AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS
ORAL HISTORY PROJECT

Interview with
Terry Goddard

Bass Connections
Duke University
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PREFACE

The following Oral History is the result of a recorded interview with Terry Goddard conducted by Braelyn Parkman on February 11, 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: Braelyn Parkman
Interviewee: Terry Goddard
Interviewer: Braelyn Parkman

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Braelyn Parkman: I'm Braelyn Parkman, an undergraduate at Duke University and a member of the Bass Connections American Predatory Lending and the Global Financial Crisis Team. It is Thursday, February 11th, 2021. I'm conducting an oral history interview remotely with Terry Goddard, former Attorney General of Arizona. Mr. Goddard joins me via Zoom. Thank you for joining me today.

Terry Goddard: My pleasure. Thank you.

Braelyn Parkman: I'd like to start by establishing a bit about your background. I have that you're originally from Tucson and that you earned a bachelor's from Harvard College in 1969 and a JD from Arizona State University in 1976. Is that correct?

Terry Goddard: That is.

Braelyn Parkman: You served as the Arizona state director for the U.S. Department of Housing and Urban Development [HUD] from 1995 to 2002. Could you describe this role?

Terry Goddard: Yes. I was the state director, which basically means the coordinator of all the HUD programs within Arizona. And for a short while I was in Washington as the temporary director of the FHA [Federal Housing Administration] Multifamily Housing program. And, interestingly, my successor in that role was Shaun Donovan who later became secretary of HUD.

Braelyn Parkman: Was any of your work in this position related to residential mortgages?

Terry Goddard: Of course. The largest portion of the Arizona office was the FHA single family mortgage section.

Braelyn Parkman: And could you describe the kind of work that you did with this mortgage program?

Terry Goddard: That I did personally? No. I mean, I did not-- I was not engaged individually in writing or approving mortgage insurance. There was a substantial, I think well over half of the employees in the Arizona HUD office did that. So I was more concerned about employee management and their job performance in a general sense. So we had other supervisors. I knew the general outlines of how many mortgages we were insuring, how basically the various limits were. Of course, the foreclosures were a significant concern and the so-called secretary-owned properties, which were HUD properties that had been foreclosed on and then were packaged for resale. But if your question involves the actual qualification for and issuing of FHA insurance, I was not hands-on involved with that.

Braelyn Parkman: And I believe you also held, earlier in your career, the position of mayor of Phoenix [1984-1990]. So I'm curious, how did the positions that you held before inform your priorities as attorney general later in your career?

Terry Goddard: Oh, interesting. A lot. I was, as mayor, very involved in neighborhood issues, generally neighborhood health in the sort of overall sense. But obviously mortgage finance is a big part of neighborhood health. So when the crisis began to hit, I was particularly concerned about the impact it had on neighborhoods and the fact that some of the newer neighborhoods in Arizona were just hollowed out. Basically every other house was in foreclosure. And the disruption, the tragedies that ensued and the neighborhood devastation was particularly – I think if I hadn't been mayor it wouldn't have been quite such a big deal, but I was able to look at those impacts through essentially a housing-focused background.

Braelyn Parkman: And as attorney general, when did your office begin to see problems in the residential mortgage market?

Terry Goddard: I'd have to do a lot more review than I've been able to do for this interview to tell you exactly. We were in a housing boom, a financing boom, as was the rest of the country through the early part of the 2000s. That began to – and for a while it looked like, people, I think investors believed that it would never end. They acted like it would never end. They really didn't read the fine print in their mortgages. But my recollection, and please, this could be certainly corrected from a better review of the facts, is that [in] 2004, 2005, we began to see problems. It was always a concern that people were acting irresponsibly, that individuals were taking on multiple mortgages. That was not only illegal, but it was highly imprudent from a financial perspective. That concerned me. But until the values first – the home prices began to level off first and then began to fall – and I believe that was 2005 – then all of a sudden all the other chickens came home to roost.

Braelyn Parkman: Were there specific cities or neighborhoods across the state that were particularly hard hit by the mortgage crisis?

Terry Goddard: Well, there definitely were. For instance, I live in an older neighborhood in central Phoenix and there was not a lot of new financing being done in this area. So it was not significantly impacted by the downturn in housing prices. We did have foreclosures within the neighborhood, but it was somewhat isolated. However, the new housing developments, I think in particular of the community of Levine, which is in the southwest portion of Maricopa County. It was largely new housing. It was all new financing. A lot of people had Countrywide [Financial] or Wachovia loans. And when the crunch hit, that's the kind of neighborhood where every other house was in foreclosure.

I've seen, I've seen maps of Levine neighborhoods where they highlighted the foreclosed houses, and it was more than 50%.

Braelyn Parkman: And how was your office made aware of abusive lending practices?

Terry Goddard: Consumer complaints.

Braelyn Parkman: Okay. Were there—

Terry Goddard: [They] were the canary in the coal mine. I mean, subsequently the National Association of Attorneys General and the various federal authorities obviously got intensely involved, but in the early stages, it was all consumers who were getting hit with foreclosure, with failure to be able to contact their mortgage servicer, to be able to work out terms to avoid foreclosure. Those were the kind of complaints we got right at the beginning. And they just snowballed.

Braelyn Parkman: And, for these complaints, were there any particular types of institutions that were more problematic than others? I'm thinking specifically of non-bank lenders versus traditional banks.

Terry Goddard: Well, I'm sure you already know the major players. In Arizona, it was AmeriQuest Mortgage and Countrywide. There were some smaller players in the local area that offered teaser rates and adjustable rate – I'm sorry – adjustable rate mortgages. But the big players were AmeriQuest and Countrywide. Not a lot of Wachovia action in Arizona.

Braelyn Parkman: And as attorney general, what other agencies, either state or federal, did you work with most closely on issues related to the residential mortgage market?

Terry Goddard: Well, everybody was slow. Our local banking office of finance was pretty much with us in terms of seeing the problem coming and trying to take remedial measures. But I went hat in hand to the Secretary of HUD, to the Secretary of the Treasury, and eventually to the [United States] Attorney General, to try to get some action against what I considered to be criminal predatory action. And it was slow coming. Assuming this started around 2005, we finally got the [United States] attorney general to come to Arizona in 2010. And to announce a joint effort to go after fraudulent action in the mortgage finance area ... The federal authorities were very slow to recognize the problem, and state authorities because it was so regional in terms of its impact, did not respond in a particularly timely manner. I'm sorry, I'm going to say as you already know, I'm sure you've seen where the hotspots were, and they were Southern California, Nevada, Arizona, and parts of Florida. I believe you had some significant problems in North Carolina, but they did not come close to what we had in the four most impacted states.

Braelyn Parkman: Do you think that delay in getting federal authorities to recognize the problem was because it was so regional that they wanted to believe it was isolated?

Terry Goddard: Yeah. I'm afraid that was a big part of it. And let's bear in mind, one of President Bush's most significant financial contributors was the head of AmeriQuest Mortgage. There was a lot of political clout that was applied to prevent federal action, and to prevent AG action, frankly. But I think the AGs were a little less susceptible, and they took action relatively quickly against AmeriQuest, slower against Countrywide. And I'll never forget a good friend of mine and somebody that I admire greatly was on the board of Countrywide during this period. And I remember him telling me that this was the best thing that could happen for low-income borrowers. I think there was a strong sense, and this person certainly shared it, that for a long time, lower income and minority applicants couldn't get home mortgages. And so all of a sudden people like [Angelo] Mozilo opened the door to the subprime lending market and allowed a lot of people who had been kept out of the market to participate. And for a long time, he was considered a hero in a lot of the housing circles because they saw him as providing opportunity. It was only later that we figured out that he was providing an opportunity that had a huge price tag.

Braelyn Parkman: Were there stakeholders outside of the government that you interacted with during your work as attorney general?

Terry Goddard: Stakeholders? We certainly had the housing counseling agencies, which we ended up steering a lot of our settlement money to. Is that what you mean? Or are you talking about the banks?

Braelyn Parkman: Sure. Either of those would be, we would be interested in, or perhaps if there were community groups, any of those.

Terry Goddard: Well, there were certainly community [groups], I mean, one of them's in North Carolina. … What is it? The Center for Responsible Lending was, if I remember the timing correctly, was raising the red flag on a national basis very, very loudly. You've talked to them, I assume. Right?

Braelyn Parkman: I believe so. Yes.

Terry Goddard: Because they were a national leader. And they saw the problem coming. So there were advocacy groups certainly that were involved. Here in Arizona, my recollection is that our warning was not so much from organizations. It was primarily from consumer calls through our consumer fraud hotline. And I occasionally went in and monitored those calls and they, to a very great degree, they became almost exclusively mortgage distressed calls. People that had first, were facing foreclosure, and were unable to cut through the red tape with their servicing organization. … Bear in mind that these are the servicers we're talking about here, not the banks. They were intermediary corporations that handled the payments. And so consumers couldn't get hold of whoever had issued the original loan because those loans had all been sold and securitized.

So there was this total disconnect between the lender and the servicing agency and the borrower. So the first thing we had to do was try to cut through that. Then as so many people were desperate to get their loans restructured, and they were reading about settlements that had been reached and supposedly federal programs to provide consumer relief, that they started using local mortgage reduction companies who were almost all fraudulent. That essentially took their money and then stepped aside as the foreclosure went forward. So we had a whole raft of those. That was the second wave. The other thing I should probably mention is the minority community was heavily targeted. Black, Hispanic in Arizona. And they didn't have good access to financial advice, especially the Hispanic community. They were generally not culturally aware of mortgage finance. Mexico didn't have at that time debt financing available for homeowners, so that people who came to Arizona from Mexico, and that was a lot, were not at all sophisticated in how to manage debt, consumer debt. And they got taken to the cleaners, literally. One of the most poignant and difficult sessions I ever had was we did a lot of meetings with consumers, with people that were in trouble in their mortgage, and several of the most vicious fraud artists, the so-called loan protection people, loan restructuring – they claimed they could get your loan refinanced or redone, and then failed to do it – were advertising on Spanish language media. And we used that same media to offer people the chance to come in, talk to the attorney general, talk to counselors. And by far the biggest audience we ever had was from that outreach.

Braelyn Parkman: And I believe when you were attorney general in Arizona, you were a member of the State Foreclosure Prevention Working Group, alongside attorney generals from other states. Could you describe the main purpose of the group…?

Terry Goddard: I know you probably have some of the documents that were put out by the group. For my purposes, the main reason was to try to get some clarity. To try to: (A) stop the marketing of the ... products that were so bad for consumers, including the pick-a-pay mortgage … POA mortgages … where if you didn't pay a full interest rate, you ended up getting a bigger and bigger debt. And … consumers didn't realize that. And they got hammered over and over again. We had to try to break through the problem. … The group had a meeting in Chicago in, trying to think, 2007 I think it was? Where the lenders came forward and they talked about what they were trying to do to provide for mitigation for all these people that were in trouble. And, it was, they admitted, and we already knew, that the big problem was the fact that the servicers now had – were simply collecting. And they were collecting on behalf of the equity funders, not on behalf of the original lender. So the original lender, whoever that might be, was sort of out of the loop. There was no way that they could be contacted, and even if they were contacted, they couldn't do anything about relieving the payments. And so we had to cut through that really, really difficult legal and financial knot. And, of course, we were interested in any mitigation that could come from the companies. There were lots of promises of mitigation made in that 2007 session in Chicago. Most of which didn't come through.

And you're probably also familiar with the dual tracking, that people would put a homeowner in foreclosure, start processing them for mitigation. And this is after the AGs got on the case and the federal government started hammering them. And the *New York Times* started doing investigative series. But while they were discussing mitigation and sort of dragging their feet on that, they would proceed quickly on foreclosure. And so people that maybe even made mitigation payments found themselves suddenly having their house torn out from under them. So those were the main things that I was interested in.

Braelyn Parkman: And what legal tools were you able to use to address abuses in the mortgage market?

Terry Goddard: Consumer fraud. That really is the one tool that attorney generals have that, in fact, the statements made to loan customers were either fraudulent or deceptive, and we didn't have too much trouble proving that with the pick-a-pay loans, with even some of the teaser rate loans were so obviously made without any consideration of the actual financial ability to pay of the customer that they were on their face abusive. In other words, the prospect of repayment was so remote that the lender was not acting in good faith. One of my most vivid memories is when we – I don't know how much detail you want to get into on things like this, I was going to talk a little about AmeriQuest. Is that all right? Or you want to...

Braelyn Parkman: I was going to ask you about AmeriQuest anyway …

Terry Goddard: Well, put yourself in this position. We had about a dozen attorney generals go to a meeting in Anaheim, California, which was the headquarters of AmeriQuest Mortgage. Ironically, within sight of Disneyland and Snow White's castle and so on. It was sort of an unreal experience for me, I was relatively – see how long had I been attorney general? Well, I guess three or four years. But it was the first time I'd been at a negotiation session of that kind. Tom Miller, the AG of Iowa, was the lead proponent for the AGs. And he sat there and for about three hours, Tom went through with the AmeriQuest attorneys and an interesting group of former attorney generals, who'd all been hired by AmeriQuest to try to defend them against the impending lawsuit. And it was brilliant. What Tom was able to do, just one careful question after another, was to establish beyond any doubt that they were making loans with, in many cases, no backup at all. They were applying sales techniques that were fraudulent, that were incredibly deceptive, that they had … ways of compensating – all their people worked on commission. And the way the commissions worked was to move the customer to the most profitable loans for the company, not the best loans for the customer, but the most profitable loans for the company. And they got very healthy bonuses, for example, having loans that had three or more years of a prepayment penalty, those were worth more to the company, that were at the higher interest rate, that were essentially highly profitable, but not necessarily very good for the consumer. They steered them away from FHA loans because those were lower cost, lower profit for the company. So they showed in many instances that there was no backup at all. There was no employment history. There was no evidence that this individual could repay the loan in the sights of the person who was supposedly underwriting it. They just wanted to get a lot of signatures so that then they could turn around and sell it on the equity markets. We learned from their employment handbook that the people that they were most likely to employ to do these were not from the financial community. They were not even from the real estate community. They were people who sold used cars, and if they had a college education, that was a downside.

You didn't want somebody who's college educated doing these sales. You wanted somebody who could sell a used car to a hopeless victim. And that's who they got. And they [used] very aggressive telemarketing, lots and lots of promises made. And they basically counted on the fact that these folks were financially, if not illiterate, at least not very sophisticated. And they would sign up for almost anything because they wanted to buy their house. And they were frankly deceived. So in Arizona and across the country, what the AGs had to work with was the Consumer Fraud Act. And in Arizona that carries a $10,000 penalty per infraction. And that depends on how you define infraction. Was every call an infraction? I think so. Certainly the signing of the mortgage papers was an infraction. The various statements that were made through advertising were infractions. And so we had – [we] were able to move fairly quickly based upon these kind of loans and the extraordinary misrepresentations that were made along the way as to their ability to pay. And the fact that they were qualifying borrowers that couldn't possibly pay. They actually qualified them based on the teaser rate, not on the rate that they were going to pay when the loan matured. That alone was deceptive in our opinion. And we were able to prove it to the court. And in most cases, we didn't have to go to court because the companies simply saw the writing on the wall and agreed to large settlements. And then we had to administer the settlements.

Braelyn Parkman: And did your office first become involved with this AmeriQuest negotiation because of consumer complaints or was it brought to your attention in some other way?

Terry Goddard: We usually were the Chicken Little in this case. So we were the ones bringing the problem to the national groups as opposed to the other way around, if that's what you meant by that question. In other words, did somebody at the national level say, "Hey, you really ought to pay attention to pick-a-pay loans"? No, we saw them in our [backyard]. I'll never forget. I was having lunch with the Arizona President of Bank of America. And this would have been 2007, 2008. And I forget exactly when B of A bought Countrywide, but it was, I think, around that time and that had already happened. And I described a pick-a-pay loan to him. Where the customer had essentially three options. They could do a fully amortizing loan, with a fairly high monthly payment. They could choose a reduced payment loan, or they could choose an interest-only loan. And 90% of the customers chose the least expensive loan. Although what they didn't realize, in most cases we were able to prove in court, was that the reduced interest, the reduced payments just ended up making your debt larger every month. So that was the downside of those loans that the consumers were generally not aware of. And I described it to him, I said, "We really are concerned about this kind of loan." And he said to me with a completely straight face. He says, "Oh, Bank of America would never be involved with something like that." And I had to tell him that they were, that they had very recently purchased the largest national funder of that kind of loan.

Braelyn Parkman: And then I believe, with AmeriQuest, your office and other attorneys generals were able to negotiate a settlement in 2006, is that correct?

Terry Goddard: Yeah. The $325 million settlement with AmeriQuest was interesting in that we hadn't gone to court yet. I think we were ready to, and certainly what Tom Miller did at the meeting in Anaheim, California, [which] was an elegant and excellent predicate to – what he was doing was what any good prosecuting attorney would have done in terms of making the case, and he made the case beautifully. And I think everybody in the room knew it. But they were prepared, and I think could have mounted a very substantial defense, all across the country. It wasn't a slam dunk by any means. But the thing that sort of counted on our side was that the owner of AmeriQuest Mortgage was up for being Bush's ambassador to the Netherlands. And he couldn't get that ambassadorship approved by the Senate with the claims against AmeriQuest still pending. So they quickly settled them, so that he could go forward and get his position as ambassador. Ironically, he died, I think about a year later. So he didn't get to enjoy the job very long. But the only requirement that they had on the AmeriQuest side was that their settlement had to not be the largest mortgage damages settlement in history, the largest being the one with Household Finance, which I think was $400 million. So the only thing they were concerned about, at least from the negotiators that I talked to, was that their number would be less than $400 million.

Braelyn Parkman: Did your office play a role at all in Arizona House Bill 2143, which required businesses and individuals, I'm reading a quote here, offering loan modification services to be licensed through the Arizona Department of Financial Institutions?

Terry Goddard: Well, yeah, we were very interested in that. What year was that?

Braelyn Parkman: I believe 2009.

Terry Goddard: Yeah I worked with the then Director of the Department of Financial Institutions, [who was] Felicia Rotellini. … She previously had been a lawyer in the [Arizona] attorney general's office. So we worked very closely with her on state banking issues. And that was, of course, one of the things we were most concerned about was that these claims were being made. And we brought a lot of successful actions against these so-called mortgage restructuring companies, and they were fraudulent. Most of them simply – from the public records, they knew approximately how much a homeowner was paying in monthly mortgages. And so that's how much savings they had to get ready to pay their monthly bill. And lo and behold their charges for getting your mortgage restructured were usually about that same amount because they knew that they could pay it in cash. And so what they did, which I just thought was the worst kind of fraud. They knew that these low-income families would have approximately, let's say their mortgage was $1,500 a month, and they knew that they would be saving up to have $1,500 ready to pay their mortgage. So that's what the bill would be for the mortgage restructuring. And they would skim it, which meant that that family couldn't pay their mortgage that month. And either they were already in foreclosure or they went deeper into foreclosure as a result of these fraud artists. And so it was very important that we stamp them out. We got some very big money judgements against some of these people, but there were just too many of them. There were lots and lots, and they were making extravagant ads. They were heavily advertising on Spanish television and radio at this time.

Braelyn Parkman: Can you describe a little bit how your office tried to enforce this law after it was enacted?

Terry Goddard: Not really. It was the office of banking, of financial institutions that was the primary enforcement agency. And they sent out cease and desist orders and items that resulted from any folks who operated in violation of the law. It was a target-rich environment, I can tell you. And then we helped them bring those violators to court because we were the lawyer for the financial institutions, but they were the primary enforcement arm.

Braelyn Parkman: And then I'd like to ask about Countrywide. I believe your office was involved in a multi-state settlement with them in 2009. Could you describe your office's role in that?

Terry Goddard: Well, we were, as you accurately said, we were part of a team of AGs that brought Countrywide to recognize a lot of the problems that I've already talked about. And that settlement looked like a good step forward in providing some needed relief. Certainly they claimed to do so. I was not at the table in those discussions. I mean, Susan Segal from our office was, so all I knew was that they were ongoing. I believe I did a press release saying it was a good start when they finally announced the settlement. And then we started getting the next range of consumer complaints, which was people who tried to get some relief from the Countrywide offer and were unable to do so. So that resulted in, I believe December of 2010, we sued Bank of America because we didn't feel that they had complied with a lot of the provisions that that settlement required them to do.

Braelyn Parkman: So would you say then that the impact of that settlement was ultimately, not enough--

Terry Goddard: Minimal, minimal, not very important. A lot of the money never went out and a lot of the promises weren't [kept]. And ultimately, we went on to Joseph Smith's operation and the multi-state settlement, in what? 2012. For $25 billion with the five banks. Countrywide was sort of the first step in what ultimately led to that settlement and the enforcement arm that he had as a trustee. You see, we didn't have any of that extra clout in the first round. So when Bank of America, now as the owner of Countrywide, did not fulfill things like the single point of contact or the cessation of the dual tracking or the significant loan reduction, that was all part of the agreement, there was no way to enforce it.

Braelyn Parkman: Could you describe a little bit the process that led to that transition from the Countrywide settlement to the multi-state in 2012?...

Terry Goddard: Well, a lot of it comes after my time as AG. So I can't describe all of it. We did a lot of meetings through 2009, 2010, to try to move the AGs along. And of course, HUD was involved, Justice Department was involved. It was ponderous. Tom Miller again was the central figure. I remember we had a bitterly cold meeting in Des Moines in 2010. And Catherine Cortez Masto, who was the attorney general of Nevada, and I were the most aggressive because we had the biggest problem. We had states that literally had their entire economy cratering because of the huge number of foreclosures. Nevada was number one, we were number two, southern California was number three, but that was just part of California. In the case of Nevada and Arizona, it was virtually the entire states' economies.

So we had done, we'd lined up the victims, individual homeowners that were ready to testify. We had done our homework and were ready to go in a lawsuit against the major banks. And the interstate coalition was not. And I remember Tom Miller was, he's a good friend and I admire him greatly, but he wanted our two states not to file suit because he felt the states were far more powerful acting together. We ultimately felt we had no choice. And so both Nevada and Arizona sued [Bank of America] in December 2010. And we separated ourselves from the pack as to that action. Now, [we] continued to be at the table, obviously, after I left office, to be part of the interstate settlement that involved almost every state, and ultimately resulted in a $25 billion consent decree.

But we also did our own. I remember when my successor came in and I was briefing him on all the different things he had to be worried about. He held up the [Bank of America] lawsuit. He said, this is either the biggest benefit or the worst nightmare that you have given me. And I told him it was the biggest benefit because he could only come out ahead on behalf of his consumers. Ultimately, he settled for $10 million with [Bank of America]. Nevada settled for, I think, $20 million. And then they also participated in the pool of money that went to the multi-state.

Braelyn Parkman: And one last question on the subject of interstate lawsuits and settlements. Do you recall what drew your office into the multi-state lawsuit against Wells Fargo in 2010, after their acquisition of Wachovia and Golden West?

Terry Goddard: Well, yeah. … Golden West did operate in Arizona. Wachovia did not to my recollection, or if they did, it was minimal. So we didn't have the kind of impact--our major subprime lender was Countrywide. And while they were around, AmeriQuest. And I don't remember a big deal with Wachovia. But obviously Wells Fargo was a major player in Arizona, and so there was no way we wouldn't be drawn into any discussions involving Wells Fargo. We reached an agreement with them, I guess, around the time of the agreement with Countrywide, but again, it wasn't enforceable. And so then obviously they got pulled into the multi-state. And I don't remember separate Wells Fargo – we were far more engaged with Bank of America in those early days than with Wells Fargo.

Braelyn Parkman: And as we sort of draw to the end of this interview, we have two more high-level questions that we like to ask all of our interviewees. So the first is: over the last decade, we've seen any number of different narratives emerge to explain the financial crisis. How do you understand what caused the crisis?

Terry Goddard: It was a collision between-- it was a combination of good intentions and greed. And ironically, in somebody like [Angelo] Mozilo, the two came together. He was clearly greedy, and he was clearly financially astute. And I think he had very positive intentions in terms of expanding homeownership. So I know many of the housing advocacy groups in Arizona were lulled into a sense of complacency because they thought something good was happening and they didn't see the underlying problem until it was almost too late to take action, at least for thousands of homeowners it was too late. So, I mean, you can't separate the ability to pay from the issuance of a mortgage, unfortunately. And that's what they did. They issued mortgages because they could to thousands of people who frankly had no ability to service them.

And for a short-term, that sounded like we were expanding homeownership in a very positive way. In the long term, it was devastating to families, to whole communities. So why did it happen? — And this coincided with a period of unbelievably lax regulation from the federal government. The Bush administration turned, if not a blind eye, at least a very negligent eye to what was happening in the mortgage market. Congress had been [complicit]. It had been involved in the late nineties in terms of loosening up the credit, and the fact that these banks, the Countrywide and AmeriQuest in particular, were using securitized mortgages, securitized offerings, that never had – the banks weren't lending their own money. They were basically taking, as soon as they had a live signature on a mortgage, they were taking it to Wall Street.

They were securitizing them, the Wall Street people had no idea what they were [buying]. These were bundles of mortgages, most of which were junk, but they didn't look carefully and they sold them for prime profits. So my suspicion always was that Wall Street was driving an awful lot of the bad mortgages because they were demanding – they had essentially securitized the mortgages before they were made. Now, I say that advisedly because that's not possible, but there was so much demand on the equity side, on the Wall Street side for new tranches of mortgages to sell, that they were actually driving the groups on the production end to make these irrational mortgages. And one of the things that I didn't mention that Tom Miller exposed in the AmeriQuest situation was that the office managers for AmeriQuest received production bonuses, which were steeply increased, I won't remember precisely, you may have this information already, but essentially when they got to the end of the month, they got one level of, and I'm taking numbers out of the air, but they got one level of bonus if they got 20 closed mortgages. They got twice as much if they got 30, and they got like four times as much if they got 40. So in the last few days, the stories that Tom was recounting in the session we had in Anaheim, was the virtual panic that people in the AmeriQuest offices had at the end of the month because the manager's bonus depended on how many mortgages they could close. And they were, I'm afraid, forging signatures. They were just, -- whatever they could do to get a mortgage closed there at the end, which directly impacted the financial terms of at least the supervisor's bonus, and probably to a lesser extent, each of the salespeople. That was a frantic and unfortunately fraud-inspiring session.

And so when you have a situation like that -- when you have a responsible party, who's providing the money, actually being the group who is encouraging anything you can do to get a mortgage, anything you've got with a live signature on it, I can securitize, and are anxious to do so – you've created this vacuum, which is just going to suck everybody into it. So they were making a lot of money. The lenders were making a lot of money off fees and off of pre-payment penalties and off of late fees. Everybody thought that they were going to continue to prosper because it was still an up market in the housing [sector]. And obviously the up market was partially being fueled by the easy access to mortgages. So, one thing fed into the other, and I think people honestly believed that it could never end.

Now, there's one other factor that's maybe minor, but probably ought to be put into the mix. And that is, you had a lot of speculation on the side of the home buyer. It wasn't just the companies that were at fault. People seeing this rapidly increasing housing market wanted to get in on the action. So the way they did that was they tried to flip mortgages. They tried to sign up for a mortgage, buy a house, and then immediately sell it for a higher price. And a lot of people were making money off of those flips. So that people honestly, on their own behalf, these were not sophisticated financial folks, would enter five, 10, 20 home mortgages. And on each one, unfortunately, they said under pain of perjury that this was their primary residence.

That's how they got the loans in the first place. Well, obviously it wasn't their primary residence. They had 10 of them. And they did not intend to pay any of those mortgages because they expected to be able to sell them before the first mortgage bill came due. … During the heyday, they were able to do that. So they never actually intended to pay the mortgage at all. They were just going to flip. Well, of course, as soon as the market slowed down, they got stuck with all of those payments. But they knew they'd committed perjury. So they were very reluctant to complain about what happened to them. And so for a long time, we had a very hard time getting complaining witnesses about the bank's bad actions. It was this delay factor, which was in part stimulated by the fact that either they had done multiple mortgages, which was fraudulent, that was a fraud on the system, on the banks.

So the banks weren't entirely wrong to say that they were taken advantage of, too. And the other thing was even for the poor homeowner that only got a single loan, they were often encouraged to overstate their income by the salesperson from AmeriQuest or Countrywide or whoever. To claim that they had, for instance, hobby income that they didn't actually have. But it was off the books and so who could verify whether it happened or not. And because they'd done that, they felt that they had been somehow complicit in getting the mortgage and therefore they might be sued criminally for fraud. And so they didn't complain either. And so it was years before we really were able to put these cases together because many of the victims were underground and didn't want to talk about it.

Braelyn Parkman: And the second high-level question is —

Terry Goddard: I'm sorry. That was pretty long for the first one.

Braelyn Parkman: Oh, that's fine. So looking back on the crisis over a decade later, what do you see as its most important lessons for state-level policy makers?

Terry Goddard: It's hard to think of a single lesson. Obviously, a lot of state-level people were caught napping while all this was going on. So I guess the first lesson is to really keep your eyes on what's happening to consumers in the field because the danger signs were out there. In the up market, it was pretty clear that people were signing onto mortgages they couldn't afford. But everybody wanted to believe that the boom would continue indefinitely. And so, I guess for—any time you are making financial decisions based upon an infinite period of constant increases in housing prices, you've got to start worrying because it will change. It will come down eventually. … Most of these players and all of the financial institutions were just acting like it would never stop.

And so I guess, no market ever goes up indefinitely. And I think people fooled themselves. At the state regulatory level, they fooled themselves into thinking that it was all fine because these people may have made bad loans. [They may have made] bad mortgage decisions, but they were getting bailed out by the market. So what's to worry about? Well, there was a lot to worry about, especially in the growth areas of the Southwest. So I think people just turned a blind eye based upon the current finances to what was actually happening below the surface. The federal government clearly did not – but you asked for state and local, so I guess I should continue there. I guess that's the main thing. We were all willing, I guess, to assume that the market was going to continue to be strong forever, and that was a huge mistake.

And even the seasoned bankers, I think, missed the mark. I remember talking to one president of one of our banks here that was a subsidiary of a national bank. And I was in a state of panic over what I knew to be happening in the foreclosures or pending foreclosures. And I remember he told me, he says, "Oh don't worry." He said, "The financial institutions have already discounted the bad mortgages from this little fluke. It's not going to be a particularly big deal." Well, as we all know now, he was wrong. But I think there was a complacency among the banks that didn't realize, for example, how much of the money was outside of their control. That was going through the Wall Street mortgage backed securities instead of through the normal bank process. And so that disconnect led to a whole lot of irresponsibility.

Now that's not a state and local issue either. That was financial manipulation at the national and international level. If you haven't seen it, I'm sure it's come to your attention that, during this period, there was a cartoon that was being circulated among financial groups, which basically tracked the syndication of these mortgage-backed securities. And the cartoon was very crude. It was stick figures talking to each other, but it was very popular. And essentially it had the widows and orphans in Norway, I think, ended up being the logical market for these mortgage-backed securities. And in fact, a lot of them were peddled in Europe, as I'm sure you've seen. And I've seen bankers in that period who were faxing, back when we used fax machines, they were faxing pictures of jail cells back and forth to each other and saying, "Well, this is where you're going to spend the next 20 years based upon … the deal that you just closed and profited from."

And this is not a state and local issue. So I apologize for it, but it is a general feeling that I have looking back upon the mortgage crisis, which is the criminal prosecution at both the state and the federal level, and mostly federal because these were all multi-state operations, failed us immeasurably. No banker went to jail. Nobody was convicted of a felony for billions of dollars of lost assets and for encouraging, and in many cases, devising schemes, which had to be criminal in both their intent and in their execution. Yet they did that with impunity and they got away with it. And that I think is the unfortunate legacy of the financial crisis is that nobody suffered criminal consequences for what I believe is one of the most massive interstate crimes that we've ever seen.

Braelyn Parkman: That's all the questions that I have for you. Thank you so much for taking the time to talk to us today. We really appreciate it. If there's nothing else that you would like to tell us...

Terry Goddard: Well, there's a lot else, but I think we've exhausted both of us. And thank you for good questions. I think it's a worthy project. I mean, North Carolina is of course the epicenter of so much of the financial activity in the country. And of course, the trusteeship was run out of North Carolina. So there's, you're in the right place to get a lot of the information, but, I appreciate that you're now reaching out to some of the areas that were most impacted. So, whereas a lot of the financial decisions were made back there, a lot of the customer impact was felt in our neck of the woods [in Arizona]. And hopefully that gives you a good perspective on how deep and how serious this problem was. Because more long-term established parts of the country did not feel the wave of mortgage impact that we felt here, simply because, people had secure mortgages and they weren't out refinancing them in large part. I know there were some, but it wasn't the kind of sort of community-wide devastation that we felt. And good work.

[END OF SESSION]