AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Laurie Goodman

Bass Connections

Duke University

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PREFACE

The following Oral History is the result of a recorded interview with Laurie Goodman conducted by Maria Paz Rios on September 29, 2020. This interview is part of the Bass Connections American Predatory Lending and the Global Financial Crisis Project.

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

Transcriber: Carolyn Chen
Interviewee: Laurie Goodman
Interviewer: Maria Paz Rios

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Maria Paz Rios: My name is Maria Paz Rios, and I'm an undergraduate student and member of the Bass Connections, American Predatory Lending and the Global Financial Crisis team. It is September 29, 2020. I am currently in Durham for an oral history interview with Dr. Laurie Goodman, currently Director of the Housing Center who has joined me via Zoom. Thank you for joining me today.

Laurie Goodman: Thanks for having me.

Maria Paz Rios: So, could you please tell me a bit about your academic background and education?

Laurie Goodman: Sure. I have a PhD from Stanford University, which I received in 1978. I taught for a year, spent four years at the Federal Reserve Bank of New York, and then was on Wall Street for close to 30 years until 2013 when I left to found the Housing Finance Policy Center at the Urban Institute, which I continue to co-head.

Maria Paz Rios: Did your academic work lead you to an interest in mortgage finance?

Laurie Goodman: Not directly. I did my thesis on international finance and joined the Federal Reserve basically as an international economist. When the options markets started trading in the early '80s, I encouraged the Fed to begin to look closely at those markets because they had a lot of information in them and the Fed said, "Oh, what a wonderful idea, would you like to do it?" So I started looking at futures and options markets very, very closely. And then from there [I] went into fixed income research at Citibank. And from doing general fixed income research with an emphasis on futures and options, I started doing research on mortgage-backed securities, so it was sort of an indirect path. I did a little bit [of research] on mortgage-backed securities in the mid '80s and then starting in the late '80s, almost exclusively [on] mortgage-backed securities.

Maria Paz Rios: As your career progressed …, what was your view of the mortgage market and how did that change over time, especially in those first years?

Laurie Goodman: We were all looking at the emergence of new products—and the way new products emerge is they start as niche products. So the very early days of the Alt-A [Alternative A-paper] market, for example, were loans to self-employed borrowers who had trouble— where their income that they put on their tax return did not match the income they actually received. And so you began looking at alternatives. And so the very early days of the Alt-A market was just a very niche market. So all of these new products started out to be geared toward a very niche-y segment of the market, and then later expanded. It didn't start out as, "Oh, we're going to reduce documentation for everyone."

Maria Paz Rios: What other products and practices, would you say are the ones that most prominently came out and affected the mortgage market in that way? Going from niche to kind of [a] wider [market]?

Laurie Goodman: Alt-A and the sub-prime market were the two. They were a relatively small part of the market in the '90s and early 2000s and then just became a much larger part of the market leading up to the financial crisis.

Maria Paz Rios: You then went on to work at UBS most of your time, right?

Laurie Goodman: Yes.

Maria Paz Rios: So while working in UBS's Securitized Products Research Group, did you feel like you understood what was happening on the ground? In terms of what we were just talking about of the underwriting standards, broker practices, and how these mortgages were making their way into securitization pools?

Laurie Goodman: We understood that the products were becoming increasingly risky. We knew that they were not going to do well if home prices declined. We actually had some evidence from—I remember this was leading up to the financial crisis, everyone had had very robust home price appreciation, but there are certain areas that had had less robust home price appreciation. So, for example, we were looking at Michigan loans and looking at how they did when they didn't have very robust home price appreciation— we knew these loans would not fare well. What we did not put this together with was the fact that you would end up with sort of a cascading effect and that home price declines would lead to more home price declines, which would eventually lead to nearly a third home price decline in home values. That was the piece we did not have. We did know that these loans would not perform well if home price appreciation was more limited.

Maria Paz Rios: As people started to realize that the products were becoming riskier and riskier, did that lead to any sort of significant internal debates or changes in business practices within UBS, especially within the bankers?

Laurie Goodman: So the research department thought that the products were increasingly risky. The bankers saw it as the next deal. Remember, you were sort of in a situation where we saw things getting riskier, but at the same time, defaults were still very, very low. So you had robust home price appreciation leading to more borrowers being able to afford homes, which relaxed lending standards so borrowers weren't priced out of the market, delinquencies fell, home prices rose, and you were in this sort of cycle where home prices rose, home sales rose, standards continue to be relaxed. So you were in kind of this virtuous cycle, if you will. And the traders saw the virtuous cycle. And we said, "Well, listen, what happens if home prices stall?" And they were like, "Well, what makes you think home prices are going to stall?" And they actually started to stall in late 2005, early 2006, and you'd see signs of stress in terms of early pay defaults, that is loans that had been around less than six months defaulting. And a lot of the bankers sort of ignored that and instead continued to chase the last deal. And it was clear to us in 2006 that the deals were riskier than anyone thought. We weren't prepared to say, "Oh, short the market", but it was clear to us that on a risk return trade off, it didn't make sense.

The research department and the trading desks would have pretty large fights every week; we published on Tuesday night, so Tuesday around 6:00 PM. Actually, we would give the drafts to traders around three in the afternoon for their comments, and then they'd come to the head of the desk and say, "You can't publish this", and I'd say, "Yes, we can." And we would have the debate with the guy who was running the mortgage trading desk. Nominally research didn't work for the desk, but the desk paid research and the guy who headed the desk sort of knew that our integrity was important, but at the same time he knew that the traders had positions. Ever so often the solution was we'd hold the article a week. Sometimes the solution was we'd cut the article in half and neglect to mention certain things. But we had the Tuesday evening battle basically every week for close to a year, from September [or] October of 2006 to September [or] October of 2007.

And then the week the special investment vehicles [SIVs] went down, the guy who headed the mortgage trading area was out and the head of the non-agency desk[1] said, "You can't publish this." And I said, "Yes, I can." He said, "Well, Dave's out and I'm telling you, you can't publish it." And I'm like, "Dave's out and I'm telling you, I can." And he said, "You publish it and I don't talk to you again, and I'll get you fired." And I said, "Well, to get me fired, you'll have to start making some money Hugh, and that doesn't look like it's gonna happen anytime soon. But you're certainly free not to talk to me again." And in fact, we did publish it and he didn't talk to me again. Given the battles on our written product, we were far more vocal when we gave presentations about how the situation didn't make sense than we were in our writing. And in fact, at one of the UBS investor meetings, one of the shareholders said, "Well, your mortgage research people were pretty negative on this. I went to their presentation." and the head of fixed income said, "Well, they were kind of negative, but they weren't consistently negative and they were less negative in writing than they might've been at that presentation." The reason we were less negative in writing is because a lot of the things that we said weren't good, the problems, actually got cut from the articles…

Maria Paz Rios: So what were some of the things that you received pressure to cut?

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[1] Refers to the desk that trades non-agency mortgage-backed securities, which are those issued by private entities such as financial institutions, as opposed to agency mortgage backed securities created by Fannie Mae, Freddie Mac, or Ginnie Mae.

Laurie Goodman: This was a long time ago, but one of them that I will always remember is in December of 2006, there were a lot of collateralized debt obligations, and everyone was convinced the AAA pieces of these collateralized debt obligations [CDOs] were money good. And we had actually done a Monte Carlo simulation[2] and showed that under certain scenarios— which looked harsh at the time and a year later looked like a walk in the park— the AAA CDOs would take losses. So we noted that in the report. We said, “Okay, under this set of circumstances, you may think this is farfetched, but certainly within the realm of possibility, these things will take losses.” So we ended up cutting the paragraph but because it was part of a huge table and the person who had done the table had gone home sick and we didn't really have time to redo the table— it's actually in two separate tables that you could put together and figure it out. And a few people did. And then I went in to our risk management people the next day, and I said, “I hope you saw this article. It was really important. We lost this piece of it, but I actually think you should be aware of these conclusions.” And of course, they totally ignored me.

We got a new head of fixed income in 2007 and the risk management people basically wanted me to write a section on how UBS would never have losses of more than $400 million or some ridiculously low number from their holdings. They wanted me to contribute to this effort and I'm like, “No. I can’t do it. I don't like your analysis, this isn't what our numbers show, and my guys don't have time to do it. This is your responsibility. We've talked about this. We're not doing it.” And in the end, they came to me and they said, “Okay, can we have the following two pictures from your research?” I'm like, “Yeah, sure. Here's the pictures, knock yourself out.” But we got a new head of fixed income— and I was actually his mortgage 101 tutor—and he said, “The one thing that I realized is that those numbers had to be wrong based on the positions.”

Maria Paz Rios: And what was his name?

Laurie Goodman: It was André Esteves. He was just a very smart guy. He's just incredibly smart and he looked at our holdings and he looked at how things were going and he's like, “These numbers are just wrong.” And he said, “You didn't help on it.” And I'm like, “No. because I thought the numbers were wrong.”

Maria Paz Rios: And so it seems like from the risk management side, they were even trying to push for increasing the risky positions?

Laurie Goodman: They weren't trying to push for increasingly risky positions. It's not clear. One of the problems with a lot of these markets is that it's hard to get good marks [mark to market valuations][3]. And it was a trader dominated culture, and so the traders did the marks and the traders would lie about the marks. I know in one

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[2] A Monte Carlo simulation is used to model the probability of different outcomes that can otherwise not be easily predicted by substituting a range of values for any factor that has inherent uncertainty.
[3] Mark to market valuations refers to a method of measuring the fair value of accounts under current market conditions.

case one of the risk management people had a really good idea of what was going on, and she came to me and she says, “What am I going to do? This trader is insisting his non-agency ARMs [adjustable rate mortgages] are over par, which is over a hundred, I'm convinced they're not more than 95, but I got to take his number and I can't show an over par number.” And I said, “Well, first of all, I would rat the guy out. But if you don't want to do that, he lies to everyone. He lies to me. He lies to you. He lies to his own boss. I would rat him out once and for all, but if you don't feel empowered to do that, you can combine these two categories and then it wouldn't be so visible.” And she said, “Oh yeah, that's a good idea.”

But no, it was a real problem with the traders, just lying about their marks and no one knew that market as well as they did. And ultimately the lies ended up costing not only them their positions but their bosses, their positions as well. But it took a long time to figure out that they were lying about the marks. A lot of the risk managers talked among themselves, on the street, and knew what the marks really were and you could see where the trades were. And I think if the [UBS] risk management people had been a little bit more diligent and a little bit more empowered, they would have seen it. But in fact, they were neither.

Maria Paz Rios: Within the institution [UBS], what were the conversations that senior management were having, and were they aware of what was going on at the trader level? And were they aware of what was going on with different products? What were they thinking and saying?

Laurie Goodman: So there were a couple of things. They were aware of the positions. Obviously within each type of security, there's a range and they thought that the traders owned better quality stuff than they did. One of the real failings was that they didn't realize what other areas of the bank had. So, for example, when UBS looked at its subprime position, the mortgage trading desk said, “Oh yeah, we've got subprime mortgages, we've got this.” What they didn't realize is that one of the repo [repurchase agreement] desks actually had a ton of subprime mortgages as well. And there was one other area of UBS, I forgot if it was the UBS bank itself in Salt Lake City, or one other area of the bank that had a bunch of subprime mortgages. And those other two positions were almost as large individually as what the trading desk had, so UBS actually had three times the amount they thought they had, but they hadn’t thought to look in these other areas as well.

Maria Paz Rios: How would you characterize the key changes in the general fixed income marketplace, especially within the high growth areas in the run up to the financial crisis such as securitized products like mortgage backed securities and structured credit?

Laurie Goodman: It was boom years. At one point, UBS had actually gotten concerned about it and cut back their position a bit, but then the markets didn't collapse and so they re-ramped them.

Maria Paz Rios: And why did they cut back the positions?

Laurie Goodman: They cut back the positions because they were actually concerned about the risk.

Maria Paz Rios: And this was when?

Laurie Goodman: In 2006, I believe. They actually cut back the positions a little bit. The head of the trading desk said, "Listen, guys, if you have an opportunity to lighten up, please do. CDO guys, please don't bring any more deals for a little while." It was late 2006, early 2007. When the risk was just brewing, they said, "Let's be smart about this. Let's just cut back and rest a little bit for a period of time." And they did, but then the markets kept trudging along and the trading desk looked like they weren't producing, so they very gradually began to re-ramp. And then by the time they had totally re-ramped, the market fell apart. But there was a recognition at some point that things weren't good and that they should begin to cut back. One thing about all these investment banks is that there was pressure to be as profitable as the other guys. So in some sense, UBS was a johnny come lately to a lot of these markets, so they ramped late. So we probably had the most marginal talent, which we bought at high prices from other banks.

We actually—when we were negotiating some of our repo contracts, we were in a less good position than the other banks because we got paid an extra little bit, but we were further down in the subordination. So there were a lot of little things that our traders did try to be a little bit more profitable because they were actually shown pictures [of the "UBS profitability gap"]—they [management] had one of the consulting firms come in and look at our profitability relative to UBS's competitors, and UBS was just a lot less profitable in this area. We were sort of steady, but we were a lot less profitable. So they began to ramp in like 2004, early 2005, and basically ramped it up. And then late 2006, they said, "Okay, well maybe we should cut back our risk." They did, and then they re-ramped when the markets didn't fall apart immediately. It's awkward— from a trader's perspective, if you're not making the kind of money that your competitors are making, you look really bad. And so there was a lot of pressure to re-step it up. And a lot of the losses turned out to be in the collateralized debt obligation area where they had really de-risked for a period of time and then again re-ramped in 2007 and then just as they were fully loaded, the markets fell apart entirely.

Maria Paz Rios: Within the organization, when they de-risked, there were probably people within the organization that expressed concern about the changing nature of the derivative and securitized products marketplace, right? Who were part of those conversations, and what were some of the red flags that either you raised or within the bank were raised that caused this de-loading of risky assets in 2006?

Laurie Goodman: I think people were generally, "Oh, we've got a lot of risk." And at one point, my boss said, "Hey Laurie, can you do me a favor and assume we're going to de-risk, assume we're going to take some chips off the table, just look at relative value across the market and tell us where we should take the chips off." So I did the presentation. I had all the senior traders around the table, I was the only female in the room, and I made the presentation and they all kind of agreed that was right. And then the guy who looked the best on it said, "Great, I'll go buy more." And then my boss, the guy who ran the entire trading and sales operation said, "No, no. The idea of this exercise was to figure out where we should cut back. So you cut back and you don't do anything. You can't buy more. That's not the deal here." In some sense, early on, the traders had the opportunity to sell at small losses, but they didn't contemplate how bad this would become.

Maria Paz Rios: Within Wall Street, clearly you were someone that raised red flags and you were someone that asked people to take a second look at what was going on. Was there anyone else on Wall Street that was doing the same?

Laurie Goodman: Yeah. There were I think a fair number of people in different positions. I think the research departments by and large were pretty negative. And we got more and more negative as we sort of… I remember one conversation with one of the traders in May of 2007, I published something that was very negative and it was one of these [articles] that eventually got cut in half. I said, "Am I wrong?" And he said, "No, you're not wrong, but I've got a lot of bonds." And I said, "But I told you six months ago that this was a problem." And— he's a friend—he said, "Yeah, Laurie, but six months ago, no one was listening to you. No one cared about what you had to say. And now they're listening."

Maria Paz Rios: And when did people start to listen?

Laurie Goodman: Early 2007. February [or] March, 2007. I think when the ABS [asset-backed securities] index actually began to decline. I remember one of the Bear Stearns guys wrote an article saying, "Oh, the index will never go below 90." And one of the traders came to me and he said, "This is what a research person who works for their trading desk would do for their desk." And I said, "This is what a research person who will have no integrity in two months would do for their desk. I hope they paid him really well last year." And it really— it shot the guy's reputation completely.

Maria Paz Rios: Was that common, to see research desks being highly influenced by the trading desks and having the research modified by those pressures?

Laurie Goodman: Yes.

Maria Paz Rios: And what about the rating agencies? Did they hold any role within your research process?

Laurie Goodman: No, the rating agencies realized there was a problem far later than anyone else.

Maria Paz Rios: When did they realize?

Laurie Goodman: I don't remember exactly, because I didn't live and breathe it, it was a long time ago. But there were things that were very common on the Street [Wall Street] that the rating agencies knew about and looked the other way. So, for example, when you did a deal, they would do a 5% sample of the loans and make sure the loans were what they said they were. So let's say you found that half of that 5%, or 2.5%, were not what they said they were, which is a 50% error rate, which is really, really bad. What the bankers would do is take that 50% [sampled], take that 2.5%, out of the deal and substitute other loans, and then put the 2.5% into the next deal and hope that it wasn't part of the 5% sample.

Maria Paz Rios: And was this 5% sample across the board?

Laurie Goodman: It was pretty much. The rating agencies didn't say, "Well, listen, if you're doing a 5% random sample and you find that 50% of the loans are bad, shouldn't you do a larger sample? Shouldn't you look more closely at what's there?" That would indicate to me that you should do a 100% sample because that means that 50% of loans could be bad, which would be really bad. And the rating agencies knew this was happening.

Maria Paz Rios: Were there incentives to keep on maintaining their same business principles? Where did their incentives lie?

Laurie Goodman: Their incentives were to basically rate the deal. And you got to rate the deal by having the lowest subordination[4], which basically meant having the most rosy view, and you tend to look the other way at certain practices.

Maria Paz Rios: Were there any relationships between UBS and a specific rating agency?

Laurie Goodman: No, to my recollection it was whoever gave us the lowest subordination on that deal was the one who got the deal. We were not strictly beholden. We were basically looking for the best economic deal.

Maria Paz Rios: And I'm guessing that's how everyone was?

Laurie Goodman: Yeah that's how everybody was.

Maria Paz Rios: Within UBS, how would you describe the key goals of your employer in the years before the housing boom of the 2000s really took off, and then did those goals change in any way during the boom?

Laurie Goodman: So, basically the PaineWebber mortgage desk was acquired by UBS in 2000 as part of the UBS acquisition of PaineWebber. UBS did not have its own mortgage

[4] Subordination levels are defined as the proportion of principal outstanding of the junior tranches who will absorb initial credit losses and determine how much credit support the deal structure provides senior tranches. Thus, subordination levels should reflect the underlying credit risk of the Credit Mortgage Backed Security pool.

desk at that point. The PaineWebber effort was probably less aggressive than the UBS effort, so over time UBS became more aggressive. The traders became more aggressive because that was their mantra and they tried to become more important in the market. By 2004, it was clear that a lot of our competitors were making a lot more money at subprime and Alt-A than we were. We were still a sleepy operation, with most of the talent in the agency [MBS] area. So they basically commissioned a consulting firm to do a study who found that we were, in fact, a lot less profitable, which sort of created an incentive to ramp up these areas. I'm not sure the date of it, I think was 2004 or 2005. And so they ramped up the areas that later ran into the worst trouble, made a lot of new hires in those areas, and really ramped it up. And as I said, in late 2006, at some point they did take chips off the table, but then the market didn't immediately reverse— and it's very expensive to not have a position when all your competitors are making a lot of money, so then they re-ramped.

Maria Paz Rios: UBS, not being a strictly U.S bank, how did it differ from U.S banks in terms of marketing their products to institutional investors?

Laurie Goodman: I don't think it did. I think all the investment banks at that point behaved pretty much the same.

Maria Paz Rios: Including their relationships with local lenders?

Laurie Goodman: Yeah.

Maria Paz Rios: We have heard from other interviewees about an increased prominence of predatory products. How would you define predatory lending? We also heard that sometimes there was discrimination towards minority groups. Would you hold this to be true in the run up to the financial crisis?

Laurie Goodman: So the answer is yes, there were some very aggressive sales practices. We did not see that because we were not a lender. We bought the loans after they were closed. So we'd basically underwrite the deal after the loans were closed. There are loans that are appropriate for some borrowers, but not for other borrowers, and I think I would define a predatory lending practice as basically giving a borrower a type of loan that doesn't fit them. And yes, in retrospect, there was a lot of discrimination. Very aggressive sales practices to get people to take out loans that they didn't really need— cash out refi [refinance] loans, that would do a cash out refi on your home. In fact, we actually have something called a Mortgage Credit Availability Index. And if you look at the difference between 2001 lending and 2006 lending, what you find is that there's almost no difference in terms of the borrower characteristics, the big difference is the percent of risky loans, the percent of non-traditional products, negative amortization loans, loans with interest-only features, longer than 40 year mortgages, loans with very short adjustments— products that enable the borrower to qualify with an ever lower income. And that that's where the increase in the risk of the market was, it wasn't in the borrowers themselves.

Maria Paz Rios: Could you talk a little bit more about the Mortgage Credit Availability Index?

Laurie Goodman: Sure. So what we did, and actually it's on our website as well— I can email you the link— is we looked at 2001-2002 lending and constructed a giant lookup table that basically said, based on debt-to-income, loan-to-value, and FICO score, and whether or not the loan is a risky product, here's the probability that it ever goes 90 days delinquent, so we looked at historical data. We did the same thing for 2005-2006 origination, where obviously for any given set of characteristics, the loans performed worse. We then mapped every loan in every origination quarter going back to 2000 into these two giant lookup tables and weighted the 2001-2002 lookup table 90%, and the 2005-2006 lookup table 10%, because 2001-2002 was sort of a normal period and 2005-2006 was sort of a stress period, and 90%-10% is sort of the right historical split. And [we] basically came up with an ex-ante probability of default for every origination quarter. So in 2001, 2002, 2003, that number was around 12%. It went up to about 17% in 2006 and came down to under 6% now. We're taking less than half the credit risk we were taking in 2001 to 2003. The other thing that was interesting though, if we took the risky table and we assumed that it was the same as the non-risky table, what we found is that 2006 and 2001-2002 weren't all that different. That is, the borrower characteristics were basically the same loan-to-value, debt-to-income, and FICO scores. The real difference was the proliferation of the risky or nontraditional products.

Maria Paz Rios: And on the second point, do you think those riskier, nontraditional products made their way more prominently into minority groups and minority communities?

Laurie Goodman: Definitely. Mortgage performance data actually doesn't contain race or ethnicity, so you have to do a lot of matching. And as you do that matching, it becomes clear that yes, that was the case, but in 2007 we were just looking at the characteristics of the loans themselves, we weren't looking at the characteristics by race, ethnicity, or anything. The mortgage application actually does have a checkoff, but the deciding factors are not based on race/ethnicity. So you actually have to do a matching in order to get race/ethnicity [and loan characteristics]— to pair that information together, so that you have it all in one place.

Maria Paz Rios: And you had mentioned that the research group was aware of the predatory products that were going into the securitization pool, but didn't realize how…

Laurie Goodman: We weren't fully aware of them. There were stories out there, but we weren't fully aware of how predatory the practices were.

Maria Paz Rios: So to what extent did you know, and how would you receive the information on these predatory products, like the stories you would hear?

Laurie Goodman: We were buying closed loans, so we weren't really seeing that piece of it. We had the same news reports that everybody else did. And we would see the increase in the numbers and wonder about it, but we didn't… and remember, none of the information we received had any race/ethnicity information. I did not see a single race/ethnicity piece of information the entire time I was at UBS. It's not part of the decision practice, and it's not part of the information that investors receive. And by the way, it's not part of the information the rating agencies received either.

Maria Paz Rios: So it was just completely omitted?

Laurie Goodman: It's not omitted—it's not in there today. If you go to like the Black Knight data[5] or you go to loan performance data, or you go to Fannie Mae's data, you will not find race/ethnicity in there. You find race/ethnicity in the HMDA (Home Mortgage Disclosure Act) data, which does not include any data on credit score and does not include any data on performance. I think everyone assumes, "Oh, well, people were just stupid. This data was just out there." No, it was actually not just out there. It was actually reasonably hard to cobble it together, you had to do matching of different data sets and I think some of the academic researchers were really the first to do it because they were the ones with the time to do the matching of the data sets. So it's not like you can just go pick up any mortgage pool and realize what percentage black and Hispanic is in there. You can't.

Maria Paz Rios: Did you try reaching out to them [regulators], or were there any conversations like that?

Laurie Goodman: So I think my conversations on the policy side started— it wasn't while I was at UBS, it was after I got to Amherst [Securities], when Treasury was trying to figure out what modification programs would look like. So basically in late 2008, I took a layoff package from UBS. UBS was just cutting the size of their mortgage group dramatically. I was heading up fixed income research in general and the mortgage [research] department, so I could have continued to head up fixed income research, but the mortgage department couldn't justify paying me. So I basically had to choose between being a manager or being an analyst, and I've always thought of myself as an analyst. So, they were very generous in giving me a severance package that they didn't have to do because actually I was under contract.

They just said, "Listen, you've been good to us. If you want to be laid off, we'll lay you off and we'll pay out your contract." And I'm like, "Thank you." So they were very good to me. I went to Amherst Securities, which was a small broker dealer at the time who had very good analytics. And in 2008 some of the major banks started accepting TARP [Troubled Asset Relief Program] money, which really sort of crimped what their researchers could say on the policy side. And of course Amherst Securities was not taking any TARP money and had done well in

[5] A provider of data and analytics for mortgage and home equity lending and servicing.

2007-2008 and so I could write whatever I wanted, so I started writing more on policy and I think that's when I began to establish a lot of relationships with government folks and some of the nonprofit institutions. The other thing about Amherst is we had a lot of data and we were perfectly happy to give it out. So if someone said, "Hey, do you have data on this?" We said "Oh, okay, well, let's see if we can run that. If it doesn't take any time to run, yeah, we'll get it to you." So they had a lot of data that was easily harvestable, so that was a big help.

Maria Paz Rios: And so while you were in UBS, you didn't have any sort of conversation with regulators that were interested, it was just afterwards?

Laurie Goodman: Yes. I can't remember—I think there were a couple of people that may have reached out before, but I left UBS in November of 2008. And I think they basically got rid of most of the mortgage department in September of 2008. So, it took a while for the Fed to realize how big a deal this was, and it wasn't until mid-2008, September 2008, that the government actually began to get involved. When we broke from the trading desk completely in September, October of 2007, we had just turned extremely negative on everything, and were basically, I think listened to by investors, because investors had a lot of respect for us, but I'm not sure that the government really piled on until 2008. And then at that point I had left [UBS], and sort of showed up at Amherst Securities, and really started talking to government officials a lot at that point.

Maria Paz Rios: And investors, they listened to you and they heeded you. Did they ever reflect that through what they acquired, or did they ever raise any concerns as investors?

Laurie Goodman: They sold, other people bought. Not all investors. There were investors who were more cautious because they listened to us.

Maria Paz Rios: Could you expand a bit on what type of investors you were talking about there?

Laurie Goodman: Early on, it was just fixed income investors who invested in non-agency mortgages or in agency mortgages. Over time, we began to get involved more with the equity guys and some of the equity people would listen in on our calls to decide whether they should make investments in certain institutions— if they should buy stock or whatever, and I think they left more negative because of us.

Maria Paz Rios: Now on to our concluding questions, which we ask all our interviewees—so over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused the crisis?

Laurie Goodman: I think at its heart, it was a mortgage issue where there was the expansion of risky products. This basically meant that more people got into mortgages that they were not suited for and they couldn't sustain, which led to defaults, which led to forced selling, which led to more defaults and more forced selling, which led ultimately to solvency issues in the financial institutions in the US and around the world. It was hard. It started as a lending issue in the mortgage market and then snowballed from there.

Maria Paz Rios: To what extent do you see your personal experience as adding something important to our understanding of what happened in the run up to the 2008 crisis?

Laurie Goodman: We knew that the mortgages were risky, but if you had continued home price appreciation, that risk would be sustained for long periods of time. I think what we didn't fully appreciate was the snowballing effect, that once you began to have issues in the market and defaults began to rise, and the forced sales began to rise, that cause more forced sales, home prices were in a downward spiral. And then securities were also in the same type of downward spiral where there was a lot of leverage risk in the securities market; where people had risky positions and then they had levered those risky positions. So they were getting margin calls, so they were force selling. I think the snowballing effect isn't really well realized. If you think about the COVID-19 experience, in the securities and the non-agency mortgage backed securities market, you had a mini crisis on the security side, where you had a lot of forced selling because basically people weren't sure about what this meant for default rates, so securities prices began to plummet, so there was some selling which caused more selling, which caused more selling. Ultimately the repo market played a very damaging role in both cases, but I think that that's not fully appreciated. I think there are a lot of lessons to be learned from the 2008 crisis. I think we have probably learned the lessons in terms of the risky lending. I'm not sure that we've learned the lessons in terms of the riskiness of repo transactions and the amount of leverage you want to put on.

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

Laurie Goodman: I think be wary of leverage, especially leverage in mark-to-market because prices can move very, very quickly in a vacuum when there are no buyers.

Maria Paz Rios: Could you speak a bit more about the leverage in mark-to-market?

Laurie Goodman: Well, when you buy a security, and you borrow the money to do it, so maybe you got $20 of cash and you've got a $100 of securities because you've borrowed $80 to buy those securities and then the prices of the securities begin to decline, your losses occur on a sort of exponential basis, so you've got to basically start selling those securities very quickly, which of course causes more forced selling if everyone's doing exactly the same thing.

Maria Paz Rios: And lastly, what were the biggest red flags you saw in the lead up to the crisis? When did you sound the alarm?

Laurie Goodman: We saw the rise in early pay defaults. We saw spreads continually compress as mortgage characteristics got weaker. We saw the percentage of non-traditional mortgages in these deals and we had done some work showing that if you don't get robust home price appreciation, the defaults were going to be higher than people thought. So we started sounding the deals on some of these risky products in 2006, some of the interest-only loans and negative amortization loans. So mid 2006ish, and then we really sounded the alarm on the CDO market late 2006 after we'd done our simulation.

Maria Paz Rios: Thank you very much Dr. Goodman for joining me today.

[END OF SESSION]