AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Mike Calhoun

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Mike Calhoun conducted by Sam Wolter on April 14, 2022. 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: Mike Calhoun
Interviewer: Sam Wolter

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Sam Wolter: I'm Sam Wolter, a law student here at Duke University and a member of the Bass Connections American Predatory Lending and the Global Financial Crisis Team. It is Thursday, April 14, and I am joined via Zoom by Mr. Mike Calhoun, President of the Center for Responsible Lending for an oral history interview. Mr. Calhoun, thank you for joining us. To start, where did you grow up and where did you attend college and then law school?

Mike Calhoun: … So I was born in Florida, experienced two—Florida, like many states is really two different states. I was born in the panhandle in Pensacola, which is more akin to Eastern Alabama or Southern Georgia. And then when I was 10 my father went to work for the space program, so we moved to central Florida. People lived in Orlando because the coast, the Space Coast was too wild a place to raise a family. So they commuted over every day. But Orlando at that point was a sleepy retirement town of a hundred thousand people, pre-Disney. And then went north to school, made it all the way to Durham. So graduated 1974 from Duke, studied economics. [I] went from there to UNC Law School and then started my legal career as a Legal Services[1] attorney.

Sam Wolter: How [did] you became involved in issues around predatory lending and mortgage lending more generally?

Mike Calhoun: I worked at Legal Aid during my three years at law school as well. So I was there for total about 10 years and did a lot of work with families, including helping on consumer issues. [I was] seeing even then there was a good bit of predatory lending. It was done by what were known at the time, and still today, as hard money lenders, meaning they were lending their own funds, maybe with a few informal investors in holding the loans. The big difference was there was no securitization, no tapping into the capital markets. In some of those cases, in reaching settlements, I then looked to refinance the loans and for many of the borrowers, the only option was Self-Help Credit Union, who was going to lend to lower income borrowers. And so that's how I got connected with Self-Help.

And then part of it, doing that work led me to have a high appreciation for the amount of stability that home ownership provided. And then the other major piece of work I did while I was in law school, I was counsel that represented the Crest Street community that is just north of Duke University Hospital. And in the seventies, it was threatened with displacement by a freeway. And there was a big battle over that. Ultimately we were able to get them to redesign the freeway and to redevelop the community. But once again, it just showed the importance of a stable community and the importance of housing, and control of housing.

[1] Now known as Legal Aid of North Carolina.

Sam Wolter: So I'd like to jump ahead a bit in your career to talk about the 1999 North Carolina Predatory Lending Law. Our project has pretty closely taken a look at both this law and then the Georgia Fair Lending Act. Could [you] describe a bit about your involvement in the passage of the [North Carolina] law.

Mike Calhoun: So at that time I was working with Self-Help. I served as general counsel at Self-Help as well as head of a number of their lending programs. And we noticed in the late nineties that a number of our previous borrowers were coming back to us and they had been refinanced into loans that had extraordinarily high fees and interest rates that were out of line with the creditworthiness level of the borrowers. Self-Help had been involved previously in some policy work. We had been probably the lead organization opposing the privatization of Blue Cross Blue Shield, for example, that was in, I think around '95. So we had been active on consumer protection as well. This was part of our recognition and growing recognition that Self-Help's goal was to help people build wealth. But if we weren't doing anything about people who were trying to then capture that wealth through predatory loan products, that our work wouldn't have much impact. So we did research at the time and we were surprised to find that at that time, the leading subprime lender was The Associates, an affiliate of Ford Motor Company. And we were surprised to find it had eighty-eight offices in North Carolina alone.

And they were, the subprime lenders were very effective with their pitch, they had two pitches, essentially. One, a guaranteed yes, which means a lot to people who face discrimination and denials in the credit market. It's quite a humbling experience. I've worked with a lot of families personally on this. And the second [pitch] is that, we will lower your monthly debt bill and often give you a break in your debts while we're doing the refinancing. So they would say, we will take your car payment, your credit card bill, your personal loan bill, plus any other bills that are in arrears, roll them all into your mortgage, [and] refinance it. And it looks like a pretty good deal for folks. Suddenly they have more money the next month, and these are people living paycheck to paycheck.

But in the process, they have stripped out their home equity through high fees and usually extended the term. So it gives short term relief, but at an extraordinarily high cost. And then the other big part of it…was, we were aware in the early nineties and for a long time, there had been something called the B and C credit market, the subprime credit market. And it had always been, it was an established part of the market, but it was a tiny percentage of the market. And the primary target was actually generally wealthier borrowers. It was businesspeople who, because of deductions and everything else, their income didn't reflect their financial, their taxable income didn't reflect their financial means. And so that was a tiny segment of the market, you know, 1 maybe peaked in those years 2 percent. And then of course the subprime market exploded, I think in 2006 it reached 25 percent of the total mortgage market.

Sam Wolter: And so with that background and context in mind, what do you recall about the enactment of that legislation? What were some of the coalitions that were particularly important in securing passage, and what were some of the major debates that you recall among both those for and against the legislation?

Mike Calhoun: This is where it helped a lot that Self-Help had relationships with the financial institutions. We do partnerships with a lot of the major banks. So we had business and personal relationships there. And we had a track record of having good analytics, people trusted our numbers. So I think first of all people were shocked when they found out the terms of these loans. One of the big scams, and one of the major reforms in the bill was, at that time there was a product [called] single premium credit insurance that they sold. And it started out as not a bad idea. There are various forms of it, if you died, [there is] a credit life [insurance] part of it, it would pay off your mortgage, which, you know, sounds good. If you are disabled, you can also get that coverage added on, it will make the payments during a period of disability. And there are even some versions that covered unemployment, those were rarer. But these started out as ways to make loans more stable. And then they turned into a huge revenue center for the lenders because these fees were not included in the calculations of what the interest level was on the loan. And even more importantly, whether the loan terms triggered high-cost loan protections that were available under federal law, they call them section thirty-two, that's the [regulation] that covers them. And basically if the interest rate got too high above the market rate or if the points got too high it would trigger you into these protections, and most lenders did not want those protections applying. One of the biggest parts of these, and this will come up again with the Georgia law, was it made anyone who bought the paper subject to any claims that the borrower had against the originator of the paper. And I think the market knew there were some pretty shady things going on and just, and also didn't want that risk. So the thinking was—[the law] really did some pretty minor, modest changes. It capped the fees at five points.

Just by reference, on conventional loans, then and now, the average number of points is less than one. So there was a lot of ample room here for people to say, we were covering the additional costs of these harder to underwrite loans. It limited prepayment penalties, which were very important. It was really part of the glue that held this all together, because if you put somebody into a loan at a higher rate than what they really should be paying, your risk is that somebody else will come and refinance them out by saying, "You know, you can actually qualify for a couple points of interest lower." But if you can lock them in with a prepayment penalty, it makes it very hard for them to get out of the loan.

And then it banned the single premium credit insurance. And again, the single premium was a large lump sum fee. And the coverage was usually for five years. That was rolled into the amount financed of the loan as were generally all the fees. And so the other part of this that makes this work so well for the predatory lenders [is that] mortgage transactions are complex for everybody. In classical economics, it's an infrequent complex transaction, which means it's very ripe for overreaching. And all of these fees are rolled into the loan. And so nobody's closing, writing a check and seeing all this money go out of their pockets or being pulled out of the equity of their house. They're just being told, "Your new monthly payment will be this amount, and if you need some cash for something here's your cash out and sign here." And folks don't realize that they have paid a frightful price for all that, because it's buried in all the fine print and the blizzard of disclosures that are part of any closing. Anybody who's done a house closing knows you get a thick stack of paper and it's basically—none of it's negotiable, if you want this loan, sign all these places.

Sam Wolter: …Was there a sense as you were working on the legislation, either for yourself or among others that this would, this could potentially inspire reforms beyond North Carolina alone? Was that a conscious goal among proponents, potentially exporting this?

Mike Calhoun: Yes. Because that was an explicit goal of Self-Help. So Self-Help had been active in mortgage policy prior to this. Some of the work we did, for example, we were very active with Fannie Mae and Freddie Mac. And some of the things we worked on there were, one of the biggest ones—first of all, Self-Help, which started in 1981—demonstrated that lower income borrowers would repay their loans. They would fall behind more because they had less wealth and less of a financial cushion to handle the usual bumps and fluctuations that everyone has in life. So they can fall behind more, but they also cured more and the loans performed well and it was able to put a lot of people into home ownership. So that was the first thing that Self-Help—that was not a well-accepted argument in the early eighties.

So that was really the first phase of what Self-Help was about. And then we started looking at other obstacles and one of the biggest ones [came from] the GSEs, the Government Sponsored Enterprises, Fannie [Mae] and Freddie [Mac], where most loans go through them and have to meet their standards. In the eighties and early nineties, they had a requirement that said you were ineligible for a mortgage if you had any delinquent debt at the time you were applying. And our experience in our practice was we generally do want people to pay their consumer debts, but that medical debt, which is the biggest category of debt, reflected bad health insurance and aggressive collection practices by hospitals. And so we had worked with the GSEs and got them to drop that requirement, which made a big difference for a lot of lower income borrowers and home buyers. Self-Help is one of the largest [Community Development Financial Institutions] CDFIs[2] in the country. But it's also about the size of a half-dozen major bank branches, of which there are about 10,000 in the country. So we provide valuable services to our customers, but we're not going to change the overall market through our direct lending. Our direct lending has always been seen as a place to demonstrate policies that will improve the market, but then the impact comes from getting those policies adopted at the state and national level.

[2]CDFIs are financial institutions certified by the Treasury Department focused on increasing economic opportunity in low-income communities by offering access to financial products and services.

Sam Wolter: ..... How did you choose which initiatives or efforts to get involved in? Did you respond to specific requests from local community organizations or activists already working, or would you proactively seek out partners in states and localities that you thought were ripe for legislative reform?

Mike Calhoun: A combination. Initially we started getting—after the North Carolina Act passed, it had a big impact. The first thing that happened was the credit insurance companies that had been selling this product flooded the state and said, "Oh, you must have made a mistake, of course you didn't mean to say we can't offer this product anymore." And pretty quickly they understood that we did mean that. And if you were—the battle lines were drawn then. At that time, the Mortgage Bankers Association felt like, the national association felt like they had been caught off guard. And they vowed that they weren't going to allow this to happen in other states. It ultimately did end up being copied in a large extent in a lot of states, there were over twenty state laws closely patterned after it that were ultimately adopted.

So initially we were responding to requests, this would've been in 2000 primarily, we were responding [to] requests and we were getting flooded with them. And then we were approached at that time by funders who said, "This is important work. We want you to take this work on nationally and we will provide you grant funding to do it." And then the Center for Responsible Lending opened up, this is our twentieth anniversary in the summer of 2022. So up until that point, it was being done somewhat ad hoc out of Self-Help, like when I was going down to Georgia. I started going down to Georgia in 2000 and spent a lot of time there. And that was being done out of Self-Help and then it was transferred over to Center for Responsible Lending when that was set up in mid-2002.

Sam Wolter: ... Could [you] talk a bit more specifically about the Georgia Fair Lending Act [GFLA] and your involvement in that? How would you describe your role in that process? You said you started going there around 2000, what sort of work were you trying to help with, or what support were you trying to offer?

Mike Calhoun: We had had some involvement in Georgia also around payday lending because starting in 2000, we were active in North Carolina and then in some other states on stopping the spread of exploitive payday lending. There was an existing coalition and an effort led by state Senator Vincent Fort, a Black Senator, one of the leading advocates in Georgia, [that] had been trying to move a bill largely based on North Carolina. And there was a lot of industry opposition at that point. Roy Barnes had been elected governor in 1998 and his background included consumer protection work. And particularly even in the mortgage area. There were several notable advocates, Bill Brennan in particular. I don't know if you've talked with him or come across stories of him. He was one of the real national champions on this. He was based in Atlanta. So the problem in Georgia was very well documented by Bill and he had been working with Vincent Fort. And so we were asked to, we had contacts and Vincent Fort asked us to come in and work with him. And then ultimately Governor Barnes made it a priority and also asked us to come in and provide technical assistance in Georgia.

Sam Wolter: ...How would you compare the enactment, the process of enacting the North Carolina Predatory Lending Act with the process of enacting and then trying to defend and preserve the Georgia Fair Lending Act from efforts to amend it? Did it feel different from the beginning or were they comparable and then it changed over time?

Mike Calhoun: It was—the level of opposition was up an order of magnitude. We were on the national radar. There were probably without exaggeration, there were probably fifty-plus lobbyists from out of state coming in, working against the bill. There were people assigned to a single member. That was their job, to lobby a single member. And so people saw Georgia as a real bellwether in whether this was going to be limited to a handful of states or really become a national model. And it also corresponded with—again, in parallel to this is the explosive growth of the subprime market. And so you're talking about more and more money in play and more and more people with the vested interest in keeping those practices.

Sam Wolter: The coalitions you formed in support [of the GFLA], how would you compare them to the situation in North Carolina? Were you able to work with folks in the banking industry or in the mortgage industry, or did you face just more opposition across the board from them as well in Georgia?

Mike Calhoun: So in North Carolina, we were major players in building a coalition for the bill and we had personal relationships with all the bankers. In Georgia, we worked with an existing coalition there and we had contacts at a national level. So for example, Fannie Mae and Freddie Mac were both very active lobbyists in the Georgia fight. And we were involved with the Mortgage Bankers Association, subprime lending was a big issue. And one of the real—I'm trying to remember the exact year this happened, I don't recall right off. One of the big turning points was, initially the subprime lenders had their own sort of fringe trade association, NHEMA, [National Home Equity Mortgage Association]. And then as they became—they were this tiny fringe market, as they became a significant player in the overall market, they merged with the Mortgage Bankers Association. The Mortgage Bankers Association did not want to be left out of this hot new trend that was a significant portion of the market. And so that brought—the mainstream trade associations were directly lobbying against the provisions. And that was a change from the 1999 campaign in North Carolina.

Sam Wolter: So moving ahead to the amendment and effective repeal of the GFLA in early 2003, the major ratings agencies—S&P, Fitch, and Moody's—their decision to refuse to rate mortgage-backed securities containing Georgia mortgages was clearly a pivotal moment in the GFLA's history. What do you recall about that decision and how did you and other proponents of the GFLA attempt to respond to their concerns and this opposition?

Mike Calhoun: So one of the big issues in Georgia was the so-called assignee liability question. If a loan is sold, and almost all loans were being sold at this point, does the borrower have, if the borrower's rights were violated, do they have a claim just against the person who originated the loan or do they have a claim against whoever bought the loan, who actually may be, for example, foreclosing on them? So without assignee liability, a borrower who has been defrauded in the loan and [had] rights violated has no defense against a foreclosure. Their only remedy is to go separately sue the party who originated the loan, which often has very shallow pockets and is not the one collecting on the loan or foreclosing on the loan. So it was a really pivotal thing, but again, the markets, including Fannie and Freddie, were worried about having any liability there because securities investors like certainty and think they're just taking on a limited risk.

So our first major point in this was that there—assignee liability existed in lots of the market already. So for example home improvement loans, because of the FTC so-called holder in due course rule already had holder in due course requirements, which means assignee liability. And there was a robust securitization market for home improvement loans. Equally, North Carolina's law had built in assignee liability. It was not as explicit because we relied in North Carolina on the fact that usury—and this varies from state to state—in North Carolina, a usury violation, as it should be, is enforceable against whoever has the note for the same reasons. Otherwise it doesn't do you much good. And one of the remedies for violating the North Carolina Predatory Lending Law was it made it usurious, and no one disputed that that was a correct legal interpretation. And no one had felt the need to leave the North Carolina market and had been in it for a year and a half at the time this was going on.

So that was one of the big issues there. And as we later, you learn as the crisis goes on, the credit rating agencies were not neutral parties and in fact, they were enablers of the whole financial crisis and ended up paying billions of dollars in settlements for their illegal actions, including grossly inflating the credit ratings on subprime securitizations. Because the problem is the credit rating agencies, as you know, are paid by somebody putting together the securitization. And so that's their customer at the end of the day, not the consuming public or not the general market or the general public interest. And it was very much in the securitizers' interests to have them say, "We can't manage this risk", even though that risk, as I say, had been managed in North Carolina, it's managed for home improvement loans, it's managed in lots of places across the market.

Sam Wolter: Why do you believe that they [the ratings agencies] reversed their initial support, or at least a lack of opposition towards the GFLA and then became the leading voice in the efforts to oppose it? Why do you think they agreed to take on that sort of very public facing opposition role rather than the mortgage bankers or some of these other groups?

Mike Calhoun: Well, I mean the credit rating agencies were perceived as neutral parties. They're supposed to be neutral parties. And for those who didn't understand how credit rating agencies work and how they're paid, it seemed like they're a neutral referee, not a deeply invested party in the dispute. So their intervening had much more credibility and impact than it would, for example, from the subprime lenders themselves.

Sam Wolter: ...How [did] the demise of the GFLA and the experiences there influence CRL's legislative advocacy strategy moving forward. Did you all view it kind of in the moment as a watershed moment, or did you hope to reverse it—where did you go from there?

Mike Calhoun: So two things: One, the reversal of the law was not a reflection [of a] change in policy. It was a change in politics…what happened in 2001. Roy Barnes—I think the Final Four actually was coming to Atlanta, that was a push, but primarily his commitment to civil rights—the Georgia flag at that time had embedded within the flag, the Confederate flag, the Confederate battle flag. It was added in the 1950s post *Brown v. Board of Education*. And he was determined, and John Lewis[3] lobbied him, correctly, to take the Confederate flag off the Georgia flag. So he did so in 2001. It was the case at that time... up to that time, every Southern governor who had done that lost reelection. He [Barnes] was very popular, so he thought he had the cushion to do that and going into the 2002 election, a phenomena we can see more frequently today, he was up in polling by almost ten points. Perdue [who] was the Republican candidate, had not even set up a transition team because everyone said he was going to lose by a boatload. But at that time the opponents to changing the flag had blanketed rural Georgia with yard signs that had a picture of the Confederate flag and said, "Let us vote". And he ended up losing in a fairly close election. And so there was a flood of rural votes spurred by the flag issue. So that changed the—you had a flip in the governorship and the control of the House and Senate, it was a whole flip. And the number one, the first issue they took up, it also showed us the amount of money behind this issue, the first issue they took up is the Georgia Fair Lending Act.

Sam Wolter: How did your involvement in North Carolina, Georgia, and these other state initiatives inform some of your legislative responses in the Dodd-Frank Act, which I understand you also were involved in in the drafting of.

Mike Calhoun: I was, and I don't know if you've talked with or plan to, Eric Stein of our staff [at CRL] was leading the housing and consumer protection provisions of Dodd-Frank on behalf of the Obama Administration during the passage of Dodd-Frank. So he has even far more direct information and involvement in that. I mean, basically at that time we showed, and even some Republican members, notably Spencer Bachus, who was the ranking Republican member of the House Financial Services Committee to Barney Frank, he even introduced a bill based on the North Carolina law. Because one of the things that the North Carolina law did, because including the assignee liability that remained in the law and

[3] Civil Rights leader and long-time member of the House of Representatives from Atlanta.

remains there today, that lending had not been disrupted and the market had worked just fine.

And so one of the key things was, and that's what we were trying to do, is show that this was a reasonable and stable regulatory response, and it made the market work better. And we had people in the industry say, "If you can't make money under the North Carolina law, you shouldn't be in this business." I mean, most people, if somebody charged their parents five points in a loan, they would go after the lender and say, "What the hell are you doing?" So the reforms had a big impact only because the practices were so far off the charts. And so ultimately, essentially the North Carolina and Georgia laws [had] a modified, more limited assignee liability, but it protects you in any foreclosure action [and] became the Dodd-Frank provisions.

Sam Wolter: Was there was some of the opposition … was assignee liability an issue in Congress? Did it become kind of a flash point again, or by the time was it not as divisive or controversial at the federal level?

Mike Calhoun: It was still one of the toughest issues. And again, what passed was a compromise of not full assignee liability, but protection in the event of any foreclosure action.

Sam Wolter: Is there anything else you wanted to mention about either the North Carolina act, the GFLA, Dodd-Frank, or anything we've discussed so far?

Mike Calhoun: …The Wall Street involvement is what changed the whole market, when suddenly the so-called hard money lenders are very small scale just because they don't have the resources. These loans were so wildly profitable, just all the way up and down the lending chain from the mortgage brokers to the lenders, to the securitizers … And the credit rating agencies were hugely enablers of it. It probably could not have happened without their role and without Wall Street monies there as well. I don't know how much you'd get into it, but we were at that time in the 2000s coming out with reports. One of the, I think one of the big things that happened was when we received grant funding, that enabled us to start really buying big data sets.

And we were the only one doing this and, and a side story is we were buying—so we had data for the origination and the performance data for about 85 percent of the subprime market. And it was expensive. It cost us a couple hundred thousand a year to get the data. And we started issuing reports showing what was really happening in this market. And the subprime lenders went and tried to get us cut off from the data, which the company actually tried to do. They didn't follow the procedures for doing it, so we made them still give us the data for another year. It was a little bit of fun, just as a little legal fight. But our reports were showing that these loans were not sustainable in—two things. They were being refinanced every two years because people hit the interest rate bump and couldn't afford it. And so they refinanced, which worked great for the lenders. The brokers loved it, because they got a whole new origination fee. But it wasn't sustainable except when through unsustainable housing price appreciation.

So we had studies tracking the refinancing, tracking the defaults, and then we had issued a huge study in 2006 that projected that there would be, that the market would crash because of this inherent unsustainability. And we said our conservative estimate was that there'd be at least 2.2 [million] subprime foreclosures. And ironically we used the industry's own data to show this. You had had experiments in the Midwest. So in the Midwest price appreciation, this was when the rust belt slowdown was kicking in, so house appreciation had slowed down. And so foreclosures were going off the charts in 2004, 2005 in a bunch of the Midwestern states, Ohio, Illinois, and the like. And so we and others, we were pretty much shouted down with a lot of this, but when the foreclosures did start rolling in, we had a lot of credibility out there.

...[A] bunch of people in the industry said, "You were right, you know, we believed these folks and they were all lying." And so it was a pretty tough argument to defend the industry. There was ironically, the Frank Luntz[4] Republican narrative was that the crash was caused not by reckless lending by industry and lack of regulation, it was caused by excessive regulation. That the government had forced through the Community Reinvestment Act, CRA, banks to make loans primarily to people of color that were unsustainable. And all the evidence and all the regulators pointed out that that was pretty ludicrous in that those were a small percentage of the loans and those loans performed very well. That the bad loans were made by the non-banks much more than by the banks. And CRA loans performed quite well even through the crisis, but it was a narrative. And narratives often beat the detailed data, particularly at headline levels. So those would be other key aspects of it.

Sam Wolter: ... Over the last decade, we've seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused the crisis? .

Mike Calhoun: It was lack of regulation. So one thing that people didn't realize [was] that prior to the subprime boom, the market had been regulated not as much through particular statutes, but by Fannie Mae and Freddie Mac, because they controlled so much of the market. So for example, they didn't allow prepayment penalties on their loans. And there were other protections they put in. A campaign we did with them that was instrumental, was ultimately enacted in Dodd-Frank, they did not allow mandatory arbitration clauses. They put a ban on those that we had pushed with them when we showed how unfair they were. But you went from that when the subprime—and the reason they had that leverage is they had a lower cost of funds and a more efficient securitization. So it was more profitable for lenders to sell their loans through Fannie and Freddie rather than try to do private labels securities, much like it is today.

[4] Frank Luntz is a Republican-affiliated political pollster and strategist; he rose to prominence following his role in designing the GOP's "Contract With America" messaging in the 1990s.

The subprime explosion was all being driven by private label securities and undercut the role of the GSEs as regulators, and then left you with essentially an almost totally unregulated market. I mean, you had disclosures, but study after study shows they are of limited and maybe even harmful value. And that they're used for lenders to say, Well, we disclosed that we were ripping you off, so what are you complaining about when we rip you off? And so it was really an experiment of a wild west mortgage market, and it made it hard for responsible lenders to compete. I mean, for one, FHA [the Federal Housing Authority] almost went out of business. I mean, they were talking about closing the door. It went down to about 1 percent of the market. Because they couldn't compete against the subprime lenders. We [Self-Help] saw our market share, our lending drop because we only offered fully documented fixed rate loans. And if somebody else can hide their loan with prepayment penalties, what they really cost, it's hard to compete against that. We had lots of lenders say, "We think these interest-only loans make no sense for borrowers, but we're going to start offering them because we're losing all our market share."

And so one of the things I think surprises people—and this happened in 2016 with the change in administration, and I was testifying in hearings in Congress. Some Republican members were saying, "Well, should we roll back all these protections?" And they were shocked when the mortgage bankers said, "No. We might want to tweak here, there around the edges, but this is not just a better market for consumers, this is a better market for industry." You know, it's sort of like a football game. If they said, "We're not going to call pass interference, we're not going to call roughing the passer," it turns into a food fight pretty quickly and you can't say, "Well, oh, I'm going to uphold those standards." If you do, you're never going to win another game. And the market is that way too. It is very hard. A player may have great standards, but if the market allows people to unfairly compete against those players, they get squeezed out very quickly. And so the real question, and I think CRL as a lender, this was a role I think that gave us both a perspective and a credibility that we—in some ways we had to eat our own cooking and that we were going to have a system that worked, we wanted consumer protections, but we also wanted it to be profitable for responsible lenders and operationally feasible. We were involved, I was personally involved. We securitized a bunch of our loans. We would finance them. We really did not securitize [them] as much as we financed them for a number of years on the secondary market, through so-called repo loans, which are a way where you pledge loans as collateral for capital market funding. I've shopped mortgage pools for mortgage insurance. You know, I've done mortgage servicing sales and transfers and servicing and all that. And so we really were in a pretty unique place in that there really wasn't another player who was an advocate and a lender, particularly at not just retail, but at the capital markets level.

Sam Wolter: Looking back on the crisis over a decade later, what do you see as its most important lessons for policy makers, either at the state or federal level?

Mike Calhoun: So the two are that unregulated markets—I mean, we had a similar experience with the credit card market where ironically, even before the CARD Act [the Credit Card Accountability Responsibility and Disclosure Act] was passed in 2009, several major credit card companies came to us and said, “This market needs regulation.” I mean, people were shocked at this. At that time, the lenders were involved and the credit card companies were cannibalizing each other's business through these crazy free transfer offers, but they were so expensive, you had to have fine print that made it extraordinarily difficult for anyone to actually collect on that transfer. And so it was who could offer the best sounding transfer offer, but take away as much of it as they could through fine print. And they realized that was craziness. So I think that is one of the key lessons. The other lesson -- ... we did not provide enough support for homeowners who were in distress. You know a lot of that was because of this narrative that they were successful with, it's blame the homeowners so you shouldn't help them. And the Obama Administration did a lot to try and help them, but should have done far more. We were calling for far more. And I think you saw that in the COVID crisis, it helped that it was a medically driven crisis. So people saw more that this was a systemic event, not an individual fault event by individual families. And so there was much more support. And this time by responding with forbearance and workable, affordable loan modifications, we probably prevented a million foreclosures that would've happened. And that's one of the other key lessons is that there are going to be these market crises, whether they're financially driven, Russian bond crisis or the like, a war—I mean, it's not out of the question, we could get one here. And the cost of those shouldn't fall on working families who just happen to be sort of in the wrong place, wrong time. And it's bad for the whole economy as well. I mean, we had a much slower recovery than we should have had from the great recession.