AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Saul Sanders

Bass Connections

Duke University

2021

PREFACE

The following Oral History is the result of a recorded interview with Saul Sanders, conducted by Maria Paz Rios on March 8, 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: Carolyn Chen	Session: 1
Interviewee: Saul Sanders	Location: By Zoom
Interviewer: Maria Paz Rios	Date: March 8, 2021

Maria Paz Rios: I'm Maria Paz Rios, an undergraduate student and member of the Bass Connections American Predatory Lending and the Global Financial Crisis team, and it is March 8, 2021. I am currently in Durham for an oral history interview with Mr. Saul Sanders, co-founder of Credit-Based Asset Servicing and Securitization, C-BASS, who has joined me via Zoom. Mr. Sanders, thank you for joining me today.

Saul Sanders: Thank you. Nice to see you, Maria.

Maria Paz Rios: I'd like to start by establishing a bit about your background. I understand you received your Bachelor of Science from the Wharton School at the University of Pennsylvania in 1975, and then continued on to get an MBA from the Wharton School too. Is that right?

Saul Sanders: I received my bachelor's in '74 and my MBA in 1975.

Maria Paz Rios: I believe you worked at Goldman Sachs from 1984 to 1988 with their mortgage-backed security and asset-backed security business. Could you talk to me about your experience with starting that business?

Saul Sanders: I had been at Citibank before that, and I had helped start up their non-agency mortgage business, and Goldman Sachs recruited me in early 1984 to help start up their non-agency business. Goldman Sachs at that time was a large trader of Ginnie Mae [Government National Mortgage Association], Fannie Mae [Federal National Mortgage Association], and Freddie Mac [Federal Home Loan Mortgage Corporation] securities, but did not do really anything in non-agency. Working with other members of the team, we put together a program and began buying loans, securitizing loans, and working with clients to create their own securities of non-agency loans.

Maria Paz Rios: How [were] some of these initial mortgage-backed securities you worked on structured?

Saul Sanders: Most of them we did using a senior/subordinated structure where there were different classes of bonds and the more subordinated bonds would take losses before the more senior bonds. Not all of them were rated in the beginning, but over the first two or three years, more and more of them became rated.

Maria Paz Rios: What sort of institutional investors were active within these early stages of mortgage-backed securitization?

Saul Sanders: There were pension funds [and] insurance companies. At that stage, Fannie Mae and Freddie Mac were not active buying these types of securities. Later on, as we'll get to the lead-up to the financial crisis, they did become active, but I would say it was institutional money managers who were the major clients at that point in time. Also, a lot of Savings & Loans and banks would buy for their investment portfolios.

Maria Paz Rios: You mentioned that you worked with clients to help them structure their ABS [asset-backed securities] and MBS [mortgage-backed securities] business. What were some of these clients?

Saul Sanders: There was a thrift[1] called Imperial Savings, which was bought out. It went through multiple different owners, I'm not sure who it's part of at this point in time. A thrift called California Federal Savings and Loan. We worked with a number of banks. Citibank was a client of ours. The Citibank Consumer Bank, in terms of underwriting, [we] bought mortgage bonds from them too.

Maria Paz Rios: In general, on the Street [Wall Street], were these products considered safe? Or what was the risk profile people attributed to them?

Saul Sanders: People didn't necessarily have huge amounts of experience back in the early ‘80s— the institutional money managers. They were considered safe. In general, whoever was the issuer would retain the lower classes of subordinated bonds. When I say lower classes, I'm really not being specific. At that point, it was usually two classes: a senior and one subordinated. And a senior would be usually AA or AAA back in 1985, 1986. And everything below that was mainly kept by the issuing organization. Towards the late ‘80s, some of those started being sold to other people.

Maria Paz Rios: What led you to move to Citicorp[2]?

Saul Sanders: I had left Citicorp in 1984 to go to Goldman Sachs. Citicorp recruited me back to run their mortgage finance department, and I decided to go. Working at Goldman Sachs was all consuming—about fourteen hours a day, five days a week, plus some weekend work.

Maria Paz Rios: How did your responsibilities evolve while at Citicorp?

Saul Sanders: At Citicorp, I first was responsible for the securitization done by Citicorp's investment bank. I then added responsibilities at Citicorp for commercial real estate securitization. I founded that and co-headed it with someone who came out of the commercial real estate area. While there, I learned about commercial real estate underwriting also.

Maria Paz Rios: Did the rise of automated writing systems impact the securitization business? And if so, how?

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[1] A Savings & Loan Association.
[2] The holding company for Citibank.

Saul Sanders: Not in the late ‘80s, early ‘90s. At that point, mortgages were just starting even to use FICO scores, credit scores. So, automated engines, as we subsequently called them, really were not in play at that point in time.

Maria Paz Rios: When they come out later, would you say that then they impacted the securitization business? In the later ‘90s?

Saul Sanders: I would say they impacted the total mortgage business of Fannie Mae and Freddie Mac in particular. As they switched, originators began more and more to use them. On Wall Street, we began to rely on automated underwriting engines or models that predicted what loss might be to help us and to look at the results of the automated underwriting engines when they came out as part of our underwriting due diligence.

Maria Paz Rios: Initially, while you were working at Citicorp and Goldman, what were some of the products that you were seeing going into these securities?

Saul Sanders: Initially, it started as fixed-rate loans, generally thirty-year amortization, also some shorter amortization. Subsequently, some adjustable-rate mortgages began in about 1984, '85. In fact, that was the beginning even of the agency adjustable-rate mortgage in that type of timeframe. Subprime did not exist as a category at that point in time. Towards the early ‘90s, you had some, no-doc [no documentation] loans, particularly coming out from a Citibank product or a Citicorp mortgage product that did low-doc [low documentation] and no-doc lending, but not a lot of it and generally to high-credit individuals and lower LTVs [loan-to-value ratios]. Those started becoming securitized in the late ‘80s, early ‘90s.

Maria Paz Rios: As a pioneer of the MBS and ABS business, did you ever have any conversations with regulators? And if so, what were they like?

Saul Sanders: I had a limited amount of conversations with the regulators—mainly when a client was trying to explain it to their regulator, and they would get us on the phone. I can't think of any in-person meeting I had with a regulator during that point in time. The regulators really weren't that involved. The tax people were more involved until REMIC [real estate mortgage investment conduit] came along, and we used to spend a lot of time trying to work [out] how to make a grantor trust work for tax when you would have to foreclose on the loans—things that are not at all a problem today.

Maria Paz Rios: Can you think of any other challenges or situations that you had to deal with as this business was only in its inception phase?

Saul Sanders: I mean, the biggest was convincing, particularly Savings & Loans, which were the dominant originator of mortgages at that point in time, that it made sense not to keep it on their balance sheet, that it made sense to match their assets and their liabilities to what the maturity was, and [that] taking a twelve-month deposit to fund a thirty-year loan was not a good long-term business. I'd say that was the major challenge.

Maria Paz Rios: What led you to leave Citicorp and start C-BASS?

Saul Sanders: Citicorp at that time was run by its CEO and chairman John Reed, whose ambition was to become a global consumer bank. As part of that, investment banking and trading was less important. And my boss, a man named Alan MacDonald, who ran all of North American commercial investment banking, was told to reduce his assets and his expense base. We offered him an easy way to do that in the mortgage business, which on the agency side of mortgages was not highly profitable for Citibank. So, it used a lot of assets, didn't make a lot of money. And he could meet all of his expense and asset reductions by basically shutting down the mortgage business. We recommended that he do that, and he accepted our recommendation. Therefore I left, and I then had to find something else to do.

Maria Paz Rios: ...What were some of the products that C-BASS worked with the most?

Saul Sanders: Initially, we were looking to do what's called special service (default servicing). We were looking to buy loans that had defaulted to try and restructure them with the borrower or to foreclose the borrower out and resell the house. We also bought a lot of subordinated bonds. They were starting to trade at that point in time. Having good credit analytics, which we felt we had, of what was the probability of default for various characteristics, we felt we could evaluate the investment returns of those types of bonds. And so, we would buy the subordinated bonds. Subsequently, in the late ‘90s, we began to buy a limited amount of subprime loans. Subprime loans were different then than what they subsequently became. They were fully underwritten. They were not no- or low-doc. They were lower loan-to-value and they were higher coupon to offset the risk of default.

Maria Paz Rios: What type of information did C-BASS have on the mortgages that it purchased?

Saul Sanders: Pretty much everything that was in the original mortgage file. Plus, we did our own broker price opinion or drive-by appraisal of a large percentage of what we bought to make sure that the appraisals were correct. We would get a data tape. Back then, it was tapes rather than emailing files. Email was just starting to come into being. We would get a data tape, and we would analyze the tape and the characteristics of the loans for which we were interested in buying. If we then agreed on price with the seller on that subset of the loans, we would then do 100% due diligence review of the credit file, review of information, making sure it was really within market. And as I earlier said, getting broker price opinions of the value of the property on a good percentage to make sure that the appraisal process was working.

Maria Paz Rios: Did C-BASS have any relationships with specific lenders?

Saul Sanders: We had relationships with a lot of lenders. We dealt with most of the larger originators of mortgage loans at that point in time. And loans, or the subordinated bond classes that we would buy, would come off of what's called Alternative-A, which was prime borrowers with usually less documentation—usually in the beginning self-employed, but then it spread to other categories and also on subprime. Names: Countrywide [Countrywide Financial Corporation], Chase Mortgage, New Century [New Century Financial Corporation], Ameriquest [Ameriquest Mortgage], Fremont [Fremont Bank]. If you go through the list of large subprime originators, I would say we dealt with probably two-thirds of the larger players.

Maria Paz Rios: Let's talk about...Washington Mutual and Countrywide. How would you compare your interactions with both of them? Did you feel that their cultures were similar? Or, to the extent that you interacted with them, what were some of the difference between these institutions?

Saul Sanders: Well, I knew Washington Mutual better from my days as an investment banker at both Goldman Sachs and Citibank. We didn't do a lot with Washington Mutual because as a bank, they were one of the players who kept a lot of it on their balance sheet. So, my perspective, although limited, is that since they were keeping most of the loans on their balance sheet, they had a culture of paying a lot of attention to what loans they were doing. Countrywide, I'll say until somewhere in the mid-2000s, like 2004 or '5, had a very strong, very centralized culture—a very consistent product coming out. It was the most consistent high-quality product without lots of problems that we would find when we did our due diligence on them. That deteriorated in the later years.

Maria Paz Rios: Were there any products that you did not get involved with at C-BASS or that you tried to avoid, especially because you mentioned that subprime products changed in the late 90s versus the early 2000s? So, in that evolution of subprime loans, were there any you tried to avoid?

Saul Sanders: We weren't real big buyers of the credit risk loans, what were called option ARMs, which had negative amortization. We were not enamored with negative amortization. We felt it, sooner or later, would lead to problems. We know that people like World Savings [World Savings Bank] had a tremendous track record, but they were dealing in a limited geography with their own appraisers going out. And they were really underwriting the property really very well. So, that made a lot of sense for them.

Maria Paz Rios: How did lending practices and products change in the 2000s?

Saul Sanders: First of all, standards started weakening. A lot of new players came into the market and started competing with the established larger companies who then started loosening their standards. Where the appraisal process had been reasonably tight in 2000, 2001, 2002, by 2004 and '05, you would see a lot of, I'll call it almost no-doc loans, and with the appraisal process not nearly as tight. From a credit perspective, we became much less comfortable with the product.

In 2006 and '7[2007], we cut back our volume significantly because we couldn't do it. And our kick-out rates, since we looked for most of the people we bought loans from, we did 100% due diligence even after having dealt with them for years. There were some exceptions where we used statistical samples, high confidence levels. But those were limited to people who we had very, very good history with in terms of the process of how they created the loans and had not found problems going forward. And I'd say that was a handful of people. It was not ten or fifteen sellers of loans to us. It was probably three or four that we did less than 100% due diligence on.

Maria Paz Rios: And of the mortgages and securities you owned, did you sell all of them or would you keep a percentage on your own balance sheet?

Saul Sanders: No, the reason we did this was we wanted to take the credit risk on the mortgage loans. When my partner and I left Citibank and founded C-BASS, we raised capital and we raised [money] from two credit insurers. One, a company called MGIC, Mortgage Guaranty [Mortgage Guaranty Insurance Corporation], which was then the largest mortgage insurer in the country, for just private mortgage insurer, I should say. The other was a bond reinsurer that subsequently got bought by Radian Mortgage Insurance, which was one of the top three private mortgage insurance firms in the country. So, we wanted to take the credit risk. It was a different way of taking credit risk than they did through mortgage insurance and allowed us to not be open to all loans, not be open to all sellers, but to be more restrictive. And if we didn't like something, we could just sell the bond out, which is something they could not do as an insurer. Once they took the risk, they had it for its life.

Maria Paz Rios: And on that point, what sort of buyers or institutional investors did C-BASS engage with the most?

Saul Sanders: Most of our bonds were underwritten by Wall Street, by the large investment bankers. So, we did do road shows and did meet with clients for them all over the world, but we were not the ones who were selling the bonds directly to them. There were a lot of insurers who bought it. We did have direct relationships with both Fannie Mae and Freddie Mac as they started buying subprime securities and Alt-A [Alternative-A] securities. And we would structure securities to meet their investment parameters.

Maria Paz Rios: How would you characterize the amount of demand coming in from these GSEs [government-sponsored enterprises] as opposed to other institutional investors like pension funds and mutual funds and whatnot?

Saul Sanders: The GSEs and their portion drove the market and really controlled the market. They had an insatiable appetite to buy. So, if we could produce it, we could sell it. Now, you had to produce it at the right price so we would make money selling it obviously, but they clearly knew who we were. They had performed due diligence to [on] us to make sure they were comfortable, and they knew our servicing shop also. And we, for Fannie Mae, did do special servicing for them on their own portfolio also. So, they clearly knew who we were very well.

Maria Paz Rios: Did you ever feel pressure from investors to increase the volume of securities that you were issuing…?

Saul Sanders: No, because our view was, if we could buy loans we liked, we would buy as much as we could buy at a price we liked. And if we couldn't, we wouldn't. So, when we could find them, we would produce securities. And if we couldn't find them, we would not produce securities. And we used to look on and see, since we wound up servicing, that we serviced for a lot of the Wall Street firms also when they bought packages. And they would come to us and we'd say, "Okay, we'll take this two-thirds of what you just bought. That's all we're interested in." After we did our underwriting and we wound up servicing all of it, we could see the performance of our accepts [accepted loans] versus our rejects [rejected loans] over time. So, we did not push just because volume was available. We were doing sufficient volume. We were making a very reasonable amount of money and very good return on our capital. And we were comfortable where we were on the risk profile.

Maria Paz Rios: I understand the arm for servicing was called Litton Loan Servicing, right?

Saul Sanders: That's correct.

Maria Paz Rios: Would you retain the servicing on the securities you sold?

Saul Sanders: Yes. As a general rule, we would retain the servicing. We also worked with third-party issuers. Sometimes, we would retain the servicing. Sometimes, and the largest one I can think of was Countrywide, they would not give up the servicing, but we would get the special servicing transferred to us. And we literally had an automated transfer system set up with them because we had done enough business with them over time. And there were tens of thousands of loans that we had that, if they went ninety days delinquent, would get transferred to us.

Maria Paz Rios: What were some of the challenges that the servicing unit had compared to the securitization side?

Saul Sanders: The biggest challenge they had was keeping control while they grew. Because as we kept increasing volume, they kept increasing size and number of loans. They grew from forty people to multiple thousand people over an eight or nine-year period. So, it was a big challenge.

Maria Paz Rios: In an average year, what was the default rate that you projected and how did that evolve in the run-up to the crisis and culminating in 2007?

Saul Sanders: Frankly, I don't remember what the average default rate was twenty years ago. I don't think it changed dramatically. Different products would have different default rates. So, prime would have a lower default rate than Alt-A, which would then be lower than subprime. And, if and when, and we did do some, but if we did negatively amortizing option-ARMs, they would typically have the highest expected default rate. But what the numbers were, I can't remember.

Maria Paz Rios: How do the mortgage-backed security investor volume and investor profile compare to when you first started working in the sector in the late '80s to the 2000s?

Saul Sanders: I'd say there were two big differences. One was Fannie Mae and Freddie Mac came in as investors. And although they had been there buying loans back in the '80s, they really didn't buy securities. The second big difference, and we helped pioneer it, was the creation of asset-backed CBOs [collateralized bond obligation] or mortgage-backed CBOs or CDOs [collateralized debt obligations]. You can use whichever term you prefer. We did the first rated CBO with predominantly mortgage loans and that brought in a much more international base of investors than what it had been previously.

Maria Paz Rios: Do you remember if there was any specific geographic distribution to that interest?

Saul Sanders: There was a very big investor in Germany, a huge investor in Germany. And a lot of them were German banks but based out of Ireland, which at that point had some favorable tax benefits for European banks. And a good chunk out of Japan, of the large banks.

Maria Paz Rios: As you, again, pioneered this CDO product, what sort of conversations did you have with rating agencies, if you had any at all, on how to treat this new product?

Saul Sanders: We had a lot of conversations with them. When they rated CDOs, they were looking at concentrations in particular products and particular geographies, and they were developing it and looking at it. We had conversations on the difference between prime, Alt-A, and subprime, and why the three markets didn't necessarily move in parallel. But I'd say we had a lot of interactions with them also as we rated our securities that we issued.

Maria Paz Rios: Do you think their practices in rating products stayed consistent since this kind of inception phase…? Or would you say they evolved with the years going by?

Saul Sanders: They definitely did not stay consistent. And rather than saying they evolved, I'd probably say they devolved. They tended to go one way, and there also tended to be indications that large Wall Street firms that brought them a lot of business would get better levels than [us], even though we were a pretty large securitizer, people like us would get. And I say that because we had a good window into it. If we were servicing the loans, we knew if people took our rejects and would get lower credit levels than what we got, it was a good indication that it wasn't a level playing field when it got inside the rating agencies. That threat to take all their business elsewhere could lead to lower levels than we could get because they knew what we did and we didn't have other business to bring.

Maria Paz Rios: …Was there any other information or insight that you were able to gather from your servicing operations regarding the products or the practices or the general direction of the mortgage market?

Saul Sanders: Not necessarily on the general direction of the mortgage market, but we clearly, over time, did and wanted to gather information on the relative performance and different characteristics. And we had enough loans there that we could statistically evaluate our own default separate than what MGIC and Radian, our two prime investors' data had. So, we had access to MGIC and Radian's data on default across their books. Plus we had our own, and we shared our own with MGIC and Radian in exchange for theirs. So, we would look for things that were more likely to cause default, and we would then change our pricing model so that we would pay a lower price for those, which meant they would get sold away usually.

Maria Paz Rios: To what extent, if at all, did figures within C-BASS express concerns about the changing nature of credit extension in the 2000s? Did these concerns lead to any significant internal debates or changes in business practice?

Saul Sanders: There's about three or four questions in that. Yes, there was always continuous debate about what was happening in the market, which way we're going. I think I mentioned this earlier, about in 2005 and '06, we significantly cut the volume of our purchases. And the volume was exploding in the market. We could have bought four times or three times what we bought, but we just did not like it, particularly in 2006. And as we got into early 2007, very dramatic, we went from where we used to reject I'd say an average of between 5% and 20% of the loans we looked at, to, on some packages, rejecting 50% of the loans, which was expensive to do because it was costing us over $100 a loan to do the review of each loan.

And you had a couple of other questions. So, how did our practices change? I think they stayed reasonably similar. Other than for a couple of the high quality [originators], in terms of the origination process, where we did some statistical sampling as opposed to doing 100% due diligence. I'd say that would be the biggest change that we made.

Maria Paz Rios: You mentioned that you didn't like what you were seeing, so you cut back on purchasing. What were some of the indicators, the red flags that you saw that made you take this decision to step out of the market?

Saul Sanders: We saw property values listed on the loans that were not supported by our broker price opinions or drive-by appraisals. We saw no income [loans] with incomes that made no sense. We used to pull salary scales. I remember one of them still, was—I believe the city was San Diego that this came from, or somewhere around San Diego—but we got a secretary to the mayor who was listed as making $150,000 a year. Now, you realize this is twenty years ago. That was a very good salary. And as part of our due diligence and checking, someone said, "Let's call City Hall." And the guy on the other end of the phone started laughing. He says, "The mayor doesn't even make $150,000 a year." So, we started seeing a lot of those types of things that we did not like.

Maria Paz Rios: When you took the decision to step out of the market—you were a pretty big player… Did that raise concerns among your competitors or the people you were working with?

Saul Sanders: No, Wall Street was volume-centric, and the traders' focus on Wall Street was this year's bonus. And as long as they could move the product, they would continue doing it. Talking as a general, I'm not saying that there weren't exceptions, but that's generally true. It was just, this is the box that we're willing to buy, or if we agreed to buy it, and we then did our due diligence and kicked it out, they'd say, "Okay, it doesn't matter to us. We can sell it away."

Maria Paz Rios: What do you think were some of the main conflicts of incentives in the run-up to the 2008 financial crisis?

Saul Sanders: People had no vested interest in what they were creating and the rating agencies lost their sense of integrity, I think. They were each competing for market share and revenue so hard that if they got pushed, particularly by the large Wall Street banks, they would compromise their positions and rate things. And it wouldn't necessarily be disclosed to investors that they would do it, but it was a race to the bottom by the rating agencies. We saw that also in the CBOs. When we did our first one, the amount of credit enhancement we needed to get a AAA was dramatically higher than what it was a year or a year and a half later when we did our fourth or fifth or sixth one, whatever it was. And the portfolios were similar. In fact, I'd argue the first one was probably better. It was more seasoned because we had many years of securities in there as opposed to more recent stuff.

Maria Paz Rios: How would you characterize the role of GSEs and affordable housing policy in the run-up to the crisis?

Saul Sanders: The GSEs stoked demand for the senior bonds and drove in the spreads because they could issue GSE debt at a better rate than anyone else and fund their purchases and increase their earnings. On the affordable housing side, we didn't see it as much. It was more word of mouth that we would hear that they were doing some of this, and it would get to year end and they hadn’t met an affordable housing goal. And they'd ask us, could we cut a portfolio that had certain characteristics for them, which we would happily do as long as they paid up for it, which they were very willing to do.

Maria Paz Rios: If you could pinpoint, relatively, to where the crisis started, when do you think was the beginning of the end?

Saul Sanders: In 2007, some Bear Stearns funds had problems—liquidity problems and performance problems. And I'd say that was probably the beginning of the end. I'm saying that was February or March. It then quieted down quite a bit. And then in July, all of a sudden, something we haven't talked about, all the indices of performance that you could do started trading down. We had met with a couple of the people, particularly Paulson & Company, who were selling the index short. That's betting prices would fall, the bonds would not perform. It was a bet that required a very big move in the performance of the underlying bonds to succeed. We did not think they were right or we would have stopped buying completely. As it turns out, they were right. But what would happen is, starting in May, June, July, people placing those type of speculative bets, volume in these indices was not large and they would start selling $10 million or $20 million worth. And all of a sudden, we'd wind up with a $50 million margin call on bonds we had financed. If we had understood what was going on, it would have been cheaper to just buy the other side of the contract and provide the demand. But that's not really what we were doing.

Maria Paz Rios: As this started to happen, what was the dynamic like with MGIC and Radian stakeholders? What were some of the conversations that you were having?

Saul Sanders: We had been talking that it was time to sell the company since 2006. And early, I want to say February, 2007, we had what management thought was a very good bid from one of the largest banks in the country. We recommended that we accept it. MGIC and Radian at that point had decided to merge the two companies together. [They] decided that they would hire an investment banker who would market the company, or half of the company, since they now owned the majority, which they could not consolidate into their insurance-regulated companies. They felt the price wasn't enough, that they should have gotten a significantly higher price given the earnings that we had. They subsequently got zero, as did management, for their shares.

Maria Paz Rios: C-BASS acquired Fieldstone Investment Corp in 2007. What was some of the strategy behind that? Why did you acquire it?

Saul Sanders: We acquired them because if we were seeing people originating loans that did not meet our standards, it would be a lot easier to originate some of our own loans. We'd know they met our standards, and we wouldn't have to do double underwriting. We were still going to continue our regular business, this would just be a supplemental source that would be easy stuff that we liked.

Maria Paz Rios: Does this imply that you were seeing less loans that you liked in the market because there were less loans that met your standards? Or was it because volume was starting to decrease? Or why so?

Saul Sanders: Less loans that met our standards—particularly when we were getting in late 2006, where our due diligence was leading us to eliminate a greater and greater percentage of loans we were looking at. It got very expensive, and it would be a lot easier to just do it once when you made the loan yourself and then not have to redo the loan and not have to look at two loans for every loan you buy.

Maria Paz Rios: It seems like you really were very strict with the loans you were purchasing in terms of due diligence. Is this something that the investment banks you worked with, or the GSEs you worked with, kept into account a lot? Did they care a lot about that or were you doing this just out of your own business practices?

Saul Sanders: We were definitely doing it for our own business practice. I would say the GSEs did care somewhat. The investment banks knew that if they had Litton or a special servicer on, the bonds generally would trade better to end investors because then investors had confidence in Litton. They were one of the better special servicers and considered at the very top in terms of the quality of what they did. But I can't answer for what the others felt or did.

Maria Paz Rios: Towards 2006, 2007, was there anyone that raised red flags in Wall Street or in the general mortgage market…?

Saul Sanders: No, not really. I can't really think of many. There was one person at Standard & Poor's who subsequently left named Frank Raiter who had headed the mortgage business who said they were corrupting their standards. He raised some red flags. But I would say most people did not raise red flags. It was, "Oh, property across the board has never gone down more than a couple of percent in a year. If we underwrite where we can survive property going down 5% or 10%, we're not going to have any problems." And we believed that to be true also, based on tracking the pools of our accepts versus rejects where we service both. We can tell you that until properties went down more than 10%, underwriting did matter. But when property values decline 20% or 25%, underwriting of the borrowers and what the value of the property [was] really did not matter. People just walked away because the house was so far underwater.

Maria Paz Rios: How would you define predatory lending?

Saul Sanders: Predatory lending was making a loan to a consumer that the consumer really couldn't afford to pay for the house. And that would include things like telling the consumer, "Oh, don't worry about it. We'll refinance you again in two years with a new starter rate called a teaser rate so that you'll be able to afford it. We know you can't afford the full rate when it comes up." Or "By then the property will have gone up 10%. So, it doesn't matter if you can afford the house. You'll just sell it and buy something else." I'd view those as predatory lending.

Maria Paz Rios: Do you think certain groups were more prone to fall victim to predatory lending practices?

Saul Sanders: We bought, other than what we did through Fieldstone, we bought closed loans. So, if you're thinking race or anything like that, we did not even know the race of the people when we agreed to buy them. When we did our due diligence, it was on the mortgage application, but it wasn't something that we captured, and it wasn't something that we used as a data point. So, I don't think I'd be the person to be able to speak to that as opposed to someone who was an originator of the loans at Countrywide or New Century, etc.

Maria Paz Rios: ...Over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused it?

Saul Sanders: I would say there was a bubble in house prices caused by easy credit availability made possible by the GSEs, by FHA [Federal Housing Administration] and VA [U.S. Department of Veterans Affairs], as well as by the rating agencies continuously lowering their standards—caused the bubble. And when that bubble burst, it caused the liquidity crisis, took a lot of firms down, and took a lot of consumers down.

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

Saul Sanders: Probably that there need to be checks in the system that limit the ability of the desire for ever increasing profit and volume, so that you don't feed a bubble, that you more keep it in check. Whether that's standards for the rating agencies, whether that's risk retention—something so people have a vested interest in what they produce. Because if they don't, over time, standards will tend to weaken.

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

Saul Sanders: Well, I think I had a different perspective than a lot of the other players who were out there since we were a large buyer and we retained the risk. So, we cared and our portfolio did perform better for the first year to year and a half afterwards. So, the perspective by that is that I think risk retention, actually, of some form does work. And that making sure people are invested in what the ultimate outcome is really does work.

Maria Paz Rios: Thank you. Do you think there was anything else that I should have asked or that you want to add?

Saul Sanders: No, I don't think so. I think you've been pretty thorough.

Maria Paz Rios: … Thank you!

[END OF SESSION]