AMERICAN PREDATORY LENDING AND THE GLOBAL FINANCIAL CRISIS

ORAL HISTORY PROJECT

Interview with

Gary Crabtree

Bass Connections

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PREFACE

The following Oral History is the result of a recorded interview with Gary Crabtree, conducted by Sarah Walker on April 7, 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: Gary Crabtree
Interviewer: Sarah Walker

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Sarah Walker: I'm Sarah Walker, an undergraduate student and member of the Bass Connections American Predatory Lending and the Global Financial Crisis team, and it is April 7, 2022. I am currently in Durham, North Carolina for an oral history interview with Gary Crabtree, who owns appraisal firm Affiliated Appraisers in California. Thank you so much for joining me today.

Gary Crabtree: You're welcome.

Sarah Walker: I'd like to start by establishing a bit about your background. In the context of your education and work life, when and how did you first become involved with residential real estate appraisal?

Gary Crabtree: I first became involved in 1962. June 1st, 2022 will be my 60th anniversary in the profession. I joined the profession with a local savings & loan association, underwent my training for appraisers through local community college classes and then the more difficult classes were completed at UCLA [University of California, Los Angeles].

Sarah Walker: How would you characterize this state of the real estate market when you first got started?

Gary Crabtree: At that point in time, it was a completely different animal. We didn't have computers. Everything had to be hand-drawn. The reports had to be hand-printed. We didn't have typewriters to type in those days. I mean, you're talking about 1962. So, the resources for the appraisal itself, as far as comparables, were very, very limited. We were able to get them through the local association of realtors. They actually were published once a week on 3-by-5, tear-it-off cards, and we'd have to maintain a manual file of those. They gave us what basically was a mimeograph copy of the appraisal listing. Also, at the end of the week, they would give us what was known as a hot sheet, which was the reported sales—when they closed, what they closed for, and what the terms of sale were. Then, we had [to] go back in and manually enter on these cards. We had these in a 3-by-5 card box. That's what our data sources were at the time.

There was no government approved form because at that time, Freddie [Federal Home Loan Mortgage Corporation, a.k.a. Freddie Mac] and Fannie [Federal National Mortgage Association, a.k.a. Fannie Mae] didn't even exist.[1] It was a one-page back-and-front form that had descriptions, and on the back, we would hand draw a plat map[2] to show where the parcel was and then draw [a] floor

[1] Although Fannie Mae was established in 1938, its activities grew significantly after the early 1960s. The demand for growth in supporting the secondary market for housing finance led Congress to establish Freddie Mac in 1970.
[2] A map showing the property boundaries of real estate lots in a given area of a county.

plan or draw the exterior dimensions and hand calculate those dimensions. On the back, we would have one photograph…And that was it. And it was basically done and turned into the local.

I was working for the savings & loan association…I worked from '62 to '75 for savings & loan associations, both one [that was] a small local savings & loan, but also at Paramount Savings, and then there was a successor to Paramount which was Santa Barbara Savings. Then in '75, I left and went out on my own as an independent fee appraiser and have been doing it ever since.

As far as education is concerned, I am a member of the Appraisal Institute, if you're familiar with the organization. It's the world's largest professional appraisal organization. I'm designated as an SRA, which used to stand for senior residential appraiser. It now just stands for a designation of a residential specialist. I've been active in the local chapter in the region, serving as—all of the offices locally—I rose to the level of regional chair. My oversight was California, Nevada, Arizona, and Hawaii. I then served on the national board of directors of the Appraisal Institute and subsequently served two terms on the Appraisal Standards Committee and two terms on the Government Relations Committee.

Sarah Walker: What motivated you to join these institutes and committees and how involved were you?

Gary Crabtree: I was very involved, and basically what motivated me was the pursuit of a designation because that set you apart from other appraisers. The Appraisal Institute was actually a merger from the Society of Real Estate Appraisers and the American Institute of Appraisers. When they merged, I was an SRA, and then I moved over with the merger. I found that my involvement exposed me to a national basis because we were all meeting and we had appraisers from all over the country that were serving on the national board of directors and the national committees. So I was exposed to many different markets and many aspects of the appraisal profession.

Sarah Walker: Did you recall any state or federal legislation concerning appraisals or mortgage lending that these various associations or groups were paying attention to?

Gary Crabtree: Well, we had our own standards. The Appraisal Institute had its own standards in addition to, at that time, the Appraisal Subcommittee that was appointed as a quasi-public agency from Congress [that] was then able to start the Appraisal Foundation, which is still currently up and running. They have an Appraisal Standards Board. They also have an Appraisal Qualifications Board, and they had one other board or committee that since has been disbanded because they actually weren't supposed to do the additional board because it wasn't within their scope of work. And so, there was a big call about mission creep from them. At this point, that's where we're at.

I understand that the financial services committee of Congress [U.S. House Committee on Financial Services] is—Maxine Waters is now proposing that the Subcommittee and the Foundation be retired and a new government oversight agency be installed, which I'm vehemently opposed [to]. I don't need more government oversight. Their motivation is [that] it's for all appraiser oversight. And again, I have no idea why they need to have a government oversight committee. They do have the Appraiser Subcommittee. Now, they have the Foundation…We have state appraisal bureaus that are responsible for the oversight of each state's appraisers. So, we are answerable to the state licensure board, and of course they handle complaints, disciplinary action, and what have you. Then they report basically to the subcommittee, and the subcommittee then compiles anything. But it works well. I don't think and I don't believe that another government agency would help the appraisal profession in any way, shape, or form. It would just be a hindrance.

Sarah Walker: What did regulation or licensing look like for your industry when you first got started and did those practices change?

Gary Crabtree: …There was no license. I mean, you could basically hang a shingle out and say, "I am an appraiser," and you are an appraiser. There was no oversight, and that all ended with the savings and loan debacle in the '80s. And that's when licensure came into effect. So we had licensure, and I think the first licensure came into effect in, I think, 1991 or '90. I took the licensure exams, both for residential and for commercial, and was licensed to do all types of real [estate] property appraisals in the state of California. Each state has their own licensure board and is responsible to the Appraisal Subcommittee.

Sarah Walker: Did you see those practices change even further in the lead up to the financial crisis?

Gary Crabtree: …As far as the financial crisis is concerned, the oversight was very lax. And because of the different type of market that we had that was being created by mortgage-backed securities on Wall Street, the profession itself had numerous bad apples and were willing to falsify appraisal reports. And it basically ruined our—we were a party to the problem. And I'm not saying we as a group—I'm saying individuals within the profession. I've always, because of the Appraisal Institute, maintained not only the USPAP [Uniform Standards of Professional Appraisal Practice] standards, but also the Appraisal Institute standards of ethics and practices. So I was not one that was able or would be willing to yield to the pressures of these predatory lenders.

Sarah Walker: Did you see any significant changes in the residential mortgage market as a whole, between your entry to the appraisal business and the late 2000s?

Gary Crabtree: Oh, yes. First of all, when I first joined the profession as an appraiser, we didn't have licensure and most of the mortgage lending was done by savings & loan associations. Banks shied away from real estate—or actually residential real estate lending. They were in the commercial [sector]. The savings & loans were basically in the residential, and of course with the savings & loan debacle in the late ‘80s, that changed everything. That's why licensure became one of the vehicles for oversight. So once licensure took place, there was still lot of holes in the system, and that's what contributed to the housing bubble....

Actually, the enabling—I'm going to call it—legislation, but the first part of this bubble was created in September—I can't remember the year. But it was during the Clinton administration, and President Clinton wanted to be able to make housing loans affordable to everybody. And then under Bush it just continued on [with] Freddie and Fannie. And then of course, we came up with the subprime lending market with 80%, 20% [80/20 mortgage loan], fully, 100% financed [loan], no skin in the game for the buyer. The underwriting standards were very, very lax, and people in the lending business, mortgage lenders especially, were actually promoting the subprime lending market. We could have a buyer, for example, that would be normally qualified for a conventional loan. However, if the lending officer could push him into a subprime, 80/20 subprime, he would receive a bonus of $3,000 to $4,000 depending on what the yield spread rate was for the day. So the loan officers and mortgage companies basically were one of the major culprits to the housing bubble. They would push buyers that were not qualified into subprime loans. Loan applications were falsified. And no one bothered to check credit. Nobody checked deposits in banks. Of course I’ve got many horror stories about that.

Offhand, I could remember one. The buyer's mother contacted me and indicated that she believed her son was in trouble. I met with him and sure enough, he was acting as a straw buyer. He lent his credit, his name, to a loan that was not owner-occupied. He was paid $5,000 for the use of his name and credit. The property, he couldn't qualify. He was a short-order cook at Outback Steakhouse. They falsified his loan application and said that he was an independent food catering contractor, and he was making $6,000 a month when in fact, he was making barely $1,200 a month. That particular property obviously went to default and was foreclosed on. I’ve got tons of those kinds of stories, but I mean, that's just one as an example.

Sarah Walker: I believe the Home Valuation Code of Conduct came into effect in 2009. Could you describe that code of conduct and how its adoption affected the appraisal industry as a whole?

Gary Crabtree: Sure. The whole valuation code of conduct was actually the brainchild of Andrew Cuomo…He was the attorney general of New York. He, in turn, entered a suit against Freddie Mac and Fannie Mae and sued them to accept this Home Valuation Code of Conduct. When it was accepted, one of the issues was that after it was accepted, it opened the door for appraisal management companies, and it had a pretty severe impact upon the appraisal profession. Supposedly, during the housing bubble, the lender or the mortgage loan officer would contract directly with the appraiser. And of course, many people were being paid money under the table to hit sales prices and so on and so forth. So [what] became the firewall was the appraisal management company. I don't know this to be true, so I shouldn't state it, but it was known that Cuomo, at the time when he sued Freddie and Fannie, sat on the board of directors of an appraisal management company. So if that happened, that was major corruption and forced the appraisals to go under appraisal management companies immediately.

Once that took effect, it was a severe impact upon the appraiser's fee. I think we were getting like $400 per appraisal at the time. Immediately, the lenders would contract with an appraisal management company, which in turn, would contract with a panel of appraisers. And it still stands to this day. The difference is that the appraisal management company would take 35 to 50% of our fee. So essentially, we could not make a living at that severe discount. And that's when the appraisal profession began its slow death by a thousand cuts because the appraisers—after having all this education, all the experience and everything else—couldn't make enough money to put bread on the table. Many of them dropped out of the profession. As an example, in the state of California in 2004 and 2005, we had 22,000 licensed appraisers. Today, we're operating with a little less than 8,600. So the last housing movement that we're now enjoying and everything else has driven up the appraiser fees again to where it's profitable to be in the business.

But during that time, many appraisers just dropped out and found something else to make a living.

Besides that, the overregulation of the Foundation, with the Appraiser Qualifications Board just made it economically infeasible for anyone to even consider the appraisal profession. They changed to where the new applicants for license had to have a four-year college degree, had to have 350 semester hours of appraisal-related education, and [then have to pass a] challeng[ing] test, and then have to go as a trainee and get his license, and then have to affiliate with a certified appraiser for 2000 hours of training. And, essentially, that was a bit of overkill. So, no one was interested in getting the college degree and going through all these hoops and everything else to, in essence, end up making like $40 an hour. So that's what happened. And of course, other appraisers left the independent fee business and affiliated with county assessors for tax assessment purposes. So, that's basically what has happened to the profession.

Sarah Walker: Did you notice any key differences between what was happening in your area, the Los Angeles, California area, during the crisis compared to the rest of the country?

Gary Crabtree: Well, California was a hotbed of fraud…It basically, I think, affected our communities the worst because our median home price was so low, and so many people could come up and buy houses or [be] straw buyers[3] or buy houses to rent. Numerous people would buy a house on an 80/20, [have] no

[3] A straw buyer is a person who makes a purchase on behalf of another person.

skin in the game, falsify the application, find someone to falsify the appraisal, and they basically would close escrow. They'd rent the property out [and] never make a payment on it. So nine months later, you could count on it going into notice of default and foreclosure.

The Central Valley of California was the hardest hit. Bakersfield, Fresno, Modesto, Madera, Stockton. Stockton was the worst hit. But by the time we finished through the bubble—as an example, June of 2005 was the peak for us in the Bakersfield market. At that time, the medium home price had climbed to $300,000. By April of 2009, we hit bottom with a median price of $115,000. We saw well over 60, some odd, percent drop in the market. At that time in 2009, eight out of every ten home sales were foreclosures.

We had, at that time, individual investors and corporate investors come in and scoop these up at these prices. [They] would go in and rehab them to bring them back because a lot of these properties were very badly abused. People lost their homes, they got mad and they just tore up the home. They trashed it. I mean, there were graffiti and holes in walls, fixtures missing. It was pretty devastating. But they came in, would fix up the home and then re-rent it back out again and hold it. And they've been in a holding pattern until the market started going back up again, and now they have liquidated. We had three national investors: America Homes 4 Rent, Blackstone, and I can't think of the third one. But anyway, they came in, and they made mass purchases. Those were then rented, and now that the market has gone up, they have liquidated those in the last two years and moved on to greener pastures to other markets that had more housing rental demand. So that's what's fueled our market.

In Bakersfield, our median income is significantly lower than the Central Valley—Los Angeles, San Diego, the coastal area, or San Francisco. So those markets have risen to a point where [many people] can no longer afford them. COVID hit and companies allowed telecommuting. So, people were going, “Gee, why do I want to buy a house in Orange County that costs $900,000 median price when I can go to Bakersfield and purchase the same home, if not better, for $300,000 or $325,000?” So that's what brought many people into our particular market over the last two years. And that was because they could telecommute. They were sick and tired of crime, congestion, commuting, you name it. And so many people have gravitated to the Central Valley of California because of the low prices. Because Central Valley of California is primarily oil and agriculture and blue-collar jobs, we just don't have the income levels for these people to afford anything else.

Now the latest that has happened, these people who have moved to the Central Valley, from…for example, over the Los Angeles basin, they were telecommuting. Now that COVID has seemed to be waning, the employers are reexamining their decision to allow people to telecommute. They've realized or surveys have clearly indicated that if you telecommute, you're less productive than being in our office. And so, they've asked them to either come back to the office or take a 15% pay cut. And everyone I know is taking the pay cut. Once they get out of a major urban area, especially in the Los Angeles basin, where commuting and congestion is just a horrible, horrible problem—I mean…it's not uncommon for them to commute one and a half, two hours to work and back everyday. When in Bakersfield, they can get in the car and be at their job in 20 minutes. So there's a lot of advantages. And again, it's not a major urban area, so it's been very advantageous for our market, and that's why our market has gone up so much. But during the housing crisis, it was all manufactured by the 80/20 subprime markets, which essentially is, they were taking the loans, packaging the loans into mortgage-backed securities, and selling them to Wall Street. And the yields were so great that Wall Street just kept saying, "Give us more. Give us more. Give us more." They did. And of course they eventually paid the price for it.

Sarah Walker: To what extent, if at all, did figures within your industry or people you worked with express concerns about the changing nature of credit extensions during the 2000s?

Gary Crabtree: Oh yeah…But everybody that was in it was in it to make money. The realtors, they loved the creative financing. They were part of the problem in that they themselves got into flipping and equities claiming. I happened to discover a mortgage fraud group that was actually a brokerage that set their own mortgage company up. They affiliated with two or three major lenders, and they would go out, and they'd just buy the houses under straw buyers. Most of the straw buyers were their own real estate agents. Two months later, this was new construction so the contractors of course were building at the time, and they were building spec homes [speculative houses]. Those builders started running into an over-supply situation. They couldn't offload them. So this firm and this fraud scheme would come in and buy the homes from the builders, brand new, at $400,000 or $500,000. Two months later, they'd flip them for $700,000 and $900,000. And of course everything went to default.

And as I said, I discovered it. If you reference the Financial Crisis Commission's [Financial Crisis Inquiry Commission] report, I testified before them, and I gave them basically all of the information that I had. I actually took time to do full research on this one firm and amassed enough fraudulent data that I reported it to the FBI. The FBI, locally, wasn't interested in it. I contacted the police department. They didn't even know what mortgage fraud was. I had to train them. I took it to the local district attorney, and he would not accept the case. Later, I was able to find out that the DA was involved with mortgage fraud. One of his best friends was one of the people that I was charging in my document. Finally, the Sacramento bureau of the FBI, I sent it up to them. They finally took up the case and then referred it back down to the Bakersfield office. I then began working with the FBI on all of the frauds that I had.

And that's when the FBI had indicated to me that they did not have the resources to prosecute or investigate mortgage fraud across the country. And so, their instructions were [for] every field office to find one case, and obviously the bigger, the better, and they would work that case and prosecute it. The case that we were working on turned out to be one of the ten largest in the country. It took forever to get the case together. People were indicted. The attorney general came from the Fresno office, and he was assigned the case. Indictments went out, and then he was transferred to Washington, DC, so the entire case just sat for over a year. The FBI, all the attorneys that were commissioned to represent the defendants, would file paperwork on discovery. All of the documents on this one case took up two whole rooms of the FBI office here in Bakersfield. The attorneys would file for discovery and never come and look at the documents. They simply were doing it as a delaying tactic. Finally…the attorney general that was in charge of the case was transferred back to Fresno, and then the case proceeded. All in all, the whole thing, from the time that the case was opened until essentially the case was closed, was eight-and-a-half years. The two primary fraudsters, which were the two brokers in the scheme—it was an equity scheme—they both were indicted. They had hearings. They lost their real estate licenses from the Department of Real Estate and then began their trial.

They had amassed so much evidence against them, and if you know anything about sentencing on those, you have sentencing guidelines that is done on a numbering system. And…I think they both had enough evidence for forty-five points, which would've put them in prison for life. And of course, they would have to serve at least 85%. So, once they got to that point, they made a plea deal with the attorney general and both of them agreed to a sixteen-and-a-half-year federal prison sentence plus restitution, which you'll never see. The other members of the fraud group, which included secretaries, other real estate agents, title companies, and there were an additional nine or ten indictments. Only one was given probation. The rest all served anywhere from one to five years with restitution…This particular scheme, I tracked it. By the time it was all said and done, from the time when they bought it, the loans they got were foreclosed and then resold again, the lenders that were involved lost $132 million.

The biggest primary lender that was involved with this was SunTrust bank. And I tried to warn them. And they'd say, “Thanks for the information. We'll get back to you.” Never heard from them. There was another lender that was second in the number of loans that were being made. It was quite large. And when I called them, tried to warn them, the gentleman that called me back was quality control. And when I gave him five specific fraud cases he told me, “Thank you for your information, but we don't want you sticking your nose in our business.” And hung up on me. So, that's all part of testimony in the Financial Crisis Inquiry Commission Report. I provided that commission with the names and so on and so forth so that they could corroborate my testimony.

As far as appraisers are concerned, there was one primary appraiser that was involved with this scheme or scam. He had trainees. They would go out and do the appraisal report and bring it to him on his desk. And then he would change and falsify the report and turn it in. He would charge the mortgage company $400 for the appraisal, and then the participants in the scheme would meet with him once a week, have lunch with him, and pay him $1,000 cash under the table per appraisal. So, this gentleman, in one year, he made well over $400,000 in under the table cash payments…And of course I turned him into the Bureau of Real Estate Appraisers and the Office of Real Estate Appraisers. They held an administrative hearing which was presided over by an administrative judge who didn't know what he was doing. And he ended up giving him probation. So that was a big blow to us in the profession. The lenders that received his fraudulent appraisals contacted me and gave me his appraisals, and I would do the review on them and turn them back into them. Then they filed suit against his errors and omissions insurance company. That went on for a while. His company was Lloyd's of London. They finally settled for the maximum amount that he was covered for, which was $1 million. His attorneys got half of the settlement and the lenders got the other half. So, out of all of these loans and everything else, the lenders only recaptured about $500,000.

Sarah Walker: …Over the last decade, we have seen a number of different narratives emerge to explain the financial crisis. How do you understand what caused the crisis?

Gary Crabtree: Well basically, what started the crisis and everything else was the policy that was adopted by the Clinton Administration. And of course with subprime lending, it was the wild west out there. And so, no one was held to account. It was basically a government order to the GSEs [government-sponsored enterprise], Freddie and Fannie: we want people to be able to afford houses, so do what you have to do. And they did.

Sarah Walker: Looking back on the crisis over a decade later, what do you see as its most important lessons for appraisers, policy makers, or other members of the real estate industry?

Gary Crabtree: Well, appraisers, we're always blamed for everything. In the savings & loan debacle in the late '80s, it was the appraisers' fault. And of course, this was also the appraisers' fault. No, it really wasn't. It was outside sources that were pressuring appraisers. What has happened, there's been legislation that has put band aids on the problem…The credit checks, verification of income, verification deposits are all very strictly applied now. As far as underwriting is concerned, for the loans, every one of our appraisals is done for a federal-related transaction that is sold, for the most part, on the secondary market through Freddie Mac and Fannie Mae. And there is a very, very healthy review process that those appraisals now go through, even to a point to where each appraisal that goes into the system is reviewed by computers on an automated valuation model and given a score. Every one of the appraisals that I or any other appraiser does is automatically now attached to my license. So, the way that they place it is they start looking for appraisers who have bad grades, and if it's a pattern of bad grades, then they send a warning letter: clean your act up or else. If the appraiser doesn't, the agencies can have him removed from the national appraisers' registry [National Registry of the Appraisal Subcommittee]. And that's, by the way, without recourse. If you're cut off, you get the death sentence, and there is nothing you can do. You have no recourse. You can't appeal it or anything. So that's a little bit harsh, but anyway, that's basically what happens.

Sarah Walker: Is there anything you haven't touched on or I haven't asked about that you would like to add?

Gary Crabtree: No, I think that, to the best of my recall, that's pretty much everything that I could tell you in a nutshell.

[END OF SESSION]