AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Sherry Gallitz

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Sherry Gallitz, conducted by Darielle Engilman on December 21, 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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Interviewee: Sherry Gallitz
Interviewer: Darielle Engilman

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Darielle Engilman: I'm Darielle Engilman, an undergraduate student and member of the Bass Connections American Predatory Lending and the Global Financial Crisis team, and it is December 21, 2020. I'm currently in Los Angeles for an oral history interview with Sherry Gallitz, current Senior Account Executive at Union Home Mortgage Corporation and the President of the Mortgage Bankers Association of Florida, who has joined me via Zoom. Thank you for joining me today.

Sherry Gallitz: You're welcome.

Darielle Engilman: I'd like to start by establishing a bit about your background. I believe that you went to the University of North Carolina at Charlotte for college. Is that right?

Sherry Gallitz: That is correct.

Darielle Engilman: When and how did you first get involved with residential mortgages?

Sherry Gallitz: My parents wanted to retire in Florida. After I graduated, I worked in Charlotte for a year, and they wanted to come to Jacksonville, Florida. So, I looked to find a career here and was able to obtain a job as a credit analyst at Chemical Mortgage [Chemical Residential Mortgage Corp] that became Chase [JPMorgan Chase].

Darielle Engilman: What was the nature of your role at Genworth Financial?

Sherry Gallitz: At Genworth I was a mortgage insurance account rep [representative].

Darielle Engilman: How would you describe the key goals of Genworth Financial in the years before the housing boom of the 2000s? Did those goals change in any way during the boom?

Sherry Gallitz: ...Genworth's goals were to do mortgage insurance. They only focused on the conventional mortgage, 80% files [down payments] or higher. So, their goals stayed steadfast.

Darielle Engilman: In your time at Genworth, did the institution, or your branch, have any partnerships with specific lenders? If so, how were those relationships decided?

Sherry Gallitz: They focused on all different type and size accounts. They had the national accounts, the regional, and then the smaller local accounts. We focused on all levels of it. They always wanted growth, but their book of business was very traditional. It's never really changed. They didn't go after any of the crazy stuff.

Darielle Engilman: Did you observe lending practices change during the 2000s? If so, how?

Sherry Gallitz: Yes, I saw a lot of lending practices change a lot—specifically the introduction of Alt-A [Alternative A-paper mortgages] and subprime. I was very taken aback. I worked in credit and approvals, predominantly in operations, for most of my career up until the 2000s. And when I transitioned over to GE [GE Capital],[1] the first part of my career in warehouse lending, again, was more operational. And then when I switched roles at GE to get into mortgage insurance, that's when I got into the sales end of it and started noticing that that's when the market really started getting very crazy and busy. There was just more and more lending and more of a demand for homeownership. The government believed everybody should have a home, and everybody should have multiple homes. And so, the products really evolved more than your standard conforming or FHA [Federal Housing Administration] or VA [Veterans Affairs] files. There was just an introduction of all different types of unique lending opportunities.

Darielle Engilman: Did increasingly risky products ever cause concern among figures within Genworth?

Sherry Gallitz: I would definitely believe so. From a leadership capacity, I didn't have an option to get in that space and make any decisions, but from a trickle-down role in my world, I noticed that Genworth is definitely more of a conservative type of insurer. And they never were on the forefront of stepping in that space and being where they wanted to take as many risks as maybe some of the other MI [mortgage insurer] companies that are no longer with us.

Darielle Engilman: I've heard a little bit about piggyback loans becoming more prevalent leading up to the crisis. And just to clarify, this is the practice of a borrower who cannot afford the standard 20% down payment getting a second mortgage loan that covers a portion of the down payment, which thereby allows the borrower to avoid having to get mortgage insurance. Was this something you were seeing more of? How did it impact business at Genworth?

Sherry Gallitz: Yes, people did want to avoid the mortgage insurance, and getting the piggybacks, and doing an 80-10-10 [mortgage loan][2]. It used to be [that] people would just get a second. And then they started coming up with all different unique variables to avoid the mortgage insurance. But I do believe that there's some borrowers out there that realized it was not necessarily something that they wanted to partake in, and they just wanted their standard conforming loan with mortgage insurance. It wasn't just the lenders. I mean, borrowers were asking for these unique products. It wasn't always the lenders coming up with the products. It was everybody. The sales agents wanting to sell the products or were demanding a different type of a vehicle. It certainly impacted all different components of the spectrum.

[1] Genworth Financial was formed out of insurance businesses of General Electric in May of 2004.
[2] An 80-10-10 loan consists of taking out a primary mortgage for 80% of the home price and a second mortgage for another 10% of the home price, while making a 10% down payment.

Darielle Engilman: Transitioning into your time at Taylor, Bean & Whitaker, what was the nature of your role there?

Sherry Gallitz: I worked to call on specifically community banks and credit unions, financial institutions, in the state of Florida. Pretty much half of the state of Florida was myself and another individual.

Darielle Engilman: Why did you decide to make the transition from Genworth to TBW [Taylor, Bean & Whitaker]?

Sherry Gallitz: I really wanted to just continue to grow my career and just try something new. I had been with GE for a little over five years. [I] just wanted a different type of experience, wanted to continue to grow and learn. And I was recruited with the opportunity just to have a different experience. And I really enjoyed the ability to work with financial institutions that are more risk averse than potentially brokers and possibly even independent mortgage bankers.

Darielle Engilman: Within your time working in the CBO [Community Banks Online] division, did TBW frequently market and/or sell their products to any specific institutions or institution within Wall Street?

Sherry Gallitz: Yes, they did. Again, that was more at the senior level, but they used to work with Fannie [Federal National Mortgage Association, i.e. Fannie Mae], but they were cut off from Fannie. That happened before I started. I actually was at Chemical's/Chase when that happened, and I was familiar with it because I worked right next to the warehouse program when that happened. And I remembered that happening. So, they were delivering directly to Freddie Mac [Federal Home Loan Mortgage Corporation] still, but they were securitizing and doing mortgage-backed securities—their government product coupled with their agency-eligible—with Freddie Mac. But then they were doing Wall Street ventures as well. I don't know all the particulars of it, but I do know that they were doing a lot of the unique products. My book of business did not necessarily do a lot of that.

When I remember joining, they had stated-income stated-asset [mortgage loans], no income-no asset [mortgage loans]. There was a multitude of different types of products, but community banks and credit unions were very averse to that type of offering. They never really wanted to do it. I remember I think I had one community bank that maybe did one or two Alt-A products, and their boards were just not in favor of doing that type of business at all. When I was with Taylor, Bean, & Whitaker, my entire portfolio of business was not subject to early payment defaults or delinquencies. I didn't have any of that type of business at all, which was really nice. That was one of the reasons I chose that line of work in lieu of just being an account executive at Countrywide or one of those type of lenders. You don't know what you don't know, but I felt working with a specific clientele made it a little bit safer book of business.

Darielle Engilman: How would you describe the culture at Taylor, Bean & Whitaker? How was it different from the culture at Genworth?

Sherry Gallitz: It was very different. At Genworth, you're only doing a very narrow, shallow type of offering. In my role, I'm only working with a multitude of different types of lenders. It could be a bank or an independent mortgage banker or even brokers to help them direct where they want to send their business. But you're only working with a conventional loan that needs mortgage insurance. When I became an account executive working with community banks and credit unions, I was selling every type of business, not just conventional. Taylor, Bean & Whitaker wanted to underwrite, fund, and close the loans, whereas with Genworth, they were just funding and closing them themselves, and we were providing the mortgage insurance. At Taylor, Bean & Whitaker, we were offering every different type of product and with every different type of credit score. That is very different when you're doing mortgage insurance. You're dealing usually with borrowers that have a higher credit score and not-as-flawed type of credit history.

When you deal with people with different types of products, with affordable lending products, you definitely are dealing with some borrowers that potentially don't have as good or strong of credit that can't get a loan with mortgage insurance. So, you were dealing with a different type of borrower. And then you enter the whole world of the Alt-A products or subprime. Now, at Taylor, Bean & Whitaker, they did not do subprime, but they did Alt-A, which was alternative credit and that was a very unique offering. I was very shocked at that type of offering. I guess I was very naive to [not] realize that that type of product was out there and that people were wanting it. But I found out that the borrowers wanted it just as much as the lenders wanted to offer it.

I could definitely feel that there were borrowers out there that didn't have the wherewithal that should never be offered that type of product. And you would hear those stories, but more often than not, you would hear the stories of the borrowers demanding a product and asking for it. They knew exactly what they wanted to try to avoid providing documentation so that they could buy as many different properties. You hear the stories about how it was the institutions always doing all of this, but more often than not, if a borrower couldn't get what they wanted from one lender, they would just go to a different lender and be able to get it.

Darielle Engilman: Your resume says that you attended weekly sales meetings at Taylor, Bean & Whitaker. And we wanted to know what were some of the priorities that were discussed within these meetings? Did they change at all as the residential mortgage market evolved from '05 to '08?

Sherry Gallitz: There were usually sales calls, conference calls. There would be quarterly or biannually conferences, but we would have weekly calls, conference calls. And there was definitely an initiative to push the Alt-A product, the alternative product. Definitely an initiative. And it definitely got stronger and stronger as the years got more seasoned, as the product became more seasoned, and they became more and more established. It was very unique to just know how much everything evolved. It just seemed like you didn't believe that it could get any more [towards] less-documentation and it did.

Darielle Engilman: I understand you collaborated with senior leadership to work towards affordable housing goals. What did that entail? Which parties were involved in those efforts?

Sherry Gallitz: The affordable lending was really helping the banks and communities with their CRA [Community Reinvestment Act] requirements, making sure that they meet those requirements. At a community bank, they have to have so much inventory in different zip codes to make sure they're doing fair lending with affordable lending for borrowers with FHA type of products, Fannie and Freddie type of home-ready and home-possible products is what they are termed now, but making sure that the borrowers have those offerings so that they're not excluded from homeownership opportunities.

Darielle Engilman: How did you balance the tradeoff between expanding the homeownership experience and also restraining the expansion of predatory or excessively risky lending products?

Sherry Gallitz: I would just make sure that I always went through the dynamics of talking to loan officers about what it is that the borrowers need to make sure that they understand, specifically with affordable lending, that they're going through the requirement classes. There are certain classes that they have to take, and they have to receive those certificates to make sure that the loan officers understood that there are those obligations, to make sure that the borrowers met those obligations. They had to fall within certain income limits to make sure that they could qualify for the program, but then they had to complete the class. Letting them know where to get those classes, coaching them that many of the MI [mortgage insurance] companies provide those classes for free on their website, and to encourage them to go that route in lieu of going directly to Fannie or Freddie and paying a fee— I tried to help the loan officers in that regard.

Darielle Engilman: Did figures within Taylor, Bean & Whitaker express concerns about the changing nature of credit extension during the 2000s? Did those concerns ever lead to any debates or changes in business practice?

Sherry Gallitz: That would be something I was not privy to.

Darielle Engilman: I know you touched on this briefly, but how would you define predatory lending?

Sherry Gallitz: Predatory lending would be when people are making decisions and choices that are not within the confines of best practices to infringe on somebody that is not knowledgeable or has the wherewithal to make a good financial choice. They're encouraging them to make something that is not in their best interest.

Darielle Engilman: Do you think certain groups are more prone to fall victim to predatory lending practices?

Sherry Gallitz: Absolutely. I think elderly people can be heavily and easily influenced and not aware or forget about things that they would be cognizant of. And I feel that some classes that are maybe not as well educated could be manipulated and taken advantage of as well.

Darielle Engilman: Did you ever work with any of the divisions at Colonial Bank? And if so, in what capacity?

Sherry Gallitz: I did not. Now in my recent life, I know somebody that knew somebody that worked there, but it's a friend of a friend. But yeah, everybody being local in Florida knows somebody that was highly impacted. Having worked there, obviously I was privy to a lot of individuals that were knowledgeable of stuff that was going on. Nobody at Taylor, Bean & Whitaker was cognizant except for a very small circle of the shell game with everything that happened. On a daily basis, everybody felt that there was just such a high volume and that the fundings being slow were just a normal course of business and didn't have the realization of what exactly was happening.

Darielle Engilman: Were you aware of any liquidity issues that Taylor, Bean & Whitaker faced moving into the 2000s?

Sherry Gallitz: It really was very odd. And I had never been in that role before where there were delays in funding, and most of my files were funding normally. Some of the banks were funding their own loans. So, it didn't impact me, but towards the end, it became very curious. You have a sixth sense, and I didn't feel that it was correct. I encouraged some of my business partners to maybe give consideration to stop working with Taylor, Bean & Whitaker.

Darielle Engilman: What sort of conversations were going on surrounding these issues?

Sherry Gallitz: It was just very odd. Nobody could understand what was happening, and people felt it was maybe due to the high level of business, but then there was the Implode-O-Meter. I don't know if you had any knowledge of the Implode-O-Meter, but in 2008, 2009, there was this website that you could go to called the Implode-O-Meter[3]. Every morning, you would get up and that's the very first thing you would look at is to see which business failed that day. The goal was, you never wanted your business to be on it. And so, businesses were failing regularly and it was because of the housing crisis and everything that was happening. And people didn't think that Taylor, Bean, & Whitaker [would]

[3] The Implode-O-Meter is a website that tallied the number of lenders that went defunct as a result of the 2008 Financial Crisis.

because we never did subprime. We only did Alt-A, and we had a really good book of business. None of my loans were going in foreclosure or delinquencies, so I believed that Taylor, Bean & Whitaker was doing everything right. The underwriters were doing everything right. What happened at Taylor, Bean & Whitaker had to do with about five or six individuals working the books and moving money around. It didn't really have anything to do with underwriting conditions, so it was very unfortunate.

Darielle Engilman: With those five to six individuals, did you feel like what they were doing sort of trickled down? Did people know, or was it just—?

Sherry Gallitz: No, nobody had any idea. People were very impressed and liked working with Taylor, Bean & Whitaker. They had great technology at the time, and people really enjoyed working with them. I felt that between their book of business and what their product offerings and my customer service— I had a great client base, and they enjoyed working with them, [had] most of my files funded on time. So, it was, again, up until about the last 30 days is when I think the walls just started crumbling around them. I think Lee Farkas made too big of a choice for his own good.

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

Sherry Gallitz: The crisis was a demand by not just aggressive people wanting to offer products but by borrowers equally demanding products with less documentation for homeownership and to build wealth. There was not a lot of accountability in that. People were just not able to really justify what they were doing. And I think the lenders were doing it, the government did it. It was a broad spectrum of everybody. I don't think anybody could say one entity because everybody was culpable. The government felt that everybody should own a home, but at what cost? Those were the answers that we've all learned through the course of history. The regulation has gone very far in one direction, and it's just now starting to let up.

Darielle Engilman: 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 2007-2008?

Sherry Gallitz: I think I definitely learned that not everybody should own a house, everybody should have a credit responsibility, and making sure that there should be more education out there. And definitely, I still think that one thing that the MBA, the Mortgage Bankers Association, does is provide education, and they try to make sure that everybody is getting a good understanding. They try to help everybody. They help our elected officials and legislation, making sure that the right type of offerings are out there. There's a healthy balance in the industry, not just making sure to provide enforcement, but education. I think that's really important. And I've tried to expand my education in regards to that as well.

Darielle Engilman: What do you specifically do for the Mortgage Bankers Association?

Sherry Gallitz: This year, I am President of the MBA of Florida. At the MBA we work to make sure that we're giving back to the industry that has provided us our livelihood. We help to support our industry through contacting legislators, making sure they're aware both in at the state level and at the national level what is impacting our industry and when regulations need to be changed, such as the remote online notarization (RON). Twenty-three states have passed that, which became very important during a pandemic. Fortunately, Florida was one of them, but there's other states that haven't passed it, and the governors had to pass executive orders to have that happen because their elected officials hadn't done it yet. That's one of the things that the MBA works through: education and advocacy, making sure that people are aware of what's going on so that we can support our industry.

Darielle Engilman: ...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?

Sherry Gallitz: Lesson learned is truly that there needs to be a balance. We need to make sure that the homebuyers are well-educated and knowledgeable of what the offering is. I think that the industry and the regulators have worked to [accomplish this]—because I think they over-documented it, and they've lightened up some, which is good— the takeaway is making sure that people can qualify from a credit and an equity position for homeownership. With the QM, qualified mortgage, making sure that everybody can own a house that should own a house, and that they make the corrections to their credit and standings so they have the ability to repay.

Darielle Engilman: Is there anything else you think that maybe I should have asked or anything you'd like to add that you think would be helpful?

Sherry Gallitz: ...It sounds like you're getting a wide array of perspectives, and I think that's good, but I think that my experience was more in a shallow capacity, not necessarily from a decision-making process. So, I don't know if it answers as many of the questions that you were looking for, just trying to just help!

Darielle Engilman: Thank you so much.

[END OF SESSION]