AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Andrew Peach

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Andrew Peach, conducted by Darielle Engilman on December 3, 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: Andrew Peach
Interviewer: Darielle Engilman

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Darielle Engilman: I'm Darielle Engilman, an undergraduate student and member of the Bass Connections, American Predatory Lending and the Global Financial Crisis team, and it is December 3rd, 2020. I'm currently in Los Angeles for an oral history interview with Andrew Peach, the current Senior Vice President of Correspondent Sales at Mr. Cooper, who has joined me via Zoom. Thank you for joining me today.

Andrew Peach: My pleasure.

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

Andrew Peach: That's correct.

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

Andrew Peach: After I completed my studies at the University of South Carolina, it just so happened that one of the largest mortgage lenders, Fleet Mortgage [Fleet Mortgage Corp], was located in Columbia where I attended college. And so, just through networking, I got introduced to that company and ended up landing there. I also did some work in the late years of my college years working for a real estate law firm there in Columbia. And so, [that] kind of got me interested in both commercial and residential real estate lending and led me into the launch pad, if you will, for my career in mortgage lending, which was starting my career at Fleet Mortgage in Columbia, South Carolina.

Darielle Engilman: And how would you characterize the key changes in the overall residential mortgage market between 1994 and 2008?

Andrew Peach: So I got in in 1988, and I would say that even prior to 1994, you just had this steady progression into what I'll call a really very active secondary market for the trading of mortgages. And so you kind of saw this specialization of labor, so to speak, where people who specialized in the origination of mortgages—which might be banks, might be mortgage bankers, might be brokers—that started to grow. The number of independent mortgage bankers, the number of mortgage brokers started to increase over time. And then you had people who specialized in the securitization of loans, people who specialized in the servicing of mortgages. I think you just had this progression over time where that specialization of labor really drove a very, very, active secondary market where mortgages were originated, closed, and then changed hands and were sold in the secondary market. And you just saw that secondary market activity really

just grow dramatically in size, let's say, from my point of entry in the business in 1988, up until that point in time, the beginning of your timeline, let's say in the mid-90s, and then beyond through the great financial crisis timeframe.

Darielle Engilman: Could you describe the nature of your role within Bank of America? What elements of the origination process were you responsible for, and did that change over time?

Andrew Peach: I did a number of different things in Bank of America during my eleven-year tenure there. I would say during the first, let's call it, half of my tenure at Bank of America, I was involved in the secondary market side of the business—the purchasing of loans from other mortgage lenders around the country in what we call the correspondent lending business. We did business with companies that we had purchase and sale contracts in place for the ongoing purchase of individual mortgage loans that those companies would originate. They would sell them to Bank of America. We would then use our expertise to securitize those loans and sell them into the secondary market. And then we would typically retain the servicing, or the right to collect the payments on those loans and have a relationship with the borrower over the life of the loan.

And so I did that for about the first half of my career. And then after that, I moved more into what we'll call the retail side of the business, meaning we were making loans directly to borrowers and consumers, primarily the customers of Bank of America, more often than not. I spent a couple years in a role where I was managing the team that did that through call centers, so more over the telephone and the internet. And then [I spent] a couple of years in a role where I was managing the team that originated loans for Bank of America through their retail mortgage lending branch network nationwide.

Darielle Engilman: You said that during your time working in this retail lending sector, you were making loans directly to homeowners. And we know that at this time wholesale and third-party lending was becoming increasingly popular. What strategies would you employ to compete against these other [players]?

Andrew Peach: The good news for us, or at least for Bank of America at that time, is that Bank of America served millions of households. The mission that Bank of America had was to serve those millions of households—their credit card customers, their checking account customers. For the most part, we were marketing to those customers where we had some degree of affinity or connection with them that we could do business with. And so, that served us well from the standpoint of being able to compete, so to speak, against brokers and against independent mortgage bankers who might've been competing with us in those local markets. One of the areas that we were probably challenged was just around the size of the credit box that we were willing to lend into because one of the big things during that timeline of say '95 to 2005, and then even through to 2007, was, obviously, credit loosened pretty dramatically. And some people were more willing to loosen credit than others. I would say Bank of America, from a standpoint of what we did with our retail lending directly to Bank of America

customers, was a lot less willing to expand the credit box the way a lot of other lenders were.

Darielle Engilman: And in your time at Bank of America, what was the dynamic between brokers and loan officers like? ...

Andrew Peach: Well, ... [T]hey were kind of competitors. A mortgage broker was another option through which a consumer could get a mortgage loan, whether that was to refinance, whether that was to purchase a property, whatever the case may be, versus what a retail loan officer with a bank might do. I would say that, one of the calling cards of a mortgage broker was that they tended to operate in a much wider credit box from the standpoint of the clients that they could lend to. A... [Y]ou had significant expansion in the space of subprime mortgages. There was also, [which] you guys have probably talked about through the interviews that you've done, what they call Alt-A mortgages, which was theoretically, let's say, the credit space between a pure prime mortgage and between a subprime mortgage. What you found was that brokers were probably operating more fully in that Alt-A and subprime space than, say, a bank loan officer.

Darielle Engilman: At Bank of America, how would you train and retain your loan officer sales force? What sort of tools and incentives were they provided with?

Andrew Peach: Mortgage loan officers typically are paid very high levels of incentive pay, variable pay. They're really paid commissions on the loans that they originate. What you tended to find with loan officers at Bank of America, one of the big issues at that point in time in that cycle of the market, was that people got paid off of what was known as yield spread premium. I… And it was pretty common, for example, one of the contrast maybe to the answer to my question before, is that brokers got paid off of yield spread premium. And so, if there was a premium above the par rate, and they were able to sell a higher rate, then they typically were rewarded by being able to pocket that premium above the par rate. The way we operated in a bank environment, we tended to try to limit that kind of a reward for our people.

And so, we tended to have more limitations on those activities. Now, there were opportunities for people to get somewhat compensated on yield spread, but by and large, we tried to drive compensation just based on a straight calculation of basis points of pay against the loan amount being originated. And typically speaking, a bank mortgage lender was more than likely going to pay lower basis points than an independent mortgage bank company would to their originators or than what a mortgage brokerage firm would pay to their originators. And we were probably going to be much less generous about how we shared in or paid in a yield spread that was present in the way that that loan was structured with our loan officers than you would probably see in a broker or an independent mortgage banker in that particular area of the business.

Darielle Engilman: In your experience, how did these loan officers tend to view their relationship with borrowers?

Andrew Peach: First of all, I would say one of the things you have to keep in mind is that these loan officers, for the most part, tended to view these relationships as something that was coveted because in the end, they wanted repeat business. And so, you want to handle that customer in such a way that that customer wants to do business with you again. The other thing is that many of those loan officers were doing a lot of purchase origination activity, meaning some loans were for the purpose of refinancing an existing mortgage, other loans were for the purpose of buying a new property. And so a lot of those loan officers tended to do business by getting referrals from realtors, builders, folks that are in the business of selling homes. They were calling on those folks in order to get referrals of their customers in order to be able to originate purchase loans for those customers.

So, you had two factors. One, you'd like to get repeat business from the borrower themselves, but more important, your real flow of repeat activities or repeat business was coming from getting repeat referrals from a realtor or repeat referrals from the broker. So, you want to handle those customers very well. You want them to be happy with the transaction because that's really the key to continuing to get that referral business.

Darielle Engilman: And so going back to the previous question, do you think that these compensation practices contributed to the crisis?

Andrew Peach: In general about the compensation practices going on in the marketplace? I would say yes. For example, you look at Bank of America where I worked, [with] banks, typically, it was less pervasive and they were less likely to offer aggressive compensation tactics that would contribute to those situations. But I would say a lot of what contributed to it was the buyers of loans offering very high premium pricing that created these yield spread opportunities, and then folks being motivated in order to earn the highest possible earnings on a loan then taking advantage of those yield spread opportunities in the way they structured loans with borrowers. For sure, did compensation practices influence and arguably put certain folks who would have been involved in making loans either as loan officers, brokers, whatever, in a situation where maybe their motives were in conflict with borrowers? I think there's a strong argument for that, for sure. But there were also other factors like how loose credit got, and things of that nature too, that that certainly contributed to that as well.

Darielle Engilman: How would you describe the key goals of Bank of America in the years before the housing boom of the 2000s? And did those goals change in any way during the early stages of the housing boom?

Andrew Peach: I think interestingly enough, Bank of America actually made an acquisition of Barnett Bank in Florida in the late 90s, so right on the doorstep of that housing boom in the 2000s. Barnett actually owned a subprime lending company. I can't

remember the exact timeline, but at some point along the way, and before you got too deep into the housing boom in the 2000s, Bank of America actually made the decision to exit that subprime lending business. And when they did, there was a strong view within the company that they did not want to re-enter that business. So even as the world around Bank of America was ramping up that kind of activity, Bank of America was sticking to its decision to not re-enter that business and not want to expand the credit box from that standpoint.

So interestingly, I would say Bank of America was very consistent through the timeline by not pursuing subprime loans, not doing adjustable-rate mortgages with negative amortization, which was another big contributing factor to the issues that occurred. And so the goals remained pretty consistent from a standpoint of really being focused on operating within a pretty well-defined credit tolerance/credit box and focusing on trying to increase the share of mortgages that Bank of America had for the clients that it served—what we called the core banking clients, so people that were checking account customers, credit card customers—trying to serve the mortgage needs of those clients. And so [Bank of America] did actually, interestingly, stay pretty consistent at a time when the world around them was shifting.

Darielle Engilman: [W]hat prompted you to move to Aurora Loan Services? And how would you describe the different cultures between Bank of America and Aurora Loan Services/Lehman Brothers?

Andrew Peach: I think a lot of the things that drove the shift from my standpoint were really about personal relationships and the people that you knew. At Bank of America, they went through a pretty massive restructuring of the mortgage lending operation and the way they aligned that within the company. As a result of that, a lot of the people that were the folks that I was close to, had close, strong working relationships with throughout most of my career, that were there throughout the mid to late-90s when I joined the company and then into the 2000s—that restructuring was causing a lot of those people to leave the organization, to retire, things of that nature. And so I think just through changes organizationally, I became open to the idea of leaving the organization and looking to do something else.

Lehman Brothers was an organization that was growing dramatically at that time, having a lot of success in the mortgage space. And so I was interested in going to join them and seeing how I might contribute to that and how I might be a part of that growth story that they were experiencing at the time. And there were a few people there that I knew and had past relationships with as well, which also made it a little bit more comfortable to step out of one organization and step into another. I think what I've found is an organization that was very different because Bank of America was an organization that was going to be focused on lending to what I'll call a very prime borrower, a borrower that was going to be more than likely a Fannie Mae [Federal National Mortgage Association] or Freddie Mac-eligible [Federal Home Loan Mortgage Corporation] loan, more than likely a prime jumbo borrower. Bank of America was just trying

to figure out how to really reignite itself and FHA [Federal Housing Administration] and VA [Veterans Affairs] lending as I was leaving.

Whereas Lehman Brothers was a company that was very focused on a non-prime borrower. I worked at Aurora Loan Services, a company that was focused on Alt-A lending—so the type of credit that was between the subprime and the prime. When I got there, that borrower was a borrower that was probably going to make a pretty substantial down payment, was probably pretty likely to be a self-employed borrower, which made it a little bit more complicated to document their income in order to sell those loans to Fannie Mae and Freddie Mac, be eligible for a prime jumbo loan. And so, we had a very good business serving that kind of borrower. And we did well with it, and the loans performed well.

But it was a different perspective for two reasons. One, we were dealing in a different credit box, and number two, it was a very different model because you were attached to an investment bank. So, you were a mortgage origination platform called Aurora Loan Services attached to an investment banking firm being Lehman Brothers. And Lehman Brothers was interested in that mortgage origination platform because they wanted to be able to source mortgages to bring them into their platform that they could securitize and sell into the secondary market and then make money and profits off of that securitization process.

Darielle Engilman: [T]o what extent, if at all, did figures within Aurora Loan Services express concerns about the changing nature of credit extension during the 2000s? And did any of those concerns lead to significant internal debates or changes in business practices?

Andrew Peach: I think there were a lot of healthy debates that occurred about the topic because I think what we saw as a company was [that] Lehman was an early adopter or an early innovator in at least the Alt-A space and perhaps even in the subprime space too. I tended to see more of the debate around Alt-A than I did get exposed to the broader debate around some of the subprime properties that Lehman had, just because of where I was positioned and what I was doing for the company. But I think the bottom line was that the conversation that we had was, as people saw the success that a company like Lehman or some of the others that were earlier to that game were having, others said, "Hey, I'd like a piece of the action; I'd like to get into that game."

And it was a fairly specified market. I mean, the challenge was more people wanted in the market than there was ...a sustainable, viable market size to support them. It would've gotten split up into two smaller pieces. And so that tended to kick off activity where people started widening out their credit box in order to create more activity in that marketplace and create more opportunity in order to be able to go and source loans, securitize the loans, and turn that into profits and revenues on the backend. And so we would have a lot of discussions about when we would see people move the credit box out. Should

we follow them? Where should we go? Maybe not trying to completely follow people to every end of the new box if they would expand it, but were there places that made sense versus places that didn't make sense?

And so there were a lot of conversations like that that occurred, even though you could look at the ultimate final conclusion of how things ended up for Lehman and say, "Gosh, it's hard to believe they actually would have had dialogue like that given the fact that the company ultimately ended up having to declare bankruptcy because of the amount of those loans that they were holding on their books at the end." In the end, I think the company attempted not, at least from an origination perspective, to move into an area where it was buying negative amortization loans, but ultimately found ourselves where we felt we had no choice and started trying to offer them, but offer them in a way that we thought that the risk was acceptable. And so, [we] ultimately ended up moving into that part of the market just from competitive threat.

Darielle Engilman: Was there pressure from secondary and tertiary market developments on demand flowing back to local originations?

Andrew Peach: Can you clarify maybe more precisely where you'd like me to focus with an answer to that.

Darielle Engilman: More or less, were there Wall Street banks that were pressuring lenders to keep originating these high volumes of loans to be able to supply the CDOs [collateralized debt obligations] and things like that?

Andrew Peach: I think, without a doubt, there was a lot of conversation there in order to try to keep the volume flowing. I don't know that I would necessarily characterize it as pressure, but there were definitely sales and marketing efforts there. And I think there were definitely efforts in order to try to demonstrate how you could go out and be successful with those products in the market—at least successful from an origination perspective. If you're going to say success is ultimately someone being able to close on that loan and keep their home, we can debate whether that metric of success was met. I think history would show that it wasn't, but the reality of the situation is, at least from the standpoint of being able to go out and source business and bring business in the door, I think there's a lot of dialogue about how to market the product, how to identify borrowers and bring them on. And there's a lot of focus on trying to keep the spigot flowing for sure.

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

Andrew Peach: ... I think that lending practices changed more than anything else. Maybe this is more about trends and whatnot, but I think that there were several things that changed, or that became more prevalent, during the 2000s that were really just small slivers of what was going on in the business. And so you saw a couple of things going on.

Number one is just documentation requirements. Bottom line was, when I first got into the mortgage business, everything was full documentation, meaning that we had to get evidence of your income, evidence of your deposits. We had to get verification of a lot of things in order to make sure that we felt like that you had a borrower who had the ability to repay, as we call it now. And so, what you saw was this view of the world that said, "Hey, you know what? If you've got a high enough credit score, we don't need to worry about that. We can relax on the documentation standards." And so we allowed people to do things like stated income [stated income loans], where they could say this is what they made. And even if you look at what we try to do at Lehman Brothers, we had a reasonableness test in order to try to back that up. I don't even think every organization actually had a reasonableness test for that, but allowing people to state their income and loosen documentation standards was a big part of one of the factors that drove the ultimate issues that we had with mortgage defaults.

I would say that another big factor that we had was ... negative amortization loans. What used to be [the case] earlier in my career [was] a negative amortization loan was a very specialty loan that you were making to people who typically had high levels of variable compensation. And so, because maybe they had high variable compensation relative to their fixed compensation, you were trying to get them in a mortgage that allowed them to keep a manageable lower monthly mortgage payment because when they got those larger variable payments—because maybe they were attorneys, they were stockbrokers, they were folks on high commission that got commissions paid out once a year at the end of the year—they would take a portion of their bonus and use it to pay down their mortgage. And so it was more of a financial management tool.

We ended up seeing a world where we took those negative amortization loans, and we stopped asking people to make much, if any, down payment. Instead of a 90% or an 80% loan with negative amortization, we made it with 100% lent against the value of the home. And instead of making them to high-income people who had a lot of variable pay and could handle the cash flow management associated with it, we made them to first-time home buyers. You saw the way these negative amortization loans were utilized and the eligibility for them changed dramatically from a lending standards standpoint. And that was a big deal.

And I would say the third thing that really stands out to me that contributed to it all was, if you look back over time, the percentage of loans made for the purchase of second homes and for the purchase of non-owner-occupied properties. So, [it was] a relatively small percentage, maybe it was 10% of the total market combined for those two types. You maybe got up to 15%. I can't tell you that I remember what the exact statistics are, but if you look at the years leading up to the crisis, let's say from 2001 to 2006, you started to see the percentage of that lending go way up. And that's where people actually even represented that they were buying a loan for investment purposes or a second home. You had lots of people falsely represent themselves as just buying a primary residence that were really buying a second home or an investment

property. And you had a lot of things going on like realtors running investment programs where it would say, "Let's fly people to Florida and come show you this neighborhood. And if you buy this property, you'll be able to flip it in six months, and you'll make a lot of money on it." I made sales calls when I was at Lehman [to] mortgage originators, broker shops in Florida. And they were telling us that what they needed was a negative amortization loan so that they could roll people out of their existing negative amortization loan into a new one because they needed to basically carry them a little bit longer because they hadn't been able to flip the properties that they bought with the mortgages that they got.

So, you just had all these unusual circumstances that were going on that really weren't the norm before the housing boom. But the combination of low rates and loose credit really just led people to do a lot of things that really had been abnormal before. And they became all too normal. And unfortunately those became factors that drove high levels of mortgage defaults in the mortgage crisis that we had.

Darielle Engilman: In this sphere, what were some of the most popular products that you saw?

Andrew Peach: [If] you think about the subprime sphere, in the Alt-A sphere, I would say what became really popular was stated income or no income loans. And what became very popular was these negative amortization loans because the negative amortization loans allowed you to pay even less than just a no-interest payment. You had less than a full interest-only payment. So interest-only loans became very popular where you've repaid no principal in your payment, so you would have had to pay extra to pay principal back. But these negative amortization loans allowed you to make less than a full interest payment, meaning that you were actually increasing the amount that you owed because you weren't paying enough to cover the debt or to cover the interest on the debt. And so those products became a lot more prevalent during that period of time. The stated income and no income and no asset verification loans became a lot more prevalent at the time. And then the strange thing was, then it got to a point that arguably in hindsight was probably an unwise direction to go, when stated income, no income, and no asset got married with negative amortization. And people were allowed to use those guidelines to qualify for these negative amortization loans.

Darielle Engilman: How often in your experience would homeowners consult homeowner counseling?

Andrew Peach: I don't think it was very prevalent during that period of time because I'm pretty sure that if somebody would have gone to homeownership counseling as a first-time home buyer, they probably would not have taken a negative amortization loan. They probably would've gotten counsel on the amount of debt they should take on versus what they could qualify for under the loose standards that we had because unfortunately, we just had rapid escalation and home values that pushed people to then want to qualify for as much as they could qualify for in

order to keep up with the increase in home prices when wages were not appreciating at anywhere near the same rate. And so, people were using these programs that held the payments down as a way to qualify for the loan quite frequently.

Darielle Engilman: How would you define predatory lending?

Andrew Peach: I think predatory lending would be a situation where you are engaging in a transaction that your knowledge of the business would suggest to you [that] you should not engage in, but you engage in it anyway for the purpose of making a profit.

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

Andrew Peach: One would be some of what we talked about in the past with, first of all, the yield spread premiums because that created strong incentives for folks. It just created a temptation, if you will, to perhaps do things that weren't in your borrower's best interest, just from a standpoint of inflating the interest rate that they might have to pay on a loan. Once people, for lack of a better term, got comfortable doing that, it makes it easier for you to get comfortable with doing the next thing. And so now if you're comfortable inflating the interest rate, you might also be comfortable with the idea of turning a blind eye when somebody states an income that probably doesn't sound reasonable. And you may even be willing to justify it because you're like, "Well, I'm helping them get in a house. And they want to buy this house." But the reality is, if you're putting them in a house that they can't afford, and they can't make the payment, or they can't withstand a little bit of shock, that's not a good outcome either. And so you just saw events like that, activities like that, actions like that, happening, unfortunately, all too commonly in the marketplace in that era of time.

Darielle Engilman: Did you observe any particular groups being more likely to fall victim to these predatory products?

Andrew Peach: I think when you think about groups, really what it turns to that's kind of the common denominator is, let's say, the less financially savvy. If you're not as educated about personal financial management, the idea of being able to get that really nice house is attractive and alluring. And you see that image, and you walk through the house, and you're like, "Really? Wow, you'll sign off on the mortgage, and I can have the keys?" And I think it's tough because if you don't have the financial savvy or the financial education around just managing your personal finances to look at it and go, "Okay, well you know what? Do I have reserves? And if I have a life shock event occur, how long can we make the payments and stay in this house?" If you haven't thought through those things, and you're just kind of romanced by the idea of "You mean I can have the keys and live here?" People like that, unfortunately, were the ones that were going to be taken advantage of. And so, if you didn't have the understanding of the finances to say, "Can I still pay my utilities? Can I still buy groceries after I get

this house and after I deal with this payment? Do I really understand that maybe I'm not covering the interest on this, and I'm going to owe more down the road even though I can afford the house and get in the house with this particular loan product?" If you didn't understand those things, unfortunately, you might've woken up later and realized that you made a mistake.

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 that crisis?

Andrew Peach: From my standpoint, I think it goes back well before the crisis itself came. I think from a political perspective, it became a popular narrative to talk about increasing the homeownership rate. I think in Washington, we had a lot of people who were very focused on that. A measure of success of society was to increase the homeownership rate. So, that became a lot of emphasis. And then with that emphasis, you had things like putting a lot of pressure on the GSEs [government-sponsored enterprises], Fannie and Freddie Mac, in order to support that with their lending programs. And so, they were able to do that.

I think then you had other factors come into bear such as, for example, when Glass-Steagall [the Glass-Steagall Act of 1933] got repealed. And then that created opportunities for investment banks to do things they hadn't done before. So now they're able to put pressure on banks. And before, securitization and origination would have been separate activities, but now you've found a situation where somebody could own both of those things and do them together and control them. And so, that was a factor. And I think ultimately what happened is that securitization took hold. What you really found was [that] you had investment banks pulling market share away from Fannie Mae and Freddie Mac, who had this mission to serve moderate to low-income home buyers. And all of a sudden, it was investment banks serving that mission. That put competitive pressure on Fannie Mae and Freddie Mac. They now had to compete with them. So they had to do some of the same things around their credit box: buy loans for portfolio, which ultimately became one of the biggest factors that ultimately put them into conservatorship. Those were some pretty significant factors that got put in motion pretty long before we got to the crisis itself.

I also just feel like another thing that was kind of a factor there was just the perfect storm around what low interest rates in the post-9/11 environment did, and then how that contributed because rates went lower. I think now people could afford to buy bigger homes off of the same amount of income. All of a sudden, low rates in 2001, 2002, 2003, somebody's income could go farther and buy a bigger house. So what happened? Builders built bigger houses. And that put pressure on people to step out and buy bigger homes, and realtors sold bigger houses. I think that also created a big issue because housing affordability went down because wages didn't keep up with that. And so as wages didn't keep up with that, you wanted to increase the homeownership rate, now, all of

a sudden, you started coming up with loan programs that met those needs. The loan programs that met those needs were loosening credit. They were doing things like reducing the requirements from a standpoint of, you could state income, you could not state income, you didn't even have to demonstrate your assets in order to get a loan. And so the reality of the situation is, I think it's all just factors like loosening the credit box, focusing on increasing the homeownership rate and having maybe too much focus on that, as well as the repeal of Glass-Steagall. You put all those things together, and you end up with the end game that resulted when we saw the crisis.

Darielle Engilman: To what extent do you see your personal experience as adding something important to our understanding of what happened?

Andrew Peach: I think at the end of the day for me, if you look at this, the mortgage business has had a tendency to repeat some of these things over time. So when I first got into the business, if you even go back before the 90s, Fannie Mae and Freddie Mac, the GSEs, were experimenting with reduced documentation programs. When they experimented with those programs, they did see some increase in defaults, and they kind of backed away from it. And then you got to the 2000s, and what happens? Some of those same reduced documentation types came back. They just didn't necessarily come back through Fannie Mae and Freddie Mac. They came back more being sponsored by some of the more aggressive players in the business, whether they were banks or investment banks, that were out there offering those kinds of loan programs.

Arguably, you could say that everybody assumed that housing prices would go up, and if people had good credit scores, they'd make their payments. We now know that that wasn't true. Housing prices weren't going to go up indefinitely. And people with good credit scores might not be able to make their payments, or they might choose not to make them depending upon what happened to the equity in their home. On some level, we have had a tendency as an industry to repeat history. You now have the rise of non-QM loans [non-qualified mortgage loans], which thus far, I think have worked well. We haven't seen a repeat of the problems that we had through the financial crisis. But I think the thing that concerns me is just that we would repeat some of those things, that we would get a decade away from those events that happened, that you would have people now sitting in chairs making decisions in leadership positions that didn't live through those experiences. And so, from my standpoint, to the extent that I can share some of what I experienced, what I observed, and those comments and those thoughts and observations, keep us from repeating some of those same patterns of behavior that we had in the past. That's how I would hope that my experiences could help.

Darielle Engilman: You touched on this briefly, but looking back on the crisis over a decade later, what do you see as its most important lessons for mortgage originators and state level policy makers?

Andrew Peach: I think the first thing is that a credit score is not a substitute for someone having skin in the game and having equity in a transaction. And I think you see that on two levels. Number one is, you know, skin in the game from a standpoint of a borrower who's signing the obligation for a mortgage because, obviously, if they didn't have much in the way of a down payment or skin in the game, we saw it was all too easy to walk away from that obligation. So you've got to make sure that you've got the right balance between creditworthiness and somebody having skin in the game and a form of a down payment for the loan that they're signing up to be obligated for.

And then I think the flip side is, too, you have to have the right level of skin in the game and accountability for those who participate in that transaction then after the loan is closed. If you're going to close that loan, sell it in a secondary market, maybe you securitize it, maybe you just sell it to somebody who's going to securitize it, but you have to be held accountable in that transaction so that you'll act responsibly from the standpoint of if you're on the hook to repurchase the loan, if you're on the hook because you share in the losses of the loan down the line. All those things ensure that you're going to make responsible decisions because you're going to be held accountable for your actions. And you're not going to say, "Hey, you know what? I can participate in this particular piece of the process, and I can make money, but I have no risk." I think anytime you create that kind of situation, you're opening the door to people to act less responsibly than you'd like them to. And so, I think people just have to make sure that the way that the transactions that occur—whether they are a securitization transaction, sale transactions, origination transactions—that the right accountabilities and the right skin in the game exists.

Darielle Engilman: And just to wrap up, is there anything else I should have asked that I might've missed or just anything else you think would be beneficial for our oral history?

Andrew Peach: No, I think we've probably covered the key points in terms of what was going on at that time. Like I said, in hindsight, it was a pretty surreal time to live through because you're working for a company that is arguably being pioneering at one point in alternative credit, let's say, with Alt-A credit, and doing subprime credit, and things of that nature. And then you're watching the market turn in such a way where you're realizing that, "Hey, there were some flaws in what was being done." And then you're going to work for another company, and you're sitting there afterwards and you're watching that company go into bankruptcy as a result of those activities. So from that standpoint, pretty surreal time. And like I said, I'm here participating in this and answering these questions with you because I would hope that if there's things that I can share about my observations that keep us from repeating that pattern of behavior in a way that would create a negative outcome like that in the future, if sharing my thoughts and observations can do that, then I want to make sure that I'm spending time with you guys to do something.

Darielle Engilman: Thank you so much for joining us.

[END OF SESSION]