AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Ron Cathcart

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PREFACE

The following Oral History is the result of a recorded interview with Ron Cathcart, conducted by Maria Paz Rios on April 1, 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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Interviewer: Maria Paz Rios

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Maria Paz Rios: Hello, Mr. Cathcart. Welcome back.

Ron Cathcart: Thank you. Good afternoon.

Maria Paz Rios: ... How would you contextualize the relationship between Washington Mutual and Long Beach, and how did Long Beach fit within the broader Washington Mutual strategy?

Ron Cathcart: I'd say that that in some ways Long Beach was at the leading edge of the strategy, because the strategy was to try and capture high-margin business with lower quality borrowers. And I think that that was the footprint for Long Beach. So I think it was, in some ways, kind of a leading area where a lot of attention was placed. Long Beach was actually quite small. Long Beach on its own would certainly not have led to the failure of Washington Mutual. It was really the option ARMs [adjustable-rate mortgages] and what happened in the securitization market that really ended up causing the firm to fail. But, it was very much on everyone's mind.

It also was a portfolio that performed very badly. I think in our prior discussion, we talked about first payment defaults and early payment defaults. There was a high concentration of those at Long Beach. And it was also a fairly regional portfolio, which as you recall, I talked about banks that concentrated in certain markets being also the victim of those markets when credit started to be withdrawn, because it was the provision of excess capital and liquidity to the markets that caused the bubble. And so, the withdrawal also caused extra pain and Long Beach was in the middle of that cycle as well.

Maria Paz Rios: ... Were there any disagreements within the leadership regarding the role that Long Beach should take on within Washington Mutual?

Ron Cathcart: I would say that the board was supportive of the growth of Long Beach but was unimpressed with the credit performance.

Maria Paz Rios: What were some of Long Beaches loan origination channels?

Ron Cathcart: I'm not sure I can quantify it, but a huge amount of the business came through mortgage brokers, who were agents, as you know, who worked on behalf of the borrower.

Maria Paz Rios: Were you aware of any training that Long Beach provided to its own originators or brokers that it worked with?

Ron Cathcart: No. I wasn't familiar with the training program.

Maria Paz Rios: How was due diligence carried out for loans originated within Long Beach versus those it had purchased from other mortgage originators or mortgage reps? Were there any differences in approach?

Ron Cathcart: ... I wasn't very into the details, so I can't really answer that.

Maria Paz Rios: ... How was the decision-making culture within Long Beach structured? Was it a culture of independence and local autonomy or was it more like a trickle-down chain of command?

Ron Cathcart: I would say that the origination was left in the hands of the mortgage brokers, who were basically a syndicate of originators that provided product to Washington Mutual. So I'd describe it as pretty un-centralized.

Maria Paz Rios: Do you think this led to any potential conflicts in practices?

Ron Cathcart: Not necessarily. I mean, not as long as there's good quality control and appropriate mechanisms in place to ensure that the bank that's buying the mortgages or that is booking the mortgages is obtaining the quality that the bank contends [it is]. I think that it's fair to say that the origination quality was poor and that a lot of what was characterized in terms of debt service coverage, income, employment, value of home, a lot of those metrics were not accurate, and that therefore the loans didn't perform as expected.

Maria Paz Rios: Were you aware of what were some of the biggest institutional investors that Long Beach and Washington Mutual worked with within the securitization channel?

Ron Cathcart: No, not really. I didn't participate in the securitization of the mortgages.

Maria Paz Rios: ... [W]as the chief risk officer for the Home Loans Group reporting to you? And how did that evolve during your time at Washington Mutual?

Ron Cathcart: There was a chief risk officer responsible for the Home Loans Group who had a reporting line to me, but also a reporting line to the head of the Home Loans Group. I think I said in the last discussion that that kind of a dual reporting for a risk officer these days would be unusual and something that the regulators would probably comment negatively on. But in the case of Washington Mutual, there was a double reporting relationship to both the business and to risk.

Maria Paz Rios: What were they reporting to risk during your time there?

Ron Cathcart: Well, the chief risk officer of each of the businesses were part of the management team, so participated in management meetings, sharing of information across all of the portfolios, and were in charge of analytics, which

was in part directed by Risk. So from a reporting perspective, would provide reporting as to trends in the business, and also determine the credit profile. So in the case of Long Beach as an example, over the period of time I was there, there was a continued series of changing the score cutoff requirement for the borrowers. I think we talked about that as well last time, where it became clear that wasn't enough because in fact, the underlying quality was weakening and it wasn't entirely because of FICO scores. It was because of a whole range of factors.

Maria Paz Rios: Last time you also mentioned early payment defaults. What were some of the other data analytics that you were seeing within Long Beach that really started to cause concern among your risk management division?

Ron Cathcart: Well, there were a number of them. One of them, of course, would be delinquencies, not necessarily first and early payment defaults, but simply people being late in their payments. So, delinquencies were rising at an extraordinarily high level. We saw people with multiple homes performing worse than people with single homes. So people who had two mortgages were performing worse and people who had three were performing even worse than that. So it became clear that it was a housing market problem.

The second thing was that there was a function which reported to me, which was called Risk Review, and it's often called Credit Review in banks. Our credit review function was discovering a very high incidence of errors in the origination of those mortgages. So they would go in and they would actually test on a sampling basis as to the extent to which there were errors in the applications. They would compare the applications with what was on the system and they would do the calculation. An example of an error would be the file would indicate the income, the file would indicate the amount of debt, and there'd be a calculation to do debt service coverage, and we would discover, as an example, that there were errors in the way that had been calculated. So that would count as a gap in the control, or rather, in the quality, of what was being underwritten. The credit review function was finding very high levels of errors in the applications.

Maria Paz Rios: And when you started seeing these errors, how did you express that back to Long Beach management, and how was it received? Were [there] any changes in practices...?

Ron Cathcart: So that's a sensitive point. First of all, the reports were widely circulated. While I was there, I ensured that they went to more senior levels of the bank. So I began presenting them to the board, to the audit committee of the board, and they were also shared with management. I would say that management was not receptive to the feedback— that they tended to reject the reports as being incorrectly put together, or too negative, or the people who did them weren't doing a good job, but they tended to marginalize and dismiss the findings, even though we know now that the findings were very accurate. And as far as the

board is concerned, they received these, they were informed. But as far as I know, they didn't take any direct action based on them.

Maria Paz Rios: As you saw these errors in the files that you were reviewing, what steps did you take to adapt your risk models and your risk projections to account for this?

Ron Cathcart: Well, of course errors in the file are not risk model related at all. Changing the risk parameters is a secondary kind of activity, so, meaning, the quality of what's coming in as one whole range of issues and problems. As performance starts to deteriorate, you use the usual credit levers, and those would be: changing debt service coverage ratios, changing debt to equity parameters, increasing score cutoffs. Those would be three of the big ones, and those are drivers traditionally of credit performance. So all of those dials were being turned. But what I think is fair to say is that nobody realized quite how bad the quality of what was coming in the door was. And there was, without any doubt, a level of fraud being committed by the mortgage brokers.

Maria Paz Rios: ...To what extent were Long Beach's underwriting standards unique to Long Beach, or in parallel with the rest of the industry?

Ron Cathcart: It's hard to tell— you're calling them standards, but I would call them deficiencies, frankly. Unless you're talking about the credit standards themselves, that I was referring to, making the distinction between the quality of the borrower and the credit standards. I think that we were— I don't know exactly how our score cutoff requirements, for example, would relate to the competition. And it's a complicated comparison because you're moving all the dials at the same time. So you'd say, in aggregate, if you're moving six dials to try and control what comes in the door, are those the same six dials that your competitor is using? Probably. Are they all in different places? Yes. So a comparison would be difficult, but I would say that Countrywide, Golden West— which ended up being sold near the end— but if you compared us to Countrywide, I'm not sure that anyone would conclude that one was more conservative than the other, but I think that most people would consider that both of them were very liberal in their credit criteria.

And then you get to the origination quality issue, and you get to things like there's no verification of income, for example. That was something that was quite prevalent at the time. And the securitization market was prepared to accept the fact that these loans hadn't had their income verified because the property values were high enough and kept increasing, so then there became a shift in perspective where it was the house that repaid the loan and not the individual. That was the most significant weakness to the entire lending model, where the past behavior of the customer, and the amount of income they said they made, those things were not seen as valuable as the value of the home. And we talked about that last time about, you only get 83% of your money back when you head into foreclosure.

Maria Paz Rios: To what extent do you think lending practices at a grass roots level within Long Beach were predatory, compared to just following the market's movement towards a subprime space?

Ron Cathcart: You know, the Permanent Subcommittee on Investigations asked that question, of Washington Mutual management. And the question is a legal question as to what is defined as predatory lending. So I am not taking a legal perspective when I'm answering that question. Whether what was happening was illegal and criminal under the statute is not something I'm really qualified to determine. But what I would say is that the activities and behaviors that were taking place were unfair to the borrower.

We know, after the fact -- we saw examples where basically the mortgage brokers were reverse engineering the application to get the application approved, so that if a $400,000 loan required the person to have an income of $55,000, and they were presenting that they had $40,000, the mortgage broker would coach them and say, "Well, why don't we put you down at $55,000, and then you'll qualify for the mortgage." That's an abuse of trust that is causing, enabling, a person to take on debt that's in excess of what they're reasonably going to be able to pay and requiring them basically to lose their house and their equity and move into a different house.

So that's highly abusive in my view. It's unethical, and it's very unfair to the borrower. Whether it meets the statutory requirements or not, I'm unclear. What I would say is that there was certainly an awareness that that had happened. That, and a number of other abusive practices up against the individual borrower, which gave rise to the creation of the Consumer Protection Bureau [CFPB], which was, in my opinion, a much needed addition because there was no federal consumer finance protection capability. There were laws like fair lending [the Equal Credit Opportunity Act and the Fair Housing Act] and UDAP [Unfair & Deceptive Acts & Practices] and others, but there wasn't any agency specifically focused on it.

And I think that the emergence of the CFPB has been very positive for borrowers nationally in ensuring fair treatment. The other thing I would say about the CFPB is that it didn't limit itself to national banks. It has a remit for consumer financing, whether it's payday lenders, or whether it's car leasing and indirect lending, and so on. So, the CFPB I think was created in part to try and deal with those things. But the issue you're asking specifically, legally, I'd have to steer away from, because I don't know quite what that threshold is.

Maria Paz Rios: ...At the time, how aware was upper-level management within the Home Loans Group and within Washington Mutual of these practices?

Ron Cathcart: The internal audit group at Washington Mutual, which I worked very closely with as the head of risk, found incidents of fraud, outright fraud, committed by the mortgage brokers. Now, you have to understand, these mortgage brokers made a great deal of money originating mortgages— millions of dollars. And I

believe that Washington Mutual actually sometimes gave them office support. I mean, they were the engine of growth. They were the ones who were out there originating very, very high volumes of product, which Washington Mutual put through its sausage making machine, and then they ended up in Wall Street turned into securities.

The internal audit group found a high incidence— a number of situations where it had done the testing and it had identified fraud, which was reported to management at the time. So it wouldn't be accurate to say that people were not aware. They were. Whether they were aware of how prevalent it was is really difficult to say. And going back to the Permanent [Sub]committee on Investigations, as you probably have done, you'll see— I think that in the public record there are actually some copies of these various audits that I'm talking about.

... Just one more piece on the fraud. I would say that I was, as the chief risk officer, very disappointed in management's reluctance to act upon the fraud that was being discovered. I would say that there was a real preference to allowing the volume to continue, and less of an appetite to identify people who had been committing fraud.

Maria Paz Rios: ... Last time you mentioned this kind of [divergence] in company culture between the "old guard" and a wave of new executives. First of all, could you provide more color to this dynamic, and did this dynamic extend onto the Long Beach case and, for example, the handling of fraud?

Ron Cathcart: That's a difficult— that would be difficult to answer. I would say that new management that came in and replaced the old guard was more focused on financial performance and generating revenue than the old guard had been. It was more of a regional bank, kind of small thinking organization that got an injection of Wall Street management that was much more quarter by quarter, looking for revenue growth, looking for profitability.

And I'd say that that drove a lot of behaviors that in the past wouldn't have been the case. On some level I would have to extrapolate and say, yeah, so that would probably have made its way to the frontline, but you have to remember that I only arrived at the end of '05, at which point most of the old guard had left and the new guard was already in place.

Maria Paz Rios: ...Were you aware of any regulatory engagement, at either a state or national level, with Long Beach?

Ron Cathcart: I'm not aware of any state. If there had been, it would have been very limited, given the fact that Washington Mutual was a national bank and therefore Washington Mutual had preemptive status, so the national laws preempted the state laws. I'm sure there were some state laws that applied that we would have a complied with, but my interaction, as chief risk officer would have been with

the Office of Thrift Supervision [OTS] and as the chief risk officer, the regulatory relations reported to me.

Maria Paz Rios: How about internally? How did Washington Mutual's oversight function of Long Beach evolve during your time there?

Ron Cathcart: Well, I mentioned the credit review group— the credit review [group] continued to report negative numbers about the quality of applications, and those numbers never came down— they deteriorated in fact, so they worsened. Credit performance worsened steadily over time and near the end it accelerated dramatically. So the trends were evident.

Now, remember Long Beach was a hangnail to the company. The company had a very large balance sheet and Long Beach was the most visible and most extreme part of what was happening. But if you think about the main core product for Washington Mutual, [it] would have been the option ARMs, which was a product that had been around for 20 years. It allowed for things like negative amortization and so on, and the borrower would kind of pick their own payment to an extent. That product itself started to become a problem because of the over-aggressive lending and the poor controls in the frontline. That's what caused Washington Mutual to really suffer. That's where it started losing serious money— because its main product, the main core, was deteriorating. Long Beach definitely was deteriorating, was certainly not profitable, losing a lot of money, but not in dollars that would have impaired the bank.

Maria Paz Rios: ... What do you think led to Long Beach's demise, and in turn, what do you think were the main contributing factors for Washington Mutual's demise?

Ron Cathcart: I don't know that I can even think about Long Beach as having a separate demise. I mean, I think Long Beach failed along with the rest of Washington Mutual as an organization. You'd have to ask yourself, over time what would have happened to Long Beach— I mean, I'm hoping that management would have shut it down because it was clearly not making money and it was causing a huge problem.

The main contributor to Washington Mutual is very complicated. It's a question that many books have been written about. But if you remember in our original discussion, we talked about the value chain and that every part of the chain broke. Washington Mutual was only one piece of that. It effectively purchased all the mortgages that it obtained, and then it packaged them and then they were off its balance sheet. And what it retained was the servicing, the mortgage servicing. And it just kept doing this and it got a gain on sale every time it would sell these mortgages out the door. That business model broke because the pipeline shut down— people stopped buying the mortgages, the investment bankers were stuck with their inventory, and Washington Mutual was suddenly in a position of either originate and hold, or stop originating and basically watch the bank shrink to nothing. And originate to hold wouldn't have worked because it wasn't possible for Washington Mutual to fund itself at a rate that was

beneficial enough, especially with the flat yield curve, to be able to make any money. So Washington Mutual kind of got stuck in the middle.

And then there became the hysteria of Lehman's [Lehman Brothers] failure, which caused, basically, a run on the banks, which meant that no one was sure what was safe, and Washington Mutual looked like one of the least safe of the banks. And the deposits started leaving the bank very, very quickly. This is after I had left, and that would have been a flashing red light for the FDIC [Federal Deposit Insurance Corporation] that would have been fearful that it was going to have the largest bankruptcy in history on its hands after all these deposits had fled. And they decided to take the decision to step in.

An interesting footnote, which I don't think people focus on to a great extent, is that, of course there was the bankruptcy of Washington Mutual and Washington Mutual Inc. The business and the assets were purchased by JPM [J.P. Morgan]. And there are a few interesting facts. The first is that JPM, after it had purchased Washington Mutual, it took a big write down when it did that. It had to take a second write down afterwards. So Washington Mutual Inc. never felt the pain associated with what had happened.

But what's also interesting is that Washington Mutual had just raised capital through a major equity raise, and actually had quite a bit of capital at the moment of its failure. And as a result of that, and also as a result of a number of very complicated tax issues relating to the bankruptcy, the creditors all got repaid. And if I'm not mistaken, I'm not sure about this, I think some of the pref shares [preferred shares] may actually have been redeemed as well, or repaid. So there was actually enough capital in the bank, after bankruptcy, to pay the creditors.

A lot of people will debate whether the FDIC should have stepped in. My view is that it's hard to know what would have happened with the deposits, because if the leakage had continued, there would have been nowhere to go. Did they come in too early? Perhaps, but given the way the bank had performed, it's far better off in the hands of good management than it was in the management of the firm. In other words, JPM took it over, JPM transformed what it took over, I think in a very positive way, and I'm not sure the management team in place at Washington Mutual would have been able to pull that off.

The other problem was that Washington Mutual was a mortgage bank, and the mortgage market failed. Yes, it had credit card, it had commercial lending, it had branch network— but fundamentally, it was a mortgage bank. And it's hard to know how it would have continued to survive on its own as a mortgage bank. It was far better positioned, that business was far better positioned, in a bank that had a number of businesses that could all balance one another out, both from a deposit gathering perspective and also from a correlation perspective between the businesses. So Washington Mutual as an entity fared a lot better as being part of a JPM or a Bank of America...

These are all my personal views. I mean, as I say, a great deal has being written about it, but you asked why the bank failed. One answer to that is the bank failed because the FDIC decided to move in and put it into bankruptcy before it failed, is one answer. Another is it failed because it didn't manage its risks well and it took on too aggressive a stance from a risk perspective.

Maria Paz Rios: What do you think are some of the biggest takeaways from the failure of Long Beach and, of course, of Washington Mutual?

Ron Cathcart: Well, I would say that money, profit, unrestrained, will not always make the right long-term decision in the financial services sector. And that there is an important place for regulation and oversight of how banks make their money, because they are effectively guaranteed by the federal government, by the FDIC, and to a broader extent, by the Federal Reserve, who stands on watch for systemic risk; and that it's naive to believe that if they are left to their own devices to self-regulate, that they'll always make the right choice for the financial system, or even for their shareholders. There've been cases where management focused too much on its own remuneration at the expense of shareholders even.

So, I think that the takeaway for me is that for all of its weaknesses, Dodd-Frank was the right route to go, the [CFPB] I've already said is a very positive thing, and I would continue to be an advocate for robust oversight and supervision, especially for the systemically important firms so that we're not in a position of having to support an AIG [American International Group], or we're not in a position of having to watch the largest and one of the oldest Savings & Loans disappear from Seattle overnight through, effectively, too great an appetite to take risk and make money.

Maria Paz Rios: You mentioned that within this whole fall of the institution, the creditors got repaid and J.P. Morgan was able to transform the existing business and incorporate it into their operations. Who do you think, in all of this, got the short end of the stick?

Ron Cathcart: The employees of Washington Mutual. Certainly, it was very sad, because there was a huge rationalization. Seattle lost one of its major employers. So certainly employees, I think were hurt badly. I think all of those people that lost their houses, who hadn't been fully educated as to the risks they were taking. I would say they were big losers. And the taxpayer never had to bail out FDIC, but the taxpayers certainly had to step in and rescue the financial system, and Washington Mutual, and Wachovia, and Countrywide, and we know who the list is of people that were generating all of this toxic material for Wall Street. I'd say the taxpayer ended up taking over all of this risk, where in fact that's not the way the system was designed. But I would really go back to the employees and the borrowers.

Maria Paz Rios: ... What are some of the biggest lessons and messages that you would like to convey to those people working in enterprise risk divisions, or any lessons for

future enterprise risk leaders, that you learned from your experience at Washington Mutual during such a historic time period?

Ron Cathcart: Well, the role of risk management requires, I'd say, a high level of fortitude. That risk really needs to develop an independent perspective on the business that the firm is generating. And so I'd say that the fundamental role is to speak out with an independent voice. Having said that, risk management is not a place where opinion should matter as much as analytics and facts, and in order for any risk officer to have credibility, that individual needs to be able to marshal the capabilities of a firm, to analyze deeply, to forecast, to evaluate, and to understand and unpack all the risks associated with any business decision or any growth area.

And the quality of that analysis is what's going to drive whether management pays any attention, and whether the board is able to see transparently what the risks are. So that the pressure on the risk officer is to do a full evaluation of the risks that the organization is taking so that it can highlight them, quantify them, make them transparent, and have management make a three-dimensional decision when it decides to go into something. So, if I want to a new product that has certain aspects, qualities, to it, risk can unpack that and say, "Well, these are the costs are likely to emerge, these are the risks you're likely to take, etc."

The other thing is that the risk management, as it's currently configured, has a direct line to the board of directors of all the financial services [companies] that I can think of, and I think the risk officer ultimately needs to recognize that they're accountable to the board, and that they can't get too stuck within management if they feel that management isn't listening to the message. And that they should recognize that they have that authority, and they have that permission, and the board needs to hear their perspective, at the board meeting.

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

Ron Cathcart: Well, that's a very complicated question. The mortgage brokers were not regulated. They did what they wanted. They created toxic material. The banks turned a blind eye, or weren't aware, or didn't care, because they weren't holding these mortgages anyway. So they bought them, they turned them into securities using models that were based on history that no longer applied because the material that they were using— it's as if you were making cars with metal, and then suddenly you're making them with plastic, and you're using all the same techniques. So the banks were securitizing them and selling them to Wall Street, [and] Wall Street was securitizing them using models that the rating agencies had developed using a prior history, and as I mentioned, the history was not applicable.

The rating agencies were paid for by the issuers— they weren't paid for by the investors, so they had an incentive to basically curry for favor among the issuers. So, whether it was Lehman, or whoever it was that they were being paid by— by those entities, by the securitizers. And the investors were buying on ratings and doing no analysis, and some of these securities were insanely complicated. Then we of course, always joke about the CDO squared, and I think there was actually a CDO cubed. It was impossible to actually evaluate what the underlying risks were. And it was some kind of a convoluted math problem that allowed triage— when you have complete garbage, to extract a AAA out of the complete garbage is just intuitively nonsensical. But that is what happened. And then to take all of the C's and then do them again and then still come up with more AAAs because of the waterfall of payments— anyway, I'm getting off track. So the rating agencies had a very important part to play [and] the investors buying on AAA.

And then underneath that, you've got very permissive regulatory environment, where there's no intervention, it's just sort of left to play on its own. And very low interest rate environment caused by the monetary policy where everyone is searching for yield. Where there's no fun in holding something that's only going to give you a one and a quarter percent per annum return. The yield curve itself, as you probably remember, it was very flat. So then, where did banks go for money? Well, they went for fees.

So I'd say that there was so much that was broken in the whole value chain, if you want to call it that, that caused this. And I would tell you that in the mortgage world, if you look upon the complexity of mortgage servicing, how they originated and how they grew out the door, I'd say half of those weaknesses are still there. They have not been solved. Witness the fact that when suddenly people stopped paying their mortgage payments back in March, April, the servicers all started going under, or started having financial stress because they still had to make the mortgage payments to the securitization market, even though they weren't receiving any money coming in the door. That's unreasonable. That seemed very strange. But that sort of opened this big hole in, "Boy, we thought we fixed that 10 years ago. And here we are again there's another whole group of people who apparently have been making money off an implied guarantee that didn't exist."

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

Ron Cathcart: I think that the strategy was wrong. There was a belief, which the board accepted, that Washington Mutual could make money by being particularly good in the subprime market and playing at the margin. The margin is a very profitable place, as long as you're on the right side of the margin, because yields are really high and losses are controllable. And it decided that it was going to make that an overall business strategy. And I think that that was a strategy that was destined to fail because in financial services, working on the margin always

works until the margin moves just a little bit, and then suddenly losses are enormous and they're unstoppable.

The other thing is, I don't think enough credit is given to the underlying products themselves. I think the option ARM product, although it was very sellable and although borrowers loved it, didn't allow for a good discipline for the borrowers, and it created a real opportunity for losses, which ultimately materialized.

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 '07-'08?

Ron Cathcart: I'm not sure I understand the question.

Maria Paz Rios: How does your personal experience differ? How is it unique in adding something to our oral history record? It's just one of the standard questions we ask since we interview such a wide variety of individuals.

Ron Cathcart: I see. Well, my experience was unique. I was right there in the middle of the largest bankruptcy in American history as the chief risk officer. I would say I do have a unique perspective on what happened, and I saw it happen every day, I saw it unwind. And it was— charitably, you would say it was a learning experience. But in reality, it was really very sobering— very sobering to see that happen to such a well-respected and historic Savings & Loan.

Maria Paz Rios: Do you think there is anything else I should have asked or that you would like to have talked about?

Ron Cathcart: I would just recap again by saying that left to its own devices, I think that the financial sector will not always make the right decision. And, after I left the Washington Mutual, I worked for the Federal Reserve for some time struggling with issues around capital and liquidity and regulation, and this issue of systemic risk and what poses systemic risk, it's probably the most difficult and challenging question to answer, where a hedge fund can suddenly have margin calls and Credit Suisse could lose $4 billion in a business that's supposed to be margined, where that shouldn't be possible.

That sort of thing is destined to continue happening, unless the regulatory and oversight community is able to better understand what's happening under the hood to be able to avoid those sorts of things. Because if we don't figure it out, then we're going to be in a position again of taxpayers having to step in to rescue people who have all made very good money when things were good and then suddenly gave it all back when the government got the bill. So I would say that would be the thought that I'd like to leave you all with.

Maria Paz Rios: Thank you very much, Mr. Cathcart.

[END OF SESSION 2]