AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Michael Smith

Bass Connections

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# PREFACE

The following Oral History is the result of a recorded interview with Michael Smith conducted by Malena Lopez-Sotelo on March 9, 2021. 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: Darielle Engilman
Interviewee: Michael Smith
Interviewer: Malena Lopez-Sotelo

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Malena Lopez-Sotelo: I'm Malena Lopez-Sotelo, a graduate student at the Fuqua School of Business and member of the Bass Connections American Predatory Lending and the Global Financial Crisis Team. Today, it is March 9th, 2021. I'm currently in Durham for an oral history interview with Mike Smith, the founder of Universal Home Lending Corporation, who has joined me via Zoom. Thank you for joining me today.

Michael Smith: Thank you for having me.

Malena Lopez-Sotelo: I'd like to start by establishing a bit about your background. Where did you go to college for undergrad?

Michael Smith: I went to a local community college for a few years. Actually, I went for about a year, and then I joined the US Marine Corps. I did five years in the Marines, up until 9/11.

Malena Lopez-Sotelo: In the context of your work life, when and how did you first become involved with residential mortgages?

Michael Smith: After exiting the military, I didn't know what I wanted to do so I went back to school. Then, a friend of mine actually, had brought an ad to me for a job in Baltimore about a loan officer. I had no idea what a loan officer was – [I] didn't know anything about residential real estate or mortgages or financing or anything. I figured "I've got nothing to lose. I don't know what I'm going to do right now. So let's give it a try." So I gave it a try and I've been here ever since.

Malena Lopez-Sotelo: What did the scope of your work as a loan officer look like? What company was that with?

Michael Smith: I was with a company out of Baltimore. It was called Savings First Mortgage. They were in Owings Mills, Maryland. It was, I don't want to say, like a boiler room type, but I was young, 22, probably. So, I didn't know anything different, but it started with just cold calling people. You had sheets in front of you and for eight hours, you would just cold call people on financing, purchasing, refinancing. That's all I knew when I started out. They made you pound the phones to get business.

Malena Lopez-Sotelo: At the time, what were the sort of priorities of the cold calls? For example, were they refinancing or was it a different type of thing?

Michael Smith: It was mostly refinancing. We would come across people who were in a market to purchase in 2002, which was kind of still a good time because rates were coming out of the sevens and eights and were coming to the sixes, which were good for a lot of people. So, usually a lot of calls were refinances.

Malena Lopez-Sotelo: During this time around the 2002 timeframe, what did the housing market look like in Maryland?

Michael Smith: In Maryland, it was a little different than other parts of the country, especially here in Florida. You had hardworking people that produced income. You didn't have a lot of people that were in over their head with debt as you do in other places. But it was just a normal area, hardworking people.

Malena Lopez-Sotelo: What made you want to start Universal Home Lending Corporation?

Michael Smith: […] In 2002, I moved to Fort Lauderdale, Florida, and I was doing mortgages here. A little fast-moving, a little different than Maryland. People from all over the world lived here. In 2003-2004, I decided, "Hey, I can do this." I was making great money. I had clients calling me all day long. I decided to venture off and do my own thing just because I felt that I had the knowledge and the tools to move forward and work for myself.

Malena Lopez-Sotelo: Did your time at Nationwide help you build out that toolset for Universal Home Lending?

Michael Smith: Absolutely. It showed me the way to do things and actually showed ways to do things the wrong way and to do things the right way. So, I was learning what not to do and watching others at that time because the licensing in 2003-2004 was not as crucial as it is nowadays, which led us up to probably what happened with the market crash.

Malena Lopez-Sotelo: Can you describe what the licensing process is?

Michael Smith: The licensing process is now different than it was back then. You could work underneath an umbrella license. If the mortgage company had a license, you would work underneath that umbrella, unlike nowadays where each person in the lending institution has to be licensed. The process is a class that is about 30 hours. You've got to pass a state test. Then, you also have to pass a nation-wide test. You have to get fingerprinted, background check, they look at your credit. All that nowadays was not how it was back in the early 2000s. So, it is a little bit more strict right now and it should be.

Malena Lopez-Sotelo: While you were at Nationwide, what elements of the origination process were you responsible for?

Michael Smith: Basically every night there was a call room. They'd have a room of telemarketers that would call these homeowners to refinance. Once they got somebody on the phone that was interested, I would sit there and they would pass me the call. I would interview the person. “What type of rate do you have? How much do you owe? What's your credit?" Basically, all the details and then my responsibility was to meet with that person, collect the financial documents— if that loan, at that time, was considered, you need the financial documents, because there were a lot of loans, so if you had a heartbeat, you could get financing. So, if you were a carpet layer, you can just put down "I lay carpeting" and "I make 50 grand a month." My responsibilities were collecting that information, putting it together into an application, pulling credit reports, and making sure that that information I received follows the guidelines that the banks would give us in order to get a mortgage done.

Malena Lopez-Sotelo: What was an example of a common profile you saw during that timeframe, in terms of rates or credit risk profiling?

Michael Smith: Common was just bad credit - 590 scores. People who were cleaning ladies who couldn't produce income documents. You were seeing a lot of those, what we call stated loans, where you would just state the income of the person. The problem was the banks didn't have a rule book on a cleaner, [who] should only make X amount of dollars. We would put on there what we thought or what we would think that the people make. So if they told us they made 10 grand, we would put 10 grand on there. So the loans that we were seeing were a lot of loans that were in that vicinity. We were also seeing a lot of jumbo loans with stated income also, at 100% financing, rates in the 5% to 6%, loans up to 8, 9% on what we call subprime mortgages, which were people with not so good credit history and stuff like that.

Malena Lopez-Sotelo: Can you describe what those are?

Michael Smith: Jumbo loans are loans that are outside the Fannie Mae [The Federal National Mortgage Association], Freddie Mac [The Federal Home Loan Mortgage Corporation], FHA [The Federal Housing Administration], and VA [Veteran Affairs] guidelines. So those institutions set a max and each year, as home values increase, the limit increases. For instance, right now $548,000 would be the maximum loan limit that Fannie Mae or Freddie Mac would allow .... Anything above that is considered jumbo. So your pricing, your money, would come from— almost Wall Street backers that had this paper that they would come out and they would give the banks and say, "Okay, well, we'll buy these jumbo loans. Here's the rates that you're going to give." So a jumbo loan is anything above the conventional Fannie Mae, Freddie Mac loan limit.

Malena Lopez-Sotelo: You mentioned this a little bit earlier around what you learned at Nationwide in terms of good practices and bad practices, what were some of those learnings that you took in order to start Universal Home Lending?

Michael Smith: The learnings were to treat customers the right way, take care of them, make sure you're looking out for their best interest. I saw guys there that were just there to make money and they were doing whatever they were allowed to do to make money. If it was giving them a rate on the phone, then showing up at closing with a higher rate, charging them more points, more money than what was told in the very beginning. So those were things that I gathered and I took as not the right way to do business. I saw that and I started shifting to doing the right thing by making sure my clients were educated and they understood the process. And I was honest with them. I was finding more referral business. I was finding more people trusted me to send to their family members, friends, coworkers, stuff like that.

Malena Lopez-Sotelo: What were some of the actions that you took to educate your customer base?

Michael Smith: I think education is a big part of the homeownership responsibility, especially nowadays, you want to educate your customer on what it is they're getting, the interest rate, closing costs is one of those things that you really need to break down on why and what certain closing costs are because a lot of people don't understand what title insurance is, or transfer taxes, stuff like that. So educating the homeowner on what they're getting themselves into— "this is what your payments are. This is what you're going to end up paying for the loan after the 30 years or after the 15 years." So the education, I think, is the most important thing that I took from opening up my own business and being successful.

Malena Lopez-Sotelo: In addition to educating your customer base, what were some additional initial responsibilities that you had as a founder of Universal Home Lending and how has that changed over time?

Michael Smith: Just making sure that everybody that worked here for us did the same thing, treated their clients the same way. It really hasn't changed. I think the education part has changed a little bit more because as RESPA [Real Estate Settlement Procedures Act] and laws and rules and regulations came in, we had to keep our education going as you would in school just like textbooks change. So, we would find ourselves needing to re-evolve ourselves into the education part of it. So that's making sure that our guys kept our name clean. We had a good name out there, good reviews, just making sure the clients were happy. That's really, at the end of the day— your customer being happy is the most important thing.

Malena Lopez-Sotelo: In terms of the origination process that Universal Home Lending was responsible for at that time, did that differ from what you were responsible for at Nationwide? If so, how was is different?

Michael Smith: It did differ because it was on me, as an owner, as the licensee of the business. If we weren't doing the right thing, we could be shut down. With Nationwide, you were just a loan originator or loan officer at that time working underneath the license, so you just handled your clients. Here, it's a bigger world. I have to protect my family, my license and my business. So it definitely became more of a responsibility, absolutely.

Malena Lopez-Sotelo: During your initial timeframe around 2003-2004, up to 2008, what were some of the most popular products you used at Universal Home Lending?

Michael Smith: At Universal Home Lending, a lot of products were FHA, VA because it's a veteran-owned business. So, VA was really big on my list because I like to take care of the veterans because they're one of my own. We did a lot of stated [stated income]. We do some stated deals still, but they are much more sensible stated deals. There were loans out there that clients got a hold of through either news media, or other banks that were called "pick-a-pay loans," which really got us in a lot of trouble, which were a loan that you would have four options. You can either make the payment every month on a 30-year fixed mortgage, you can choose to make your payment on a 15-year fixed mortgage, you can make your payment on an interest only loan, or you can make your payment a minimum payment, which put the homeowner in deep doo-doo because it was a negative amortization loan to where you would make the minimum payment, but your loan value, the amount you owed the bank, would go up and up because you're making that minimum payment with no interest. So that put a lot of homeowners in hot water. At that time, as a company, we weren't really educated on what it would do to people because most people were choosing that minimum payment. So people that should be owning a $300,000 house at that time were owning $500,000, $600,000, $700,000 houses. But the payments they were making were minimum because that's one of the options they had, to where they really should have been in a $300,000 home. So it really gave the buyers a false sense of security and what they could afford. But unfortunately, we weren't really educated on the process and how bad the loans were until it got too late.

Malena Lopez-Sotelo: At what point do you think customers would realize the effects of negative amortization?

Michael Smith: If or when they went to sell the home, because their payoffs were higher, but at that point people were staying in the homes for a few years until the financial crisis hit, and they were forced out with foreclosure. I think that's the time when people actually realized how bad the loans were as their loan amounts were going up versus going down on a normal loan. So I think it took people a while until the foreclosure process started for them to really notice how bad the loans were.

Malena Lopez-Sotelo: Once the negative repercussions of negative amortization hit, what were some of the repercussions on the mortgage originator side for Universal Home Lending and then for the customer side as well?

Michael Smith: As far as the business, there was none because as a mortgage broker, we would use other banks. So we would use certain mortgage banks that are out there. We would underwrite the file through them and get the money from them to close on the loan. So they were almost like the middleman as they're getting money from Wall Street or they're getting programs from wherever they're selling their loans to. So technically, it really wasn't on us. Once all the process happened with foreclosure, they would come and they would investigate the file and make sure that the person was licensed, make sure that the paperwork we had signed that, the disclosures and everything that they signed was actually in the file. That way they couldn't say, "Well, I didn't know", or "I never signed anything stating that the amortization was going to go negative." So those were really the things that we were responsible for, to basically team up and get the investigation going and trying to assist when it did happen. But when the foreclosure process happened, that's when that all kind of went in that direction.

Malena Lopez-Sotelo: You mentioned the role of mortgage banks. What are some examples of those banks at the time and how you interacted with them?

Michael Smith: It was almost like a chain of command. It would come from Wall Street or somebody at the top who said, "Hey, we got this product and we're going to roll it downhill, and we're going to give it to Fifth Third [Bank], we're going to give it to Bank of America, we're going to give it to SunTrust." As a mortgage broker business, we would sign up with these banks to use their money and their underwriting, and then basically we would get paid kind of like a middleman type thing for bringing the business to them. It's mostly a chain of command. That's how it worked. We were at the bottom, everybody else is at the top. And as things would come downhill, that's how we would get our products. We were told, and we were shown which products were available in the market as they came out.

Malena Lopez-Sotelo: Did Universal Home Lending hold on to any of the loans or were they sold into that secondary market?

Michael Smith: They were sold. We would have closed the loan, but it wouldn't close in our name. It would close into a Bank of America or SunTrust loan. We were just the originator. So we would originate the loan, basically do all the work for the bank. The bank would, in turn, pay us. So the bank would take control and then they would sell it on that secondary market down the road. So we weren't really involved with a lot of those things that happened on the secondary market.

Malena Lopez-Sotelo: During this 2004 to 2008 timeframe, what were some of the products that were of more interest than others?

Michael Smith: Like I said before, the "pick-a-pay" program that was the most popular program then because it gave the borrower an opportunity to pay a payment that, like I said before, wasn't really a payment that they could afford. But the banks and Wall Street made it easy with that program for people to buy homes they really can't afford. That was probably the most popular product at that time was what we called the "pick a pay" loan.

Malena Lopez-Sotelo: Did you ever feel like the secondary market institutions pressured you to originate loans at more volume?

Michael Smith: I do, and the reason why is because as you were doing more volume, they were giving you either A) better rates, and B) they were giving you what we call a yield spread at the time. They were giving you more money for doing $5, $6, $7, $8, $9 million, $10 million a month. And that's how a lot of banks picked up a lot of customers like myself, by offering incentives for a larger volume because they turned around and took that larger volume and they made more money. So I do feel that we were pressured into giving a product and for B) because we're here to make money, if bank B is offering us more money than bank A, we're going to go to bank B because they're offering us a higher income or higher commission.

Malena Lopez-Sotelo: Can you clarify what yield spread is?

Michael Smith: Yield spread is a way that mortgage banks and mortgage brokers and lenders get paid. It's based on the interest rate. So the higher the rate you gave, the more yield spread that that rate makes, the more money, the more commission is made. So it's all built into the rate: the higher the rate, the higher the commission, the higher the yield.

Malena Lopez-Sotelo: In addition to yield spread, what sort of other tools or incentives were you or your salesforce provided with?

Malena Lopez-Sotelo: As far as commissions, getting paid— just offering points on a loan, which is hundreds of thousands of dollars, one point turns into 1%, which turns into a thousand dollars. So you're able to charge origination fees, broker fees. If you had processors in-house, you charged a processing fee to help offset the salaries for the processors. And I mean, it's pretty simple […] You're getting paid yield from the bank, and you're also charging the client X amount of dollars on each application.

Malena Lopez-Sotelo: At the time, did Universal Home Lending have in-house processors?

Michael Smith: Yes, we did have in house processors. Correct. Yes, we did. We had two in house processors that helped with ordering up on documents, title, lien searches, insurance appraisals, stuff like that.

Malena Lopez-Sotelo: Can you describe any of the training processes for the loan processors and your salesforce during that timeframe?

Michael Smith: The training was pretty simple, how to package a loan to send it to the bank for underwriting. So, we would train the processors on documents to make sure— the better file you had together, the cleaner the file was, meaning if every document was in there and you sent it to a bank like Chase or Bank of America, they would give you an extra eighth of a point or something because it's less work for them to do as long as we had everything in the file. So we did a lot of training on collecting documents, making sure everything was in there, making sure I's are dotted, T's were crossed. As far as the sales force goes, the training was just keeping them educated on what products are available. So when they get a client on the phone and the client says, "Well, what about a stated income? Or what about a VA loan?", they were educated on that product so they could explain to the client exactly what that product was and how it would help them, or how it could hurt them.

Malena Lopez-Sotelo: When you talk about training for your salesforce and in-house processors, what were some of the ways that you kept yourself apprised in terms of this continuous education? For example, did you lean on other founders of similar institutions, or were there more formal trainings involved to make sure that there were educational materials available for customers?

Michael Smith: During this time, 2004-2008, I don't want to use the term free for all, but it was basically a free for all. Getting help from the state or somebody involved was very hard. So, it was really on us and learning from things we would go to like mortgage conventions. Lenders usually would roll down a lot of education for us with new products or different stuff that was going on in the market. So we leaned on the banks themselves to educate us on what to do and what not to do and what products are out there and what are the negatives and positives on each product. So we use a lot of those tools to kind of keep us in a go-to area.

Malena Lopez-Sotelo: What were some of the main challenges you had as a leader of Universal Home Lending during the financial crisis?

Michael Smith: During the crisis, I was trying to keep people here. When the market was going, back in early 2000s, you had people from all walks of life coming into the industry— mechanics, and people who work behind counters at 7-11s. You had people from all over the place because people were hearing and seeing how lucrative the business was to make money. So the challenge was, during a crisis, is how do we keep people in the industry? How do we help them feed their families? We lost a lot of people. A lot of people went back to whatever it was that they were doing before the financial crisis. So, it was a challenge to us to find new people. So, that was probably the biggest challenge: keeping the current people and finding new people.

Malena Lopez-Sotelo: What about immediately post-crisis?

Michael Smith: As far as challenges?

Malena Lopez-Sotelo: Yes.

Michael Smith: Challenges were learning the new system, learning the new rules. Post-crisis, when TRID [TILA-RESPA Integrated Disclosure], people were getting out of the business because they were scared of the rumors they were hearing and to be licensed— I mean, that was one of the main things, the fingerprints and the credit reports— probably 70% of people pre-market crash had bad credit or they had criminal records. So that was probably a challenge, is getting these people who now that the economy has crashed, now they're looking at credit reports and financial backgrounds, is how do you get people licensed when you can't get licensed for having a bad credit score or not having the right financials and backgrounds. So [that] was probably one of the challenges. And the other one was, like I said, keeping up with the new rules and regulations. That was really the biggest challenge.

Malena Lopez-Sotelo: Did you still find yourself leaning on those mortgage banks for education or did that change?

Michael Smith: It changed because you really couldn't trust what they were saying at that point in time. So we had to venture off and start finding our own local lawmakers, local mortgage committees that were put together, the National Association of Mortgage Brokers [NAMB]. They were one of them that kind of huddled together and said, "All right, we're going to make it through this. We need to educate ourselves and stop leaning on these banks that were giving us these products to sell." So, we need to kind of focus on rules and regulations and laws now. So that's what we were looking at: how can we do the right thing and follow the laws so we continue being successful?

Malena Lopez-Sotelo: In the run-up and during the crisis, did Universal Home Lending ever deal with regulators?

Michael Smith: Yes, we did. We dealt with regulators a couple of times. They had come in to look at files and especially when everything started blowing up, I can recall an incident out of Orlando that we had done a few loans for a big condo project. And they had come in one of the files and come to find out there was a large project to where some realtors and builders were getting together and they were trying to find people, basically called "straw buyers" to come in and buy the properties. We, unfortunately, had two or three of those files, but fortunately, we didn't have a majority as the other lenders did because we did our due diligence with the client. So, we had the regulator come in and we just helped them do their investigation.[1] But it was kind of crazy when stuff started unfolding and finding out really what was going on out there, when people in higher positions like builders and realtors and stuff like that, and what they were doing. It was just mind blowing.

Malena Lopez-Sotelo: You used the term "straw buyers." Can you clarify what that is?

Michael Smith: A straw buyer is someone who has the credit and/or income to buy a property, but they are getting some type of financial gain by basically buying a property with their name and their credit but not living in a property. Maybe used for a realtor or a builder to get money, to make money, and then to turn around and sell that property to make more money. It was very illegal. But after the market crash, you would start to hear and see more and more about straw buyers. So they're basically fake buyers. They're real people but they're fake buyers.

Malena Lopez-Sotelo: Did the role and interaction of regulators change immediately post-crisis?

[1] The regulator referred to here is the Florida Department of Financial Regulation.

Michael Smith: I think it did because the regulation was a lot more and if they would have probably regulated more then maybe a lot of stuff would not have happened. But it's almost like they were forced to now regulate an industry that had really no regulation. Especially now in 2021, they're definitely heavy on [regulation], but if [the market] was regulated at that time, it probably, [we] wouldn't be in a lot of problems that we were in 2008.

Malena Lopez-Sotelo: You talked a little bit about predatory lending. How would you describe that term?

Michael Smith: Predatory lending, I think has the right word, which is "predator" in the word. Predatory lending is focusing in on people who are weak with knowledge and are weak with education on the mortgage business. That's my interpretation of it. It's got the word in it. I mean, predator. So it's just people that pry on one weak people.

Malena Lopez-Sotelo: Do you think that predatory lending has changed pre-crisis to post-crisis at all?

Michael Smith: Oh, absolutely. Absolutely. The regulation is heavy, and nobody wants to get stuck with a bad loan because the person that foreclosures due to the information with the loan not being collected or not being collected correctly. So, I think predatory lending is...I'm sure it's still out there now but it's nothing like it was, and I don't think it will ever be like it was. I think it was a big lesson learned.

Malena Lopez-Sotelo: What are some of the consequences that you see now if somebody is presented as a predatory lender versus during the financial crisis and right before?

Michael Smith: Now, predatory lending is unheard of because the banks and everybody involved in the supply chain is on their Ps and Qs. Prior to that, it was, like I said, I'll use the word again “free for all” so I think that it's more of people looking out for the consumer now versus the other way around where the consumer wasn't a priority, getting paid was the priority and money was the priority.

Malena Lopez-Sotelo: In the run-up to the financial crisis, did you observe any particular groups being more likely to receive predatory products?

Michael Smith: I did. It was people that were— Haitian, or people that weren't as educated in buying a home. You can see people, and I say people I mean, loan originators kind of drawn to those types of minorities because they weren't educated. Especially when you come to America, owning a home is a dream. It's a dream for everybody that comes to America from poor countries. So, that's the biggest thing that somebody wants. They want to own a home. They want to be a homeowner. So when that happens and you see minorities are excited to own a home, you've got a lot of sharks in the water that are going after them because they can charge whatever they want and they can give them a rate, whatever they want, they can make a lot of money and that's all they cared about.

Fortunately now that's out the door. There's no group that people pick on to make more money. I think a lot more people are educated now.

Malena Lopez-Sotelo: Do you think that this type of targeting of particular groups was specific to the Florida market or present in other parts of the country?

Michael Smith: Being from Maryland, it definitely was not there. I mean, I think more areas like, especially South Florida, probably Southern California. We've seen a lot of stuff going on in a few parts in Texas. But I absolutely 100% believe because it's South Florida, because we have a lot of people from all over the world to come here to live. Absolutely. Absolutely. And when the market did crash, I think South Florida was one of the worst areas. We took a hit, we took a bad hit because there was a lot of foreclosures, because there was a lot of loans that were given to people who should have never received those loans. And I think they were targeted because of their nationality.

Malena Lopez-Sotelo: You talked about being badly hit after the financial crisis. What strategies did Universal utilize to stay afloat after the crisis, whether those were internal led by you or, as you mentioned, leaning on the NAMB, for example?

Michael Smith: It really was just keeping the overhead low to keep the doors open, so you were finding ways to cut costs. Then the next thing to do was to how do you get a client base, where do you start now that 70% of your people went into foreclosure and filed bankruptcy because they lost their jobs. So, we were leaning on NAMB and different organizations for different seminars and stuff like that. And you were educating yourself more on how to get a referral client and keep that referral client for years.

Malena Lopez-Sotelo: For those people, that 70% that you mentioned, did you see any programs come about from the state or from the federal government to help get those people back up on their feet or rectify these foreclosure issues?

Michael Smith: I personally did not. Except for loan modifications, when they were available during 2008-2009, a lot of short sales and what we call loan modifications to where the banks were willing to hold on to the loan and keep the person in the house if certain loan modifications were met where they would redo the loan for them. Let's just say they were behind 30 grand on house payments. They would take that $30,000 and put it on the back of the loan so that person can get up on their feet. But the problem was a lot of these banks were just dragging their feet on doing the modifications. And, unfortunately, a lot of them turned out to be foreclosures and forced people out of their homes.

Malena Lopez-Sotelo: When you say dragging their feet, do you mean time-related?

Michael Smith: I mean time-related. So, it would take banks— I've seen it take almost two years to approve a loan modification, and it's almost like they were forcefully doing it because they actually wanted to foreclose on the home and just sell it and just take their losses. I don't think a lot of the banks wanted to do loan modifications because they were trying to get their money every which way they could at that time. So dragging their feet absolutely means they were taking their good old time.

Malena Lopez-Sotelo: What was the typical profile you saw for a loan modification in terms of interest rate, for example, or credit score changes?

Michael Smith: I did notice the few modifications that we saw, the interest rates were good. They were pretty good, meaning that they were probably 2-3% lower than their current payments. And the other caveat to that was that you almost had to qualify. So if you didn't have a job, you couldn't get a loan modification because the bank said, "Look, we're not going to modify the loan and give you a lower payment when you have no job or no income coming in to make the payments." So they would force the people to go into foreclosure.

Malena Lopez-Sotelo: Over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused that crisis?

Michael Smith: I understand, from the people on Wall Street, I understand perfectly clear that that's where the money came from, that's where the products were born. And as far as I'm concerned, that's where it started and that's where it ended. Unfortunately for us, we were at the bottom end of it and got a lot of blame for putting people in certain products—we were only using the tools that we were given and that were allowed to be given to homeowners. So, it has nothing to do with loan originators and mortgage brokers. It absolutely starts at the top and it starts with people with the money.

Malena Lopez-Sotelo: To what extent do you see your personal experience as adding something important to our understanding of what happened in the run-up to 2007-2008?

Michael Smith: Like I just said, understanding is, like a mechanic. A mechanic can't go to work without getting certain tools to use. And that's how it was out here. I mean, leading up to the market crash, you needed a heartbeat. That's all you had, a heartbeat, to get a loan. It didn't matter what house you wanted or where you were going. If you had a heartbeat, you got 100% financing, no money out of your pocket. So, the tools that we were given were just, they were garbage. I mean, they were absolutely garbage and they misled us and we, in turn, misled our clients by not knowing the full ramifications of the outcome of the financial crisis.

Malena Lopez-Sotelo: ...[H]ow do you see your personal experience adding to our portfolio of interviews and understandings?

Michael Smith: I think it's great because I think that you guys go out into the world. And we all can learn a lesson from this and having you guys do these interviews can educate a lot of people on what not to do and what happened and why it happened. So, it's definitely important what you guys are doing to spread the education on what happened in 2008 and, like I said, move forward in the future and do the right thing because that's what it comes down to is doing the right thing.

Malena Lopez-Sotelo: Looking back on the crisis over a decade later, what do you see as its most important lessons for market originators and state level policy makers?

Michael Smith: I would have to say most important lessons are— educate the client on the product that they're getting. That's really what it comes down to. Be honest. That's the most important things. And then as far as state regulators, they need to regulate companies that come on board and that just got a license. Because those are the first people to mess the process up if they're not regulating the new people. They're going to think it's going to be okay to do the wrong thing.

Malena Lopez-Sotelo: Is there anything else I should have asked or anything else that you'd like to add?

Michael Smith: No, like I said, it's the tools that we were given from up top that really caused the whole snowball effect. So, I just think it's really important that the banks get the products out and they understand what the outcome is going to be if the product is a stated income, which we probably will never see again, but you do still see some non-QM loans out there right now that are selling bank statement loans. So there's still an area for those types of things, but my final conclusion is just to treat people the right way and educate your clients.

Malena Lopez-Sotelo: Thank you. And just to clarify that a term that you use: QM?

Michael Smith: Qualified mortgage. So you've got a qualified mortgage, which is normal loans that we all know as FHA,VA, Conventional . And then you have non-qualified mortgage, which don't follow the same path, almost like a subprime loan, which were those “pick-a-pays” that I explained earlier in those stated loans. So, they're going down a different avenue as far as financing from hedge funds and stuff like that. So, non-QM is a non-qualified mortgage, is not the normal route of getting a loan via pay stubs, W2's, and good credit.

Malena Lopez-Sotelo: Thank you, Mr. Smith.

[END OF SESSION]