AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS
ORAL HISTORY PROJECT

Interview with
Greg Sayegh

Bass Connections
Duke University
2020

PREFACE

The following Oral History is the result of a recorded interview with Greg Sayegh conducted by Maria Paz Rios on October 22, 2020. This interview is part of the Bass Connections American Predatory Lending and the Global Financial Crisis project.

Readers are asked to bear in mind that they are reading a transcript of spoken word, rather than written prose. The transcript has been reviewed and approved by the interviewee.

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Interviewee: Greg Sayegh
Interviewer: Maria Paz Rios

Session: 1
Location: Durham, NC
Date: October 22, 2020

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 October 22nd, 2020. I'm currently in Durham for an oral history interview with Greg Sayegh, former Executive Vice President at Countrywide and former Senior Vice President at Washington Mutual, who has joined me via Zoom. Thank you for joining me today.

Greg Sayegh: Got it— thank you!

Maria Paz Rios: I'd like to begin by establishing a bit about your background. I believe that you got a degree in Business Management from California Polytechnic State University. Is that right?

Greg Sayegh: Actually, no. I never finished my degree. I went to Cal Pol [and] Pomona, but never finished my degree. I got into the business world as a really young guy and was achieving or exceeding my financial goals, so I just continued down that path.

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

Greg Sayegh: I started in real estate at the end of 1977, and real estate is very closely intertwined with mortgage, so I learned a lot about the financing aspect of a real estate transaction as a real estate agent. And then in 1983, I joined Merit Savings Bank as an account executive in home mortgage. So my career started in April or May of '83.

Maria Paz Rios: And were you based in California when you started?

Greg Sayegh: Absolutely, yes.

Maria Paz Rios: How did the mortgage market change from the time you began your professional career with Merit Savings Bank to when you joined Washington Mutual in 1994?

Greg Sayegh: A number of changes— one was an expanded product. Instead of the typical 30-year fixed-rate loan program, variable rate mortgages started to surface and to give borrowers more options on managing their mortgage payment. Also, I think the number of competitors— typically in the early '80s, if you needed a mortgage, you'd have a smaller set of mortgage lenders competing for your business predominantly managed by and run by banks…. And when I went to Washington Mutual and Countrywide, by then, it was much more fragmented— many more competitors. The growth in mortgage brokers and mortgage bankers started happening in the '90s, so your neighborhood Savings & Loan wasn't necessarily the only go-to for a home loan.

Maria Paz Rios: What do you think drove this increase in market players?

Greg Sayegh: I think the home mortgage is a profitable business and it's a— I'll call it a repeatable business— in that if you're a bank or any company doing home loans in an environment where the economy is really strong, people are buying homes and building. In an environment where the economy is challenged, typically rates drop, and then you see an increase in refinances. So, it became … a good margin business [and] a company can be successful in any economic climate. You also saw an increase in home values, which meant the loan amounts that you were making were higher too, and that was a big part of it. Additionally, I believe that some of the larger banks saw the home mortgage as an anchor product— that if I was Wells Fargo and I made a loan to you as a home buyer, then I could cross sell into checking accounts and equity lines or second trustees or charge cards, that kind of thing. So it was really an anchor product for a bank, and I think that helped fuel the growth as well.

Maria Paz Rios: You also mentioned the rise of alternative products, like variable rate mortgages. Could you talk to me a little bit more about what the other products or practices that arose in the decade before 1994 were?

Greg Sayegh: Sure. In the '80s mortgage products were really created to benefit the bank or the lender more than the borrower. An example, you might have a variable rate mortgage, they were called VRMs, and there would be no cap on the interest rate, or there might be no limit on the amount of payment increase year over year. So, where that might benefit the bank, because in a rising rate environment I'm able to continue to raise my rates on that loan, it put the borrowers potentially at risk because now my payments went up and I can't afford it. And that's a bad thing. So, as you moved into the '90s, there was a balance between what's good for the borrower typically was also good for the mortgage lender. There also was more different types of products available that were ARM [adjustable-rate mortgage] loans. So instead of there being a variable rate mortgage where payments might adjust every month, there were loan programs where the interest rate may be fixed for three years and then it would adjust after. So during that initial period of time after you obtained the loan, you had some security that your payments would stay fixed and then it would increase. So there was a lot more product options available for ARM loans.

Another thing that happened, if you look at the difference between the two eras, was the qualification. When I started in the business, every loan had to be fully documented. You needed a file this thick to qualify a borrower. Tax returns, W2's, bank statements, that kind of thing. And loan qualification guidelines were pretty consistent company to company, product to product. As you moved into the late '80s and '90s, you saw the availability of quick qualifier loans or stated income loans. So you might indicate on your application that you made $4,000 a month— provided you had good credit, and you had money for the down payment, and you were buying a property that did not have any risk associated with it, potentially then income was less important. So you saw the rise of those stated income loans, but that wasn't the case when I got in the business. The guidelines were pretty restrictive and for the most part consistent across each company.

One other item to think about too is, you also saw an explosion in [the] secondary market where Wall Street started looking at these mortgage instruments as a vehicle to invest. So mortgages started to get not only more commoditized, but there were more investors interested in buying that product because one, it was a secured investment, two, it was underwritten and hopefully to well-qualified borrowers so the risk is mitigated, and three, it's a huge segment of the market. So, you look at the home mortgage as a multi-trillion-dollar industry, Wall Street started getting interested. So instead of your typical Fannie [MAE], Freddie [MAC] investors, Wall Street investors and conduits directed that business toward Wall Street investors and started to really expand the scope of the business.

Maria Paz Rios: And when would you say this was, when Wall Street started paying attention?

Greg Sayegh: I would say really, late '80s, maybe early '90s, I think you saw more of that. Certainly 1990 was probably a tipping point there.

Maria Paz Rios: With the promulgation of more diverse products, adjustable-rate mortgages and such, I'm guessing homeowners weren't always familiar with the [different] types of products. How often would you see homeowners reaching to external counseling services when they went to get their mortgage?

Greg Sayegh: That really wasn't prevalent. It was the loan officer or the real estate agent who were the trusted advisors, or the banker, who was the trusted advisor to review the loan program [and] guidelines with the borrower. There also was— in terms of disclosure and documentation that explained how the programs worked, there wasn't a standardized set of documents. For the most part, every company had their own way that they disclosed how programs worked. But I'd say generally outside counseling services really didn't even come into play until the early '90s when if you were going to do a 3%, 5%, 10% down [payment] loan, you might need home loan counseling.

There's one other thing that I just thought of that I really believe drove some of the things that we'll talk about with the mortgage crisis, and that was— buying a home became less about a home and more about an investment, I think. And I certainly saw that in California. If I was in Oklahoma, where you had very little appreciation, that may be different, but in markets where there was good appreciation, and across the country, you bought a home and you'd say, "Well, if I stay here two or three years, then I could sell it, make money, move up to the next house." So the buying patterns changed where it wasn't necessarily plant a flag and live in my house forever. It was used as a vehicle for upward mobility, and I think also that drove some of the decisions that the borrowers might make on the loan program or the house that they bought.

Maria Paz Rios: So now [moving] into the '90s, you joined Washington Mutual, if I'm not wrong, in 1994, right?

Greg Sayegh: I guess it was '93, I think, but yes. I joined American Savings in '93 and American Savings was acquired by Washington Mutual in '97 I think, or '96.

Maria Paz Rios: Could you describe the nature of your role within Washington Mutual? What elements of the origination process were you responsible for and did that change over your time there?

Greg Sayegh: For the most part, the elements did not change. I managed mortgage production through the external retail loan officer, and when I left the company, I was running the national platform for the loan officers. There were other business channels, but I managed the retail channel. In the past, the responsibility of that role managed all of the sales of the product, the marketing of the product, creating the relationship with the real estate agents, for example, and you managed all the way through to the closing of the loan. So you had processing and underwriting and closing, as well as managing the loan officers, but that also started to change around 1990, early '90s, to where most companies ended up having a sales organization and then an operations fulfillment organization. So my responsibilities changed in that I was really only responsible for sales.

Maria Paz Rios: Could you talk to me a little bit more about retail lending?

Greg Sayegh: Sure. So retail is a very broad description, but what I was responsible for was loan officers who were commissioned salespeople that reported up through my organization. They may have reported to a local market manager, who reported to a regional manager, who reported to a division manager, who reported to me. The loan officers, their job was to go out into the community and work with real estate agents, home builders, financial planners, attorneys, it might even be the bank branches, to promote our home loan products to these companies and these individual contributors. So that was what I was responsible for. I think Washington Mutual had, when I was leaving the organization, about 4,000 loan officers across the country, and that's what I would call retail. I wasn't responsible for any call center activity, the 1-800 number, or if there was business through a website— my group was all distributed outside salespeople.

Maria Paz Rios: How would you train and retain your salesforce? What sort of tools and incentives were they provided with?

Greg Sayegh: I'm going to give you a general answer, but it's pretty consistent company to company, but there may be variations. If I just take training, product knowledge as an example, everybody that joined the company had to go through a oneweek training program that was on-site. There were training videos and training material that would be sent out or communicated if there was a change in product or a new product added. We also had ongoing classes around sales, around product, around how to prospect for business, around the property appraisal process. So I've been very proud of the fact that my team and my teams were always highly trained. I always believed that that knowledge creates confidence, and to be effective at sales, especially to treat the customer right, you really need to know what you're doing. So, knowledge in the industry, product knowledge, and knowledge on how transactions work, and how to put the right borrower into the right loan, was highly critical. But it also meant that we were very limited in terms of who we would hire. If you didn't have experience, if you were new to the industry, the learning curve is so steep that we typically wouldn't hire those folks. We'd hire individuals that were experienced and that had a book of business. And again, I think that works much better for the customer at the end of the day.

Incentives were generally based on a base salary plus commission. Commission would generally be tiered based on the amount of production. So, if you closed $1,000,000 a month, maybe three loans, you would make less in terms of percentage than if you close $2,000,000 in six loans. So it was an incentive-based platform that really is pretty much in place today. Generally, there's a full benefit package, so all the employee benefits, medical insurance, 401K, that kind of thing, they also would earn. I'm not sure if there's anything that I didn't answer that you were looking at.

Maria Paz Rios: Since the compensation was volume based, within your sales force how would you always make sure that all your sales officers were prioritizing putting the right borrower in the right product?

Greg Sayegh: So to me, I think you gotta be proactive and you gotta train across the product line. And there was enough business intelligence to see if the loan officers were selling one product, that typically meant that they didn't understand how the other products work. Again, knowledge equals confidence. So we would use business intelligence to say, "It's unrealistic that you're only selling an adjustable-rate loan when 40% of your peers are selling fixed rate loans as well." So that would be one way. At both WaMu [Washington Mutual] and Countrywide, there was a lot of data around disparate lending. So whether we were meeting the needs of the communities, was there a disparity in terms of percentage of loans being made to African Americans in a predominantly African American market, things like that. We also would look at pricing and say, "Is there a disparity in how you're pricing loans? Is borrower A getting a different price than borrower B?"

But again, for the most part, our pricing was locked in. They couldn't just select a rate and give it to the borrower. They really had limitations in terms of how we priced. So, the goal was to be consistent in how we offered individual pricing structures for each customer. Might there be loan officers that were all about making the sale and not really taking the time to explain the program to the borrowers? Sure there were. There were loan officers that would close a deal, they wanted to get the application, go through the application process in the shortest amount of time possible, which meant that they may not have taken the time to fully explain how each program works. Could that be true? Absolutely. And were there loan officers that I noticed doing that? Sure.

I'd say for the most part though, I think that based on the business intelligence, we could identify them and address any shortfalls there. The beauty of mortgage, and even at that time, was the loan officer might meet the customer and go through the loan programs, options. There would then be a disclosure sent to the borrower that was not sent by the loan officer— that was sent by what we might call an "opener position", that would disclose the programs, the rates, how it works. And then lastly, before closing, there would also be another disclosure that would do the same thing. So the borrower had multiple opportunities to understand the program, but I'm not naive enough to believe that they read everything that they received.

Maria Paz Rios: How was the dynamic between the wholesale division and the retail division in terms of competing against them [wholesale], since they were using third party lending through brokers? So how was that felt internally within the institution and also how was that felt by the officers themselves?

Greg Sayegh: That's a great question. Loan officers by nature are competitive and they're also somewhat provincial, right? They believe their way is the best way. So we had a policy that whoever took the application first, it was their loan. And even if it meant that we would lose the loan, then we would rather lose the loan than impact the loan officer or the mortgage broker client. We never wanted the perception that we were going to cannibalize our own business. So it was first application in wins, and if the borrower chooses to go with the other provider, then they'd have to go somewhere else. But was there competition? Absolutely. Was there a belief that if I was a retail loan officer that wholesale had an advantage? They might think they had a better advantage— price advantage, or whatever. They'd always point to retail as “retail got better underwriting guidelines”, and that might be true because we knew the borrower, right? We met the borrower, we understood their intentions versus maybe working through a third party. But what's really interesting about that whole dynamic there is— we priced the same. So if you went to a loan officer or through wholesale through a mortgage broker, the broker could not offer a price that undercut retail. And we structured our rate sheets that way to make sure that we didn't build in disparity by channel.

Maria Paz Rios: And what about internally within the institution at a higher level, within management? How was that felt too?

Greg Sayegh: Well, I always look at the apex— where do the channels meet? And at Washington Mutual, they met at the president of home mortgage. So where I might be the head of retail and my peer was the head of wholesale, we still reported to the head of mortgage, and the buck stopped there. And I think what happens— in every organization that I've worked for, the more senior level leader for the most part is thinking more about the enterprise than they are about their own business unit— the success of a company. And that's where I think when you look at incentive programs— and there might be stock-based performance or stock-based compensation— is you want your senior level leaders thinking about what's best for the company. Not necessarily what's best for my team. And I'm pretty proud to say that for the most part, we experienced that.

Countrywide was a little bit unique in that, at WaMu, the apex was lower. At Countrywide, the apex was at the top of the house. So we never really met, communicated with, engaged with, our wholesale peers or other channels at Countrywide. At WaMu, we would have sales rallies together, we'd have business meetings together, we would have recognition events together, where at Countrywide, it was siloed for the consumer markets group. And I think the relationship we had at WaMu was really strong for that reason. The president of home loans, a gentlemen named Craig Davis, really understood that dynamic and he managed it beautifully.

Maria Paz Rios: What prompted you to move to Countrywide? And how would you describe the different cultures within Washington Mutual and Countrywide?

Greg Sayegh: You've done your homework. That's a good question. I really loved the company, at WaMu. Loved it. Loved my team. I feel like I was a big part of the development of a company, from American Savings, [a] California based company, to the WaMu acquisition, and then ultimately being the number one lender in the country. But there was a change of leadership. The gentleman that hired me into the company, Craig Davis, who I mentioned, left the company and they replaced him with a gentleman that came from an acquired company. And to be honest with you, we were oil and water. Totally different. I probably could have been a little less cavalier, and I think he could have been a little more supportive, and at the end of the day, I just said, "You know what? We have philosophical differences. You're in the seat that I'm not, so I'm going to leave." So that's what prompted me to go to Countrywide. I just did not have a positive experience in being underneath that individual's leadership. [Then I] went to Countrywide and Countrywide at the time was growing, they needed somebody with my background that came out of the bank environment versus a mortgage bank environment. I think I was the first bank senior leader that they hired in the organization. So, they needed somebody with my background and so that was a good fit for me.

Culturally though, Washington Mutual was much more of a simple company to operate in. They really believed in basic principles of customer service, recognition, positivity, a learning environment, and collaboration. Very easy company to navigate through, and I'm gonna use this term and I know it's going to be on video, but they kind of dumbed the business down. They dumbed it down so that each individual had to manage two or three disciplines effectively to be successful. And it was positive and supportive, and even though it was competitive, it was complementary. Countrywide was the opposite. Countrywide was highly competitive, male dominated, kind of caustic at times. Really though, treated their management team up, down and across, as mature leaders. They managed a much more complicated business. They allowed their managers the autonomy to make decisions where WaMu was more— there was less autonomy. The control was really pushed up. Countrywide pushed the control and the decisioning down to the local levels. And I think that helped develop leaders more so than maybe I saw at WaMu.

Countrywide understood it was a complicated business, and in terms of— to give an example, we would have a two-day meeting monthly to go through a stack of reports like this, and the meetings might be from eight to eight, [for] two days. And we'd go through every metric— very, very metric focused. WaMu was much more about market share, customer service, recruiting, and loan officer productivity. So completely different cultures. And I'm not saying one's better than the other, but Countrywide was known as a pretty tough place to work for that reason. Culturally, there was a lot of friction.

Maria Paz Rios: What were some of the metrics that you would evaluate within Countrywide?

Greg Sayegh: It would be— I could send you the stack and you probably would be bored to death— I'm just kidding you. But it might be volume growth in units and dollars, it might be volume growth per loan officer, an average productivity, service timeframes, cost per loan, commission expense (variable) versus fixed expense net profit, might be profit per product. Might be recruiting— how many loan officers did you hire? How are they doing? What is their ramp time? What's your turnover percentage? How are you doing against your peers? Loan quality statistics— were you closing loans with deficiencies? What's your fallout rate? What kind of adverse action experience do you have, or are you denying certain percentage of loans? You might look at ethnic makeup, so in terms of pricing disparity or lending disparity, that might be the metric you might look at, but there were many.

Maria Paz Rios: It seems like many of these metrics are volume driven, for example, “how many officers did you recruit”, whilst at Washington Mutual you mentioned that you really emphasized the training of the officers. So I guess you have to forego a bit of volume [of officers] for a bit more training, and you also mentioned that training was the [mechanism] for placing the right home buyer with the right product. So it seems like at Countrywide was a bit more volume oriented [than Washington Mutual]. Do you think that translated into less supervision of the loan officer's practices, or less training, or how do you think that translated?

Greg Sayegh: Countrywide was an amazing training organization. So I don't think the training made a difference. I also don't think it had to do with a focus on volume over WaMu. It also was not related to the recruiting in terms of who you're hiring, because for the most part at Washington Mutual, we recruited experienced loan officers. At Countrywide, we would not take chances and hire folks that did not have experience. I think the difference may be the level of autonomy, that when you push down decisioning down to a lower level, you may lose some control in terms of the kind of decisions that are getting made, whereas at WaMu, where you're pushing the decisioning up higher, it's easier, I think, to manage to a more standard set of requirements than when you're letting your field managers make their decisions.

At WaMu, the sales managers and production managers did not have responsibility toward credit decisions. At Countrywide, that peer position also managed credit. So I'm in the same office, if I'm a loan officer, with my underwriter. And if the underwriter didn't like my loan, I could sit in front of the underwriter and negotiate and push to try to get that loan made, where at WaMu there was distance. And I think they both work well, but I think it had all to do with, if you have individuals that have autonomy, but they don't have the right intention, or they don't have the right skill level or experience, you might have some bad decisions getting made— where those decisions, basically due to that "dumbed down" factor, were taken away from that peer position at WaMu.

Maria Paz Rios: Within Countrywide, you were also within retail [lending], right?

Greg Sayegh: Correct.

Maria Paz Rios: So at Washington Mutual, … whoever the borrower picked, you'd go with and you would have identical pricing. Does the same hold true for Countrywide or how did that territorial dynamic work at Countrywide?

Greg Sayegh: It was the same. There might be local market adjustments where, an example, if I'm in— where are you at?

Maria Paz Rios: North Carolina.

Greg Sayegh: Okay. So if— I'm just trying to think of a parallel— if I'm in one market, the competitors that I'm competing with in that market, I may have to align my price with those competitors. If I'm in Charlotte, then my list of competitors may be different, thus their pricing structures may be different. So I might adjust my pricing by markets at a Countrywide, where WaMu had a much more of a standardized pricing structure around the company. There wasn't as many pricing markets at WaMu as there was at Countrywide. But, going back to that same autonomy conversation, the branch managers at Countrywide had the ability to make pricing exceptions based on the profitability model, where [at] Washington Mutual, they had ability to make some pricing adjustments, but really very limited. So again, going back to that same premise, if you had a manager who had the wrong intention, or wasn't trained, or made bad decisions, they might create pricing disparity because they had the authority to make decisions there versus at WaMu, that decision was taken away.

Maria Paz Rios: To what extent, if at all, did figures within Countrywide express concerns about the changing nature of credit extension during the '00s, and then did those concerns lead to any significant internal debates or changes in business practices?

Greg Sayegh: That was at Countrywide you're talking about, right?

Maria Paz Rios: Yeah.

Greg Sayegh: Yeah. I think there were— I'm trying to think about this the right way. It's a complex business, so you might see property values, and that was at an era, a time, when you saw a real explosion in the industry around stated income loans. Stated income loans now with lower down payments and reduced credit requirements. And there was a period of time where Wall Street would buy product that looked like that— 10% down instead of 20%, [a] lower credit score versus higher credit score, stated income versus a fully documented loan. So you started to see that the majority of the business was moving that way. It was cheaper to process, borrowers could extend out and buy more because we're using the income they stated on their application to qualify them. But absolutely, there were conversations around, “Are we at a point at Countrywide where our property value is going to continue to climb?” Because I think the additional— borrowers could qualify for a higher loan which in essence pushed up price more. So I think we were concerned about, “Are we seeing property appreciation continue at a rapid pace in most markets? And is that healthy? And is it sustainable?” So, absolutely, there were discussions around that. But like in any competitive business, you're looking at who you're competing with, and if you don't offer it, someone's going to offer it. And if they're offering it, then we want to offer it.

Here's the other thing that I noticed, and this is a personal opinion. Everybody talks about predatory lending and the mortgage lender as the problem. But you would have real estate agents or home builders that they're telling you, "If you don't qualify for this loan, then I'll take it to another lender." So you had real estate agents maybe potentially putting buyers into homes that may be beyond their reach, or home builders that were taking advantage of the property appreciation, who also were more focused on selling homes than they were about making the right decisions— you're renting an apartment for $1,200 a month, and now you're going to buy a house for $4,000 a month. Is that realistic?

So I think it's a basket of issues. Ultimately, the lenders want to approve a loan, but I think it became highly competitive and I think those companies that thought that the merry-go-round was never going to end, were foolish. And I saw that throughout the industry, but absolutely, we'd have debates. And they were always interesting debates at Countrywide, but I think Countrywide went in with open eyes. I don't think there was any nefarious things happening, at least at the levels I saw, where we were trying to do the right thing for the right reasons, but the market just got overheated for all the factors that I shared.

Maria Paz Rios: Within those discussions, what were some of the sides that were being taken? What were people saying, were people raising red flags?

Greg Sayegh: Yeah, for sure. And it might be red flags based on— we would look at, again, all the metrics. So we'd see average FICO scores and average loan-to-value, so down payment, we'd see that. And we'd start to see maybe FICO scores declining, which meant that we're broadening the net maybe a little bit too far. So there was those that said, "We've got to tighten our standards." There were others that said, "Yeah, but we've got to remain competitive because there are now ten other lenders doing this and we're the leading lender in the country and we have to remain competitive." So yeah, you'd have those two camps. And I think we did our best. And remember, because you had decisioning down to the field level, sometimes those communications up top didn't always percolate effectively all the way down, or there might be a time gap between these conversations happening and the time it took to change a policy and get it integrated within the system, and then for behavior to change.

Maria Paz Rios: You mentioned predatory lending previously. How would you describe predatory lending?

Greg Sayegh: First, I think predatory lending is, to me, I'd describe it as the intention to take advantage of a borrower based on their lack of knowledge. Maybe based on an advantage you have because you know the business, giving borrowers a loan program or an option that really may not have been the right option for them. Predatory lending might be, "I'm going to make every penny, as much money as I can on every loan", and to the detriment of the borrower, where I might just overcharge— that kind of thing. But typically, it's with the intention of doing that, or where you have business practices without oversight that allow those behaviors to happen. To me, at the end of the day, it takes— a mortgage loan is a complex instrument and to really help the borrower in the way they need to be communicated with, help them understand the loan they're getting. And predatory lending to me also means that you're putting the borrower into a loan without full information or full disclosure, knowing that it may not be the right fit for them. Typically it's intentional, but there may be some unintentional behaviors as well that caused that.

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 the crisis?

Greg Sayegh: This is my opinion you're asking, right? I gotta think about that for a second. I think it was a number of factors that were not entirely the responsibility of the mortgage lender, and I'm not advocating authority or responsibility, but there were a number of players involved from the rating agencies, to Wall Street investors, to mortgage lenders that were trying to take advantage of an extremely hot market. You had real estate agents who were enjoying the rapid appreciation, and you basically couldn't make a mistake— if you bought a house, you're going to make money. So if you couldn't afford it, don't worry about it, a year from now, sell it, and make money. From property appraisers, who I think were either untrained, certainly unlicensed, that maybe were directed by the mortgage lender or the real estate agent to meet this appraised value. I think home builders also played a part in maybe how they would price their homes and how they might profile the home buyer.

At the end of the day though, I think the mortgage lenders, because it became commoditized and it became highly profitable, I think the mortgage lenders were so focused on competition and profit, that I think that they didn't pay attention to some of the signs that were pointing toward a future correction. I think that they felt that this growth in production would never end, and we all know that markets cycle. And I think that there was too much optimism about how this might continue on forever, that there wasn't significant controls put in place. I can tell you at WaMu and at Countrywide— I'm pretty astute and very close to what's happening— I did not see anything that was overt around doing things you shouldn't do; putting programs out there that we knew were going to hurt the borrower, or misrepresenting, or taking advantage of customers through disparate pricing or unfair lending practices. I never saw that. I might see bad behavior by individuals. I might see a lack of oversight, or a lack of paying attention. But I think at the end of the day, the market got overheated and highly competitive and I think there was a belief that this will never end, and I think that was foolish.

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 2007, 2008?

Greg Sayegh: Great question. So I've been in the business since '83. I've been a licensed real estate agent since 1977, although I haven't been a real estate agent, during that period. I know the business well. I've grown up as a loan officer moving up to senior and executive level ranks. I've worked for mortgage banks and banks. I've worked through various market cycles, and so I think I have the experience level to view, maybe what happened, through the evolution of the mortgage [market]. And also though, seeing a company like a Washington Mutual that was challenged, and a Countrywide that was challenged, for two completely different reasons. So, that's why I think I'm probably unique in sharing my experience.

Maria Paz Rios: When you say they were challenged on completely different grounds, could you talk a bit more about that?

Greg Sayegh: Yeah. I think Washington Mutual, I think, struggled— when I left WaMu, a new leadership team came in who I think may not have made some of the right decisions to protect the company or take the company in the right direction. I saw a challenge with Washington Mutual in that there was explosive growth in the subprime business, and our interest and investment in subprime ultimately I think hurt the company in the long term because you saw the credit profiles expand, so you'd have— an example, and this is just off the top of my head, but I know that our subprime arm when I was there was doing, we'll say a billion dollars a year in volume. And I think after I left, they were doing a billion dollars a month in volume, in subprime. And then when you see a change in pricing to where in the past, you could price toward the risk. So if you're taking a higher risk on a loan, you would be able to create enough yield to potentially offset the risk. Well, those boxes started getting closer to where you'd have now a lower price loan for a higher risk, and you didn't have enough revenue to offset the risk. And then when the crisis hit— and I wasn't there, obviously— when the crisis hit, those were the borrowers that I think were the most challenged. They'd had historic issues with their credit management, and you had equity to protect you, but now when property values dropped and you no longer had any equity to protect you from a loss, and you certainly weren't generating enough revenue on that loan to set it aside to offset any shortfall, then that was bound for bad things.

So I think WaMu had a lot to do with the subprime, where I think Countrywide issues had more to do with just the explosive growth and then the impact of the scale with the collapse of the market. I think it was totally different. One of the things that I'll say though, and this is something that I firmly believe in, and I'm sure you, and maybe your peers might completely disagree with this, but I'm a firm believer in ARM loans. I don't believe that they are predatory. I don't believe that they're exotic instruments. They're not for everybody, but when I first started doing this option ARM— have you heard of an option ARM?

Maria Paz Rios: If you want to briefly describe it, that would be great.

Greg Sayegh: Yeah. Option ARMs were our loans where the borrower would make the payment at a reduced interest rate, so the payment was tied to a reduced interest rate and your payment was locked in for 12 months, but the interest rate might fluctuate and you might defer interest. So [if] you're not paying enough, your payments are not enough to cover the interest. So that interest gets added to the loan principal. In the past, when I started doing that, there were restrictions around the credit profile of the borrower, the loan-to-value, how the loan was structured in terms of the parameters of the loan product in particular, qualifying criteria, and so on. And it was a very safe loan and had been forever. And then I think as the option ARM became more prevalent, lenders started to massage some of the eligibility requirements. So instead of a 30-year loan, they'd make 40-year loans. Or instead of a 20% down, they make it 10% down. Instead of it being a fully documented loan, they would allow an option ARM to be a stated income loan. And it was never designed for that.

And I think also companies didn't understand the intricacies [of] how it worked and they maybe quoted the program wrong to the consumer. But ARM loans are safe if they're written right and underwritten correctly— they're not for every borrower, but I really feel that when they became exotic, considered exotic loans, and predatory, I think that was a mistake. I think they're good loans, but I think that they were never designed to do what they ultimately did. And WaMu did a great job in selling the option ARM. We had very low delinquency, we trained our people, we knew it wasn't for every borrower, but other companies that had the option ARM later on, basically it was just a product that they just put in the arsenal without really fully training everybody on how to present it to the borrower. It got mis-presented— not misrepresented— mis-presented, to the borrower. And I think borrowers may have opted for that loan, which may have been the wrong loan for them.

Maria Paz Rios: What are some products that you do consider to be more exotic, perhaps more predatory?

Greg Sayegh: There's really not many of out there today. I think that the old subprime loan, I think was potentially a predatory loan program because it was based on equity in the property and the equity was more important than the credit profile, or the borrower's ability to pay. So I might think that might be predatory. I think that many of the guidelines that have been written post-recession, I think has really standardized not only the documentation that goes to the borrower— I think it's much more clear to the borrower in terms of the loan they're getting; where I think in the past, every lender had a different way of disclosing how the loan programs worked, and so that may have caused the borrower to take that loan that they may not otherwise have taken. But I would say that would be the only thing I might look at, but I don't know if that's even available today.

I mean, now that you've had compensation changes where loan officers aren't paid on the type of loan you bring in, I think that that's a big step, and that's been in place for a number of years. I think the disclosure process today is much more borrower friendly than I think it had [been]. I think the level of oversight is appropriate today. Not to simplify it, but that was a period of time when the market was overheated and that everybody was a genius because like I said, you could buy a house today and a year from now make money and assume that you were smart. And they thought it would never end... I don't think there's many predatory loan programs out there anymore. Even subprime, you don't see much anymore.

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

Greg Sayegh: One is, really, do the right thing. Always do the right thing for every constituent— the borrower, the lender— putting the borrower into the right loan to help secure their financial future is good business. Two, is I think, that the disclosure process is not a bad word. Disclose to the customer in real world the loan they're getting and continue over time to make sure they understand the loan program. I think those are two good lessons. I think that another lesson is that, be careful that you don't overreact and change guidelines or restrictions or rates or requirements to a point that now borrowers that should be able to get a home loan can't get a home loan, or make decisions that are gonna drive the cost [to] … make it prohibitive. So take a balanced view of the business, understand that it's a dynamic business, and economic cycles and market cycles change, and anticipate those changes in advance. I also believe lastly in trust but verify— always pay attention to what the numbers are telling you. And if you're seeing disparity or you're seeing that a company is just doing incredible in this one area, dig deeper to really understand what may be driving that, it may not be nefarious or bad. It just may be, they may have a great idea, or maybe they're going about something the wrong way that they need to get corrected.

Maria Paz Rios: Thank you very much for joining me today, Mr. Sayegh.

Greg Sayegh: You got it. I appreciate the time and have a great day.

[END OF SESSION]