AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Bill Cosgrove

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Bill Cosgrove, conducted by Darielle Engilman on April 7, 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.

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Interviewee: Bill Cosgrove
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 April 7, 2021. I'm currently in Durham for an oral history interview with Bill Cosgrove, current President and CEO at Union Home Mortgage Corporation, who has joined me via Zoom. Thank you for joining me today.

Bill Cosgrove: Happy to be here.

Darielle Engilman: In the context of your work life, when and how did you first become involved with residential mortgages?

Bill Cosgrove: First involved in residential mortgages way back in 1985 in Cleveland, Ohio as a residential loan officer.

Darielle Engilman: Based on your experience, how would you characterize the key changes in the overall residential mortgage market between 1994, when you first joined Union Home Mortgage, and 2008?

Bill Cosgrove: There's a long time in between 1994 and 2008.... I think there is a lot of the mortgage process that is fundamentally the same as it was in that time period. Residential lending is all about credit [and] ability to repay a loan, which is based on credit scores. And then there's qualifying ratios, which is income-to-debt—so, a family's income compared to what their current monthly debt structure is. Adding the future mortgage payment to that, along with principal and interest, taxes and insurance—there are certain ratios that lending guidelines require families to be within in order to qualify for the loan. Then there's sourcing the funds for the down payment and any other money that's needed. So, there's always three fundamentals, and that really hadn't changed over that time period. Obviously, there were certain circumstances between 2003 and 2008 that we could talk about. But for the most part, those fundamentals have been there for thirty years.

Darielle Engilman: Do you think you could go into that specific range of 2003 to 2008?

Bill Cosgrove: ...Everything's very clear in hindsight. Up until before this year, 2003 was historically the best year in the history of mortgage banking. And it only got surpassed by 2020... Other people might have different ideas, but I would consider [it to be the best]. The modern mortgage market was created around 1965 to 1970. If you look out forty years, 2003 was the best year ever. Interest rates went down dramatically, and housing was booming in 2003. Off of that, the economy was good. Delinquencies were low. Once you got up to 2005, '6, and '7, there seemed to be, in 2006, a soft spot in real estate and maybe a soft spot where not as many homes were created.

So I think in hindsight, after many years of success, many years of homeowners making their mortgage payments, the industry—Fannie Mae, Freddie Mac, everybody—got lulled to sleep a little bit, and mortgage products that were good mortgage products started to become looser in their qualifying and credit criteria. I think that that kind of fueled what ended up happening in 2007, 2008, and 2009. Usually, the challenges of mortgage lending is, you make a mortgage loan today. You think it's successful. You think you did the right thing. But many times you don't find out until two, three, five, seven years later that maybe it was a mistake.

Darielle Engilman: Shifting over to your time at Union Home Mortgage, what were some of your initial responsibilities there, and how did they evolve throughout your time?

Bill Cosgrove: ... When I came in 1994, I was a sales manager— just really responsible for loan officers, their activity, hiring the right loan officers, and making sure their interactions with consumers was a world-class experience for the consumers. And then in 1996, I was promoted to president of the company to take over the entire operation. Then in 1999, 2000, in that range, I purchased the organization.

Darielle Engilman: What were the primary goals of Union Home Mortgage in the time before the housing boom of the 2000s, and did those goals change in any way during the boom?

Bill Cosgrove: Well, Union Home was a very small organization at that time. We were a, what was called and what's called in the business, correspondent lender, and we were a standalone correspondent lender. But in the early to mid-90s, the company had less than a hundred employees. So it was a very small organization into the 90s and into the early 2000s. Only once past that did we accumulate more than a couple hundred employees. Today, I think we've bypassed over 1600 employees.

Darielle Engilman: You mentioned that Union Home Mortgage operates as a correspondent lender. Do you mind explaining what that is?

Bill Cosgrove: Yeah, so we did back then. There's [what] the industry calls channels of business. There's the broker channel where a mortgage broker works to help customers obtain financing, but they're not the lender. They're the mortgage broker. They find a lender—a wholesale lender—to actually approve the loan and close the loan for them. That's called a mortgage broker. The next type of mortgage originator is called a correspondent lender. And that's where you still take the mortgage application, but you close the name on your own. You close the loan in your own name. In other words, you process the loan. You underwrite the loan. You close the loan. You take the responsibility for it, but you're selling the servicing of that loan to another entity, maybe a larger organization. Today, Union Home is a full-service mortgage banker where we are the lender. We originate the loan. We process and underwrite the loan. We approve the loan. We close the loan in our own name, and then we hold onto the servicing of that loan. Mortgage customers today, close to 100,000 households make their mortgage payment every day to Union Home Mortgage. In steps, there's the mortgage broker that would compete for mortgage business, there's the correspondent lender, and then there's the full-service mortgage banker.

Darielle Engilman: … What elements of the origination process was Union Home Mortgage responsible for, and then did that change over time?

Bill Cosgrove: We started as a correspondent lender, and today we're a full-service mortgage banker. That's really just mostly a by-product of size of the organization.

Darielle Engilman: What were some of the most popular products that Union Home Mortgage saw in the 2000s?

Bill Cosgrove: Well, the world of mortgage lending—and it's been this way for the thirty-five years I've been in the business—it's interesting where a vast majority of the country does fixed-rate loans: thirty-year fixed-rate loans, twenty-year fixed-rate loans, or fifteen-year fixed-rate loans where the payments are consistent. But generally, once you get towards the coasts—more to the East Coast, the West Coast—there's more of a propensity for other types of lending depending on the size of the mortgage. Condominiums are a different animal when it comes to financing. It's not always the case, it's a generality, but once you get to the coast, you have more propensity for self-employed borrowers.... [G]enerally, conforming loans are very difficult for them. And then you have non-conforming loans, which evolved really into subprime loans—that was the terminology that was created and really came to fruition between 2003 and 2007 to '10.

Darielle Engilman: You just mentioned a term that I think would be helpful for listeners if you could explain a non-conforming loan?

Bill Cosgrove: Yeah, it's a great question. All the lending that we do is by federal lending guidelines. If it's a VA [United States Department of Veterans Affairs] mortgage for veterans, you've got to adhere to VA guidelines. If it's an FHA [Federal Housing Administration] loan, Ginnie Mae [Government National Mortgage Association] and HUD [United States Department of Housing and Urban Development] have their own guidelines. And for conventional loans, if it's conforming, it conforms to the guidelines of Fannie Mae [Federal National Mortgage Association] and Freddie Mac [Federal Home Loan Mortgage Corporation]. And that's a vast majority of the mortgages that are closed across the country. Anything that's outside of a VA loan or a FHA loan or a loan that is sold to Fannie Mae and Freddie Mac...is deemed to be a non-conforming loan. That's where that terminology comes from. So, you'll have someone who's self-employed a lot of times be a non-conforming loan. And there's either credit scores that are just out of the bounds of the conforming loans, there's a property type. You could have a property, a condominium, that's not conforming. That's kind of how it works.

Darielle Engilman: How did Union Home Mortgage train and retain its sales force? What sort of tools and incentives were they provided with?

Bill Cosgrove: Well, the best way to retain your sales force is to have very competitive mortgage rates for the consumers. Closing, originating—the manufacturing of a mortgage loan is highly complicated. And the reason it's highly complicated is [that] there's a lot of government agencies and rules involved, and many times the different regulatory agencies—their rules and regulations are nuanced a little bit. It's very complicated and difficult to take a mortgage loan from originating that loan to closing that loan. So the best way to recruit, hire, and maintain a great loan officer workforce is to be world-class in that manufacturing, and that's what we are. And then it takes name brand and reputation in all those things. So there's about fifteen ingredients that all come into play every day in recruiting and maintaining your workforce.

Darielle Engilman: How are Union Home Mortgage loan officers compensated?

Bill Cosgrove: They're compensated with a base pay and then commissions on top of that. Depending on what channel of business you're in, that varies a little bit, but most of them are some type of fixed salary plus commissions.

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

Bill Cosgrove: Well, I think their relationship with the borrower is very important. They feel it's very important. They feel the borrower is their client, their customer. Obviously, they're employed by Union Home Mortgage, so they have a fiduciary responsibility to us as the lender to make sure that they're doing their part to help us make good credit decisions. But I think that's how they view their relationship.

Darielle Engilman: Do you think compensation practices contributed to the crisis in any way?

Bill Cosgrove: I really don't, because if you think about it, my first day in mortgage lending was June 1st, 1985, and virtually the same compensation packages that fundamentally were in place thirty-five years ago are in place today. And short of, I think, thirty of the last thirty-five years, the mortgage markets have performed better than any in the world. So, I would say no.

Darielle Engilman: What were some of the challenges with such a rapid growing company?

Bill Cosgrove: Well, it's interesting that from my perspective, it really has not been a rapid growth. It's just simply one brick on top of another over twenty-one years from 2000 to today. So, I think that it's been a good healthy growth, but I don't think it's been rapid or haphazard in any way, shape, or form.

Darielle Engilman: What mechanisms did you have in place to maintain oversight in underwriting and grass roots behaviors as the company grew?

Bill Cosgrove: Just old-fashioned management. You've got to make sure that you have the right underwriters and you have the right compliance folks on top of the underwriters, and checks and balances. There's mechanisms like neighborhood watch. So, continually from HUD and FHA, you're getting feedback of delinquencies and foreclosures, and you're getting that same feedback from VA and from Fannie Mae and Freddie Mac. So [from] all the government agencies that you work with, you're constantly getting the feedback of your mortgage delinquency platform compared to your peers. Really, when you strip it all down, mortgage banking companies and lenders are in the risk business. If you don't manage your risk, you go home. And so, I think that you live and breathe that every day.

Darielle Engilman: … Can you walk us through how yield spread premiums work?

Bill Cosgrove: Yield spread premium is kind of an old moniker. And I think at the end of the day, interest rates change every day. And no matter where interest rates are, there's a par price for every interest rate and every coupon. You're either in a coupon that is below that par price or you're in a coupon that's above that par price, and yield spread premium sometimes comes into play when you're above that par price.

Darielle Engilman: Do you think this mechanism could have provided a conflict of incentives for brokers in the products they offered?

Bill Cosgrove: I think sometimes it could. Prior to 2003 to 2005, there were some compensation caps and other things that came into play. But I think in the early days, that could have come into play a little bit. When I say the early days, [I mean] pre-2000 level. But today, not only do you have regulations that stop that, but also if the yield spread premium gets too high, then rates come down in those yields. Spreads are uncompetitive. So, I think that the bottom line is [that] loan officers should not be able to dictate the interest rate to the consumer because that gets them and people in trouble at times. And prior to 2000 and 2003, and in certain companies prior to 2007, '8, that was a practice that was more common than not. Today, I think that the compensation laws don't allow that to take place.

Darielle Engilman: Did you ever interact with regulators before 2008, either at a state or federal level, and if so, how?

Bill Cosgrove: Sure, every day. I think for independent mortgage bankers that are not federally regulated, around 2000 to 2003, in that range, the SAFE Act [Secure and Fair Enforcement for Mortgage Licensing Act] that came into play all of a sudden started to generate state regulatory agencies. And so that happened around 2000 and started to take place with the SAFE Act. And then on a federal level, the CFPB [Consumer Financial Protection Bureau] came into existence around 2010. So, prior to 2000, the regulatory work was more Fannie, Freddie, and FHA. And then, you know, the states, from the passage of the SAFE Act—which you're testing my memory, but I think the passage of the SAFE Act was around 2003—that started to create the state-by-state mechanism for regulatory purposes.

Darielle Engilman: And just going off of the SAFE Act that you mentioned, how did that affect your work at Union Home Mortgage?

Bill Cosgrove: Well, I think in a lot of ways it made us better. Having state regulators in was a little clumsy at first because they really didn't understand the mortgage business, and it's very complicated. But I think done right and with the right approach, having regulators in [can] help. At the end of the day, I would always tell them that—it might sound like an odd example, but Ford Motor Company has to make cars safe, but they have to make them safe by one standard, a federal standard. And yet at times when we would have state regulators in, their decision-making and their rules and what they wanted to see was different. We could have five regulators and they could come tell us five different things, but we're only manufacturing loans one way. So I think over time, it does make us better, but I think, too, the onus is in some ways on the regulator to make sure that they're working with the other state regulators for some level of uniformity. I think that's important, but it's definitely helped the process, I think.

Darielle Engilman: During your time at Union Home Mortgage, was investor appetite linked more to specific...products or mortgages as a whole?

Bill Cosgrove: I think mortgages as a whole. 95% of them is mortgages as a whole. Once in a while, you will have some of the, again, as we call, non-conforming investors or lenders want to come in and they want to purchase certain types of products on their books. But those are few and far between.

Darielle Engilman: Did Union Home Mortgage have relationships with any specific mortgage investors?

Bill Cosgrove: On the correspondent side, we had a relationship with Wells Fargo, but really from there, not necessarily.

Darielle Engilman: To what extent, if at all, did figures within Union Home Mortgage express concerns about the changing nature of credit extension during the 2000s? Did those concerns lead to any specific, significant internal debates or changes in business?

Bill Cosgrove: ...I think in hindsight, as 2004, '5, and '6 rolled along, I think many people that had been in the mortgage industry a long time started to question some of the underwriting practices that were going on at the time. But it's interesting that there's not a problem until there's a problem. Even back then, I remember, in hindsight, Alan Greenspan, who has been allotted as one of the best Fed [Federal Reserve] chairmen in the history of the United States, said that he didn't see the housing crisis and the delinquencies coming. But I think at that time there was a loosening of credit score criteria that was going on. There was a loosening, slowly, over a few years period, of LTV [loan-to-value ratio] that was going on. There was some of what the was called alternative approval, Alt-A was the term that was used by Fannie Mae and Freddie Mac, that required less documentation. Over time, leading up to the crisis, there had become a little bit of an uncomfortability with the different loan characteristics that had been evolving for sure.

Darielle Engilman: Were there any noticeable differences in Ohio's housing market compared to other states you were doing business in in the 2000s?

Bill Cosgrove: Not really. I think it's all pretty similar...Although, now we're virtually country-wide here twenty years later, but where we're based there's more fixed-rate lending. It's a little more conservative versus the East Coast and West Coast.

Darielle Engilman: And in what ways did the Mortgage Bankers Association support you and Union Home Mortgage in the run-up to 2008? Did this change in any way after the crisis?

Bill Cosgrove: Well, I think that's a loaded question for me to answer because in 2012, '13, I became an officer of the Mortgage Bankers Association. And in 2015, I was chairman of the association. So, I have views on that and they're probably skewed in my direction, but I think the [thing] is that the housing crisis and the financial crisis came. And then at that point, obviously it was very clear to us that mortgage lending and underwriting became too lenient, and mortgage product and documentation of certain product[s] became too lenient, and that ... changes ... needed to be made. And almost, in a way, the changes were back to the old days...Those changes were back to the fundamentals of mortgage lending.

Darielle Engilman: Your biography states that you served as president of the Ohio Mortgage Bankers Association in 2007-2008. Can you talk a little bit about your work there?

Bill Cosgrove: Yeah, so that work was really fun, and it was great because it was really—I was on a board of the Ohio Mortgage Bankers in 2000. So, 2000 to 2007, that's where the SAFE Act came into play. And so I testified in the Ohio House on the bill for the SAFE Act and some of the other acts, each state off of the SAFE Act. The SAFE Act basically said the states had to create licensing mechanisms off of that. So it was a very unique time in the history of mortgage banking because sort of in front of my eyes, as I was involved in the industry, the regulatory mechanisms that are in place today were being born at that time.

Darielle Engilman: How would you describe the key goals and challenges of the Ohio Mortgage Bankers Association during the 2000s?

Bill Cosgrove: Well, I think it was what we talked about. At the time, all of a sudden you had this federal regulation called the SAFE Act that really required each state legislature to create licensing requirements for their states and so forth. So you have these new regulatory bodies that were born. And then ten years later, or seven years later, the CFPB was born. And getting something [like] a regulatory body off the ground is very difficult. And so, being there to help it being done right was important work and really rewarding. And I think the Ohio Mortgage Bankers Association did a very nice job in helping them out.

Darielle Engilman: Were there ever conversations with the Ohio Mortgage Bankers Association regarding red flags in the housing market leading up to the crisis? What were colleagues and members saying about these changes?

Bill Cosgrove: I don't think those types of conversations were being had [or were the kind] they'll have at the Mortgage Bankers Association. I think those conversations—I know at Union Home, those conversations were being held at your conference table within the four walls of your company. Those conversations were really happening inside the four walls of our organizations. So, I think at times there would be some executives—if we would see each other at social functions or industry functions—there would be some comments and some concerns with the direction of how underwriting was going and certain things that were taking place. But it was more really company to company versus the associations themselves.

Darielle Engilman: I think that's interesting that you said that it was confined within companies. There was really no cross-company spread of these conversations?

Bill Cosgrove: Not much, not really. We're competitors. So, there's relationships there and friendships, and you might say, "Well, gosh. We're seeing this situation." You might ask a friend, "What are you doing with it?" Nothing that would be tied to pricing or anything like that—collusion-type stuff—but just, life in general. How you're looking at this, and how you're looking at this piece of risk and, it's just like anything else—I think you want to learn from other people that are really good.

Darielle Engilman: Do you think it would have been better had the conversation spread from company to company? Or do you think the way it happened was inevitable?

Bill Cosgrove: I think the way it happened was inevitable. And I think it's interesting that, and I said this to regulators too, at the time that the crisis is about to happen, no one sees the crisis coming. And again, even Alan Greenspan, who was in charge at the time, didn't see it coming the way it came. But after the fact, it's easier to put the pieces of a puzzle together as they happened. And I think, again, after the recap, after the fact, [it] was [that] 2003 was a great year. '4 and '5 was slower. And so, I think lenders and real estate agents started to stretch guidelines and come up with creative ways for mortgages to be obtained.

Up until that point, delinquency ratios were low. And so, there were no indications at that moment that taking these actions would be as problematic as it turned out to be. And then even, at the time, Fannie Mae and Freddie Mac continued to lower their criteria. So, I think it was a set of circumstances that took place. And then...obviously no one foresaw the drop in real estate values. Let's say today...this is a great way to put it. Let's say today, we approve a mortgage for a family for a $200,000 mortgage loan. And the house they're buying is worth $250,000, and they qualify for that loan.

Everything's really good, right? Well, four years later, if [you have] that same family with the same income, [but] that home is no longer worth $250,000, it's worth $175,000, we've got a problem. But when we approved the loan, it was a good loan. So, I think lenders approve a loan for a mortgage loan, and then they're judged for thirty years. Some of that judgment is fair. Some of that judgment's not fair. But I think in the housing crisis, in hindsight, there was definitely a loosening of product guidelines that became way too aggressive that led to the housing crisis.

Darielle Engilman: ...How would you define predatory lending?

Bill Cosgrove: It's interesting that predatory lending is a phrase that was coined by the media and created by the media. And I would define it as mortgage lenders and realtors finding borrowers that want to purchase a home and maybe don't qualify for a home and [finding] a way for them, creatively, to qualify for a home on a loan that they don't qualify for. That's what I would deem it to be.

Darielle Engilman: What were some of the predatory lending practices you observed in the mortgage market prior to the crisis?

Bill Cosgrove: Well, personally, I didn't observe any of them at all. So, the answer to that would be none.

Darielle Engilman: I guess this question is kind of pointless after that answer, but I'll just ask it anyway. Did you observe any particular groups being more likely to receive predatory lending products?

Bill Cosgrove: Well again, I didn't see any of it happen. So, I really can't comment on that first-person. Again, at that point, there were you had—I never saw personally, but again—the attributes of it where loan officers were able to dictate interest rate to a customer, and that should not happen. That's problematic. At the same time, mortgage guidelines were diminishing on credit score. No-income, no-asset loans, low-documentation loans are highly problematic, we learn later on. And the combination of that is what I think the media deems to be predatory lending.

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?

Bill Cosgrove: I think what caused the financial crisis was a combination of circumstances that took place that really became the perfect financial storm that no one saw coming. The way I describe it is you could see this storm cloud, you could see this storm cloud, this storm cloud, this storm cloud, but no one ever saw them coming together all at the same time. And that's what happened. And I think one of the storm clouds was, again, a deterioration [and] a run-up of real estate values. I think, again, low delinquency ratios, good housing market, good financial market, and then again, there was a point where underwriting guidelines, for about a two-and-a-half-year period, started to decline and non-conforming, what was called subprime, lending became more prevalent.

Delinquency started to increase, and no one ever expected it. Nobody. There's no housing expert in America that ever expected that residential home values can go down by 40%, because then even the best underwritten mortgage loan is in trouble when real estate values go down 40%. So, I think everybody in our industry and the regulators would say [that in] the last seven years, underwriting has been very spot on and very conservative. I think everybody would say that. And I agree with that, but I'm here to tell you, if we snapped our fingers and real estate values went down 40% tomorrow, we'd be in trouble again. So there's a lot of circumstances around what happened that no one saw colliding all at the same time. I think that's the answer.

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

Bill Cosgrove: I think it's what we've been saying where underwriting matters. And I think you have to document loans. [You have] got to have documentation of loans, and the fundamentals of mortgage lending that I was taught thirty-five years ago are still prevalent today.

Darielle Engilman: Looking back on the crisis over a decade later, what do you see as its most important lessons for the industry?

Bill Cosgrove: What I just told you, that credit criteria matters. Full documentation matters. And no matter what pressures come, pressure of, let's say, a declining real estate market. To get a mortgage, two things have to happen. One is either interest rates are low, or you refinance a home, or families need cash out for college tuitions and other things. So, it's either refinance or it's purchase. And so, if no one buys a home, I'm out of business. So I think there lies the answer where no matter what happens to real estate, and whether the housing market is robust or not, the fundamentals need to stay the same. The big challenge with that is there's also some pressure at times to give mortgages to under-served markets. Well, if the credit criteria is the credit criteria, and then how do you serve under-served markets? So, there's a dilemma there in that, but I think at the end of the day, that's a dilemma that the United States hasn't figured out yet. But I think that's really the lesson: that the fundamentals need to be adhered to, because I think it's not perfect, but it means for safe mortgage lending.

Darielle Engilman: ...Is there anything else that I should have asked or anything else that you'd like to add?

Bill Cosgrove: ...So, I would say, today there's more regulation, which I think is good to an extent. I think the mortgage markets and our profession is more educated than ever before. I think the scars of the housing crisis are still there. And I still think the lessons are learned. But part of what I talk about is with this additional regulation becomes the responsibility of the government to regulate correctly. And I think at times the CFPB has been irregular at their regulation. I think there's been rules and regulations put on the books that haven't been evenly enforced and some not enforced at all.

And I think that you have situations where, again, you have dysfunction and argument between a state regulator and a federal regulator like CFPB, and then a second federal regulator like FHFA [Federal Housing Finance Agency] that they don't see eye to eye [with]. But yet, companies like Union Home have the responsibility of doing things the right way. But yet if you put three regulators in a room, they'll argue about what that right way is. So, it's a complicated process. It's a complicated system. And I think all in all, it's a better system than it was twelve or thirteen years ago. But I do believe that the federal regulators and the state regulators have a duty to eliminate their dysfunction, because that dysfunction, I think, at times can harm consumers. I think that message doesn't get told because everybody's afraid to say it because of the repercussions. So, I think that that part's there, but the last twenty years have been really an amazing ride when it comes to regulation—the eight years leading up to the housing crisis and then the eight years past the housing crisis and the financial crisis—it's been fascinating. And I think for you guys to document it and study it, I think it's great work, and it's work that needs to be done because everybody has such a different perspective.

[END OF SESSION]