AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

A.W. Pickel

Bass Connections

Duke University

2020

PREFACE

The following Oral History is the result of a recorded interview with A.W. Pickel, conducted by Darielle Engilman on November 20, 2020. This interview is part of the Bass Connections American Predatory Lending and the Global Financial Crisis Project.

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

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Interviewer: Darielle Engilman

Session: 1
Location: By Zoom
Date: November 20, 2020

Darielle Engilman: I'm Darielle Engilman, an undergraduate student and member of the Bass Connections, American Predatory Lending and the Global Financial Crisis team. It's November 20, 2020. I'm currently in Los Angeles for an oral history interview with A. W. Pickel, the founder of LeaderOne Financial, one of the prominent mortgage lenders in the Midwest, who has joined me via Zoom. Thank you for joining me today.

A.W. Pickel: You're welcome. Glad to be here.

Darielle Engilman: So I'd like to start by establishing a bit about your background. In the context of your work life, when and how did you first become involved with residential mortgages?

A.W. Pickel: In 1988, I joined a friend of mine, Doug Brownlee, who had a small company called Patrons Mortgage and worked with Doug for about three years. And then in 1991, I joined a savings and loan [company] as their manager of their mortgage department. I left that in 1992 to start my own company, LeaderOne, [on] January 16, 1992. I grew that company from one person, me, to 550 employees doing about $2 billion in mortgages a year. Along the way, we became Fannie [Federal National Mortgage Association, i.e. Fannie Mae], Freddie [Federal Home Loan Mortgage Corporation, i.e. Freddie Mac], and Ginnie [Government National Mortgage Association, i.e. Ginnie Mae] approved. I sold it in 2016 and went to work for a small mortgage company out of Houston, then became the President [and] CEO of Waterstone Financials' mortgage division, [which had] about 850 employees. LeaderOne, when I sold it, was 550 [employees], 75 locations, 40 states-- similar type of company, residential mortgage banking. Then I retired, and all good retirees become consultants. Hence, I am now A.W. Pickel Consulting.

Darielle Engilman: During that time what elements of the origination process were you responsible for, and did you see that change over time?

A.W. Pickel: I started in '88, and interest rates were around 10%. There was no such thing as credit scores at the time, very new to the market. There was no such thing as automated underwriting. So, if you wanted to get a loan, you pretty much had to have perfect credit—especially if it was going to be sold on the secondary market. During the ‘90s was when Fannie Mae, Freddie Mac, and several others actually, came up with what I would call proprietary systems to automatically underwrite a file. They were touted as being able to determine whether someone would make their payments based on their credit history. When they first came out, they approved almost everything. It really didn't matter what kind of credit [it was]. They wanted to get them accepted into the system. That is not a popular opinion, but it is a true opinion.

From there, the systems got better. Fannie and Freddie continued to grow in might and weight and were really like two 800-pound gorillas in the system. Eventually, the other automated underwriting systems fell away, and you were left with Loan Prospector by Freddie Mac and then Desktop Underwriter by Fannie Mae. That really controlled the market. Our history in the mortgage world, and this is my opinion, every time Wall Street tends to get involved in buying more mortgages and pushing those down to the street level, such as Deutsche Bank did prior to the 2007-2008 meltdown-- if this is the credit box, in the name of home ownership and everything else, we expand it. The problem with that is, as you expand it, you take on more credit risk. And each time that was done—and it was often done with the provenance or approval of the United States government in the name of homeownership, more people should own a home—unfortunately, some people should not own a home. I know that doesn't sound right, but some people have not developed the wherewithal to make consistent payments or are in such a job position that it really is doing them a disservice. That's really what happened in 2005. I did not let my company do subprime loans, LeaderOne. Consequently, I lost a lot of loans to other competitors during that same period of time who were doing an 80% loan-to-value first [lien mortgage], and a 20% loan-to-value second [lien].

So, I saw the credit parameters, which had been fairly high and probably needed to be expanded somewhat, then I saw those really get expanded. And I'll give you an example. At the height of that boom in 2006, I received a flyer. I won't tell you the name of the wholesaler, but they said, “No income, no assets, investor property, down to a credit score of 580.” And I called the account rep and I said, "You missed something." And he said, "Tell me, A.W., and I'll add it." I said, "Bring your house keys to closing because we are going to foreclose on your property." It made no sense. You're telling people they can go out and buy an investment property with no money down, 100% loan, with a 580 [FICO] credit score, which has a one in eight chance of defaulting, according to the mortgage insurance companies, and tell them that they can essentially lie about their income and lie about their assets and get a loan. It's no wonder we had a meltdown.

Darielle Engilman: To follow up on that, I see on your CV that it says that LeaderOne avoided these non-conforming credit programs. Can you talk a little bit about what these are and why you avoided them?

A.W. Pickel: There were really what I would call two types. There's non-conforming, which means it did not conform to the standard underwriting guidelines of Fannie Mae or Freddie Mac. And by non-conforming there, it might be – we're going to base most everything on your credit. We're not going to really look at your income. Or if you have $2 million in the bank and you're buying a $500,000 house, we're going to say, if your credit score is high enough, we're going to give you that loan because you've got the money to pay it off. That is a non-conforming loan. Another non-conforming loan is anything in the jumbo loan market. So, the jumbo loan is anything that's above the Fannie Mae, Freddie Mac limit. Now today, that's pretty high. It's like $540,000, I think come January 1. But you do have homes in that price range, and that's also non-conforming.

And then the other thing you had at the time was subprime. I really avoided subprime. And basically, I felt like it was doing the borrower a disservice and here's why. Most likely all 100% loan-to-value, but they come in the form of a piggyback. And so, you qualified at the teaser rate, which meant the initial rate, but they were adjustable rates, and so come the first adjustment period in, when it could adjust, most of these were on a one-year or two-year timeframe, both the first and the second would adjust to such an extent that these people barely qualified at the teaser rate, let alone what could happen in one year. It doesn't make common sense for someone to get a loan and then at the end of one year, have a payment that's going to double. And we know their income, unless a miracle happens, isn't going to double in that one-year timeframe.

So, there were two types. We did not do the subprime. I didn't want to get into it. I didn't want to do those. I was really grateful when everybody started getting buybacks and we didn't. FHA [Federal Housing Administration] is meant for the borrower, in my opinion, with less down payment and perhaps some marginal credit, but that doesn't mean that they should get that loan either. We just need to use underwriting guidelines and common sense. So those are the ones we avoided.

Darielle Engilman: What made you want to start LeaderOne in 1992?

A.W. Pickel: There are two answers. One, I didn't like working for someone else who was both capricious and arbitrary. Prior to being in the mortgage business, I was a campus minister, so I like to think that I came with my own set of ethics. I'm somewhat appalled – I do expert witness consulting now, and I've done it on behalf of mortgage companies and individuals. I'm somewhat appalled by the character traits and the behavior of some in the mortgage industry. The second reason, quite frankly, is I wanted to control the closing. And I couldn't control the closing when I worked for someone else. Your reputation is everything you have when you are trying to originate a loan. When you set up a closing date and you have the moving truck showing up at the house and the mortgage loan officer calls you and says, "Hey, the underwriter's backed up. I can't get your approval. You can't move in," you might go ballistic because you have made plans. You've hired people to move. You've hired people to perhaps remodel. You've got your husband/boyfriend/partner ready to paint the entire house before you put furniture in it. You're not going to be very happy. So those were the two reasons.

Darielle Engilman: While at LeaderOne, which institutions were funding their mortgages when it was operating as a mortgage brokerage?

A.W. Pickel: Well we only operated as a mortgage brokerage for perhaps one year. And then I moved it because I'd set myself on a limited salary, and I took all the profits and put it back into the net worth of the company. But during that first year, it would have been Meridian Mortgage, Countrywide Mortgage, Directors Mortgage, and maybe a few others. Not very many. The broker heyday had already started in some states like Florida, but it really swept the nation in 1992. The reason it did, and I may have this wrong, is either FASB 135, Financial Accounting Standards Board—I am an accountant—or FASB 65, but basically it said to a mortgage lender, a wholesale lender like Countrywide, "If you buy a loan from LeaderOne as a broker, you are allowed to amortize the cost of that purchase over what you consider to be the life of the loan."

So, let's say they were paying me $2,000 to buy that loan, and Countrywide did do this, probably not wise, and they said, "Well, this loan is going to last 10 years." So, they would then take the cost of that $2,000 divided by 10. And so, it's $200 as an expense, but the income they would get off [the loan], they would recognize immediately. So, if you don't have to recognize the expense of $2,000, and let's say they made $2,000. So then if there's $2,000 income and $2,000 expense, they'd be at zero, but because it was $2,000 income, $200 expense, they got $1,800 in income. That was direct income falling to the bottom line, which would increase Countrywide's earnings per share. And if you go back in time and look at their earnings per share, it skyrocketed through this period of time. And so, if your earnings per share goes up, Wall Street says, "Buy more." And that's how they got their stock price up.

Darielle Engilman: Could you briefly describe this process that you're talking about behind converting LeaderOne from a mortgage brokerage to mortgage banking and the reasons why?[1]

A.W. Pickel: There are five things that a mortgage banker can do. You can originate, which is [to] take the loan application. A lot of places, when they talk about it, will actually talk about originations closing. Let's define it here as meeting with the consumer via internet, phone, face-to-face, and that's taking the loan. Secondly, there is processing. Then there is underwriting and funding, and we could separate those. Underwriting is determining the validity or credit worthiness of that loan. Processing is gathering the documentation. Funding is actually funding the loan, sending the money to the closing table where someone then closes on the loan. Then there is selling or servicing. Both are done by a number of companies.

A mortgage broker can originate and process. They cannot underwrite because they do not have the wherewithal or, better defined as, they do not have the liquid assets in case they underwrite poorly and have to buy the loan back. A mortgage banker, on the other hand, has a higher net worth and can do all five

[1] This change occurred in 1993.

things. Most mortgage bankers today that are in the non-bank category—they have no depository funds—will sell those loans immediately or after closing. They will use what is known as a warehouse line with another bank.

We would send our note docs—note, mortgage, all other docs—to that warehouse bank. They would attach what is known as a bailee letter to it. Then they would send it on to whatever investor we had chosen to sell it to. The investor then would pay off the warehouse bank, so they would get their money they loaned us. We would get the profit on the loan, and that would be deposited in our account.

Today some non-banks have developed such a strong net worth, let's take Caliber [Caliber Home Loans] for instance. They are holding on to the servicing and servicing the loan themselves, but it takes net worth to do that. You ask how I became a mortgage banker—I grew the net worth of the company to $250,000. Now, net worth doesn't have to be all liquid, so you can put other things into that, but that's essentially what happens. And then you go get a warehouse lender because obviously with a net worth of $250,000, I can maybe fund one loan. So, I would get a warehouse lender who would have access to a lot more money. They would charge me a fee for borrowing that money, hopefully less than I'm charging the borrower when I give them the mortgage. And then I would collect the difference in the positive arbitrage [between] the note rate I charged them and the note rate the bank is charging me, plus the profit when I sell that loan on Wall Street. Typically, I was not selling directly to Wall Street, I was selling to a correspondent lender. In the broker world, you sell your loans to a wholesaler. In the correspondent world, you sell them to another correspondent.

Darielle Engilman: How would you train and retain your sales force, and what sort of tools and incentives were they provided with?

A.W. Pickel: The sales force in a mortgage company is difficult. They all seem to be *prima donnas*, sales staff-wise. Oftentimes, a mortgage company will get started by poaching or recruiting loan officers from other companies. I didn't like that way of doing business because they often came with bad habits. My way of doing it is, I believe in showing by example, so I would continue to originate. I would take loan officers out with me. I prefer having people with no experience who had a strong sense of ethics, who cared for the consumer. My favorite pool of people to recruit from were high school teachers because they seemed to be able to put up with almost anything in the class. They have a knack for mathematics, generally speaking, and they are able to build trust and rapport fairly quickly. So, I believed in training. I would still hire people from other companies. They would come and my thought was, make your company good enough and ethical enough that people will line up at the door to work for you.

Darielle Engilman: And how were LeaderOne brokers compensated?

A.W. Pickel: Well, they weren't brokers. Unless, are you referring to when we were a broker the first year?

Darielle Engilman: …We can talk about both.

A.W. Pickel: Okay. I think you're referring to loan officers. They're essentially both paid the same way, but to clarify, when you sell a loan to a wholesale lender if you're a mortgage broker, they will give you a rate sheet on any given day. And if you're ethical, you're going to pick a rate where, right now, because of the Dodd-Frank Act [Dodd-Frank Wall Street Reform and Consumer Protection Act], a broker cannot make more than 2.75%. I remember speaking with a mortgage broker who said that wasn't enough. He wanted that raised. And my comment to him was, "How many loans are you closing?" And he goes, "Well, I'm closing 10 loans a month." So I said, "Let's just imagine then that you're making 2.5% on each loan." And he said, "Well that would make me $25,000 a month." And I said, "How many staff do you have as a broker?" He said, "I have one part-time staff." "So you're telling me you can't live on $25,000 a month?" I said, "It's $300,000 a year and you don't have that much in expense."

I was flabbergasted, quite frankly, but that's how you make loans. I challenged another mortgage broker one time. He was in the Philadelphia area, and his average loan size was $400,000. And he says, "A.W. I charge two points every time. And then I make two points on the backside." And I looked him straight in the eye and I said, "That's $16,000 a loan. You tell me what you have done as a broker, which you only originate, you only process, and you're not taking any of the default risks, to earn that kind of money." "Well, I should earn it."

That's what got us in trouble—greed. The movie *The Big Short* wasn't that far off when it showed those brokers. A loan officer is paid in basis points – think of percentage. If someone says a hundred basis points, that's 1%. Today, loan officers' [averages] depends on if they go out and get the leads or if they are given the lead referrals, the clients. A loan officer who typically [get the leads]—and this is true today, I consult, I see it—25 to 50 basis points. If they do a $200,000 loan, they make 50 basis points. That is $1,000. Now loan officers who originate what we call self-generated leads—they go out and they talk to realtors, builders, insurance, agents, attorneys, what have you—they'll be anywhere between 85 basis points to as much as 200 basis points. Now, they have more expenses. They're expected to pay for those expenses to a certain extent on their own. Some are required to be paid by the company due to the CFPB [Consumer Financial Protection Bureau] and the Dodd-Frank Act. Using the same scenario, the typical range is about 125 [basis points], so let's say it's 100.

If it's 100 and the same $200,000 loan, real simple math, that's $2,000 they make per loan. So, a pretty good living.

Darielle Engilman: In your experience, how did these loan officers that worked for you view their relationship with the borrower?

A.W. Pickel: I would say the majority really wanted to help the borrower and at the same time make a lot of money. I probably had a few, that I fired, that simply wanted to take advantage of the borrower. But I'd say the majority truly felt like they were trying to help the borrower get a home. We focused on purchase business, not so much refinance, although you can't help but do refinances for the past eight years, since 2012.

Darielle Engilman: How would you characterize some of the key changes in the overall residential mortgage market between 1988, when you started, and 2008?

A.W. Pickel: Much looser credit would be the biggest one. The number of products also exploded. Every day it seemed like, back in 2005, that there was another lender coming into the market with another loan type. You've probably heard of the NINA loan, which has no income, no asset or the NINANE, no income, no asset, no employment. That's crazy. They were called Ninja loans or "liar, liar, pants on fire" loans. There was a loan that was a SISA, stated income, stated asset, which means you tell people, "Just tell me what your income is!" And so, you had taxi drivers, this is literally true, who would say their income was a quarter of a million a year driving a taxi. We know that not to be true, we can get their tax returns, but you weren't allowed to ask for it. I didn't want those loans, I wanted no part of that.

Darielle Engilman: And you talked a little bit about this earlier, but how do you think automated underwriting practices impacted this change?

A.W. Pickel: Well I think they encouraged it. It got to the point where if Desktop Underwriter, DU as it's commonly known, or Loan Prospector, Freddie's system, or LP as it was known, if they issued an approval, people didn't care. And so, you were depending on a machine algorithm. As good as it is, it's still an algorithm. It doesn't take into account people. In one sense, it was very good because I think it promoted colorblindness. It didn't matter if you were red, yellow, black, green, white, or multicolor. If it went into the system, it went into the system, and it looked at it. And it didn't take into account any of those facts. It didn't matter if you were male, female, or if you didn't claim a sex. It just didn't matter. Now, from that perspective, it was very good.

But from the perspective of analyzing income, credit assets, and being able to take a common-sense approach and being able to have ability to repay? Now, I think that is one of the good things to come out of Dodd-Frank. I'm somewhat alone in that opinion. There are plenty of mortgage bankers that don't like that. There are some that do, but we don't just want to throw people into loans and say, “Hey, sink or swim, the way I learned to swim as a farm kid—throw you in the pool, hope you don't drown.” I think automated underwriting contributed to the meltdown in the sense that people got so used to relying on that and not using other common-sense guidelines.

Darielle Engilman: … I wanted to talk a little bit about your time at the National Association of Mortgage Brokers and talk a little bit about some of the roles you had there and some of the goals of the association.

A.W. Pickel: I was on the board from 1999 through 2005 as the Immediate Past President. Prior to that, I was the Technology Committee Chair. I love technology, although today I don't. I don't know, something happened there in the sixties, my sixties, but I ran the convention a couple of times. I was Secretary, [and] I was Treasurer. That was a brief time – I didn't want to be Treasurer. I was the President, obviously. I helped grow the association from roughly 16,000 members to 25,000 members in 2003, 2004. And then continued that in 2004, 2005. I also did a lot in 2002 and 2003 because the current president ahead of me, Armand Cosenza, had developed cancer. So, I took over a lot of his speaking roles.

As far as the objectives of the trade association, it is a 501(c)(6), which means its purpose is education, not truly a non-for-profit. It is non-for-profit, but you can make a profit in a 501(c)(6), or a (c)(3), but you need to be donating money. Since ours was education, we provided most of the continuing education that was required, at that time by some states. And we encouraged our members to go ahead and get the education, even if it wasn't required.

There were other things I wanted to do that I did not accomplish. We were very active in doing some things with Congress and making sure that good rules were promulgated. I got in a lot of heat with a lot of mortgage brokers for that. I was a banker at the time and most people then said, "We don't want the government involved in our business at all," which is the standard line. What I'll have to tell you is what a guy from General Electric told me. He was in GE Mortgage Services at the time. He said, "A.W., what you really need in your association is a couple of public hangings." And what he meant by that was not literal, in any sense of the word, but that the association needed to take a stronger stance on people who did the wrong thing. And I agreed with him, but it was really hard to get someone else to go along with that. We were not a judging agency. We were truly a trade association. I thought there was other ways we could do it. The other thing is, I felt like some mortgage brokers wanted to keep the bar high on entrance as a mortgage broker so that they could be what I would call anti-competitive or perhaps even antitrust.

I wanted to develop like [what] you see for the dentist. When someone becomes a dentist and then sets up their own practice, the ADA [American Dental Association] will come in with balance sheets, profit and loss, this is what your rent should be compared to your sales. That was really my heartbeat. I wanted to help mortgage brokers be more successful by being wise businesspeople, and then they could continue to help more customers. But those were the two primary goals. We wanted to provide education and to provide support in the sense that they could talk to other fellow mortgage brokers and learn from one another.

Darielle Engilman: Did any figures within the National Association of Mortgage Brokers express concerns about the changing nature of credit extension during the 2000s? Did any of these concerns lead to debates or changes in business practices?

A.W. Pickel: Yes. For instance, Ginny Ferguson was on the board at that time. She's from California. And Ginny was a big proponent of getting a sort of seal of approval. And we did develop that during her time while she was there, and I think it continues to this day. It's much like the seal that you see for an independent insurance agent, which is called a trusted advisor. The mortgage brokers strongly balked at seeing a fiduciary component, which I didn't think was a bad thing, but the entire association would not go for it. So, we did get a seal of approval or, for instance, I helped write the test, but then I took the test as well, the Certified Mortgage Consultant, which meant you had to take so many courses, have so many education credits outside mortgage—so like [a] university degree, etc. And then you could sit for this 125-question exam. The Mortgage Bank Association has something similar. They call it the CMB, Certified Mortgage Banker, I've also worked on it. So yes, there were concerns inside. I myself testified before the Senate on predatory lending – against predatory lending, I might add. There were those of us who were concerned about what we saw, but it's hard for people to get on board with that when they're making so much money.

Darielle Engilman: And so during that period of subprime lending growth in the early 2000s, what perspective did brokers have regarding lenders?

A.W. Pickel: So maybe, can you explain—what do you mean by "what perspective did brokers have of lenders"?

Darielle Engilman: Sort of like were they trying to get the best deal, get them into a product that paid the highest commission, or was it genuinely, we want to give them what's best; we want to do what's right for them, sort of like what you were saying about how your loan officers operated at LeaderOne?

A.W. Pickel: I would say that would be 50/50. This is how I would illustrate it. If a lady likes high heel shoes, and she goes into Steve Madden, and she walks in, and she tells the salesperson, "Hey, I'd like a pair of high heel shoes." And he goes "Okay, how high the heel?" She goes "Six-inch stilettos." And he says, "Well, I have this, this, and this." And he might make more on this one or he might make less on this one. And she looks at the one that pays less and he says, "Okay, that's great." She buys those. And she says, "I like them so much. I'm going to put them on right now." So, she puts them on right now, and she starts walking through the mall, and she trips because after all, those are pretty difficult to walk in. And she breaks her ankle. She wants to sue—who? The salesperson? The shoe company? The shoe store? Perhaps all three.

If someone comes to a loan officer and says, "Hey, I want this"—Countrywide did a lot of these—pick-a-pay [pick-a-payment] loan. And the pick-a-pay loan, you could pay less interest and a much smaller payment, and whatever interest you didn't pay was tacked onto your loan. So, it had negative amortization. The interest actually caused the loan amount to go up, not go down. Or you could pay a regular payment with less interest, or a fully amortized payment, or more. Well, obviously, people would use those to qualify for, especially in California, as much house as they could get. Well, then when that pick-a-pay came due, and they had to pay the regular payment, they couldn't make it. Now, who's at fault? The customer for picking it? The loan officer for selling it? The company, who said, "This is a product we have"? Or Wall Street, who developed that product?

It's not as clear cut, I think, as a lot of people would like to make it. The broker obviously would defend themselves as the shoe salesman would say, "The customer wanted the product." Does he have a responsibility to inform the shoe-buying customer of six-inch stilettos, "Hey, you could break your ankle wearing these things"? Perhaps, perhaps not. I doubt if they ever do. Would the loan officer have a responsibility to say, "Hey," and by the way, they generally did, "this is what this payment can do." Or what about Wall Street? Did the shoe salesman who invented the six-inch stilettos say, "Hey, I'm going to call up Steve Madden and say, you need to build a six-inch stiletto. I'm getting requests for them all the time." He never did that. The mortgage loan officer didn't call up Countrywide and say, "Hey, I need this product. It really sucks, but I can make a lot of money and people want it." Does Wall Street have any liability for creating that product and causing so many people to fall?

To me, the blame, if there is any, and there is in my opinion, relies on all four. The customer who wanted the product, and who may or may not have been informed, the loan officer who should have said, "Hey, you're on a fixed income. This is going to change. I don't think it's going to be helpful." Then if the customer says, "I still want it", okay. What about the company for selling it? They knew the profit margin in it. And what about Wall Street, who designed it so they could put it into a mortgage-backed security, or those infamous CMOs, collateralized mortgage obligations, that went under as fast as they got developed.

Darielle Engilman: And during that same time, how did brokers view regulators and overall regulation?

A.W. Pickel: Well, I think that's pretty safe to say that they didn't like it.

Darielle Engilman: On your CV it says that you established the Kansas Association of Mortgage Brokers. So, if you could talk a little about your motivation to establish that.

A.W. Pickel: Well again, I've never been afraid of having the government involved in regulation. I'm probably moderate in most things. So, I'm not a libertarian who wants to throw out every regulation nor do I fully believe in Adam Smith's hidden hand theory. I think that theory works if there is a code of ethics at the core of every person, but if you strip out that code of ethics, that doesn't help. So, I think there needs to be some regulation. Some regulations can be punitive when they dictate only one way. I think you do want the creative ability. I mean there is no other country that has created a home loan system like we have in the United States. And I've heard the stories. People say, "Oh, well, if you go to Spain, they have higher homeownership." That's true. But that's because more of the Spaniards actually have inherited their homes through family or over time. They only have about 6,000 years on us or something – we're a fairly young nation. The closest one is Australia in terms of the secondary market, and then Japan. I remember meeting with people from Japan and discussing our secondary marketing system when I was president in AMB [Associated Mortgage Bankers].

But back to Kansas and why I established that, or wanted to. I felt like there needed to be an association for mortgage brokers to come to. I was laughed at by some mortgage brokers. They said, "I'll never join that. Why would I give you $300 a year?" I said, "Well, primarily because I think it's a good deal." I helped write the first mortgage broker-banker law. I was amazed at what was put in it. Real estate agents tried to exempt themselves saying they could write mortgages without having to get a license. We got that taken out. I just felt like we can work together. In fact, the state of Kansas and I still work together on projects. This is Kansas Statutes, Chapter 9, Banks and Banking Trust Companies, Article 22, Mortgage Business. In fact, I need to get back in touch with them, but I do that as a free consult for them. I just want them to be on the cutting edge. I've always had a very good working relationship with the state of Kansas, be they Democrat, be they Republican, because I think most of these issues transcend party.

Darielle Engilman: So talking more about this mortgage banker-broker bill, if you can talk a little bit about some of your motivations to author it and some of the main priorities of the bill itself.

A.W. Pickel: Well, the main priority was to register. So initially it was really simply a registration system, but then to identify who can originate a loan. And that would be to prevent your “Wild Wild West” characters, who would simply take advantage. I'll give you an example. I'm going to leave out the names, but in 1995 or 1996, I hired two people who had been mortgage brokers with another company. And they said, "Oh, we needed a company that is more stable, so we'd like to work for you." So, the first time, it was two females, they came in. They brought some loans with them, and I said, "Well, we need to get permission from your previous company. And then we can take those." And I said, "Can you show me, at the time, good faith estimates." So, they had both quoted their customers, and this is what they were told to quote, 13.95% with eight [basis] points. I said, "You know, that rate isn't available today." Rates are at the time in the sevens. I said, "Where are you getting this rate?" And they said, "Well, our owner told us to quote that, so that then when we told them 9% with three points, they would think they were getting a great deal." I said, "Well, that's bait and switch." I said, "We don't do that here. So, here's a rate sheet. These are the rates you can quote." Some of my motivation for the Kansas mortgage banker-broker law was to take that type of thing out of the system. I'd say that was the primary motivation. It was [for] registration.

Later on, I worked a lot with Kevin Glendening over in Topeka, and I think he was in charge of the mortgage brokers part of it. I also worked with another individual on the banks themselves. It might come as a shock to you, but some of the banks were engaging in what I would call predatory lending. They don't like to ever say that, but...anyway. And then we added education into it, so you had to have so much education. Education in and of itself is not a deterrent, in my opinion, to predatory lending. But if you have a registration system requiring education, at least hopefully you can get people to begin to understand what it means to be a fair player in the mortgage world.

Darielle Engilman: How would you define predatory lending?

A.W. Pickel: You know the phrase by the Supreme Court, right? "I know pornography when I see it, but I can't define it"? I did not say that, I'm quoting, don't shoot the messenger. I could give that a lot of thought, and I could probably come up with a better one, but out of the depths of the top of my head, predatory lending is when the borrower is given a loan that will not help them. Very simple. And you know, of course, then you get into what will help them and what will not? And are we in a free country? If someone wants to go do something stupid, do they have that right? Or does the government step in and say, "If someone wants to drink themselves silly, as long as they don't get into a car and attempt to drive, no one's going to be upset because they have that right." Do we think it's smart? No. If someone wants to use illegal drugs, the government steps in and says, "No, you can't do that because that's illegal." So, the question becomes, I think, there has to be a duty of care, and so I am not one of those opposed to fiduciary duty, as to the finances of the individual who is looking to get the loan.

Darielle Engilman: What were some of the predatory lending practices you observed leading up to the financial crisis?

A.W. Pickel: I think the biggest one was not being concerned about the borrower's ability to repay, nor to look down the road. I remember there was an account rep from World Savings, which was sold, and he came in and he said, "I want to talk about the pick-a pay loan," because Countrywide didn't have the end-all-be-all on all pick-a-pay loans. So, he came and talked to my staff. And during that process, as I was wont to do, I said, "Well, let's say we have a retired couple. Is this a good loan for them?" And he goes, "Absolutely!" I said, "Well, they're on a fixed income. Is this payment going to change?" "Well, of course! But it's a great loan for them..." and he went on and expounded. And I said, "Okay, thanks for that explanation." I said, "We're going to take a 10-minute break, and everybody else can go outside and do what you need to do." Some people smoked, and you don't see that today, by the way, this was back in 1995, and so I pulled him aside, and I said, "You're leaving." He goes, "What do you mean? I'm not done?" I said, "No, you're leaving because I'm going to walk back in there, and I'm going to tell them that there are a lot of people that should never get this loan. And a retired couple is one of them. And if you think you can come in here and convince the people that work for me to do those loans, you are sadly mistaken. So, you have a nice day. I won't embarrass you, but don't come back."

So that was one. That was primarily to give someone a loan without regard to their ability to repay. The second thing that was pretty common would be a loan officer calling up an appraiser saying, "Hey, I need $200,000 to make this deal work. And if you don't give me that value? By the way, I won't send you any more appraisals." That was pretty common. If I found out, I fired the loan officer, and I've done that. I'm not saying I'm a saint. Don't think that. But you can't do that. But it was allowed, so to speak. Back then, you could say, "Hey, the customer thinks it's worth $200,000." But I was always amazed at how many times the appraisal came in at exactly whatever the loan officer said he thought it was worth, which tells me that the appraiser didn't do their job. They just went out and found comps [comparables] that supported it and then sent it in.

Third thing that happened somewhat, not as often, was the willingness to commit fraud. Even lenders got in on that act, and there was a lender that went to prison in Florida, the account executive. She would literally go into an office and say, "Let's see that borrower you said didn't qualify." She'd say, "Well, instead of $5,000, let's put in $10,000." And then, "Oh look! They qualify." And you didn't have to prove it.

So, I guess they would say, “Well, it was fine”. But I don't think that's right. A friend of mine that I hired, David Pearson, worked for a company in Michigan, and he was the Chief Operating Officer, and I hired him away. And he was doing fraud checks on this one branch. And the way he would do that is he would go into the branch say, "Hey guys, go to lunch. Go anywhere you want. The company will buy, and then come back in an hour and a half." And then they would all leave. He'd lock the door, and he'd search the office.

Well, in this particular office, he opened one filing cabinet, four-door filing cabinet. Top drawer, pulled it out. Tax returns—no names, all income, everything else filled out. Push that in. Pulled out the next one. Pay stubs—no name, no social, all the income filled out. And we're not talking just a few. We're talking hundreds. Third drawer, pulled up. Bank statements. You get the idea. Basically, they could pull out, type in the borrower's name, social, et cetera, give them the income they needed. So that was the third thing that I think went on. It wasn't as prevalent as the first two because it's obvious it's wrong.

Darielle Engilman: And did you see any particular groups being more targeted by these predatory lending practices?

A.W. Pickel: No, I really didn't. I know that comes up. I'm about to tell you a statement that you probably won't like in your studies. You might hear it, you might not. Typically, the group that was taken advantage of was taken advantage of by their own ethnic group. Whites would take advantage of whites. African-Americans would take advantage of African-Americans because they trusted them. Hispanics would take advantage of other Hispanics. In fact, I asked a Hispanic-American loan officer one time, I said, "How come you charge—" And if I say rate sheet, and I told you, I picked the rate at the top, do you know what I mean by that?

Darielle Engilman: Not really, if you could explain it a little bit.

A.W. Pickel: So what I mean by that [is] you pick the highest rate. Let's say the rate sheet shows—here's the rate at 6%, 5.5%, 5%, 4.5%, 4%. This loan officer would take the rate at the very top of the rate sheet, 6%. Now the rate at the very top of the rate sheet is going to pay more money to the loan officer/mortgage broker than the rate at the bottom. And then he would charge, the same loan officer, would pick that rate and then charge two discount points. Even though they weren't really bona fide. It was just a way for him to make more money. So, I asked him, I said, "Why do you do that?" He said, "Well, because when I take my car to him, he's going to inflate what it costs to repair it by three times. It's a way of lies. And so, when he comes to me for my mortgage loan, then I'm going to charge him triple."

Darielle Engilman: Your CV states that you were a member of the Fannie Mae Housing Impact Advisory Council and the Freddie Mac LP [Loan Prospector] Advisory Council. Can you talk a little bit about what these councils were and what you did while you were serving on them?

A.W. Pickel: Well, that's back when Fannie and Freddie could host parties. So, the Housing Impact Advisory Council was made up of individuals across the United States. Franklin Raines, essentially, would come in and speak to us. It would be a two-day meeting. They would put us up in a very nice hotel, and they would give us nice meals, and we would discuss the impact of housing across the nation and various and sundry things. I think they looked at that as more of a sounding board, and I think it had very good intentions. I don't know, to be honest, if we ever accomplished that much. But it was fun to go to, and it was good to get to know people like that. I've played golf with Dan Mudd [Daniel Mudd], who's no longer there, but he was CEO at one time. And I'm a lousy golfer, I'm surprised they invited me.

The Freddie Mac LP Advisory Council would meet two to three times a year. Same deal—very nice hotel, nice meals. And I'll compare and contrast that with another one here in a second, that's not listed. And they really wanted to know more about LP or Loan Prospector and its rate of acceptance among mortgage brokers. Keep in mind during this timeframe, LP and DU were always competing over who could get more things run through their systems. And so, they wanted to know if there were problems, or if you were seeing borrowers that weren't getting approved, and if so, why. Again, it was a meeting of colleagues. I thought it was, in my opinion, very good. Again, I don't know, as it sounds, Advisory Board, I don't know that any of us set the world on fire. Compare and contrast that to, I was on the CSBS [Conference of State Bank Supervisors], a couple of committees for them, in writing test questions or evaluating test questions for the NMLS [Nationwide Multistate Licensing System & Registry] exam. And they would pay for an inexpensive flight and your hotel. Meals were on your own, and I think if you went over a certain amount, they only had so much budgeted. So, it was a far different scenario, and one that I would probably expect from a governmental entity.

Darielle Engilman: What were some of the conversations or concerns that the Fannie and Freddie councils that you were on were having in the early 2000s with the rise of subprime lending?

A.W. Pickel: Well, I don't remember concerns being a part of it, on subprime lending. I was on it, I guess, for part of that time. But in the beginning, subprime was still a small section of the market. The bigger concern, at least in Fannie's conversations, was increasing homeownership. And so, they had affordable housing goals that they had set for them by FHA at the time. And as we know now, Franklin Raines' pay was dependent upon, his bonus at least was depending on, meeting those affordable housing goals. So that was a big concern by them. And truthfully, I think there was a very healthy concern to get more minority home loans out there, which is why DU and LP were pushed quite often. As I said, it was a colorblind system. The LP, I don't think we ever talked about subprime, although I will say that the LP, prior to the meltdown, was trying to get to where they could also underwrite those loans.

Darielle Engilman: Over the last decade, we've seen a number of different narratives emerge to explain the financial crisis. In your opinion, how do you understand what caused the crisis as a whole?

A.W. Pickel: Well, the credit box was expanded, and Wall Street demanded this product, and then because no one, really, I thought [like] in *The Big Short*, that guy that said, "Hey, no one's looking at the underlying pools." I've been in probably 50 to 75 court cases on credit damages, mortgage fraud, and valuation, et cetera. One of the things that occurred, for instance, there was a lady in Vegas who, along with two other ladies, went out and bought 15 properties, and said they were going to live in them. A little difficult—you're not going to live in 15. And so, they were really buying investment properties. And so, I was actually for the defense. And they had a public defender, and they said, "What do you need to evaluate?" And I said, "Well, I need the mortgage loan files." Would you believe it, on at least half of those loan files, there was a loan application and that was it. Either they had been lost or never done.

There was a big fraud that occurred in Kansas City at one of the Countrywide branches. At the end of the month, the manager would go in, he'd pull all the files out that had been denied for whatever reason, and he'd stamp them approved, put his signature on them, close them, and send them through. And of course, that sort of thing gets noticed because the brokers hear, "Hey, Countrywide's approving anything and everything. If you throw it in there, they'll approve it." And then when those loans start to default, Countrywide obviously still wanted good loans. They didn't approve of that practice.

More specifically, I think it was the products and the determined inability to not evaluate ability to repay. Again, I think it comes down to greed. I think the government was complicit in it in that they promoted homeownership above responsible lending. But I don't think there's anyone without blame.

Darielle Engilman: And to what extent do you see your own personal experience as adding something important to our understanding of what happened in the run-up to 2007 and 2008?

A.W. Pickel: I guess just the experiences that I had that I've shared with you. I'm not the saint on a white horse. Heaven knows raising four daughters, I've lost my temper on more than one occasion. I have 11 grandchildren; number 12 is on the way.

Darielle Engilman: So looking back on the crisis over a decade later, what do you see as its most important lessons for mortgage originators and state level policy makers?

A.W. Pickel: Regulation is necessary, but don't create so much regulation that you throw the baby out with the bath water. I'm not opposed to the CFPB. I would like for it to remain non-politicized. I think it gets, as everything does today, very political, and that's not our goal here. Our goal here is to help the consumer. Our goal here is not to make somebody's business get shut down, unless they're deserving of it, I guess. But it's sort of like bringing an industry of age. There ought to be restrictions on the bar on getting into the industry. There ought to be minimum education requirements. And we have all that. What we found is that that, in and of itself, will not stop fraud or other things. So, there does have to be, I think, penalties for that. But I also think we can make the assumption, and maybe we shouldn't, that generally speaking, people want to do the right thing. I mean, I'm guessing here that you don't have a political ax to grind in your study. I mean, you're going to let the people speak for themselves and then you're going to report on that…

Darielle Engilman: … And so just in closing, is there anything else you think we should have touched on, I should have asked, or just anything in general we might've missed in the interview that you'd like to add?

A.W. Pickel: Well, I think one of the things— so, Barney Frank had an interest in a bank, One Savings bank, I think, or something like that – One West Bank. Whenever I look at politicians, be they Ds [Democrats] or Rs [Republicans] or Is [Independents], and they're involved in the financial circuit, I always like to know—are they getting paid by somebody? What is their true financial interest? With a businessman, I can pretty well tell you—money is green, and that's the only color they primarily see. So, I think it's like when you get ready to buy a house, whenever you buy something, the seller is self-interested, as is the buyer. And so, the true value is what the meeting of the minds are. If a seller says, "I want to sell you a 2020 Camaro." And you say, "I want that 2020 Camaro." You might be willing to pay more or less than say a dealer, depending upon what your interest is. Same thing with a house. I tell people it's not all about getting a mortgage. Life is more than a mortgage, and life is actually much more than a house. There's a lot of living that we need to do. And I don't get caught up in the little things. So, I guess as I look at it, I don't know if there was more that we could have done. I think, as we always say, the industry should have been better at policing itself. The guy from General Electric Mortgage Services was right. We should have had a couple of public hangings saying, "Look, this guy did wrong. Here's what he did wrong and we're going to bar him or blacklist him from being in the industry." And then people get upset, "Well, you can't do that. It's a free country." Well, no, if you do something wrong, you shouldn't get to play. And if you throw sand at somebody else's face, you have to get kicked out of the sandbox. So, feel free to use any of my pithy quotes or my phenomenal illustrations. And I hereby absolve you of any financial renumeration for anything you quote that I say.

Darielle Engilman: … Thank you so much again for taking the time.

[END OF SESSION]