and construction loans from the thirties on into the early eighties, mid-seventies and eighties. And then the banks went and picked it up. And they were in it before. They were in it in in the seventies, but the Savings and Loans did a great job in mortgage banking. And that's what I grew up in. But it was a tough time.

I'll tell you what, you really should do a study on what happened from 2006 to about 2012. That was the interesting time. You don't know what you're doing wrong when you're doing it wrong. Although fraud, people knew who committed fraud that they were doing wrong there. But the interesting time, where you really lost a lot of sleep and you didn't know how it was going to end was between 2007 and about 2011 and ‘12, maybe ‘10. 2007 to 2010, ‘11. Whenever the bank started—the number of failures slowed down.

I'll tell you this story real quick and I've got hundreds of these stories. So I took my daughter to church, to Sunday school one morning, and then I came back and got my wife. So I would take my daughter to Sunday school, come back and get my wife so we could go to services at 11 o'clock. Sunday school started at 9:30. And I walked back in the house and I was downstairs, she was getting ready upstairs and turned on Fox, this is about 10 o'clock, and a Fox special came on. This was in September of 2008. This was right after Lehman Brothers—this is right after Hank Paulson let Lehman Brothers fail. And again, the 2007 through 2010—you really should do a documentary, do one of these sessions on that because it was tight. You didn't know if the financial system in the United States was going to survive. Anyway, here we were selling exponential number of loans to Freddie Mac—and also, I hedged it by buying forward mandatory commitments. In other words, the mortgage loans are still in process and I'm purchasing a put in the future. I'm purchasing a commitment in the future to deliver those loans after they closed to Freddie Mac. And Paulson is having a news conference at 11 o'clock about Fannie Mae and Freddie Mac. Like “Oh Lord, what is going on now?” So, I went upstairs to my wife, I said, “Listen, I've got to go to the office and, I'll see you after church." And she said, "What's wrong?" I said, "I don't know. I need to go to the office. There's a news conference coming on about Fannie and Freddie, and I just need to be at the office when it happens.” And I've got a TV in my office. So I went to my office here at Rocky Mount. My main office was in Little Washington which is about an hour away, but I kept an office here in Rocky Mount too, in one of our branches, for me to work some offsite from a corporate office. And I was sitting there, I've got on Fox News and they start the conference. They brought a guy on by the name of James Lockhart. Well, I'd never heard of him before, but he was a pretty big guy in the financial area, but I just didn't know him. And here's Hank Paulson and James Lockhart, and Hank Paulson announced that they had started a new agency, a regulatory agency called the FHFA, the Federal Housing Finance Agency—brand new, and it is still in existence today—and that Fannie Mae and Freddie Mac were going to be under receivership under the FHFA. Well, I had a good friend of mine that was a VP with Freddie Mac, and I thought, wow, he just lost his job. So their stock went from like—it was about $12 when it closed—I'm just doing this from memory—when it closed on that Friday. When it opened up on Monday, it wasn't worth anything. And I had about $40 million to deliver to Freddie Mac, just on what I had in production delivered to Freddie Mac. I had some to Fannie Mae, but I was mostly a Freddie Mac shop, not counting the FHA and VA stuff that we had going on and so forth.

This was in September 2008. As they go through this thing and they're making it up as they go along. I mean you could just see the tension at this news conference. Here's the Treasury Secretary, [and] they've started this new regulatory agency to put Fannie Mae and Freddie Mac under it because they're broke. And the liquidity in the mortgage market is so important. These two agencies are so important and they're huge. They're huge agencies. And the foreclosures were just hammering them. So their servicing area and loans that they sold are going under and loans they held as an investment are going underwater. They're going away. People aren't paying. So they closed down Fannie Mae and Freddie Mac as a quasi-governmental agency and put them under receivership under the Treasury Department. I go, "Oh my gosh."

So I emailed my CEO, I emailed Tom, and I said, "Tom, when you get in on Monday," I said, "I'll be in your office at eight o'clock." I said, "When you get in on Monday, this is something we need to talk about." And he immediately e-mailed me back, this is before you had remotes, you had to be in your office in our bank to send an email—we didn't have it on our phones, and we didn't have at home offices set up then too. He immediately e-mailed me back. He said, "I'll see you then." And I thought, "He's in his office watching the same conference, news conference that I'm watching." And so we didn't know. I contacted my Freddie Mac rep. I sent him an email right after on Sunday, right after I'd gotten the one back from my CEO, and I asked him, "We're still going to be able to deliver these loans to you, right?" And he e-mailed me back around noon. I said, "You're going to still honor these commitments?" He e-mailed me back around noon on Monday. He said, "I don't know." He didn't know if they could or not. It took him about a week to figure out that they would. And what do you think that does to a bank? All of a sudden you're going to have $40 million sitting here in fixed rate loans that you got to check deposits out to be able to fund. But they did. They stepped up and did that. And then they had the TARP [Troubled Asset Relief Program] money. They really wanted every bank to apply for TARP money. So we applied for the TARP money at our bank and we received approval, but we never took a penny. We were strong enough, plus we didn't have the huge number of bad loans of the people that took the TARP money and so forth that they needed that liquidity.

So after you finish this one and you're successful with this project Andrew, you may want to suggest—an interesting part would be what happened between 2007 and ‘08 and about 2011 and ‘12. That’s when you didn't know that the sun was going to come up the next day. Does that make sense?

Andrew Carlins: Yes. Thank you.

Paul Jaber: You're welcome.

Andrew Carlins: Thank you for your time today.

[END OF SESSION]